



# Ahtna Hwt'aene (People's) Trust

## Financial Statements

Years Ended December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

# Ahnta Hwt'aene (People's) Trust

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## Independent Auditor's Report

Board of Directors  
Ahtna Hwt-aene (People's) Trust  
Anchorage, Alaska

We have audited the accompanying financial statements of Ahtna Hwt-aene (People's) Trust, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of earnings and comprehensive income, changes in beneficiaries' equity and cash flows for the years then ended, and the related notes to the financial statements.

### *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 audits. We conducted our audits 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 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 Ahtna Hwt-anene (People's) Trust as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

Anchorage, Alaska  
March 1, 2019

**Ahtna Hwt'aene (People's) Trust**  
 Balance Sheets  
 December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 134,195	—
Other receivables	4,887,945	441,536
Investments	5,340,320	4,920,139
Total Assets	\$ 10,362,460	5,361,675
<b>Liabilities and Beneficiaries' Equity</b>		
Liabilities:		
Accounts payable	\$ 99,500	5,200
Deferred tax	1,069	41,117
Income tax payable	347,022	423,795
Dividend payable	47,600	—
Total liabilities	495,191	470,112
Beneficiaries' equity:		
Contributed capital	13,289,427	4,857,911
Retained earnings	(3,431,774)	(336,305)
Accumulated other comprehensive income- unrealized losses on investment securities, net of tax	9,616	369,957
Total beneficiaries' equity	9,867,269	4,891,563
Total Liabilities and Beneficiaries' Equity	\$ 10,362,460	5,361,675

*See accompanying notes to financial statements.*

**Ahtna Hwt'aene (People's) Trust**  
**Statement of Earnings and Comprehensive Income**  
**Years ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Income (expenses) from investment securities		
Dividends and interest income	\$ 119,481	93,865
Net realized gain from security transactions	38,555	146,817
Investment management fees	(21,266)	(32,074)
Professional fees	(6,000)	(3,700)
Total income (expenses) from investment securities	<u>130,770</u>	<u>204,908</u>
Income tax benefit (expense)	<u>(424,801)</u>	<u>(442,142)</u>
Net income (loss)	<u>\$ (294,031)</u>	<u>(237,234)</u>
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the year	(361,834)	480,211
Less reclassification adjustment for gains included in net earnings	(38,555)	(146,817)
Income tax effect	40,048	(33,340)
Total other comprehensive income (loss)	<u>(360,341)</u>	<u>300,054</u>
Total comprehensive income (loss)	<u>\$ (654,372)</u>	<u>62,820</u>

*See accompanying notes to financial statements.*

**Ahtna Hwt'aene (People's) Trust**  
**Statement of Changes in Beneficiaries' Equity**  
**Years ended December 31, 2018 and 2017**

	Contributed Capital	Contributed Capital Treated as Earnings	Retained Earnings	Accumulated Other Comprehensive Loss	Total Beneficiaries' Equity
Balance, January 1, 2017	\$ 1,000	3,978,375	(99,071)	69,903	3,950,207
Net loss	—	—	(237,234)	—	(237,234)
Contribution from Ahtna Incorporated	—	437,000	—	—	437,000
Contribution receivable from Ahtna	—	441,536	—	—	441,536
Other comprehensive losses	—	—	—	300,054	300,054
Balance, December 31, 2017	\$ 1,000	4,856,911	(336,305)	369,957	4,891,563
Net loss	—	—	(294,031)	—	(294,031)
Contribution from Ahtna Incorporated	—	3,543,571	—	—	3,543,571
Contribution receivable from Ahtna Inc	—	4,887,945	—	—	4,887,945
Other comprehensive losses	—	—	—	(360,341)	(360,341)
Elder Distribution	—	—	(239,000)	—	(239,000)
Dividends declared	—	—	(2,562,438)	—	(2,562,438)
Balance, December 31, 2018	\$ 1,000	13,288,427	(3,431,774)	9,616	9,867,269

