



Alaska Corporation for Affordable Housing

(A component unit of Alaska Housing Finance Corporation)

Financial Statement And Independent Auditor's Report

June 30, 2015

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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 the Alaska Housing Finance Corporation, as of and for the year ended June 30, 2015, and the related notes to the 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 an opinion 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 opinion.

Opinion

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, 2015, 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.

Emphasis of Matter

As described in Note 8, the Corporation previously reported construction costs as expense on its 2014 statement of revenues, expenses and changes in net position. These costs should have been recorded as draws on construction notes receivable. The Corporation has restated its opening balance of net position for the correction of this misstatement. Our opinion on the 2015 financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BDO USA, LLP

Anchorage, Alaska
October 14, 2015

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, 2015. 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 full 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 fiscal year.

The Statement of Cash Flows provides information about the sources and uses of the Corporation's cash.

FINANCIAL HIGHLIGHTS

- The Corporation has a 501(c)3 designation from the IRS as a non-profit corporation. This was retroactive back to the inception of the Corporation in February 2012.
- At year end the Corporation had total assets of \$15,673,095, total liabilities of \$2,729,916, and net position of \$12,943,179.
- The Corporation, for the twelve months ended June 30, 2015, had operating income of \$5,717,760.
- The Corporation received contributions from the Alaska Housing Finance Corporation ("AHFC") of \$160,014 in cash and \$2,736,866 in property.

CONDENSED STATEMENT OF NET POSITION

The following table presents information about the financial position of the Corporation as of June 30, 2015, and June 30, 2014, and changes between those fiscal years.

	2015	2014	Increase (Decrease)
Cash	\$ 1,467,351	\$ 1,286,733	\$ 180,618
Notes receivable	7,836,072	-	7,836,072
Capital assets	6,366,698	3,667,109	2,699,589
Other assets	2,974	31,178	(28,204)
Total assets	<u>15,673,095</u>	<u>4,985,020</u>	<u>10,688,075</u>
Note payable to AHFC	1,424,914	1,424,914	-
Accounts payable	1,305,002	1,212,694	92,308
Total liabilities	<u>2,729,916</u>	<u>2,637,608</u>	<u>92,308</u>
Total net position	<u>\$ 12,943,179</u>	<u>\$ 2,347,412</u>	<u>\$ 10,595,767</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015, and June 30, 2014 and the changes between those fiscal years.

	2015	2014	Increase (Decrease)
Grant proceeds	\$ 6,434,005	\$ 1,229,003	\$ 5,205,002
Other operating revenue	34,352	819	33,533
Total operating revenue	<u>6,468,357</u>	<u>1,229,822</u>	<u>5,238,535</u>
Operations and administration	164,913	80,765	84,148
Project costs	-	2,162,199	(2,162,199)
Rental expenses	6,624	-	6,624
Provision of loan loss	579,060	-	579,060
Total operating expenses	<u>750,597</u>	<u>2,242,964</u>	<u>(1,492,367)</u>
Operating income (loss)	5,717,760	(1,013,142)	6,730,902
Capital contributions	2,896,880	160,014	2,736,866
Prior period adjustment	1,981,127	-	1,981,127
Change in net position	<u>\$ 10,595,767</u>	<u>\$ (853,128)</u>	<u>\$ 11,448,895</u>

The corporation received capital contributions from AHFC in fiscal year 2015 of cash totaling \$160,014, land of \$1,494,330, and three buildings in Fairbanks totaling \$1,242,536. The capital contribution of cash from AHFC in fiscal year 2015 was used to cover the corporate operating expenses of the current year.

The Corporation recorded a prior period adjustment for the year ended June 30, 2015. In fiscal year 2014 the Corporation reported construction costs as expense on the Statement of Revenues, Expenses, and Changes in Net Position. These costs should have been recorded as draws on the notes receivable. Accordingly, an adjustment has been made to the June 30, 2015, financial statements to increase net position by the amount of the draws of \$2,177,063 less a loan loss provision of \$195,936 for a total of \$1,981,127.

CAPITAL ASSETS

During the current fiscal year, the Corporation received land and buildings as capital contributions from AHFC. For more detail, see the above section entitled "Condensed Statement of Revenues, Expenses, and Changes in Net Assets.

ECONOMIC FACTORS

There has been a decline in federal public housing operational dollars as a 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 can access funding sources such as 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 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. Other projects similar to the Ridgeline Terrace and Susitna Square projects will be considered based on funding and land availability in Anchorage and other communities that have housing needs.

CONTACTING ACAH'S FINANCIAL MANAGEMENT

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

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ALASKA CORPORATION FOR AFFORDABLE HOUSING
(A Component Unit of Alaska Housing Finance Corporation)
STATEMENT OF NET POSITION
As of June 30, 2015
(in dollars)

Exhibit A

ASSETS		
Cash		\$ 1,467,351
Rental receivable		2,974
Construction notes receivable		7,836,072
Capital assets - non-depreciable		5,161,439
Capital assets - depreciable		1,205,259
Total Assets		<u>15,673,095</u>
LIABILITIES		
Accounts payable		5,267
Due to AHFC		1,299,735
Note payable to AHFC		1,424,914
Total Liabilities		<u>2,729,916</u>
NET POSITION		
Net investment in capital assets		6,366,698
Unrestricted or (deficit)		<u>6,576,481</u>
Total Net Position		<u>\$ 12,943,179</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, 2015
(in dollars)

