



Alaska Corporation for Affordable Housing

(A component unit of Alaska Housing Finance Corporation)

Financial Statement And Independent Auditor's Report

June 30, 2021

TABLE OF CONTENTS

<u>EXHIBITS</u>	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS [MD&A]	3 - 5
BASIC FINANCIAL STATEMENTS:	
A STATEMENT OF NET POSITION	6
B STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	7
C STATEMENT OF CASH FLOWS	8
NOTE DISCLOSURES TO FINANCIAL STATEMENTS	9 - 12



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 statements of Alaska Corporation for Affordable Housing (the Corporation), a component unit of Alaska Housing Finance Corporation, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation'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 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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, 2021, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Boise, Idaho
September 30, 2021

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 contains 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 twelve months ended June 30, 2021. 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 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; 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 operating period.

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

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2021, the Corporation had total assets of \$28,659,432 and total liabilities of \$1,789,523.
- For the twelve months ended June 30, 2021, the Corporation had an operating income of \$571,771.
- Operation and administration expenses increased by \$48,472. This increase is related to increased payroll costs and to costs associated with the Wasilla property acquired in December of fiscal year 2020.
- Construction notes receivable increased by \$127,608 due to capitalization of accrued interest. Unpaid interest is capitalized annually.
- Provision for loan loss increased by \$141,158. This increase is due to the estimate for loan loss relating to two loans to ANC MV PHASE I Limited Partnership changing from 9% to 8% at the beginning of fiscal year 2020.
- In 2014 Alaska Housing Finance Corporation allocated funds for affordable housing development directly related to projects the Corporation was working on at that time. Certain payroll costs accrued by the Corporation are funded as part of the allocation. During the current fiscal year, Alaska Housing Finance Corporation reimbursed the Corporation for \$618,211 of payroll costs dating back to fiscal year 2017. Continuing forward, Alaska Housing Finance Corporation will continue to reimburse the Corporation for payroll costs out of this initial allocation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET POSITION

The following table presents information about the financial position of the Corporation as of June 30, 2021, and 2020, and changes in the balances thereof during the fiscal year ended June 30, 2021.

	2021	2020	Increase (Decrease)
Cash	\$ 8,660,485	\$ 8,199,542	\$ 460,943
Construction notes receivable	12,888,500	12,760,892	127,608
Capital assets	6,906,313	6,945,091	(38,778)
Other assets	204,134	188,860	15,274
Total assets	28,659,432	28,094,385	565,047
Due to AHFC	96,717	82,809	13,908
Note Payable to AHFC	1,423,153	1,423,153	-
Other liabilities	269,653	290,285	(20,632)
Total liabilities	1,789,523	1,796,247	(6,724)
Total net position	\$ 26,869,909	\$ 26,298,138	\$ 571,771

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, 2021, and 2020, and the change between those fiscal years.

	2021	2020	Increase (Decrease)
Lease income	\$ 199,308	\$ 229,312	\$ (30,004)
Fee Income	38,368	38,368	-
Interest	149,514	149,933	(419)
Other revenue	618,465	2,853	615,612
Total revenue	1,005,655	420,466	585,189
Operations and administration	422,787	374,315	48,472
Provision for loan loss	11,097	(130,061)	141,158
Total expenses	433,884	244,254	189,630
Operating income (loss)	571,771	176,212	395,559
Capital contributions	-	1,664,129	(1,664,129)
Change in net position	\$ 571,771	\$ 1,840,341	\$ (1,268,570)

CAPITAL ASSETS

During the current fiscal year, there was no significant change in capital assets. The decrease is only attributed to depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 is aging and its renovation and replacement needs are part of the future considerations for the Corporation. Other projects similar to Ridgeline Terrace and Susitna Square will be considered based on funding and land availability.