*See accompanying notes to financial statements.*

**Ahtna Hwt'aene (People's) Trust**  
**Statement of Cash Flows**  
**Years ended December 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ (294,031)	(237,234)
Adjustments to reconcile net loss to net cash from operating activities:		
Net (gains) losses on sale of investments	(38,555)	(146,817)
Deferred taxes		18,306
Change in operating liabilities that provided cash:		
Accounts Receivable	441,536	—
Accounts payable	94,300	5,200
Income tax payable	(76,773)	422,337
Other liabilities	47,600	—
Net cash from operating activities	174,077	61,792
Cash flows from investing activities:		
Purchases of investment securities	(1,344,866)	(2,587,986)
Proceeds from sale of investment securities	562,851	2,089,194
Net cash for investing activities	(782,015)	(498,792)
Cash Flows from Financing Activities :		
Ahtna Incorporated contributions	3,543,571	437,000
Dividends paid	(2,801,438)	—
Net cash provided by financing activities	742,133	437,000
Net change in cash and cash equivalents	134,195	—
Cash and cash equivalents, beginning of year	—	—
Cash and cash equivalents, end of year	\$ 134,195	—

*See accompanying notes to financial statements.*



**Ahtna Hwt-aene (People's) Trust**  
**Notes to Financial Statements**  
*Years Ended December 31, 2018 and 2017*

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## 1. Organization and Summary of Significant Accounting Policies

### *Organization*

Ahtna Hwt-aene (People's) Trust (the Trust or Trust) is an irrevocable settlement trust established by the Ahtna, Incorporated Native Corporation (Ahtna) under Alaska Statute effective February 1, 2014. The Trust was established by Ahtna's Board of Directors to promote the long-term economic stability of the Ahtna People by providing a source of funds for regular distribution to Trust unit holders, who are also shareholders of Ahtna. Members of Ahtna's Board of Directors are appointed as Trustees of the Trust.

Ahtna was organized pursuant to the Alaska Native Claims Settlement Act (ANCSA). ANCSA, as amended, authorizes the conveyance of assets by a native corporation to a settlement trust. Trust assets are transferred from Ahtna as provided in the Trust agreement.

The Trust's unit holders are the beneficiaries of the Trust. Trust units are issued to Ahtna's shareholders in direct proportion to their shares of Ahtna voting common stock. Nonvoting trust units may be issued to any person who acquires Ahtna shares and who is not a "Native" or a "Descendant of a Native" within the meaning of ANCSA, in direct proportion to their shares of nonvoting common stock. Trust units are not generally transferable. At years ended December 31, 2018 and 2017 there were 249,650 and 246,670 Trust units and it is intended that Trust Units will accompany (and in the aggregate, be identical to) the ownership of the Ahtna Settlement Common Stock. At December 31, 2018 and 2017, there were 249,650 and 246,670 trust units (of which 246,799 and 243,508 were voting and 2,851 and 3,301 were non-voting) held by over 2,082 and 2,131 beneficiaries.

The Ahtna Hwt-aene (People's) Trust agreement allows annual distributions of net cash income to unit holders after the Trust exceeds \$10 million in total asset value and at the discretion of the Trustees in accordance with the goals of the Trust agreement.

Within a 180-day period following the fifteenth anniversary of the Trust, the Trustees with an affirmative two-thirds vote may modify the provisions of the Trust with unit holder approval. The modifications may include changing the percentage of net cash income that is distributed to the unit holders, modifying the provisions for distributing asset principle balances, or terminating the Trust and distributing all principle and accrued income to the unit holders. Unless terminated, Trust provisions may be modified after each ten year anniversary after the fifteenth anniversary. Within 180-days of this and each succeeding ten year anniversary, the Trustees and unit holders may again make modifications to the Trust provisions. In no event shall the Trust ever revert to Ahtna.

Ahtna provides administrative services to the Trust. As of the years ended December 31, 2018 and 2017, the cost of these services was not charged to the Trust and does not appear on the financial statements.

### *Basis of Accounting*

The Trust prepares its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

# Ahtna Hwt-aene (People's) Trust

## Notes to Financial Statements

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### *Fair Value Measurements*

Fair value is the market-based measurement built on assumptions that market participants would use in pricing an asset or liability. There are three levels, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Given the narrow definition of Level 1 and the Trust's investment asset strategy, all of the Trust's investment assets are classified as Level 1. These assets include actively-traded exchange-listed equity securities and mutual funds. Unadjusted quoted prices for these securities are provided to the Trust by independent pricing services.

