

Alaska Housing Capital Corporation

a component unit of the State of Alaska

Financial Statements

With Independent Auditor's Report

June 30, 2016

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Independent Auditor's Report

To the Board of Directors
Alaska Housing Capital Corporation
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Alaska Housing Capital Corporation (AHCC), a component unit of the State of Alaska, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise AHCC's basic financial statements as listed in the table of contents.

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 opinions 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of AHCC, as of June 30, 2016, and the respective changes in financial position 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 through 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

November 15, 2016
Anchorage, Alaska

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is an overview and analysis of the financial activities of Alaska Housing Capital Corporation (the "Corporation") for the fiscal year ended June 30, 2016. This information should be read in conjunction with the Independent Auditor's Report, financial statements and accompanying notes. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

The Corporation is a component unit of the State of Alaska (the "State") and is presented as a blended component of the general fund in the State's financial statements.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2016, no funds were disbursed from the Corporation, as \$36.8 million of fiscal year 2016 expenses were pre-funded to various state agencies during the prior fiscal year. There were additional expenses incurred in March 2016 of \$5.8 million, which were funded in July and August 2016. At the end of fiscal year 2016, \$15.7 million of the funds disbursed in fiscal year 2015 remained unspent.
- As of June 30, 2016, the Corporation's net position decreased due to expense of \$42.6 million.

CONDENSED FINANCIAL INFORMATION

	2016	2015	Increase (Decrease)
Total assets	\$ 59,724	\$ 96,232	\$ (36,508)
Total liabilities	5,776	-	5,776
Total net position	<u>53,948</u>	<u>96,232</u>	<u>(42,284)</u>
Total revenues	358	34,476	(34,118)
Total expenses	<u>42,642</u>	<u>28,736</u>	<u>13,906</u>
Change in net position	(42,284)	5,740	(48,024)
Beginning net position	<u>96,232</u>	<u>90,492</u>	<u>5,740</u>
Ending net position	<u>\$ 53,948</u>	<u>\$ 96,232</u>	<u>\$ (42,284)</u>

OVERVIEW OF THE FINANCIAL STATEMENTS

The Corporation's annual financial statements consist of two parts: Management's Discussion and Analysis and the basic financial statements. The financial statements are intended to facilitate and enhance the understanding of the Corporation's financial position and results of operations for the current year. The basic financial statements include government-wide presentation, governmental fund presentation and Notes to Financial Statements.

The government-wide financial statements of the Corporation, which include the *Statement of Net Position* (Exhibit A) and the *Statement of Activities* (Exhibit B), display information about the Corporation as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The governmental fund financial statements of the Corporation, which include the *Governmental Fund Balance Sheet* (Exhibit A), and the *Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances* (Exhibit B) are presented using the current financial resources measurement focus and the modified

MANAGEMENT'S DISCUSSION AND ANALYSIS

accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures in the current period and expenditures are recorded when a liability is incurred.

There are no reconciling differences between the government-wide and governmental fund financial statements.

The *Statement of Net Position / Governmental Fund Balance Sheet* (Exhibit A) answers the question, "How is the Corporation's financial health at the end of the year?" This statement includes all assets and liabilities. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Activities / Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance* (Exhibit B) accounts for all of the revenues and expenses. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all of its costs through its revenue sources. This statement helps answer the question "Is the Corporation as a whole better off or worse off as a result of the year's activities?"

The *Notes to Financial Statements* provide additional information that is essential to obtain a full understanding of the data provided in the government-wide financial statements.

GENERAL FUND

The general fund is the operating fund of the Corporation and represents all of the Corporation's activities.

CONTACTING AHCC'S FINANCIAL MANAGEMENT

For inquiries about this report or to request additional financial information please call (907) 330-8322 or email finance@ahfc.us.

ALASKA HOUSING CAPITAL CORPORATION**EXHIBIT A**

(A Component Unit of the State of Alaska)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

June 30, 2016

(in thousands of dollars)

	General Fund	Statement of Net Position Total
ASSETS		
Investments	\$ 43,993	\$ 43,993
Due from State of Alaska	-	-
Prepaid Expenses	15,731	15,731
Total Assets	<u>59,724</u>	<u>59,724</u>
LIABILITIES		
Due to State of Alaska	5,776	5,776
Total Liabilities	<u>5,776</u>	<u>5,776</u>
FUND BALANCES		
Fund balances:		
Nonspendable - Prepaids	15,731	
Unassigned	38,217	
Total Fund Balances	<u>53,948</u>	
Total Liabilities and Fund Balances	<u>\$ 59,724</u>	
NET POSITION		
Unrestricted		53,948
Total Net Position		<u>\$ 53,948</u>

See accompanying notes to the financial statements.

