The audit concludes that the Board of Agriculture and Conservation (board) and Division of Agriculture (division) staff adhered to the applicable laws when disposing of the MatMaid bottling property. The audit also determined whether sale proceeds were appropriately accounted for and reported.

What DLA Recommends
There are no recommendations.
Members of the Legislative Budget and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF NATURAL RESOURCES
MATANUSKA MAID SELECT PROPERTY DISPOSAL

December 27, 2017

Audit Control Number
10-30092-18

The audit evaluated the 2017 disposal of the former Matanuska Maid bottling property and concluded that applicable laws were followed.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and conclusions presented in this report are discussed in the Objectives, Scope, and Methodology.

Kris Curtis, CPA, CISA
Legislative Auditor
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAC</td>
<td>Alaska Administrative Code</td>
</tr>
<tr>
<td>ACN</td>
<td>Audit Control Number</td>
</tr>
<tr>
<td>ARLF</td>
<td>Agriculture Revolving Loan Fund</td>
</tr>
<tr>
<td>AS</td>
<td>Alaska Statutes</td>
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<tr>
<td>BAC/board</td>
<td>Board of Agriculture and Conservation</td>
</tr>
<tr>
<td>CAFR</td>
<td>Comprehensive Annual Financial Report</td>
</tr>
<tr>
<td>CISA</td>
<td>Certified Information Systems Auditor</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>division</td>
<td>Division of Agriculture</td>
</tr>
<tr>
<td>DLA</td>
<td>Division of Legislative Audit</td>
</tr>
<tr>
<td>DNR</td>
<td>Department of Natural Resources</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>MatMaid</td>
<td>Matanuska Maid</td>
</tr>
<tr>
<td>RFP</td>
<td>Request for Proposal</td>
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Department of Natural Resources

The Department of Natural Resources’ (DNR) mission is to develop, conserve, and maximize the use of Alaska’s natural resources consistent with the public interest. DNR’s Division of Agriculture (division) promotes and encourages development of the State’s agricultural industry through various programs including the Agriculture Revolving Loan Fund (ARLF). The objective of ARLF is to promote the development of agriculture as an industry throughout the State by means of moderate interest rate loans.

Board of Agriculture and Conservation

The Board of Agriculture and Conservation (board) works with DNR and division staff to administer ARLF by approving agricultural loans, adopting regulations, and authorizing the disposal of agricultural land acquired by ARLF. The board is composed of seven public members appointed by the governor and confirmed by the legislature. Board members serve staggered three-year terms and are required to be comprised of:

- one member having general business or financial experience;
- one member who is part of a statewide agriculture promotion organization;
- one member who is part of a soil and water conservation district and engaged in commercial production agriculture; and

Exhibit 1

<table>
<thead>
<tr>
<th>Board of Agriculture and Conservation Members as of July 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ben VanderWeele (Palmer), Chair</td>
</tr>
<tr>
<td><em>Commercial Agriculture Production (Produce)</em></td>
</tr>
<tr>
<td>Deidre Berberich (Palmer)</td>
</tr>
<tr>
<td><em>General Business/Financial Experience</em></td>
</tr>
<tr>
<td>Stuart Davies (North Pole)</td>
</tr>
<tr>
<td><em>Soil/Water Conservation and Commercial Agriculture</em></td>
</tr>
<tr>
<td>Christopher Flickinger (Kodiak)</td>
</tr>
<tr>
<td><em>Commercial Agriculture Production (Livestock)</em></td>
</tr>
<tr>
<td>Wayne Floyd</td>
</tr>
<tr>
<td><em>Commercial Agriculture Production (Greenhouse)</em></td>
</tr>
<tr>
<td>Roxy Marcy (North Pole)</td>
</tr>
<tr>
<td><em>Commercial Agriculture Production (Horticulture)</em></td>
</tr>
<tr>
<td>Troy Sheldon (Wasilla)</td>
</tr>
<tr>
<td><em>Statewide Agriculture Promotion Organization</em></td>
</tr>
</tbody>
</table>

Source: Office of the Governor, Boards and Commissions website.
- four members engaged in commercial production agriculture, representing different agricultural enterprises.

