

Alaska Housing Capital Corporation

a component unit of the State of Alaska

Financial Statements

With Independent Auditor's Report

June 30, 2015

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Independent Auditor's Report

To 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 Alaska Housing Capital Corporation (AHCC), a component unit of the State of Alaska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise AHCC'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 respective financial position of the governmental activities and each major fund of AHCC, as of June 30, 2015, 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.

Other Matters

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

September 24, 2015
Anchorage, Alaska

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, 2015. 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, 2015, the Corporation disbursed \$81 million to various state agencies pursuant to legislative appropriations. Of those disbursements, \$29 million was expensed by those state agencies, and \$52 million remains unspent.
- As of June 30, 2015, the Corporation's net position increased due to various transfers due from the State in excess of expenses.
- The change in net position between fiscal years 2015 and 2014 was primarily due to monies being disbursed from the Corporation to other state agencies.
- During fiscal year 2015, AHCC disbursed 68% of its total assets pursuant to appropriations by the Alaska Legislature. As of June 30, 2015, before transfers from the State, there was an over-appropriation of the Corporation's funds totaling \$13 million. Subsequent re-appropriations in Senate Bill 26 resulted in \$34 million transferred from various state agencies to the Corporation in August 2015.

CONDENSED FINANCIAL INFORMATION

| | 2015 | 2014 | Increase (Decrease) |
|------------------------|--------|-----------|------------------------|
| Total assets | 96,232 | 119,931 | (23,699) |
| Total liabilities | - | 29,439 | (29,439) |
| Total net position | 96,232 | 90,492 | 5,740 |
| | | | |
| Total revenues | 34,476 | 1,094 | 33,382 |
| Total expenses | 28,736 | 460,946 | (432,210) |
| Change in net position | 5,740 | (459,852) | 465,592 |
| Beginning net position | 90,492 | 550,344 | (459,852) |
| End of net position | 96,232 | 90,492 | 5,740 |

OVERVIEW OF THE FINANCIAL STATEMENTS

The Corporation's annual financial statements consist of two parts: Management's Discussion and Analysis and the basic financial statements. The financial statements are intended to facilitate and enhance the understanding of the Corporation's financial position and results of operations for the current year. 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* (Exhibit A) and the *Statement of Activities* (Exhibit B), display information about the Corporation as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded

MANAGEMENT'S DISCUSSION AND ANALYSIS

when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The governmental fund financial statements of the Corporation, 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 and expenditures are recorded when a liability is incurred.

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

The *Statement of Net Position / Governmental Fund Balance Sheet* (Exhibit A) answers the question, "How is the Corporation's 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 / Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance* (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?"

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.

GENERAL FUND

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

CONTACTING AHCC'S FINANCIAL MANAGEMENT

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

ALASKA HOUSING CAPITAL CORPORATION**EXHIBIT A**

(A Component Unit of the State of Alaska)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

June 30, 2015

(in thousands of dollars)

| | General Fund | Statement of Net Position Total |
|-------------------------------------|-------------------------|------------------------------------------------|
| ASSETS | | |
| Investments | \$ 9,255 | \$ 9,255 |
| Due from State of Alaska | 34,381 | 34,381 |
| Prepaid Expenses | 52,596 | 52,596 |
| Total Assets | <u>96,232</u> | <u>96,232</u> |
| LIABILITIES | | |
| Due to State of Alaska | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>-</u> | <u>-</u> |
| FUND BALANCES | | |
| Fund balances: | | |
| Nonspendable - Prepaids | 52,596 | |
| Unassigned | 43,636 | |
| Total Fund Balances | <u>96,232</u> | |
| Total Liabilities and Fund Balances | <u>\$ 96,232</u> | |
| NET POSITION | | |
| Unrestricted | | <u>96,232</u> |
| Total Net Position | | <u>\$ 96,232</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 AND CHANGES IN FUND BALANCES / STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