CONTACT ACAH'S FINANCIAL MANAGEMENT

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

ALASKA CORPORATION FOR AFFORDABLE HOUSING
(A Component Unit of Alaska Housing Finance Corporation)
STATEMENT OF NET POSITION
As of June 30, 2021
(in dollars)

Exhibit A

ASSETS	
Cash	\$ 8,393,805
Limited partnership cash in escrow	266,680
Accounts receivable	133,510
Accrued interest receivable	67,310
Prepaid insurance	2,291
Construction notes receivable, net	12,888,500
Capital assets - non-depreciable	6,198,601
Capital assets - depreciable, net	707,712
Other assets	1,023
Total Assets	<u>28,659,432</u>
LIABILITIES	
Due to AHFC	96,717
Unearned rent revenue	2,974
Developer fee payable	266,679
Note payable to AHFC	1,423,153
Total Liabilities	<u>1,789,523</u>
NET POSITION	
Investment in capital assets, net of depreciation	6,906,313
Unrestricted	19,963,596
Total Net Position	<u>\$ 26,869,909</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, 2021
(in dollars)

Exhibit B

OPERATING REVENUES

Lease income	\$ 199,308
Developer fee income	38,368
Interest income	149,514
Other income	618,465
Total Operating Revenues	<u>1,005,655</u>

OPERATING EXPENSES

Operations and administration	422,787
Provision for loan loss	11,097
Total Operating Expenses	<u>433,884</u>

Operating Income 571,771

Change in Net Position 571,771

Net position at beginning of year 26,298,138

Net Position at End of Period \$ 26,869,909

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, 2021
(in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Rental income	\$ 202,282
Other operating receipts	254
Other operating disbursements	(27,364)
Payments from AHFC	618,211
Net cash provided by (used for) operating activities	<u>793,383</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to AHFC	(343,455)
Net cash provided by (used for) noncapital financing activities	<u>(343,455)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Developer fees received	23,968
Developer fees paid	(23,968)
Deposits/Interest received for escrow accounts	363
Payments from AHFC	510
Net cash provided by (used for) capital financing activities	<u>873</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment interest	10,142
Net cash provided by (used for) investing activities	<u>10,142</u>
Net Increase (decrease) in cash	460,943
Cash at the beginning of year	8,199,542
Cash at the end of period	<u>\$ 8,660,485</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ 571,771
<i>Adjustments:</i>	
Depreciation expense	38,778
Escrow interest received	(10,142)
Mortgage interest earned	(139,372)
Increase in accounts receivable	(14,400)
Increase in prepaid insurance	(209)
Increase in due to AHFC	356,854
Decrease in developer fee payable	(23,968)
Increase in allowance for loan loss	11,097
Increase in unearned revenue	2,974
Net cash provided by (used for) operating activities	<u>\$ 793,383</u>

See accompanying notes to the financial statements.

NOTE DISCLOSURES INDEX

NOTE	DESCRIPTION	PAGE
1	Alaska Corporation for Affordable Housing	10
2	Summary of Significant Accounting Policies	10
3	Cash	11
4	Capital Assets	11
5	Notes Receivable	12
6	Long Term Liabilities	12
7	Other Income	12
8	Related Party Transactions	12

Notes to Financial Statements

FOR THE TWELVE MONTHS ENDED JUNE 30, 2021

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 99.99% 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 LLC's first year of operation ended December 31, 2014. The Corporation does not consider the component unit's financial data material enough to disclose in its financial statements at this time. 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.

Notes to Financial Statements

Depreciation

Depreciation and amortization of buildings, equipment, and leasehold improvements are computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years. The capitalization threshold is \$5,000.

Net Position

The Corporation's net position represents the difference between assets and liabilities. The investment in capital assets of the Corporation equals its capital assets less accumulated depreciation. 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

Cash consists of demand deposits and escrow accounts for developer fees to be paid pursuant to the Development Services Fee Escrow Agreement dated October 22, 2014. As of June 30, 2021, the Corporation's bank balance of \$8,660,485 included cash deposits in the amount of \$8,410,485 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. A summary of the Corporation's cash is shown below.