Exhibit 1 lists board members as of July 31, 2018.
Matanuska Maid

Between 1979 and 1982, the Agriculture Revolving Loan Fund (ARLF) issued loans to Matanuska Maid (MatMaid), a dairy processing plant located in Anchorage. In 1983 MatMaid filed bankruptcy and the State, through its role as ARLF’s administrator, was MatMaid’s largest creditor. In 1984, the bankruptcy court permitted ARLF to take possession and operate MatMaid. The State made the decision to operate MatMaid primarily to provide a market for the milk produced on ARLF-financed dairies and to preserve the value of the repossessed assets. ¹ ARLF acquired legal title of MatMaid’s Anchorage and Palmer real property as part of the court settlement. In 1988, the State incorporated MatMaid as the Creamery Corporation with ARLF as its sole shareholder. The Creamery Corporation had its own board – the Creamery Board – which was responsible for the oversight of MatMaid operations.

In September 2007, the Creamery Board voted to stop MatMaid operations in response to operating losses. Initially the Creamery Board, through an invitation for sealed bid process, tried to sell the entire MatMaid operation as an operational dairy in order to attract bidders who would commit to processing milk in Alaska. No bids were received. In 2008, MatMaid’s real and personal property was sold except for the MatMaid bottling property in downtown Palmer.

As shown in Exhibit 2 (on page 4), the 3.03 acre bottling property² located on the Matanuska Maid block occupied the north third of the block. Structures on the property are shown in Exhibit 3 (on page 5), including a storage shed, grain elevator, scale house, manufacturing warehouse, and grain silo.

¹An audit report by the Governor’s Office, Office of Management and Budget, Review of the Creamery Corporation d/b/a Matanuska Maid Dairy, Audit No. 10-46 (August 1990), indicates that there were two purposes for the State’s acquisition of Matanuska Maid: “protect the collateral and recover the loans made by the ARLF” and “provide a market to the Point MacKenzie and Palmer area dairy farmers.”
²Property’s legal description is ASLS 96-004 Tract A-1 and address is 513 South Valley Way, Palmer, Alaska.
After the closure of MatMaid, the Board of Agriculture and Conservation made the following unsuccessful attempts to sell the bottling property:

- issued a request for bid in 2009 with no response,
- offered the property for sale on the Department of Natural Resources’ website beginning in 2009 after the unsuccessful request for bid, and
- entered into a purchase agreement in 2012 with the City of Palmer which failed due to a lack of funding.
Exhibit 3
Structures on the Matanuska Maid Bottling Property

Storage Shed

Grain Elevator

Scale House

Manufacturing Warehouse

Grain Silo (behind the grain elevator)

Source: Division files, 2009 pictures.
(Intentionally left blank)
REPORT
CONCLUSIONS

In 2008, the Division of Legislative Audit was directed to review the financial activity associated with the sale of Matanuska Maid (MatMaid). Subsequently, two audits were issued (audit control numbers 10-30049A-08 and 10-30049B-08) that addressed all audit objectives except for one: to determine if applicable statutes, regulations, and prudent business practices were followed in the disposal of all assets and whether proceeds were appropriately accounted for and accurately reported. The previous audits were unable to report on the disposal of all assets because the Agriculture Revolving Loan Fund (ARLF) had been unable to sell an old feed mill property located in downtown Palmer, known as the MatMaid bottling property. The purpose of this audit is to evaluate the 2017 sale of the MatMaid bottling property.

The audit concludes that the Board of Agriculture and Conservation (board) and Division of Agriculture (division) staff adhered to applicable laws when disposing of the MatMaid bottling property. Specifically, the board followed a public process and properly established terms and conditions for sale. Division staff maintained adequate property disposal files and department staff appropriately accounted for and reported the sale proceeds in the FY 17 Comprehensive Annual Financial Report (CAFR).

Detailed conclusions are presented below.

