

# **Alaska Housing Capital Corporation**

**a component unit of the State of Alaska**

## **Financial Statements**

**With Independent Auditor's Report**

**June 30, 2012**

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## Independent Auditor's Report

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

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, 2012, which collectively comprise AHCC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of AHCC's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
October 8, 2012

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, 2012. This information should be read in conjunction with the Independent Auditors' 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**

- During the fiscal year ended June 30, 2012 the Corporation completed a pass-through of \$400,000 to a state fund that will provide education grants and performance scholarships.

**CONDENSED FINANCIAL INFORMATION**

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Total assets	\$ 577,841	\$ 768,338	\$ (190,497)
Total liabilities	-	-	-
Total net assets	577,841	768,338	(190,497)
Total revenues	9,503	6,021	3,482
Total expenses	-	-	-
Change in net assets	(190,497)	406,021	(596,518)

As of June 30, 2012 total net assets decreased over June 30, 2011 net assets due to monies paid to the State during fiscal year 2012.

The decrease in the change in net assets between fiscal year 2012 & 2011 was the net impact of a Transfer In of \$200,000 from the State and a Transfer Out of \$400,000 to the State all due to prior state legislation, offset with an increase in investment income due to a larger investment holding during the majority of the fiscal year 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Corporation's annual financial statements consist of two parts: Management's Discussion and Analysis and basic financial statements. 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 Assets* and the *Statement of Activities*, are presented to display information about the Corporation as a whole and are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to the accounting used by most private-sector companies. 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 Assets* (Exhibit A) answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Activities* (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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

The Corporation's governmental fund financial statements, 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 accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures in the current period.

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

**GENERAL FUND**

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

**CONTACTING AHCC'S FINANCIAL MANAGEMENT**

If you have any questions about this report or need additional financial information call (907) 330-8396 or email [jdubler@ahfc.us](mailto:jdubler@ahfc.us)

**ALASKA HOUSING CAPITAL CORPORATION**

Exhibit A

(A Component Unit of the State of Alaska)

**GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS**

As of June 30, 2012

*(in thousands of dollars)*

	<u>General Fund</u>	<u>Statement of Net Assets Totals</u>
<b><u>ASSETS</u></b>		
Investments	\$ 577,841	\$ 577,841
<b>Total Assets</b>	<u>577,841</u>	<u>577,841</u>
<b><u>LIABILITIES</u></b>		
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES</u></b>		
Unassigned	<u>577,841</u>	
<b>Total Fund balance</b>	<u>577,841</u>	
<b>Total Liabilities and Fund Balance</b>	<u>\$ 577,841</u>	
<b><u>NET ASSETS</u></b>		
Unrestricted net assets		577,841
<b>Total Net Assets</b>		<u>\$ 577,841</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 & Changes in Fund Balance / Statement of Activities**

For the Year Ended June 30, 2012

*(in thousands of dollars)*

	<u>General Fund</u>	<u>Statement of Activities Totals</u>
<b><u>REVENUES</u></b>		
Interest and Investment Income	\$ 9,503	\$ 9,503
<b>Total Revenues</b>	<u>9,503</u>	<u>9,503</u>
<b><u>EXPENDITURES / EXPENSES</u></b>		
<b>Total Expenditures / Expenses</b>	<u>-</u>	<u>-</u>
<b>Excess of revenues over expenditures</b>	9,503	9,503
<b><u>OTHER FINANCING SOURCES OR USES</u></b>		
Transfers in	200,000	200,000
Transfers out	(400,000)	(400,000)
Net change in fund balance	<u>(190,497)</u>	
Change in Net Assets		<u>(190,497)</u>
<b><u>FUND BALANCE / NET ASSETS</u></b>		
Beginning of year balance	768,338	768,338
End of year balance	<u>\$ 577,841</u>	<u>\$ 577,841</u>

*See accompanying notes to the financial statements.*

## FOOTNOTE INDEX

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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2012

**NOTE A: ALASKA HOUSING CAPITAL CORPORATION**

The Alaska Housing Capital Corporation (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 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 (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.

In July 2006, pursuant to Senate Bill 232 appropriated funds were transferred from AHFC to the Corporation.

**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 Funds Balance Sheet / Statement of Net Assets, a Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances / Statement of Activities, and Notes to Financial Statements.

The Statement of Net Assets and the Statement of Changes in Net Assets 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. For this purpose, The Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

Notes to 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 GeFONSI pool.

