



Alaska Corporation for Affordable Housing

(A component unit of Alaska Housing Finance Corporation)

Financial Statement And Independent Auditor's Report

June 30, 2014

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Tel: 907-278-8878

Fax: 907-278-5779

www.bdo.com

3601 C Street, Suite 600

Anchorage, AK 99503

Independent Auditor's Report

To the Board of Directors
Alaska Corporation for Affordable Housing
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statement of Alaska Corporation for Affordable Housing (the Corporation), a component unit of the Alaska Housing Finance Corporation, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2014, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BDO USA, LLP

Anchorage, Alaska
February 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of Alaska Corporation for Affordable Housing (the "Corporation") have been prepared in accordance with generally accepted accounting principles and contain the Independent Auditor's Report, the Management's Discussion and Analysis and the basic financial statements. All amounts within the financial statements, unless otherwise indicated, are rounded to the dollar.

The Management's Discussion and Analysis is an overview and analysis of the financial activities of the Corporation for the year ended June 30, 2014. This information should be read in conjunction with the Independent Auditor's Report and basic financial statements immediately following this section.

The basic financial statements include the Statement of Net Position (Exhibit A), the Statement of Revenues, Expenses and Changes in Net Position (Exhibit B), the Statement of Cash Flows (Exhibit C), and the Notes to Financial Statements. These statements provide both long-term and short-term information about the Corporation's overall financial condition with the notes providing more detailed information. These statements are prepared using the accrual basis of accounting, so revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Statement of Net Position presents the assets, liabilities and net position of the Corporation, giving the financial statement reader a snapshot of the fiscal condition of the Corporation at the end of the fiscal year.

The Statement of Revenues, Expenses and Changes in Net Position measures the operations over the past fiscal year.

The Statement of Cash Flows provides information about the sources and uses of the Corporation's cash.

FINANCIAL HIGHLIGHTS

- The Corporation received its 501c3 designation from the IRS as a non-profit corporation. This was retroactive back to the inception of the Corporation in February, 2012.
- The Corporation became the majority member of the ANC MV Limited Liability Company in January, 2014.
- At year end, the Corporation had total assets of \$4,985,020 and total liabilities of \$2,637,608.
- For the year ended June 30, 2014, the Corporation had an operating loss of \$1,013,142.
- The Corporation was awarded two grant contracts of federal and state program monies totaling \$18,875,154 administered through Alaska Housing Finance Corporation.

CONDENSED STATEMENT OF NET POSITION

The following table presents information about the financial position of the Corporation as of June 30, 2014, and June 30, 2013, and the changes between those fiscal years.

	2014	2013	Increase (Decrease)
Cash	1,286,733	173,845	1,112,888
Capital assets	3,667,109	3,537,631	129,478
Total assets	4,985,020	3,711,476	1,273,544
Note payable to AHFC	1,424,914	326,449	1,098,465
Accounts payable	1,212,694	-	1,212,694
Total liabilities	2,637,608	510,936	2,126,672
Total net position	2,347,412	3,200,540	(853,128)

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The following table presents a comparison of condensed information for the fiscal years ended June 30, 2014, and June 30, 2013, and the changes between those fiscal years.

	2014	2013	Increase (Decrease)
Grant proceeds	1,229,003	-	1,229,003
Total operating revenue	1,229,822	131	1,229,691
Operations and administration	80,765	4,211	76,554
Project costs	2,162,199	-	2,162,199
Total operating expenses	2,242,964	4,211	2,238,753
Operating loss	(1,013,142)	(4,080)	1,009,062
Capital contributions	160,014	3,204,620	(3,044,606)
Change in net position	(853,128)	3,200,540	(4,053,668)

The initial long term loan was used to acquire some of the land while the rest of the land was contributed by the Alaska Housing Finance Corporation ("AHFC") in the prior year. In fiscal year 2014, the Corporation started incurring project costs. The project costs were either reimbursed by federal or state program funds or were draw-downs on the long term loan with AHFC that utilized federal funds. The capital contribution of cash from AHFC in fiscal year 2014 was used to cover the corporate operating expenses of the current year.

CAPITAL ASSETS

During the current fiscal year, the Corporation incurred site improvement costs preparing the land for its intended use.

LONG TERM DEBTS

In the current fiscal year, the Corporation made the remaining draw-downs of the initial federal program grant. Those funds are tied to an agreement with AHFC that the Corporation will start repaying the loan over a thirty year period once operations have started.

ECONOMIC FACTORS

There has been a decline in federal public housing operational dollars as result of congressional focus on national debt reduction along with the tightening of state capital and operating budgets. The challenge facing all public housing authorities is to serve as many people as possible facing the decline in funding. The Corporation will be able to access tax-exempt bonds, low income housing tax credits, foundation funding and other sources previously unavailable to AHFC.