(in thousands of dollars)

| | <u>General Fund</u> | <u>Statement of Activities</u> |
|--------------------------------------------------------------|-------------------------|------------------------------------|
| GENERAL REVENUES | | |
| Investment interest | \$ 95 | \$ 95 |
| Other revenue from State of Alaska | 34,381 | 34,381 |
| Total revenues | <u>34,476</u> | <u>34,476</u> |
| EXPENDITURES/EXPENSES | | |
| UAA Engineering Building project | 481 | 481 |
| Susitna-Watana Dam project | 22,677 | 22,677 |
| Positive Train Control project | 5,578 | 5,578 |
| Total expenditures/expenses | <u>28,736</u> | <u>28,736</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>5,740</u> | <u>5,740</u> |
| Net change in fund balances | 5,740 | - |
| Change in net position | - | 5,740 |
| FUND BALANCES and NET POSITION | | |
| Beginning of year | 90,492 | 90,492 |
| End of year | <u>\$ 96,232</u> | <u>\$ 96,232</u> |

See accompanying notes to the financial statements.

FOOTNOTE INDEX

| NOTE | DESCRIPTION | PAGE |
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Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2015

NOTE A: ALASKA HOUSING CAPITAL CORPORATION

The Alaska Housing Capital Corporation (the "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 Commerce, 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 (the "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 fiscal year 2015, funds were disbursed from the Corporation to various state agencies pursuant to Senate Bills 18 and 119 of the 2013 – 2014 legislative sessions.

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 Fund 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 Activities 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. The Corporation considers revenues to be available if collected within 60 days of fiscal year end. Expenditures generally are recorded when a liability is incurred.

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 investment pools.

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 Department of Revenue, Treasury Division (the "Treasury") has created a pooled environment by which it manages the investments under the fiduciary oversight of the Commissioner. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. 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. The complete financial activity of the fund is shown in the Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

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.

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

At June 30, 2015, the Corporation's share of pool investments was as follows (in thousands):

| Investment Type | Fair Value | | | |
|--------------------------------------------|------------------------------------|----------------------------------------------|--------------------------------------------|----------|
| | Short-Term Fixed Income Pool | Short-term Liquidity Fixed Income Pool | Intermediate- term Fixed Income Pool | Total |
| Deposits | \$ 3 | \$ - | \$ - | \$ 3 |
| Certificate of Deposit | 8 | - | 7 | 15 |
| Commercial Paper | - | - | - | - |
| Corporate Bonds | 130 | - | 246 | 376 |
| Mortgage Backed | 110 | - | 99 | 209 |
| Municipal Bonds | 4 | - | - | 4 |
| Other Asset Backed | 3,196 | - | 150 | 3,346 |
| Overnight Sweep Account (Imcs) | - | - | - | - |
| Repo | 510 | - | - | 510 |
| U.S. Government Agency Discount Notes | - | - | - | - |
| U.S. Government Agency | - | - | 2 | 2 |
| U.S. Treasury Bills, Notes, Bonds and TIPS | 986 | 1,361 | 2,497 | 4,844 |
| Yankees: | | | | |
| Yankee Corporate | 58 | - | 64 | 122 |
| Yankee Government | - | - | 12 | 12 |
| Total Invested Assets | 5,005 | 1,361 | 3,077 | 9,443 |
| Pool related net assets (liabilities) | (213) | - | 25 | (188) |
| Net Invested Assets | \$ 4,792 | \$ 1,361 | \$ 3,102 | \$ 9,255 |

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 14 months to maturity or 14 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, 2015, the expected average life of individual fixed rate securities ranged from 10 days to 3.3 years and the expected average life of floating rate securities ranged from 10 days to 14.5 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, 2015, the expected average life of fixed rate securities ranged from 65 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 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, 2015, was 1.80 years.

