

# **Alaska Housing Capital Corporation**

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

## **Financial Statements**

**With Independent Auditor's Report**

**June 30, 2013**

## TABLE OF CONTENTS

<u>EXHIBITS</u>		<u>PAGE NUMBER</u>
	INDEPENDENT AUDITOR'S REPORT	1 - 2
	MANAGEMENT'S DISCUSSION AND ANALYSIS [MD&A]	3 - 4
	BASIC FINANCIAL STATEMENTS:	
A	Governmental Fund Balance Sheet / Statement of Net Position	5
B	Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances / Statement of Activities	6
	Notes to Financial Statements	7 - 12



Tel: 907-278-8878  
Fax: 907-278-5779  
www.bdo.com

3601 C Street, Suite 600  
Anchorage, AK 99503

## Independent Auditor's Report

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 the Alaska Housing Capital Corporation, a component unit of the State of Alaska, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Alaska Housing Capital 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 from 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 the Alaska Housing Capital Corporation, as of June 30, 2013, 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.

### *Emphasis of Matters*

As discussed in Note B to the financial statements, for fiscal year 2013 Alaska Housing Capital Corporation adopted provisions of Government Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

As discussed in Note F, subsequent to original auditor's report dated on November 5, 2013, management was made aware of a disbursement made on behalf of Alaska Housing Capital Corporation to another component unit of the State of Alaska. The effect of this disbursement is reflected in the financial statements as a Due to State and expenditure.

### *Other Matters*

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

Anchorage, Alaska

November 5, 2013, except as to Note F, which is as of December 9, 2013.

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, 2013. 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**

- During the fiscal year ended June 30, 2013 the Corporation disbursed \$3.1 million to school districts for scholarships pursuant to legislative appropriations.

**CONDENSED FINANCIAL INFORMATION**

	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>
Total assets	\$ 576,539	\$ 577,841	\$ (1,302)
Total liabilities	15,000	-	15,000
Total net position	561,539	577,841	(16,302)
Total revenues	1,798	9,503	(7,705)
Total expenses	18,108	-	18,108
Change in net position	(16,302)	(190,497)	(174,195)

As of June 30, 2013 the Corporation's net position decreased due to scholarship expenses and appropriated monies disbursed to the Alaska Energy Authority for their Susitna-Watana Hydroelectric Project from the General fund of the State of Alaska.

The change in net position between fiscal years 2013 and 2012 was primarily due to monies being transferred between AHCC and the State and legislative appropriations to State agencies.

In FY14 monies totaling \$355 million were transferred out of the Corporation to the Alaska Gasline Development Corporation pursuant to appropriations by the Alaska Legislature.

**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 Position* 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 Position* (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 position 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**

For inquiries about this report or for additional financial information call (907) 330-8322 or email [mgaspar@ahfc.us](mailto:mgaspar@ahfc.us)

**ALASKA HOUSING CAPITAL CORPORATION**

Exhibit A

(A Component Unit of the State of Alaska)

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

As of June 30, 2013

*(in thousands of dollars)*

	<b>General Fund</b>	<b>Statement of Net Position Totals</b>
	<u>          </u>	<u>          </u>
<b><u>ASSETS</u></b>		
Investments	\$ 576,539	\$ 576,539
<b>Total Assets</b>	<u>576,539</u>	<u>576,539</u>
<b><u>LIABILITIES</u></b>		
Due to State	15,000	15,000
<b>Total Liabilities</b>	<u>15,000</u>	<u>15,000</u>
<b><u>FUND BALANCES</u></b>		
Unassigned	561,539	
<b>Total Fund balance</b>	<u>561,539</u>	
<b>Total Liabilities and Fund Balance</b>	<u>\$ 576,539</u>	
<b><u>NET POSITION</u></b>		
Unrestricted net position		561,539
<b>Total Net Position</b>		<u>\$ 561,539</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, 2013

*(in thousands of dollars)*

	<u>General Fund</u>	<u>Statement of Activities Totals</u>
<b><u>REVENUES</u></b>		
Interest and Investment Income	\$ 1,798	\$ 1,798
<b>Total Revenues</b>	<u>1,798</u>	<u>1,798</u>
<b><u>EXPENDITURES / EXPENSES</u></b>		
Alaska Energy Authority capital project	15,000	15,000
Scholarship program	3,100	3,100
<b>Total Expenditures / Expenses</b>	<u>18,100</u>	<u>18,100</u>
<b>Excess of revenues over expenditures</b>	(16,302)	(16,302)
Net change in fund balance	<u>(16,302)</u>	
Change in Net Position		<u>(16,302)</u>
<b><u>FUND BALANCE / NET POSITION</u></b>		
Beginning of year balance	577,841	577,841
End of year balance	<u>\$ 561,539</u>	<u>\$ 561,539</u>

*See accompanying notes to the financial statements.*

Notes to Financial Statements

**FOOTNOTE INDEX**

NOTE	DESCRIPTION	PAGE
A	Alaska Housing Capital Corporation	8
B	Summary of Significant Accounting Policies	8
C	Assets and Fund Equity	9
D	Investments	9-12
E	Subsequent Events	12
F	Susitna-Watana Hydroelectric Project	12

Notes to Financial Statements

**FOR THE YEAR ENDED JUNE 30, 2013**

**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 via enacted legislative action.

In FY 2013 funds were disbursed from the Corporation to various school districts for the Alaska performance scholarship program pursuant to House Bill 284 of the 2012 legislative session.