Exhibit B

OPERATING REVENUES

Grant proceeds	\$ 6,434,005
Investment dwelling income	30,620
Other	3,732
Total Operating Revenue	<u>6,468,357</u>

OPERATING EXPENSES

Operations and administration	164,913
Rental expenses	6,624
Provision for loan loss	579,060
Total Operating Expense	<u>750,597</u>

Operating Income (Loss) 5,717,760

Capital contribution - CASH	160,014
Capital contribution - CAPITAL ASSETS	2,736,866

Change in Net Position 8,614,640

Net position at beginning of year	2,347,412
Prior period adjustment	1,981,127
Restated net position	<u>4,328,539</u>

Net Position at End of Period \$ 12,943,179

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, 2015
(in dollars)

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Grant receipts	\$ 7,374,553
Rental income	27,647
Payments for services	<u>(10,775)</u>
Net cash provided by (used for) operating activities	<u><u>7,391,425</u></u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from AHFC	256,639
Contributions from AHFC	<u>160,014</u>
Net cash provided by (used for) noncapital financing activities	<u><u>416,653</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Construction loan draws	(7,631,192)
Interest received from checking account	<u>3,732</u>
Net cash provided by (used for) investing activities	<u><u>(7,627,460)</u></u>
Net Increase (decrease) in cash	180,618
Cash at the beginning of year	<u>1,286,733</u>
Cash at the end of period	<u><u>\$ 1,467,351</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ 5,717,760
<i>Adjustments:</i>	
Depreciation expense	37,276
Provision for loan loss	579,060
Interest received	<u>(3,732)</u>
Changes in assets and liabilities:	1,061,061
Net cash provided by (used for) operating activities	<u><u>\$ 7,391,425</u></u>
Noncash investing, capital and financing activities:	
Land Contribution from AHFC	1,494,330
Building Contribution from AHFC	1,242,536

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, 2015

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 12/31/14. 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

As of June 30, 2015, the Corporation's bank balance of \$1,467,351 included cash deposits in the amount of \$1,217,351 that were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Corporation's name.

4 CAPITAL ASSETS

Capital asset activity and a summary of balances for the year ended June 30, 2015, are shown below:

	June 30, 2014	Additions	Reductions	June 30, 2015
Non-Depreciable Capital Assets:				
Land	\$ 3,533,569	\$ 1,494,330		\$ 5,027,899
Construction in Progress	133,540	-	-	133,540
Total Non-Depreciable Capital Assets	<u>\$ 3,667,109</u>	<u>\$ 1,494,330</u>	<u>\$ -</u>	<u>\$ 5,161,439</u>
Depreciable Capital Assets:				
Buildings	-	1,242,535	-	1,242,535
Less Accumulated Depreciation:				
Buildings	-	(37,276)	-	(37,276)
Net Depreciable Assets	<u>-</u>	<u>1,205,259</u>	<u>-</u>	<u>1,205,259</u>
Total All Capital Assets, Net of Accumulated Depreciation	<u>3,667,109</u>	<u>2,699,589</u>	<u>-</u>	<u>6,366,698</u>

The land improvements included demolition and survey costs incurred to prepare the land for the start of construction.

5 CONSTRUCTION NOTES RECEIVABLE

As of June 30, 2015, the Corporation had two 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. Both notes mature on October 22, 2044. 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. A summary of the balances is shown below.

	June 30, 2015
Ridgeline Terrace	\$ 6,757,300
Susitna Square	<u>1,853,768</u>
	8,611,068
Less:	
Allowance for loan loss	<u>(774,996)</u>
Net Construction loans receivable	<u>\$ 7,836,072</u>

Notes to Financial Statements

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 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, 2015.

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, 2015, the Corporation received grant revenue from AHFC in the amount of \$6,434,005. AHFC also contributed \$160,014 in cash to the Corporation for administrative costs.

In September 2014, AHFC quitclaimed three foreclosure properties in Fairbanks, Alaska, to the Corporation. The properties are listed on the accompanying financial statements at fair market value of \$1,242,536 for all three properties. The properties have yearly renewable commercial leases signed by the Corporation in December 2014 that will generate revenue by providing annual payments of \$39,293. One of the properties is currently for sale.

In June 2015, AHFC quitclaimed the land under the Loussac Manor Subdivision in Anchorage, Alaska to the Corporation. The land is valued at \$1,494,330 and is leased to the Loussac Place Limited Partnership, with annual lease payments due on April 30 of each year in the amount of \$160,014.

8 PRIOR PERIOD ADJUSTMENT

The Corporation recorded a prior period adjustment for the year ended June 30, 2015. In fiscal year 2014 the Corporation reported construction costs as expense on the Statement of Revenues, Expenses, and Changes in Net Position. These costs should have been recorded as draws on the notes receivable. Accordingly, an adjustment has been made to the June 30, 2015 financial statements to increase net position by the amount of the draws of \$2,177,063 less a loan loss provision of \$195,936 for a total of \$1,981,127.

9 SUBSEQUENT EVENT

The Corporation is in the process of entering into a commercial lease that will generate revenue by providing an annual payment of \$60,000 for the use of the Corporation's property adjacent to Ridgeline Terrace.