At June 30, 2015, the effective duration (in years) by investment type was as follows:

| | Intermediate-term Fixed Income Pool |
|-----------------------------------------|------------------------------------------------|
| Certificate of Deposit | 0.14 |
| Corporate Bonds | 1.63 |
| Mortgage Backed | 1.03 |
| Municipal Bonds | 0.00 |
| Other Asset Backed | 0.61 |
| U.S. Government Agency | 3.96 |
| U.S. Treasury Bills, Notes, Bonds | 1.96 |
| Yankee Corporate | 0.94 |
| Yankee Government | 0.62 |
| Portfolio Effective Duration | 1.81 |

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, 2015, 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>Short-term Liquidity Fixed Income Pool</u> | <u>Intermediate- term Fixed Income Pool</u> |
|------------------------|---------------|---------------------------------------------|-------------------------------------------------------|-----------------------------------------------------|
| Certificate of Deposit | Not Rated | 0.17 % | - % | 0.23 % |
| Corporate Bonds | AAA | - | - | 0.15 |
| Corporate Bonds | AA | 1.42 | - | 1.26 |
| Corporate Bonds | A | 1.30 | - | 4.67 |
| Corporate Bonds | BB | - | - | - |
| Corporate Bonds | BBB | - | - | 1.54 |
| Corporate Bonds | Not Rated | - | - | 0.01 |
| Deposits | Not Rated | 0.07 | - | - |
| Mortgage Backed | AAA | 1.18 | - | 0.81 |
| Mortgage Backed | AA | 0.88 | - | 0.70 |
| Mortgage Backed | A | 0.19 | - | 0.54 |
| Mortgage Backed | BB | - | - | 0.01 |
| Mortgage Backed | BBB | - | - | - |
| Mortgage Backed | Not Rated | 0.05 | - | 1.02 |
| Municipal Bonds | AA | 0.08 | - | - |
| Municipal Bonds | A | - | - | - |
| Other Asset Backed | AAA | 47.26 | - | 3.06 |
| Other Asset Backed | AA | 1.27 | - | - |
| Other Asset Backed | A-1 | 1.54 | - | - |

Notes to Financial Statements

| | | | | |
|---------------------------------------------|-----------|--------|--------|--------|
| Other Asset Backed | Not Rated | 16.63 | - | 1.60 |
| Repurchase Agreement | AAA | 7.85 | - | - |
| Repurchase Agreement | Not Rated | 2.80 | - | - |
| U.S. Government Agency | AA | - | - | 0.06 |
| U.S. Treasury Bills, Notes, Bonds, and TIPS | AA | 20.57 | 99.99 | 77.57 |
| Yankee Corporate | AAA | - | - | 0.03 |
| Yankee Corporate | AA | 0.62 | - | 0.86 |
| Yankee Corporate | A | 0.59 | - | 0.87 |
| Yankee Corporate | BBB | - | - | 0.22 |
| Yankee Government | AAA | - | - | - |
| Yankee Government | AA | - | - | 0.10 |
| Yankee Government | A | - | - | 0.13 |
| Yankee Government | BBB | - | - | 0.08 |
| Yankee Government | Not Rated | - | - | 0.07 |
| Other Pool Ownership | Not Rated | - | 0.01 | 3.63 |
| No Credit Risk | | (4.47) | - | 0.78 |
| | | 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, 2015, the fund did not have more than five percent of its investments in any one company or affiliated group.

NOTE E: SUBSEQUENT EVENT

The Corporation finances State of Alaska capital projects and expenditures as legislatively appropriated.

At the end of fiscal year 2015, unexpended balances of existing appropriations totaled \$22 million compared to Corporation assets of \$9 million, representing an over-appropriation of \$13 million. To remedy this, the Alaska Legislature enacted Senate Bill 26, which re-appropriated \$34 million to the Corporation effective on or prior to June 30, 2015. These re-appropriated funds were transferred to the Corporation in August 2015 and have been recognized as revenue and due from State at the end of fiscal year 2015.