### *Investments*

Investments represent equity and fixed income mutual fund holdings that are measured at fair value and the change in value is included in the change in net assets. The fair value measurement of the investments held at December 31, 2018 and 2017 was determined using Level 1 observable market inputs, within the fair value hierarchy above.

The difference between cost and fair value of securities held at year-end represents unrealized gains or losses on investments. Realized gains or losses from securities transactions are determined on the basis of the cost of the specific securities and are recorded on the trade date.

Revenue is recorded when investment dividends, and realized gains are received. Unrealized gains (loss) are recorded when the fair value of the investments change. Net unrealized gains and losses are recorded as a component of other comprehensive income in shareholders' equity. When securities are sold, realized gains and losses are determined using the specific-identification method.

### *Cash and Cash Equivalents*

The Trust considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Bank balances of \$0 were not insured by the FDIC at December 31, 2018.

### *Comprehensive Income*

Comprehensive income consists of net income or loss and net unrealized gains and losses on securities and is presented in the statements of earnings and comprehensive income.

# Ahtna Hwt-aene (People's) Trust

## Notes to Financial Statements

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### *Income Taxes*

The Trust has elected to be taxed as an Electing Alaska Native Settlement Trust. The trust has a tax rate of approximately 10% on taxable income (0% on certain qualified dividends received and on certain long-term capital gains) as defined in the Internal Revenue Code. The Trust can carry capital losses realized on sales of investments forward to future years to offset capital gains. These carryforward losses do not expire.

The Trust reports a liability, if any, for unrecognized tax benefits resulting from uncertain income tax positions taken or expected to be taken in an income tax return. Estimated interest and penalties, if any, are recorded as a component of interest expense and other expense, respectively. No liability has been recorded for uncertain tax positions, or related interest or penalties as of December 31, 2018 and 2017. Tax years that remain subject to examination by federal authorities include the years ended December 31, 2014 and beyond.

The Trust applies the provisions of Topic 740 of the FASB Accounting Standards Codification (ASC 740) relating to accounting for uncertainty in income taxes. An uncertain tax position represents the Trust's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. The Trust makes a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by ASC 740 and believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter.

For the years ended December 31, 2018 and 2017, there were no material changes to the total amount of unrecognized tax benefits. The Trust does not expect any significant increases or decreases for uncertain tax positions during the next 12 months.

### *Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results could differ from these estimates.

### *Reclassification*

Certain prior year amounts have been reclassified to conform with the current year presentation.

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# Ahtna Hwt-aene (People's) Trust

## Notes to Financial Statements

### 2. Investments

The Company's marketable securities at December 31, 2018 consist of the following:

	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Available-for-sale securities:				
Money market	\$ 302,741	—	—	302,741
Equity securities	1,404,015	179,279	(96,944)	1,486,350
Fixed income	3,174,885	53,133	(117,644)	3,110,374
U.S. government and agency notes:				
Due within one year	—	—	—	—
Due after one year through five years	204,467	—	(1,767)	202,700
Due after five years	243,527	359	(5,731)	238,155
	<u>\$ 5,329,635</u>	<u>232,771</u>	<u>(222,086)</u>	<u>5,340,320</u>

The Company's marketable securities at December 31, 2017 consist of the following:

	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Available-for-sale securities:				
Money market	\$ 226,543	—	—	226,543
Equity securities	1,498,167	335,476	(17,765)	1,815,878
Fixed income	2,347,546	118,785	(21,091)	2,445,240
U.S. government and agency notes:				
Due within one year	10,921	1	—	10,922
Due after one year through five years	126,691	—	(1,085)	125,606
Due after five years	299,197	11	(3,258)	295,950
	<u>\$ 4,509,065</u>	<u>454,273</u>	<u>(43,199)</u>	<u>4,920,139</u>

Gross realized gains on the sale of marketable securities recognized during 2018 and 2017, respectively was \$93,616 and \$151,913. Gross realized losses on the sale of marketable securities recognized during 2018 and 2017, respective was \$55,061 and \$5,096.