The bottling property was offered for sale on the Department of Natural Resources’ (DNR) website beginning in 2009. Additionally, per review of board meeting minutes, from July 2013 through December 2017, the board actively discussed disposing of the property and no public comments concerning the disposal were received.

As documented in board meeting minutes, when the purchase offer from Matanuska Brewing Company was received in 2016, the board discussed and conditionally accepted the proposal. According to the board chair, the board elected not to have a public hearing regarding disposal because the property had not been in operation for many
years and was zoned for commercial rather than agricultural use.\(^3\) Upon completion of negotiations, the property disposal was properly public noticed in a newspaper and the State’s Online Public Notices system pursuant to regulation 11 AAC 39.730. No public comments were received.

The audit determined that division files adequately documented the property disposal process. Division files included the following records:

- property information, including property appraisal report obtained by the City of Palmer, Phase I Environmental Site Assessment report, title insurance, and title report;
- evidence of the public process, including sealed bid sale brochure, public notice for the offering, best interest finding regarding the property sale, and evidence that disposal was public noticed;
- evidence that the buyer was notified of conditional acceptance within 15 days, as required by 11 AAC 39.760; and
- purchasing documents, including offer from the buyer in the form of draft purchase and sale agreement, the final purchase and sale agreement, final combined statement of costs, and a copy of the quit claim deed.

Further, upon review of the files, the auditors found no evidence that any person was granted a preferential right to purchase which is prohibited by regulation 11 AAC 39.780.

---

\(^3\)Regulation 11 AAC 39.700 requires the board to hold a public hearing before any ARLF asset is sold if disposal of the asset could have a significant effect on the agricultural industry.
According to 11 AAC 39.720(c), before disposal, the board shall establish terms and conditions for the disposal of a property. The terms and conditions for the former MatMaid bottling property were listed in a 2009 sealed bid and subsequently adopted by reference when the property was offered for sale on DNR’s website.

The negotiated agreement required the State, as seller, to pay for cleanup and remediation costs initially estimated to be $25,000; actual costs totaled $26,556. In addition, closing costs were split equally between the seller and the buyer, except for the title insurance which was paid by the seller, and the appraisal which was paid by the buyer.

In the 2009 sealed bid notice, the board set a minimum price of $975,000. This price was based on a 2009 appraisal obtained by the City of Palmer which estimated the value of the land at $1,020,000 (estimate did not include structures). At that time, the City of Palmer was interested in purchasing the property. The board discussed the appraisal results and decided on a lower minimum price of $975,000 to expedite the property sale.

The board made three unsuccessful attempts to update the minimum price based on market value. In 2012, the division issued a request for proposal (RFP) to evaluate the sales price and no responses were received. In 2014, a new RFP was issued for appraisal services and the response was considered too costly and not pursued. In 2015, the board approved obtaining a less costly “broker’s opinion of value” instead of an appraisal. The opinion was not solicited due to competing division priorities. In 2016, the Matanuska Susitna Borough tax assessment of the property was $405,700 ($362,300 – land and $43,400 – buildings).

In 2016, the board received an $800,000 offer and settled on a sale price of $825,000; this price was below the minimum of $975,000 set in 2009. The board determined the offer to be in the best interest of the State because the property had been for sale since 2009, the sale eliminated the responsibility and expenses for property upkeep, and
the sale proceeds provided funding for future agriculture loans. The board documented its determination in a Best Interest Finding shown in Exhibit 4.

Exhibit 4

Best Interest Finding dated May 27, 2016

The Board of Agriculture and Conservation (“BAC”) has considered the most recent offer of Matanuska Brewing Company, LLC to purchase the Matanuska Maid property in Palmer, Alaska for the sum of $825,000. The board believes that the offer is reasonable and in the best interest of the state for the following reasons:

1. This property has been an asset of the ARLF since 1985;
2. The property has been advertised for sale since 2009 with only one offer and that offer fell through due to lack of funding;
3. Environmental concerns with the property have greatly hampered the ability of the board to find a buyer for the property. Until those environmental concerns have been remedied it is unlikely the BAC will receive any other serious bids for the property;
4. The sale amount is well within the range of values that the BAC places on the property and is significantly higher than the borough assessed value of $405,700.
5. This particular buyer appears to be highly motivated and financially able to close this sale with or without ARLF financing. Failure to accept this offer could result in the ARLF holding the property several more years until qualified buyer could be found; and,
6. The ARLF currently pays property taxes to the City of Palmer. It also incurs expenses in connection with maintenance of the property. A sale of the property will eliminate those expenses and free up additional capital for making agricultural loans.