ALASKA HOUSING CAPITAL CORPORATION**EXHIBIT B**

(A Component Unit of the State of Alaska)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES / STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

(in thousands of dollars)

	<u>General Fund</u>	<u>Statement of Activities</u>
GENERAL REVENUES		
Investment interest	\$ 348	\$ 348
Other revenue from State of Alaska	10	10
Total revenues	<u>358</u>	<u>358</u>
EXPENDITURES/EXPENSES		
UAA Engineering Building project	30,664	30,664
Susitna-Watana Dam project	4,331	4,331
Positive Train Control project	1,871	1,871
State Library and Archives	5,776	5,776
Total expenditures/expenses	<u>42,642</u>	<u>42,642</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(42,284)</u>	<u>(42,284)</u>
Net change in fund balances	(42,284)	-
Change in net position	-	(42,284)
FUND BALANCES and NET POSITION		
Beginning of year	96,232	96,232
End of year	<u>\$ 53,948</u>	<u>\$ 53,948</u>

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, 2016

NOTE A: ALASKA HOUSING CAPITAL CORPORATION

The Alaska Housing Capital Corporation (the "Corporation") is a non-profit corporation. It was incorporated on May 23, 2006, under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Statutes creating the Alaska Housing Finance Corporation (AS18.56), as amended. The Corporation was formed as a subsidiary of Alaska Housing Finance Corporation ("AHFC") in accordance with the Legislature's intent. The Corporation is legally independent and separate from AHFC, and there is no financial accountability between the Corporation and AHFC.

The Board of Directors of the Corporation is comprised of the Commissioners of the Alaska Departments of Revenue; Health & Social Services; and Commerce, Community & Economic Development, or their designees, and four independent members of the public appointed by the Governor. The Corporation is a government instrumentality of the State but has legal existence independent of and separate from the State. The Corporation is a component unit of the State of Alaska (the "State") and is presented as a component of the State's financial statements.

The Corporation was formed for the purpose set forth in AS 18.56.086 identified as financing various capital projects of the State of Alaska and financing expenses via enacted legislative action.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Corporation's annual financial statements include a Management's Discussion and Analysis (MD&A) section and basic financial statements. The basic financial statements include a Governmental Fund Balance Sheet / Statement of Net Position, a Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances / Statement of Activities, and Notes to Financial Statements.

The Statement of Net Position and the Statement of Activities report information on all of the activities of the Corporation. The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances are provided for governmental funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Corporation considers revenues to be available if collected within 60 days of fiscal year end. Expenditures generally are recorded when a liability is incurred.

There are no reconciling differences between the government-wide and governmental-fund financial statements.

NOTE C: ASSETS AND FUND EQUITY

Investments

All investments are stated at fair value and are invested in the State of Alaska's internally managed investment pools.

Notes to Financial Statements

Fund Balances and Net Position

The General Fund has an unassigned fund balance and unrestricted net position balance. The Corporation's financial resources are used for a specific purpose established when it was incorporated.

NOTE D: INVESTMENTS

The Department of Revenue, Treasury Division (the "Treasury") has created a pooled environment by which it manages the investments under the fiduciary oversight of the Commissioner. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Corporation invests in the State's internally managed General Fund and Other Non-Segregated Investments Pool ("GeFONSI"). The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, the Short-term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. The complete financial activity of the fund is shown in the Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term, Short-term Liquidity and Intermediate-term Fixed Income Pools is allocated to pool participants daily on a pro rata basis.

At June 30, 2016, the Corporation's share of pool investments was as follows (in thousands):

<u>Investment Pool</u>	<u>Fund 1213</u>
Cash and Cash Equivalents	
Short-Term Fixed Income Pool	\$ 43,993
Total	<u>\$ 43,993</u>

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group.

At June 30, 2016, the fund did not have more than five percent of its investments in any one company or affiliated group.

NOTE E: SUBSEQUENT EVENTS

The Corporation finances State of Alaska capital projects and expenditures as legislatively appropriated.

In July and August 2017, \$5.8 million was disbursed from Corporation funds for the State Library, Archives and Museum Facility Construction, pursuant to Alaska Senate Bill 18 of the 2014 legislative session. A total of \$22.5 million has been appropriated for that project. The expenditures for the disbursements were incurred in March 2016. Accordingly, the expense is included in fiscal year 2016 activity.