### 3. Distributions

Distributions will be determined by the Trustees in a way that maximizes tax benefits for the unit holders and preserves the purchasing power of the Trust after the Trust investments have reached

# Ahtna Hwt-aene (People's) Trust

## Notes to Financial Statements

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\$10 million in value. The Trust may not make distributions that would cause the Trusts investment fair value to be less than \$10 million upon the date of the declared distribution. Net cash income is defined as the cash income remaining after payment of all necessary and proper expenses of administration, but before the payment of any items properly allocated to Principal (including without limitation any taxes, such as income, real estate, or excise taxes), calculated on a cash accounting basis.

Distributions to shareholders are not allowed as Trust deductions and are not generally taxable to shareholders. Shareholder distributions of \$2,562,438 and \$0 were declared and paid in 2018 and 2017 respectively. Additionally, distributions of \$239,000 and \$0 were declared and paid to qualifying elder shareholders in 2018 and 2017 respectively.

### 4. Contributions

Contributions of \$3,543,571 and \$437,000 were received from Ahtna Incorporated during 2018 and 2017, respectively. Contributions receivable totaled \$4,887,945 and \$441,536 due from Ahtna Incorporated in the years 2018 and 2017 respectively.

### 5. Income Taxes

Income tax benefit for the year ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Income tax from operations	\$ 424,801	442,142
Stockholders' equity, for net unrealized gains marketable securities	<u>40,048</u>	<u>(33,340)</u>
	<u>\$ 464,849</u>	<u>408,802</u>
Current tax expense	\$ 424,801	423,837
Deferred expense (benefit)	-	18,305
	<u>\$ 424,801</u>	<u>442,142</u>

The difference between the federal statutory rate of 10% and the Trust's effective rate primarily arises from permanent differences such as a zero tax rate for qualified dividends and long term capital gains as well as contributions to the trust being considered taxable income.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2018 and 2017 are presented below.

	<u>2018</u>	<u>2017</u>
Deferred tax assets (liabilities):		
Unrealized holdings gains on marketable securities	<u>(1,069)</u>	<u>(41,117)</u>
Net deferred tax asset (liability) \$	<u>(1,069)</u>	<u>(41,117)</u>

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## Notes to Financial Statements

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### 6. Accumulated other Comprehensive Loss

Accumulated other comprehensive income consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unrealized holding gains on securities	\$ 232,771	454,273
Unrealized holding losses on securities	(222,086)	(43,199)
Income taxes	(1,069)	(41,117)
Total accumulated other comprehensive income	<u>\$ 9,616</u>	<u>369,957</u>

Changes in accumulated other comprehensive income follow:

	<u>2018</u>	<u>2017</u>
Increase in net unrealized gains	\$ (400,389)	333,394
Income tax effect	40,048	(33,340)
Total changes in accumulated other comprehensive income	<u>\$ (360,341)</u>	<u>300,054</u>

For the years ended December 31 2018, the related tax effects allocated to each component of other comprehensive income follows:

	<u>Before taxes</u>	<u>Tax benefit (expense)</u>	<u>Net of tax amount</u>
Unrealized holding gains arising during the period	\$ (438,944)	43,904	(395,040)
Less reclassification adjustment for gains realized in net income	38,555	(3,856)	34,699
Net unrealized gains	<u>\$ (400,389)</u>	<u>40,048</u>	<u>(360,341)</u>

# Ahtna Hwt-aene (People's) Trust

## Notes to Financial Statements

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	<u>Before taxes</u>	<u>Tax benefit (expense)</u>	<u>Net of tax amount</u>
2017:			
Unrealized holding gains arising during the period	\$ 480,211	(48,021)	432,190
Less reclassification adjustment for gains realized in net income	<u>(146,817)</u>	<u>14,681</u>	<u>(132,136)</u>
Net unrealized gains	<u>\$ 333,394</u>	<u>(33,340)</u>	<u>300,054</u>

### 7. Custodial and Investment Management Fees

The Trust utilizes Baird Financial for its custodian and investment management functions. For the years ending December 31, 2018 and 2017, respectively the combined custodian, asset management and consultant fees were .80% and 1.0% basis points on the fund's fair value for equities, .15% and .50% per annum for ETF's/Mutual Funds and .50% and .50% for fixed income investments. Total investment fees were \$21,268 and \$32,074 for the years ending December 31, 2018 and 2017.

### 8. Subsequent Events

The Trust has evaluated subsequent events through March 1, 2019, the date these financial statements were available to be issued.