

Alaska Gasline Development 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 Gasline Development Corporation
Anchorage, Alaska

We have audited the accompanying financial statements of the governmental activities and major fund of Alaska Gasline Development Corporation (AGDC), a component unit of the State of Alaska, as of and for the fourteen months ended June 30, 2011, which collectively comprise AGDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of AGDC'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 AGDC, as of June 30, 2011, and the respective changes in financial position for the fourteen months then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Alaska Gasline Development Corporation
Anchorage, Alaska

The management's discussion and analysis on page 3 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 inquiries 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 28, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section is an overview and analysis of the financial activities of Alaska Gasline Development Corporation ("the Corporation") for a fourteen month period, from inception through to June 30, 2011. This information should be read in conjunction with the Independent Auditors' Report, and financial statements, which immediately follows this section. *All amounts, unless otherwise indicated, are expressed in thousands of dollars.*

The Corporation is a governmental fund of the State of Alaska ("the State").

FINANCIAL HIGHLIGHTS AND ACCOMPLISHMENTS

- AGDC was incorporated on May 14, 2010
- The Alaska Legislature appropriated \$15,640 to the Corporation to use during the fiscal year 2011.
- AGDC developed a comprehensive in-state natural gas pipeline project plan, the Alaska Stand Alone Pipeline project (ASAP Project). The ASAP Project plan defined a preferred route for supplying a reliable source of energy for South Central Alaska, Fairbanks, and other communities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Corporation's annual financial statements consist of three components: Management's Discussion and Analysis, the Basic Financial Statements, and the Schedule of Governmental Fund Revenues, Expenditures & Changes in Fund Balance – Budget to Actual. The basic financial statements include the government-wide presentation, along with the governmental fund presentation and the Notes to Financial Statements.

The government-wide financial statements of the Corporation, which include the *Statement of Net Assets (Exhibit A)* and the *Statement of Activities (Exhibit B)*, 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. Revenues are recorded 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.

Differences between the government-wide and governmental fund financial statements are reconciled within Exhibits A and B. The adjustments are related to the timing of when to recognize the expense of employee compensated absences.

The *Statement of Net Assets (Exhibit A)* 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 shows whether the Corporation has had all of its costs covered through legislative state contributions.

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 *Schedule of Governmental Fund Revenues, Expenditures & Changes in Fund Balance – Budget to Actual* presents the original and final legal budgets that are then compared to the actual amounts utilized by the Corporation and any variances are shown.

CONTACTING AGDC'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, (907) 277-4475 or jdubler@ahfc.us

ALASKA GASLINE DEVELOPMENT 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>Governmental Fund Balance Sheet</u>	<u>Adjustments*</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Prepays	\$ 193	\$ -	\$ 193
Due from State of Alaska	3,719	32	3,751
Total Assets	<u>3,912</u>	<u>32</u>	<u>3,944</u>
<u>LIABILITIES</u>			
Accrued payables	2,645	-	2,645
Accrued Compensated Absences	-	32	32
Due to Alaska Housing Finance Corporation	1,267	-	1,267
Total Liabilities	<u>3,912</u>	<u>32</u>	<u>3,944</u>
<u>FUND BALANCES</u>			
Nonspendable	193		
Unassigned	(193)		
Total Fund balance	<u>-</u>		
Total Liabilities and Fund Balance	<u>\$ 3,912</u>		
<u>NET ASSETS</u>			
Total Net Assets		<u>\$ -</u>	<u>\$ -</u>

***Adjustments:**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Governmental funds don't accrue Program revenue that isn't collectable within 60 days of year end - reimbursement for compensated absences.

\$ 32

Governmental funds don't recognize accrued compensated absences as payable using current financial resources.

(32)

Total Adjustments to the Governmental Fund Balance Sheet

\$ -

See accompanying notes to the financial statements.

ALASKA GASLINE DEVELOPMENT 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 Fourteen Months Ended June 30, 2011

(in thousands of dollars)

	Governmental Fund Income Statement	Adjustments*	Statement of Activities
<u>REVENUES</u>			
Program Revenues from the State of Alaska	\$ 13,675	\$ 32	\$ 13,707
Retirement Funding State of Alaska	26	-	26
Total Revenues	13,701	32	13,733
<u>EXPENDITURES / EXPENSES</u>			
Contractual Services	12,829	-	12,829
Personnel	670	-	670
Travel	90	-	90
Supplies	86	-	86
Compensated Absences	-	32	32
Retirement Funding State of Alaska	26	-	26
Total Expenditures / Expenses	13,701	32	13,733
Excess (Deficiency) of Revenues Over Expenditures / Expenses	-	-	-
Net change in fund balance / Change in Net Assets	-	-	-
<u>FUND BALANCE / NET ASSETS</u>			
Balance at inception	-	-	-
End of year balance	\$ -	\$ -	\$ -

***Adjustments:**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds don't accrue Program revenue that isn't collectable within 60 days of year end - reimbursement for compensated absences.