**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 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 Changes in Net Position 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.

***New Accounting Pronouncements***

For the fiscal year ended June 30, 2013, AHCC has adopted the provisions of the Governmental Accounting Standards Board's statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The effect on the financial statements of the adoption of the provisions of this statement were to present a statement of net position rather than a statement of net assets, as presented in previous periods.

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 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 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, 2013, 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	
Deposits	\$ 6,015	-	-	\$ 6,015
Commercial Paper	11,738	-	-	11,738
Corporate Bonds	14,389	-	21,089	35,478
Mortgage Backed	603	-	5,555	6,158
Municipal Bonds	141	-	57	198
Other Asset Backed	120,113	-	6,984	127,097
U.S. Government Agency				
Discount Notes	20	-	-	20
U.S. Government Agency	-	-	8,341	8,341
Treasury Bills	118,554	56,649	17,603	192,806
Treasury Notes	-	-	186,575	186,575
Treasury Strips	-	-	1,535	1,535
Yankees:				
Yankee Corporate	3,770	-	3,762	7,532
Yankee Government	-	-	1,007	1,007
Total Invested Assets	275,343	56,649	252,508	584,500
Pool related net assets (liabilities)	(5,629)	-	(2,332)	(7,961)
Net Invested Assets	\$ 269,714	\$ 56,649	\$ 250,176	\$ 576,539

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. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2013, the expected average life of individual fixed rate securities ranged from three days to thirty four years and the expected average life of floating rate securities ranged from fourteen days to twenty-two 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, 2013, the expected average life of fixed rate securities ranged from 46 to 67 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 the effective duration of its other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool -  $\pm$  20% of the Barclays 1-3 Year Government Bond Index.  
The effective duration for the Barclays 1-3 Year Government Bond Index at June 30, 2013, was 1.87 years.

At June 30, 2013, the effective duration by investment type was as follows:

	<u>Intermediate-term Fixed Income Pool</u>
Corporate Bonds	2.42
Mortgage Backed	1.45
Municipal Bonds	4.41
Other Asset Backed	0.59
U.S. Government Agency	1.70
Treasury Bills	0.11
Treasury Notes	2.04
Treasury Strips	4.43
Yankees:	
Corporate	1.85
Government	2.06
Portfolio Effective Duration	1.77

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, 2013, 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):

Investment Type	Rating	Short-term Fixed Income Pool	Short-term Liquidity Fixed Income Pool	Intermediate Term Fixed Income Pool
Deposits	Not Rated	2.22%	-	-
Commercial Paper	Not Rated	4.34%	-	-
Corporate Bonds	AAA	-	-	0.40%
Corporate Bonds	AA	2.41%	-	1.73%
Corporate Bonds	A	2.91%	-	4.80%
Corporate Bonds	BBB	-	-	0.83%
Corporate Bonds	BB	-	-	0.16%
U.S. Government Agency	AA	-	-	2.75%
U.S. Government Agency	Not Rated	0.01%	-	0.38%
Mortgage Backed	AAA	0.07%	-	0.80%
Mortgage Backed	AA	0.08%	-	0.76%
Mortgage Backed	A	0.07%	-	0.09%
Mortgage Backed	Not Rated	-	-	0.43%
Municipal Bonds	AA	0.05%	-	-
Municipal Bonds	A	-	-	0.02%
Other Asset Backed	AAA	39.98%	-	1.86%
Other Asset Backed	AA	0.72%	-	-
Other Asset Backed	Not Rated	3.71%	-	0.76%
Other Pool Ownership	Not Rated	-	0.07%	5.92%
Treasury Bills	AA	43.83%	99.93%	6.62%

Notes to Financial Statements

Treasury Notes	AA	-	-	70.18%
Treasury Strips	AA	-	-	0.58%
Yankee Corporate	AAA	-	-	0.18%
Yankee Corporate	AA	0.55%	-	0.69%
Yankee Corporate	A	0.84%	-	0.42%
Yankee Corporate	BBB	-	-	0.13%
Yankee Government	AA	-	-	0.34%
Yankee Government	Not Rated	-	-	0.04%
No Credit Risk		-1.79%	-	-0.87%
		100.00%	100.00%	100.00%

**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, 2013, the fund did not have more than five percent of its investments in any one company or affiliated group.

**NOTE E: SUBSEQUENT EVENTS**

In FY14 monies totaling \$355 million were transferred out of the Corporation to the Alaska Gasline Development Corporation pursuant to appropriations by the Alaska Legislature.

**NOTE F: SUSITNA-WATANA HYDROELECTRIC PROJECT**

The State of Alaska Legislative appropriated \$95,200,000 from Corporation funds to the Department of Commerce, Community and Economic Development (DCCED) effective 4/13/2013 under – HCS CSSB 18(FIN) am H, Sec 5 Page 107 line 10 and directed the funds to Alaska Energy Authority (AEA), a component unit of the State of Alaska, under HCS CSSB 18(FIN) am H, Sec 4 Page 105 lines 20-24 for the Susitna-Watana Hydroelectric Project (AR 52333). The DCCED disbursed funds request by AEA to the DCCED from an invoice dated June 18, 2013 for \$15,000,000. Subsequent to the original audited report on November 26, 2013, management was made aware of the disbursement. The effect of this disbursement is reflected in the financial statements as a Due to State and expenditure.