***Fund Balances and Net Assets***

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

**NOTE D: INVESTMENTS**

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. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

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 when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

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 and Intermediate-term Fixed Income Pools is allocated to pool participants daily on a pro rata basis.

At June 30, 2012, the Corporation's share of pool investments was as follows (in thousands):

Investment Type	Fair Value			Total
	Short-term Fixed Income Pool	Short-term Liquidity Fixed Income Pool	Intermediate- term Fixed Income Pool	
Commercial Paper	\$ 9,527	\$ -	\$ 150	\$ 9,677
Corporate Bonds	25,484	-	38,324	63,808
Deposit	1,119	-	-	1,119
Mortgage-backed	2,375	-	9,381	11,756
Other Asset-backed	98,656	-	1,031	99,687
U.S. Government Agency	3,354	-	12,268	15,622
U.S. Treasury Bills	147,938	39,239	20,436	207,613
U.S. Treasury Notes	-	-	169,164	169,164
U.S. Treasury Strip	-	-	151	151
Yankees:				
Corporate	5,863	-	-	5,863
Government	-	-	1,542	1,542
Total Invested Assets	294,316	39,239	252,447	586,002
Pool related net assets (liabilities)	(7,936)	6	(231)	(8,161)
Net Invested Assets	\$ 286,380	\$ 39,245	\$ 252,216	\$ 577,841

Notes to Financial Statements

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life *upon purchase*. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2012, the expected average life of individual fixed rate securities ranged from one day to one year and the expected average life of floating rate securities ranged from eight days to fourteen years.

Short-term Liquidity Fixed Income Pool

Treasury's investment policy limits individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2012, the expected average life of fixed rate securities ranged from 163 to 170 days.

Intermediate-term Fixed Income Pool

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100 basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting effective duration of the Intermediate-term Fixed Income Pool to the following:

Intermediate-term Fixed Income Pool -  $\pm$  20% of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2012, was 2.66 years.

At June 30, 2012, the effective duration by investment type was as follows:

	<b>Intermediate-term Fixed Income Pool</b>
Cash Equivalent	0.26
Corporate	1.62
Mortgage-Backed	1.28
Other Asset-Backed	2.43
U.S. Government Agency	1.24
U.S. Treasury Bill	0.30
U.S. Treasury Notes	2.78
U.S. Treasury Strip	5.26
Yankees:	
Corporate	2.63
Government	1.72
<b>Portfolio Effective Duration (in years)</b>	<b>2.23</b>

Notes to Financial Statements

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standard and Poor's. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Short-term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. Government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. Government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars, and the State's internally managed Short-term Fixed Income Pool

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

At June 30, 2012, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<b>Investment Type</b>	<b>Rating</b>	<b>Short-term Fixed Income Pool</b>	<b>Short-term Liquidity Fixed Income Pool</b>	<b>Intermediate-term Fixed Income Pool</b>
Commercial Paper	Not Rated	3.33 %	-	0.06 %
Corporate Bond	A	3.60	-	3.52
Corporate Bond	AA	4.94	-	7.54
Corporate Bond	AAA	-	-	0.66
Corporate Bond	BBB	-	-	1.21
Corporate Bond	Not Rated	0.35	-	0.06
Government Agency	A	-	-	0.06
Government Agency	AA	1.17	-	4.75
Mortgage-backed	AA	-	-	1.27
Mortgage-backed	AAA	0.46	-	1.73
Mortgage-backed	CCC	-	-	0.02
Mortgage-backed	Not Rated	0.37	-	0.61
Other Asset-backed	A	0.08	-	-
Other Asset-backed	AA	1.90	-	-
Other Asset-backed	AAA	26.15	-	0.27
Other Asset-backed	Not Rated	6.30	-	0.13
Other Pool Ownership	Not Rated	-	0.11	2.42
U.S. Treasury Bill	AA	51.67	99.87	7.91
U.S. Treasury Note	AA	-	-	65.44
U.S. Treasury Strip	AA	-	-	0.06
Yankee Corporate	A	0.62	-	0.30
Yankee Corporate	AA	1.42	-	0.66
Yankee Corporate	AAA	-	-	0.50
Yankee Corporate	BBB	-	-	0.32
Yankee Government	A	-	-	0.01
Yankee Government	AA	-	-	0.54
Yankee Government	Not Rated	-	-	0.04
No Credit Exposure	No Exposure	(2.36)	0.02	(0.09)
		100.00 %	100.00 %	100.00 %

Notes to Financial Statements

**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, 2012, the fund did not have more than five percent of its investments in any one company or affiliated group.