\$ 32

Governmental funds don't recognize accrued compensated absences as an expenditure

(32)

Change in net assets of governmental activities

\$ -

See accompanying notes to the financial statements.

Notes to Financial Statements

FOOTNOTE INDEX

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Notes to Financial Statements

FOR THE FOURTEEN MONTHS ENDED JUNE 30, 2011

Note A: The Alaska Gasline Development Corporation

The Alaska Gasline Development Corporation (AGDC) is a not-for-profit corporation. It was incorporated on May 14, 2010, under the Alaska Nonprofit Corporation Act and provisions of the Alaska Statutes creating the Alaska Housing Finance Corporation, as amended. AGDC was formed as a subsidiary of Alaska Housing Finance Corporation (AHFC) pursuant to House Bill No. 369 of the Alaska Legislature. AGDC is legally independent and separate from AHFC, and there is no financial accountability between AGDC and AHFC.

AGDC is a component unit of the State of Alaska (State). As a subsidiary of AHFC, AGDC is a government instrumentality of the State but has legal existence independent of and separate from the State. The Board of Directors of AGDC is comprised of the Commissioners of the Alaska Departments of Health & Social Services, Community & Economic Development, and Revenue, or their designees, and four independent members of the public.

AGDC was formed for the purpose set forth in AS 18.56.086 identified as planning, constructing, and financing in-state natural gas pipeline projects or assisting in the planning, construction, and financing of in-state natural gas pipeline projects.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

AGDC is a single purpose governmental fund and has elected to show a single combining presentation of AGDC's annual financial statements showing the Government-wide and Fund financial statements as Exhibit A – Governmental Fund Balance Sheet / Statement of Net Assets and Exhibit B Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance / Statement of Activities. The financial statements have been prepared in conformity with generally accepted accounting principles, including all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Government-wide and Governmental Fund Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the activities of AGDC. The Balance Sheet, and the 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, AGDC 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.

NOTE C: ASSETS AND LIABILITIES

Due from State of Alaska

The outstanding balance is for reimbursement of payments made by AHFC to vendors on behalf of AGDC that have not been yet been reimbursed by the State of Alaska.

Due to Alaska Housing Finance Corporation

AGDC utilizes AHFC's cash disbursement system to pay for costs incurred. As a result the outstanding balance is the net result of payments made by AHFC to vendors on behalf of AGDC and the periodic reimbursements from the State of Alaska for AGDC's vendor costs.

Notes to Financial Statements

NOTE D LONG TERM LIABILITIES

The activity for the year ended June 30, 2011 is summarized in the following schedule (in thousands):

	May 14, 2010	Additions	Reductions	June 30, 2011	Due Within One Year
Compensated absences	\$ -	\$ 41	\$ (9)	\$ 32	\$ 12

NOTE E: PENSION AND POST EMPLOYMENT HEALTH CARE**Plan Description**

As of June 30, 2011, all regular employees of the Corporation who work more than fifteen hours per week participate in the Alaska Public Employees' Retirement System (PERS). PERS administers the State of Alaska Public Employees' Retirement System Defined Benefit Retirement Plan which includes both pension and post employment healthcare plans for all employees hired prior to July 1, 2006. The defined benefit plan was an agent multiple-employer, statewide plan until July 1, 2008 when Senate Bill 125 converted the plan to a multiple-employer cost-sharing plan. PERS also administers the State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan which includes both pension and post employment healthcare plans for all employees hired on or after July 1, 2006.

PERS is administered by the State of Alaska. Benefits and contributions provisions are established by Chapter 35 of Alaska Statute Title 39, and may be amended only by state legislature. Amendments do not affect existing employees. A publicly available financial report that includes financial statements and required supplementary information is issued annually by PERS. That report may be obtained by writing to State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0202.

Defined Benefit Plans (Employees hired prior to July 1, 2006):

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. The normal pension benefit is equal to 2% of the member's three-year highest average monthly compensation for the first ten years of service and for all service prior to July 1, 1986, 2¼% for the second ten years of service and 2½% for all remaining years of service. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. The plan pays the retiree medical plan premium and also provides death and disability benefits.

Employees hired after June 30, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 60 or early retirement age 55. The normal pension benefit is equal to 2% of the member's three-year highest average monthly compensation for the first ten years of service, 2¼% for the second ten years of service and 2½% for all remaining years of service. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. Also the plan does not pay the retiree medical plan premium for retirees under the age of 60 unless the retiree has 30 years of credited service. The employee may elect to pay the full premium cost for medical coverage.

