



Alaska Corporation for Affordable Housing

(A component unit of Alaska Housing Finance Corporation)

Financial Statement

And Independent Auditor's Report

June 30, 2016

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
	NOTES TO FINANCIAL STATEMENTS	9 - 12



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 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, 2016, 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 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 financial position of the Corporation, as of June 30, 2016, and the changes in its 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 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.

BDO USA, LLP

November 10, 2016
Anchorage, Alaska

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 twelve months ended June 30, 2016. 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 2016, the Corporation had total assets of \$30,920,547 and total liabilities of \$7,285,200.
- For the twelve months ended June 30, 2016, the Corporation had an operating income of \$10,598,827.
- In June 2016, the Corporation received payment in full for its \$1.0 million loan to ANC MV Phase I Limited Partnership for bridge financing on the Susitna Square project.
- During the year ended June 30, 2016, the Corporation received grant revenue from AHFC in the amount of \$10,818,649.

CONDENSED STATEMENT OF NET POSITION

The following table presents information about the financial position of the Corporation as of June 30, 2016 and 2015, and changes in the balances thereof during the fiscal year ended June 30, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	2016	2015	Increase (Decrease)
Cash	\$ 7,270,290	\$ 1,467,351	\$ 5,802,939
Construction notes receivable	17,185,042	7,836,072	9,348,970
Capital assets	6,026,828	6,366,698	(339,870)
Other assets	438,387	2,974	435,413
Total assets	30,920,547	15,673,095	15,247,452
Accounts Payable	1,720	5,267	(3,547)
Due to AHFC	5,858,566	1,299,735	4,558,831
Note Payable to AHFC	1,424,914	1,424,914	-
Total liabilities	7,285,200	2,729,916	4,555,284
Total net position	\$ 23,635,347	\$ 12,943,179	\$ 10,692,168

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, 2016 and 2015 and the change between those fiscal years.

	2016	2015	Increase (Decrease)
Grant proceeds	\$ 10,818,649	\$ 6,434,005	\$ 4,384,644
Rental revenue	215,973	30,620	185,353
Other revenue	101,399	3,732	97,667
Total revenue	11,136,021	6,468,357	4,667,664
Operations and administration	53,002	164,913	(111,911)
Rental expenses	14,514	6,624	7,890
Provision for loan loss	469,678	579,060	(109,382)
Total expenses	537,194	750,597	(213,403)
Operating income (loss)	10,598,827	5,717,760	4,881,067
Capital contributions	93,341	2,896,880	(2,803,539)
Prior period adjustment	-	1,981,127	(1,981,127)
Change in net position	\$ 10,692,168	\$ 10,595,767	\$ 96,401

During fiscal year 2016, the Corporation received capital contributions from Alaska Housing Finance Corporation (AHFC) in the amount of \$93,341 of lease revenue for the land at Loussac Place.

CAPITAL ASSETS

The property at 1015 Evergreen Street in Fairbanks, Alaska was put up for sale in fiscal year 2016, so was removed from capital assets and is now reported as property held for resale.

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, 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 additional 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 (RAD). Other projects similar to 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 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, 2016
(in dollars)

Exhibit A

ASSETS	
Cash	\$ 7,270,290
Construction notes receivable	17,185,042
Capital assets - non-depreciable	5,125,223
Capital assets - depreciable	901,605
Land Held for Resale	309,283
Investment in LLC	1,024
Accrued interest	48,073
Accounts receivable	80,007
Total Assets	<u>30,920,547</u>
LIABILITIES	
Note payable to AHFC	1,424,914
Accounts payable	1,720
Due to AHFC	5,858,566
Total Liabilities	<u>7,285,200</u>
NET POSITION	
Net investment in capital assets	6,026,828
Unrestricted or (deficit)	17,608,519
Total Net Position	<u>\$ 23,635,347</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, 2016
(in dollars)

Exhibit B

OPERATING REVENUES

Grant proceeds	\$ 10,818,649
Investment dwelling income	215,973
Other	53,326
Construction loan interest	48,073
Total Operating Revenue	<u>11,136,021</u>

OPERATING EXPENSES

Operations and administration	53,002
Rental expenses	14,514
Provision for loan loss	469,678
Total Operating Expense	<u>537,194</u>