	June 30, 2021
Unrestricted cash	\$ 8,393,805
Developer fee escrow accounts	266,680
Carrying amount	<u>\$ 8,660,485</u>
Bank balance	<u>\$ 8,660,485</u>

4 CAPITAL ASSETS

Capital asset activity and a summary of balances for the twelve months ended June 30, 2021, are shown below:

	June 30, 2020	Additions	Reductions	June 30, 2021
Non-Depreciable Capital Assets:				
Land	\$ 6,198,601	\$ -	\$ -	\$ 6,198,601
Total Non-Depreciable Capital Assets	<u>6,198,601</u>	-	-	<u>6,198,601</u>
Depreciable Capital Assets:				
Buildings	969,468	-	-	969,468
Less Accumulated Depreciation	<u>(222,978)</u>	-	<u>(38,778)</u>	<u>(261,756)</u>
Net Depreciable Assets	<u>746,490</u>	-	<u>(38,778)</u>	<u>707,712</u>
Total All Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,945,091</u>	-	<u>\$ (38,778)</u>	<u>\$ 6,906,313</u>

The cost of land includes demolition and survey costs incurred to prepare the land for the start of construction.

The depreciation charged by the Corporation was \$38,778 for the twelve months ended June 30, 2021.

Notes to Financial Statements

5 NOTES RECEIVABLE

As of June 30, 2021, the Corporation had two construction notes receivable outstanding. Funds were loaned to the ANC MV Phase 1 Limited Partnership for the construction of two Low Income Housing Tax Credit properties, Ridgeline Terrace and Susitna Square, both located in Anchorage, Alaska.

Both notes mature on October 22, 2044. Interest began accruing at 1.00% per annum on the completion date of each project, which was February 1, 2016, for Ridgeline Terrace, and October 1, 2015, for Susitna Square. Interest and principal are due on both notes to the extent of available cash flow of the projects. The notes are secured by Leasehold Deeds of Trust and an Assignment of Leases and Rents of the projects. No principal is due on these notes within the next year. A summary of the balances is shown below. Allowance for loan loss is calculated as 8% of the construction loan balance.

	Ridgeline Terrace	Susitna Square	Total
Construction Loans	\$ 11,327,682	\$ 2,681,557	\$ 14,009,239
Less: Allowance for loan loss	(906,214)	(214,525)	(1,120,739)
Net Construction loans receivable	\$ 10,421,468	\$ 2,467,032	\$ 12,888,500

6 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 reimbursable grant agreement with AHFC, whereby eligible expenses incurred by the Corporation were reimbursed by AHFC with federal funds. The amount of the repayment of the note payable is based upon ACAH's annual cash flows. There was no payment made towards the note for the year ended June 30, 2021. There was no change in the note's principal balance of \$1,423,153 during the 12 months ended June 30, 2021.

Other liabilities include developer fees in the amount of \$266,679 to be paid to various third parties involved in the development of the Ridgeline Terrace and Susitna Square housing developments, based on available cash flow as calculated in accordance with the Development Services Agreement dated October 22, 2014. No developer fees were paid during the year ended June 30, 2021, due to the developments not meeting certain benchmarks required by the Developer Agreements.

7 OTHER INCOME

In 2014 Alaska Housing Finance Corporation allocated funds for affordable housing development directly related to projects the Corporation was working on at that time. Certain payroll costs accrued by the Corporation are funded as part of the allocation. During the current fiscal year, Alaska Housing Finance Corporation reimbursed the Corporation for \$618,211 of payroll costs dating back to fiscal year 2017. Continuing forward, Alaska Housing Finance Corporation will continue to reimburse the Corporation for payroll costs out of this initial allocation. \$254 of Other income is comprised of capital credits from local utility co-ops which brings total Other income to \$618,465 for the year ended June 30, 2021.

8 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, Deputy Executive Officer, and Director of Public Housing serve as ACAH's President and Vice Presidents, respectively. As of June 30, 2021, the Corporation owed \$21,426 to AHFC for utilities as well as shared services expenses and \$75,291 for payroll expenses paid by AHFC on the Corporation's behalf. During the year ended June 30, 2021, \$93,805 was incurred for utilities as well as shared services expenses and \$272,743 was incurred for payroll expenses.