Employees hired after June 30, 1996 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 60 or early retirement age 55. The normal pension benefit is equal to 2% of the member's five-year highest average monthly compensation for the first ten years of service, 2¼% for the second ten years of service and 2½% for all remaining years of service. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. The plan does not pay the retiree medical plan premium for retirees with less than 10 years of service at age 60. The employee may elect to pay the full premium cost for medical coverage.

Defined Contribution Plan (Employees hired on or after July 1, 2006):

There is no retirement age set, however taxes and penalties may apply if withdrawn prior to age 59 ½. Retirement benefits are equal to the Defined Contribution account balance plus interest. The employee

Notes to Financial Statements

may direct the investment of the account if so desired. The account balance is 100% of the employees contribution plus 25% of the Corporation's contribution after two years of service, 50% of the Corporation's contribution after three years of service, 75% of the Corporation's contribution after four years of service, and 100% of the Corporation's contribution after 5 years of service. The plan pays a portion of the retiree medical plan premium if the retiree retires directly from the plan and is eligible for Medicare. The portion of premium paid by the plan is determined by years of service. Disability benefits are also provided.

Funding Policy

Defined Benefit Plans:

Under State law, covered employees are required to contribute 6% of their annual covered salary to the pension plan and are not required to contribute to the Post Employment Healthcare Plan.

Under State law the Corporation is required to contribute 22% of annual covered salary. For the fiscal year 2011, 7.64% of covered salary is for the pension plan and 14.36% of covered salary is for the Post Employment Healthcare Plan.

Under AS39.35.255, the difference between the actuarial required contribution of 27.96% for the fiscal year 2011 and the employer rate of 22% will be funded by the State.

The State contribution to the pension plan for the Corporation for the fourteen months ended June 30, 2011 was \$9,000.

The Corporation's contributions to the pension plan for the fourteen months ended June 30, 2011 was \$34,000.

The State contribution to the post employment healthcare plan for the Corporation for the fourteen months ended June 30, 2011 was \$17,000.

The Corporation's contributions to the post employment healthcare plan for the fourteen months ended June 30, 2011 was \$64,000.

Defined Contribution Plans

Under State law, covered employees are required to contribute 8% of their annual covered salary. For the fiscal year 2011, the Corporation is required to contribute 5.31% of the annual covered salary to the pension plan.

Under State law, covered employees are not required to contribute to the post employment healthcare plan. For the fiscal year 2011, the Corporation is required to contribute 0.55% of the annual covered salary plus an annual flat dollar amount of \$1,720.70 for each covered employee.

If the total amount that the Corporation has contributed for the defined contribution pension and post employment healthcare plans is less than 22% of covered payroll, the Corporation must pay that additional amount.

As of June 30, 2011, none of the Corporation's employees were covered under the Defined Contribution Plans.

ALASKA GASLINE DEVELOPMENT CORPORATION

A Component Unit of the State of Alaska

Required Supplementary Information

Schedule of Governmental Fund Revenues, Expenditures & Changes In Fund Balance - Budget to Actual (in thousands)

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
<u>REVENUES</u>				
Program Revenues from the State of Alaska	\$ 15,640	\$ 15,640	\$ 15,640	\$ -
Total Revenues	<u>15,640</u>	<u>15,640</u>	<u>15,640</u>	<u>-</u>
<u>EXPENDITURES</u>				
Contractual Services	14,342	14,794	14,794	-
Personnel	1,095	670	670	-
Travel	90	90	90	-
Supplies	29	86	86	-
Office Equipment	84	-	-	-
Total Expenditures	<u>15,640</u>	<u>15,640</u>	<u>15,640</u>	<u>-</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net change in fund balance			-	
<u>FUND BALANCE</u>				
Balance at inception			-	
End of year balance			<u>\$ -</u>	

Notes to Required Supplementary Information:

Basis of Budgeting

The legislature's legal authorization for AGDC to incur obligations is enacted on a basis inconsistent with generally accepted accounting principles (GAAP). This schedule presents comparisons of the original and final adopted budget with actual data on a budgetary basis. Encumbrances are included for total authorized expenditures, although for GAAP purposes they are excluded. The actual data in this schedule is modified accrual basis of accounting with encumbrances.

Reconciliation of Budgetary to GAAP reporting:

Budgetary Basis - Total Revenue	\$ 15,640
Retirement funding made by State of Alaska on-behalf of AGDC	26
Prepaid items	(193)
Encumbrances	(1,772)
Governmental Fund Income Statement - Total Revenue	<u>\$ 13,701</u>
Budgetary Basis - Expenditures	\$ 15,640
Retirement funding made by State of Alaska on-behalf of AGDC	26
Prepaid items	(193)
Encumbrances	(1,772)
Governmental Fund Income Statement - Expenditures	<u>\$ 13,701</u>