Operating Income (Loss) 10,598,827

Capital contribution - CASH 93,341

Capital contribution - CAPITAL ASSETS -

Change in Net Position 10,692,168

Net position at beginning of year 12,943,179

Net Position at End of Period \$ 23,635,347

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, 2016
(in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Grant receipts	\$ 10,818,649
Rental income	138,940
Payments for services	(6,461)
Other operating receipts	49,280
Other operating disbursements	(200)
Net cash provided by (used for) operating activities	<u>11,000,208</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to AHFC	(1,075,085)
Contribution from AHFC	93,341
Payments from AHFC	5,600,000
Net cash provided by (used for) noncapital financing activities	<u>4,618,256</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Construction loan draws	(10,818,649)
Construction loan paydown	1,000,000
Net cash provided by (used for) capital financing activities	<u>(9,818,649)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from checking account	4,047
Investment in LLC	(923)
Net cash provided by (used for) investing activities	<u>3,124</u>
Net Increase (decrease) in cash	5,802,939
Cash at the beginning of year	1,467,351
Cash at the end of period	<u>\$ 7,270,290</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ 10,598,827
<i>Adjustments:</i>	
Depreciation expense	30,587
Provision for loan loss	469,678
Bank interest received	(4,047)
Changes in assets and liabilities:	(94,837)
Net cash provided by (used for) operating activities	<u>\$ 11,000,208</u>
Noncash investing, capital and financing activities:	
Land Contribution from AHFC	-
Building Contribution from AHFC	-

See accompanying notes to the financial statements.

Notes to Financial Statements

FOOTNOTE 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	Note Receivable	11
6	Long Term Liabilities	12
7	Related Party Transactions	12

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2016

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.

ALASKA CORPORATION FOR AFFORDABLE HOUSING*a component unit of 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

Cash consists of demand deposits. As of June 30, 2016, the Corporation's bank balance was \$7,270,290.

4 CAPITAL ASSETS

Capital asset activity and a summary of balances for the year ended June 30, 2016, are shown below:

	June 30, 2015	Additions	Reductions	June 30, 2016
Non-Depreciable Capital Assets:				
Land	\$ 5,027,899	\$ 133,540	\$ (36,216)	\$ 5,125,223
Construction in Progress	133,540	-	(133,540)	-
Total Non-Depreciable Capital Assets	<u>5,161,439</u>	<u>133,540</u>	<u>(169,756)</u>	<u>5,125,223</u>
Depreciable Capital Assets:				
Buildings	1,242,535	-	(273,068)	969,467
Less Accumulated Depreciation	(37,276)	10,923	(41,509)	(67,862)
Net Depreciable Assets	<u>1,205,259</u>	<u>10,923</u>	<u>(314,577)</u>	<u>901,605</u>
Total All Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,366,698</u>	<u>\$ 144,463</u>	<u>\$ (484,333)</u>	<u>\$ 6,026,828</u>

The cost of land includes demolition and survey costs incurred to prepare the land for the start of construction. A Fairbanks property with a value of \$309,283, (\$273,067 for the building and \$36,216 for the land) was reclassified from a Capital Asset to Land Held for Sale.

5 NOTES RECEIVABLE

As of June 30, 2016, the Corporation had three 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.

Two notes (the secondary loans) mature on October 22, 2044. The loan agreement amount for Ridgeline Terrace is \$11,473,598 and for Susitna Ridge is \$2,682,689. Interest began accruing at 1.00% per annum on the completion date of each project which was February 1, 2016 for Ridgeline and October 1, 2015 for Susitna. Interest and principal are due to the extent of available cash flow of both 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.

The third remaining note for Ridgeline Terrace also known as the Bridge Loan matures on October 22, 2017. This note does not accrue interest. The note is secured by a Leasehold Deed of Trust and an Assignment of Leases and Rents of the project. No principal is due on this note within the next year.

There was a fourth note for Susitna Square (bridge loan) in the amount of \$1,000,000 issued in October 2015 and paid off in June 2016.

Notes to Financial Statements

A summary of the balances is shown below.

	Ridgeline Terrace		Susitna Square		Total
Secondary Loan	\$ 11,212,423	\$	2,617,294	\$	13,829,717
Bridge loan	4,600,000		-		4,600,000
	15,812,423		2,617,294		18,429,717
Less:					
Allowance for loan loss	(1,009,118)		(235,557)		(1,244,675)
Net Construction loans receivable	\$ 14,803,305	\$	2,381,737	\$	17,185,042

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. There was no change in the note's balance of \$1,424,914 during the year ended June 30, 2016.

7 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, 2016, the Corporation received grant revenue from AHFC in the amount of \$10,818,649.