

# **Alaska Housing Capital Corporation**

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

## **Financial Statements**

**With Independent Auditor's Report**

**June 30, 2011**

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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 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, 2011, 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 major fund of AHCC, as of June 30, 2011, 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.

Board of Directors  
Alaska Housing Capital Corporation  
Anchorage, Alaska

The management's discussion and analysis on pages 3-4 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
October 11, 2011

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, 2011. 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, 2011 the Corporation's net assets continue to increase.

**CONDENSED FINANCIAL INFORMATION**

	<u>2011</u>	<u>2010</u>	<u>Increase (decrease)</u>
Total assets	\$ 768,338	\$ 362,317	\$ 406,021
Total liabilities	-	-	-
Total net assets	768,338	362,317	406,021
Total revenues	6,021	11,910	(5,889)
Total expenses	-	-	-
Change in net assets	406,021	11,910	394,111

As of June 30, 2011 total net assets increased over June 30, 2010 net assets due to a receivable from the State of Alaska paid in August 2011 and due to reinvestment of investment holdings during fiscal year 2011.

The increase in the change in net assets between fiscal year 2011 & 2010 was the recognition of a Transfer In from the State of Alaska from legislative action that resulted in a June 30, 2011 appropriation and decreased investment income.

**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 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?"

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, (907) 330-8396 or [jdubler@ahfc.state.ak.us](mailto:jdubler@ahfc.state.ak.us)

**ALASKA HOUSING CAPITAL CORPORATION**

(A Component Unit of the State of Alaska)

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

As of June 30, 2011

*(in thousands of dollars)*

Exhibit A

	<u>General Fund</u>	<u>Statement of Net Assets Totals</u>
<b><u>ASSETS</u></b>		
Investments	\$ 368,338	\$ 368,338
Due from the State of Alaska	400,000	400,000
<b>Total Assets</b>	<u>768,338</u>	<u>768,338</u>
<b><u>LIABILITIES</u></b>		
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES</u></b>		
Unassigned	768,338	
<b>Total Fund balance</b>	<u>768,338</u>	
<b>Total Liabilities and Fund Balance</b>	<u>\$ 768,338</u>	
<b><u>NET ASSETS</u></b>		
Unrestricted net assets		768,338
<b>Total Net Assets</b>		<u>\$ 768,338</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, 2011

*(in thousands of dollars)*

	<b>General Fund</b>	<b>Statement of Activities Totals</b>
<b><u>REVENUES</u></b>		
Interest and Investment Income	\$ 6,021	\$ 6,021
<b>Total Revenues</b>	<b>6,021</b>	<b>6,021</b>
<b><u>EXPENDITURES / EXPENSES</u></b>		
<b>Total Expenditures / Expenses</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues over expenditures</b>	<b>6,021</b>	<b>6,021</b>
<b><u>OTHER FINANCING SOURCES OR USES</u></b>		
Transfers in	400,000	400,000
Net change in fund balance	406,021	
Change in Net Assets		406,021
<b><u>FUND BALANCE / NET ASSETS</u></b>		
Beginning of year balance	362,317	362,317
End of year balance	<b>\$ 768,338</b>	<b>\$ 768,338</b>

*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, 2011

**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, prior to that the Corporation had no activity.

**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 and Intermediate-term Fixed Income Pools. 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.

At June 30, 2011, the Corporation's share of pool investments was as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>		
	<u>Short-term Fixed Income Pool</u>	<u>Intermediate- term Fixed Income Pool</u>	<u>Total</u>
Commercial Paper	\$ 15,361	\$ 571	\$ 15,932
Corporate Bonds	67,946	29,166	97,112
Mortgage-backed	3,154	5,768	8,922
Other Asset-backed	68,170	2,711	70,881
Overnight Sweep Account (LMCS)	1,833	-	1,833
U.S. Government Agency	3,791	7,614	11,405
U.S. Gov. Agency Discount Notes	5,618	-	5,618
U.S. Treasury Bills	32,116	-	32,116
U.S. Treasury Notes	-	113,908	113,908
U.S. Treasury Strip	-	104	104
Yankees:			
Government	1,341	4,830	6,171
Corporate	-	1,291	1,291
Total Invested Assets	199,330	165,963	365,293
Pool related net assets (liabilities)	169	2,876	3,045
Net Invested Assets	\$ 199,499	\$ 168,839	\$ 368,338

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, 2011, 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.

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.

Intermediate-term Fixed Income Pool

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, 2011, was 2.54 years.

At June 30, 2011, the effective duration by investment type was as follows:

	<b>Intermediate-term Fixed Income Pool</b>
Commercial Paper	0.05
Corporate Bonds	2.01
Mortgage-Backed	1.52
Other Asset-Backed	1.08
U.S. Treasury Notes	3.09
U.S. Treasury Strip	6.37
U.S. Government Agency	2.65
Yankees:	
Corporate	2.28
Government	1.92
<b>Portfolio Effective Duration (in years)</b>	<b>2.53</b>

**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:

Notes to Financial Statements

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. 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.

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, 2011, 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):

<u>Investment Type</u>	<u>Rating</u>	<u>Short-term Fixed Income Pool</u>	<u>Intermediate- term Fixed Income Pool</u>
Commercial Paper	A-1	6.95 %	- %
Commercial Paper	Not Rated	0.75	0.31
Corporate Bonds	AAA	23.65	10.25
Corporate Bonds	AA	1.45	1.07
Corporate Bonds	A	3.20	3.20
Corporate Bonds	BBB	-	1.39
Corporate Bonds	Not Rated	5.78	-
Mortgage-backed	AAA	1.58	2.79
Mortgage-backed	AA	-	0.06
Mortgage-backed	A	-	0.02
Mortgage-backed	Not Rated	-	0.28
Other Asset-backed	AAA	30.49	1.32
Other Asset-backed	A	0.07	-
Other Asset-backed	CCC	-	0.02
Other Asset-backed	Not Rated	3.62	-
U.S. Government Agency	AAA	1.90	3.47
U.S. Government Agency Discount Notes	Not Rated	2.82	0.69
U.S. Treasury Bills	AAA	16.10	-
U.S. Treasury Notes	AAA	-	62.13
U.S. Treasury Strip	AAA	-	0.06
Yankees:			
Corporate	AAA	-	0.98
Corporate	AA	0.49	1.02
Corporate	A	0.11	0.40
Corporate	BBB	-	0.23
Corporate	Not Rated	0.07	-
Government	AA	-	0.65
Government	A	-	0.01
Government	Not Rated	-	0.05
No Credit Exposure		0.97	9.60
		<u>100.00 %</u>	<u>100.00 %</u>

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, 2011, the fund did not have more than five percent of their investments in any one company or affiliated group.