The public housing stock, largely in Anchorage, is aging and its renovation and replacement needs are part of the future considerations for the Corporation.

In the coming year, the Corporation will be looking at opportunities to partner with AHFC on the conversion of portions of the public housing stock under a new HUD program called the Rental Assistance Demonstration program. Other projects like Ridgeline Terrace and Susitna Square will be considered based on funding and land availability in other communities that have housing needs.

CONTACTING ACAH'S FINANCIAL MANAGEMENT

For inquiries about this report, or if you need additional financial information, please call (907) 330-8322 or email mgaspar@ahfc.us

ALASKA CORPORATION FOR AFFORDABLE HOUSING
(A Component Unit of Alaska Housing Finance Corporation)
STATEMENT OF NET POSITION
As of June 30, 2014
(in dollars)

Exhibit A

ASSETS		
Cash		\$ 1,286,733
Due from AHFC		31,178
Capital assets - non-depreciable		3,667,109
Total Assets		<u>4,985,020</u>
LIABILITIES		
Note payable to AHFC		1,424,914
Accounts payable		1,212,694
Total Liabilities		<u>2,637,608</u>
NET POSITION		
Net investment in capital assets		3,667,109
Unrestricted or (deficit)		<u>(1,319,697)</u>
Total Net Position		<u>\$ 2,347,412</u>

See accompanying notes to the financial statements.

ALASKA CORPORATION FOR AFFORDABLE HOUSING
(A Component Unit of Alaska Housing Finance Corporation)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014
(in dollars)

Exhibit B

OPERATING REVENUES

Grant proceeds	\$ 1,229,003
Other	819
Total Operating Revenue	<u>1,229,822</u>

OPERATING EXPENSES

Operations and administration	80,765
Project costs	<u>2,162,199</u>
Total Operating Expense	<u>2,242,964</u>

Operating Income (Loss) (1,013,142)

Capital contribution - CASH 160,014

Change in Net Position (853,128)

Net position at beginning of year \$ 3,200,540
Net Position at End of Period 2,347,412

See accompanying notes to the financial statements.

ALASKA CORPORATION FOR AFFORDABLE HOUSING
(A Component Unit of Alaska Housing Finance Corporation)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014
(in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments for services	\$ (14,889)
Other operating receipts	16,000
Other operating disbursements	(949,196)
Net cash provided by (used for) operating activities	<u>(948,085)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from short term loan	2,000,000
Contributions from AHFC	160,014
Net cash provided by (used for) noncapital financing activities	<u>2,160,014</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition of capital assets	(99,860)
Net cash provided by (used for) capital financing activities	<u>(99,860)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from checking account	819
Net cash provided by (used for) investing activities	<u>819</u>
Net Increase (decrease) in cash	1,112,888
Cash at the beginning of year	173,845
Cash at the end of period	<u>\$ 1,286,733</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ (1,013,142)
<i>Adjustments:</i>	
Interest received	(819)
Changes in assets and liabilities:	65,876
Net cash provided by (used for) operating activities	<u>\$ (948,085)</u>
Noncash investing, capital and financing activities:	
Land improvements paid by AHFC	33,680
Reduction of the short term loan by reimbursable grant funded project costs	(2,000,000)

See accompanying notes to the financial statements.

Notes to Financial Statements

FOOTNOTE INDEX

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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2014

1 ALASKA CORPORATION FOR AFFORDABLE HOUSING

The Alaska Corporation for Affordable Housing (the "Corporation") is a non-profit corporation. It was incorporated on February 1, 2012, under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Statutes creating the Alaska Housing Finance Corporation (AS 18.56), as amended. The Corporation is a subsidiary of Alaska Housing Finance Corporation ("AHFC") in accordance with the Legislature's intent. The Corporation was formed to develop, manage and operate affordable housing and provide supportive and related services to support the mission of AHFC. AHFC's statutes do not provide AHFC with the power to undertake certain types of housing or to participate in some financing and ownership structures. The Corporation's mission is to undertake the types of affordable housing and services that are not open to AHFC directly, but which support AHFC's mission of providing affordable housing and services to individuals and groups in need.

The Corporation is legally independent and separate from AHFC, but there is financial accountability between the Corporation and AHFC. AHFC has operational responsibility of the Corporation and there is the potential for a financial benefit and/or burden between AHFC and the Corporation. The Corporation's purpose is to benefit and support AHFC in providing affordable housing to Alaskans. The Board of Directors of the Corporation and AHFC are one and the same.

The Corporation is presented as a blended component unit in AHFC's financial statements.

The Corporation is a government instrumentality of the State of Alaska (the "State") but has legal existence independent of and separate from the State.