For these reasons, the BAC finds that acceptance of the offer is in the best interest of the state.

Source: Division files.
ARLF paid $41,557 to dispose of the MatMaid bottling property.

Total costs associated with the sale of the property were $41,557 and the net amount received by ARLF for this sale was $783,443. Exhibit 5 shows three types of expenditures were incurred by ARLF to facilitate the property disposal: 1) half of the closing costs and all title insurance costs, 2) all delinquent Matanuska-Susitna Borough property taxes, and 3) all pollution remediation costs.

Division staff stated that property taxes for 2015 and 2016 were not paid by ARLF earlier because invoices were not received from the Borough. Pollution remediation costs totaling $26,556 were paid separately and not included in the closing statement.

**Exhibit 5**

<table>
<thead>
<tr>
<th>Costs and Proceeds from Sale of Matanuska Maid Bottling Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sale price</td>
</tr>
<tr>
<td>Less closing costs and property taxes:</td>
</tr>
<tr>
<td>Property tax adjustment (2017)</td>
</tr>
<tr>
<td>Delinquent property tax (2016)</td>
</tr>
<tr>
<td>Delinquent property tax (2015)</td>
</tr>
<tr>
<td>Closing title fee</td>
</tr>
<tr>
<td>Owner’s coverage of title insurance</td>
</tr>
<tr>
<td>Recording fee</td>
</tr>
<tr>
<td>Total closing costs and property taxes</td>
</tr>
<tr>
<td>Net proceeds</td>
</tr>
<tr>
<td>Less pollution remediation costs</td>
</tr>
<tr>
<td>Total proceeds less pollution remediation costs</td>
</tr>
</tbody>
</table>

Source: Division files and state accounting records.

4Listed expenditures do not include personal services costs incurred by ARLF loan officer and Department of Law assistant attorney general to facilitate the transaction. Personal services costs were not estimable because hours spent on the disposal process were not separately tracked.
ARLF proceeds net of closing costs and property taxes were $809,999. Of this amount, $652,439 was recorded as a gain and $157,560 was used to remove the recorded value of the property. These amounts were correctly reported on the CAFR statements as follows:

- The recorded value of the property in the amount of $157,560 was removed by reducing the Repossessed Property line on the Proprietary Funds Statement of Net Position and the Statement of Net Position: Government-wide.

- The gain amount of $652,439 was reported in the Proprietary Funds Nonoperating Revenues section as Gain on Disposal of Capital Assets on the Statement of Revenues, Expenses, and Changes in Fund Net Position, and in the Business-type Activities section as Other Revenues on the Statement of Activities: Government-wide.

- Total proceeds in the amount of $809,999 were reported in the Proprietary Funds Cash Flows from Capital and Related Financing Activities section as Proceeds from Sales of Capital Assets on the Statement of Cash Flows.
In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Matanuska Maid (MatMaid) bottling property disposal.

**Objectives**

The objective of the audit was to determine if applicable statutes, regulations, and best business practices were followed when disposing of the former MatMaid bottling property. The audit also determined whether sale proceeds were appropriately reported.

**Scope**

The audit reviewed the Division of Agriculture (division) records related to the former MatMaid bottling property for the period from FY 09 through FY 17. The audit also evaluated the financial presentation of the proceeds received from the property disposal in the FY 17 Comprehensive Annual Financial Report.

**Methodology**

During the course of our audit, we reviewed and evaluated the following:

- Division files containing property disposal documents for evidence that applicable statutes, regulations, and best business practices were followed when disposing of the MatMaid bottling property.