ANC MV Limited Liability Company (the "LLC") was created and recorded with the State of Alaska on January 23, 2014. The LLC's purpose is to facilitate the financing and development of the Ridgeline Terrace and Susitna Square projects and provide security against lawsuits and other business related liabilities. The LLC is legally independent and separate from the Corporation. The Corporation owns 51% of the LLC's membership interest and has the ability to impose its will on the LLC.

The Corporation has financial accountability for the LLC. Accordingly, the LLC is considered a component unit of the Corporation. The Corporation does not consider the component unit's financial data material enough to disclose in its financial statements at this time. The LLC's first year of operation ended 12/31/14. Additional financial information about the LLC can be obtained by contacting the Cook Inlet Housing Authority.

The LLC is the general partner in the ANC MV Phase 1 Limited Partnership with a .01% ownership interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The Corporation is engaged in business-type activities that utilize a proprietary enterprise fund.

The financial statements are reported using the *economic resources measurement focus and full accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating Revenue and Expenses

The Corporation's operating revenues are generated by services associated with the construction, financing and management of affordable housing projects. The operating expenses of the Corporation are the direct costs of providing those services. All other transactions not meeting the definition of operating revenues and expenses are reported as non-operating or contributions of capital.

ALASKA HOUSING CAPITAL CORPORATION*a component unit of the Alaska Housing Finance Corporation*

Notes to Financial Statements

Net Position

The Corporation's net position represents the difference between assets and liabilities. The restricted net position of the Corporation equals its net investment in capital assets. The unrestricted net position balance represents the Corporation's financial resources that are used for the specific purpose established when it was incorporated.

3 CASH

As of June 30, 2014, the Corporation's bank balance of \$1,286,733 included cash deposits in the amount of \$1,036,733 that were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Corporation's name.

4 CAPITAL ASSETS

Capital asset activity and a summary of balances for the year ended June 30, 2014, are shown below:

	June 30, 2013	Additions	Reductions	June 30, 2014
Non-Depreciable Capital Assets:				
Land	\$ 3,537,631	\$ -	\$ (4,062)	\$ 3,533,569
Land Improvements	-	133,540	-	133,540
Total Non-Depreciable Capital Assets	\$ 3,537,631	\$ 133,540	\$ (4,062)	\$ 3,667,109

The land improvements included demolition and survey costs incurred to prepare the land for the start of construction.

5 LONG TERM LIABILITIES

The Corporation's note payable to AHFC is repayable over a thirty year period beginning after project operations have begun. The note has no required minimum payment and is non-interest bearing. The note was established through a grant agreement with AHFC, whereby eligible expenses incurred by the Corporation were reimbursed by AHFC with federal funds. The activity for the year ended June 30, 2014, is summarized in the following schedule.

	June 30, 2013	Additions	Reductions	June 30, 2014	Due Within One Year
Note payable to AHFC	\$ 326,449	\$ 1,098,465	\$ -	\$ 1,424,914	\$ -

6 RELATED PARTY TRANSACTIONS

The Corporation is a subsidiary of AHFC and utilizes its administrative and support services under a shared services memorandum agreement. AHFC's Chief Executive Officer and Director of Public Housing serve as ACAH's President and Vice President, respectively. During the year ended June 30, 2014, the Corporation entered into two grant agreements with AHFC for \$16,096,117 and \$2,779,837. In addition, during the year ended June 30, 2014, AHFC advanced cash of \$2,000,000 to the Corporation as a short term loan. Instead of making cash payments on the short term loan, the Corporation offset \$2,031,178 of operating costs against grant proceeds owed by AHFC to the Corporation. The net amount of \$31,178 was owed to the Corporation by AHFC as of June 30, 2014. AHFC also contributed \$160,014 in cash to

Notes to Financial Statements

the Corporation for administrative costs.

7 SUBSEQUENT EVENTS

In September 2014, AHFC quitclaimed three foreclosure properties in Fairbanks to the Corporation. The assessed value of two of the properties totals \$1,033,292. These properties have yearly renewable commercial leases signed by the Corporation in December 2014 that will generate revenue by providing annual payments of \$39,293. The Corporation accepted a sales offer on the third property for \$510,000; the sale is expected to close soon.

In October 2014, the Corporation signed four Promissory Notes with the ANC MV Phase 1 Limited Partnership totaling \$19,756,287. Two of the notes mature on October 22, 2017, when the total principal amount of \$5,600,000 is due and payable. The interest rate on the notes due October 22, 2017, is zero percent (0%) per annum. The remaining two notes mature on October 22, 2044, and bear an interest rate of one percent (1%) per annum. Interest and principal shall be due to the extent of available cash flow of the Ridgeline Terrace and Susitna Square projects. The notes are secured by Leasehold Deeds of Trust and an Assignment of Leases and Rents of the projects.

The Corporation is in the process of entering into a commercial lease that will generate revenue by providing an annual payment of \$60,000 for the use of the Corporation's property adjacent to Ridgeline Terrace.