- Board meeting minutes and packets from FY 14 through December 2017 for discussions of the MatMaid bottling property for evidence that the Board of Agriculture and Conservation followed a public process when disposing of the property.

- The State’s accounting system to determine whether proceeds were appropriately accounted for and reported, and to identify costs incurred to dispose of the property.

- The State’s Online Public Notices system and evidence of the newspaper advertisement to verify that the public was notified of the property disposal in accordance with applicable regulations.
• Recorder’s office documents, newspaper articles, State websites, and Matanuska-Susitna Borough property records to independently corroborate information documented in the division files.

• Prior Division of Legislative Audit MatMaid audit reports (audit control numbers 10-30049A-08 and 10-30049B-08) to gain an understanding of MatMaid and the audit objectives that were not addressed by the prior audits. Additionally, to identify the purpose for acquiring MatMaid.

To gain an understanding of the disposal process, we reviewed statutes and regulations, and we conducted interviews with division staff and the board chair.
October 11, 2018

Kris Curtis, CPA, CISA
Legislative Auditor
Legislative Budget and Audit
PO Box 113300
Juneau, AK 99811-3300

Re: Matanuska Maid Property Disposal Confidential Preliminary Audit Report

Dear Ms. Curtis,

Thank you for the opportunity to provide a written response to the confidential preliminary audit report on the Matanuska Maid property disposal audit. The conclusions in the report and corresponding response are below.

The board and division staff followed a public process in disposing of the former MatMaid bottling property in accordance with applicable regulations.

Response: The department agrees with this conclusion and no action is necessary.

The division maintained property disposal records in accordance with applicable regulations and best business practices.

Response: The department agrees with this conclusion and no action is necessary.

The board properly established terms and conditions for the property disposal.

Response: The department agrees with this conclusion and no action is necessary.

The board sold the bottling property below established minimum price in the best interest of ARLF.

The department agrees with this conclusion with no further action necessary.

The ARLF paid $41,557 to dispose of the MatMaid bottling property.

The department agrees with this conclusion with no further action necessary.
Financial transactions related to the sale were appropriately accounted for and accurately reported in the FY 17 CAFR.

Response: The department agrees with this conclusion and no action is necessary

Again, thank you for the opportunity to review and respond to this audit. Department staff is available for follow-up as needed by the audit committee.

Sincerely,

Andrew T. Mack
Commissioner

Cc: Fabienne Petor-Contesse, Director, Support Services Division
Agency Response from the Board of Agriculture and Conservation

October 29, 2018

Kris Curtis, CPA, CISA
Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Curtis:

RE: Confidential Board of Agriculture and Conservation Response to FY 2017 Mat Maid Preliminary Report

The Board of Agriculture and Conservation (Board) is in receipt of the above referenced report and while we appreciate your conclusions and recommendations regarding the ARLF, we respectfully present the following in response.

Conclusion No. 1

The board and division staff followed a public process in disposing of the former MatMaid bottling property in accordance with applicable regulations.

Response: The board agrees with this conclusion and no action is necessary.

Conclusion No. 2

The division-maintained property disposal records in accordance with applicable regulations and best business practices.

Response: The board agrees with this conclusion and no action is necessary.

Conclusion No. 3

The board properly established terms and conditions for the property.

Response: The board agrees with this conclusion and no action is necessary.
Conclusion No. 4

The board sold the bottling property below established minimum price in the best interest of ARLF.

Response: The board agrees with this conclusion and no action is necessary.

Conclusion No. 5

The ARLF paid $41,557 to dispose of the Matanuska Maid bottling property.

Response: The board agrees with this conclusion and no action is necessary.

The Board of Agriculture and Conservation members take their responsibility very seriously and work to promote agriculture by offering low-cost loans to residents engaged in viable agriculture ventures. The fund should be evaluated based on its purpose, not according to industry lending standards and financial return to the State of Alaska. The ARLF provides a critical link in the promotion of agriculture, expansion of self-sufficiency, and food safety for Alaskans.

Sincerely,

[Signature]

Ben VanderWeele
Chair
Board of Agriculture & Conservation