



The Southeast Alaska Power Agency

Financial Statements, Required
Supplementary Information, and
Government Auditing Standards Reports

For the Years Ended June 30, 2019 and 2018

The Southeast Alaska Power Agency

Financial Statements, Required Supplementary Information, and
Government Auditing Standards Reports

For the Years Ended June 30, 2019 and 2018

The Southeast Alaska Power Agency

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Independent Auditor's Report

The Board of Directors
The Southeast Alaska Power Agency
Ketchikan, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of The Southeast Alaska Power Agency as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise The Southeast Alaska Power Agency'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 the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Southeast Alaska Power Agency as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 13, and the Schedules of Pension Contributions on pages 38-39 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019 on our consideration of The Southeast Alaska Power Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Southeast Alaska Power Agency's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
December 19, 2019

Management's Discussion and Analysis

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

This presentation and analysis is intended to serve as an introduction to and discussion of the June 30, 2019 and 2018 financial statements of The Southeast Alaska Power Agency (SEAPA).

Mission Statement

SEAPA's mission is to provide the lowest wholesale power rate consistent with sound utility planning and business practices. We exist for the long-term benefit of our member utilities and the rate payers, providing unified regional leadership for project development and prudent management of our interconnected power system.

Financial Highlights

- Total assets and deferred outflows of resources exceeded total liabilities by \$138.8M at June 30, 2019 and \$142M at June 30, 2018. Of these amounts, \$20M in FY19 and \$21.9M in FY18 were unrestricted and available to meet SEAPA's ongoing obligations to customers and creditors.
- SEAPA's total net position decreased \$3.3M in FY2019 and \$500K in FY18. The decrease in FY19 was primarily due to a \$2.9M reduction in hydropower sales caused, in part, by extended but temporary drought conditions, combined with a diesel payment of \$842K to member utilities.
- The wholesale power rate was maintained at 6.8 cents/kWh in fiscal year 2019, a rate that has held steady for 22 consecutive years and was approved again for fiscal period ending December 31, 2019.
- SEAPA elected to change its fiscal year from mid-year (July 1 through June 30) to align with the calendar year and the company's construction season. To effect this transition, SEAPA budgeted a six-month fiscal period from July 1 through December 31, 2019, which will be audited. January 1, 2020 will start another full fiscal year.
- No rebate was approved for fiscal year 2019 compared to a rebate of \$800K in FY2018; however, a diesel payment of \$842K was approved and paid in FY2019. This payment represents diesel generation costs incurred by the member utilities of Petersburg and Wrangell from February 15, 2019 through March 28, 2019.
- The annual levelized payment to the Dedicated R&R Fund of 2.552M, typically transferred from the Revenue Fund at the beginning of July, was deferred for reconsideration at the December 12, 2019 regular SEAPA Board meeting. This was a result of depressed revenues during the recent drought. Existing reserves in the Dedicated R&R Fund were sufficient to support planned improvements during the fiscal year.
- \$5.59M in Series 2009 Bonds were refinanced through the Alaska Municipal Bond Bank, resulting in net present value savings of \$325K over the five-year refinancing term.
- SEAPA's capitalization threshold was lowered from \$25K to \$10K effective July 1, 2019 to more effectively capture the cost of improvements and additions to company assets.
- SEAPA assumed operations at its Swan Lake plant effective July 1, 2019. New SEAPA employees are now conducting operations and maintenance responsibilities formerly provided by a contractor.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Statement of Net Position

Total assets, total liabilities and total net assets at June 30, 2019, 2018 and 2017 follows:

<i>June 30,</i>	2019	2018	2017
Assets:			
Current assets	\$ 18,018,533	\$ 21,438,570	\$ 20,779,208
Capital assets	130,994,881	134,078,720	136,441,287
Noncurrent assets	8,264,177	6,549,288	7,664,896
Total Assets	\$ 157,277,591	\$ 162,066,578	\$ 164,885,391
Liabilities:			
Current liabilities	\$ 2,145,234	\$ 2,702,769	\$ 4,609,498
Noncurrent liabilities	16,320,829	17,272,338	17,684,011
Total liabilities	18,466,063	19,975,107	22,293,509
Net position			
Net investment in capital assets	115,404,715	117,506,743	119,036,952
Restricted for debt service	1,469,349	1,587,894	1,589,894
Restricted under agreements with external parties	1,203,349	1,108,568	1,024,898
Unrestricted	20,734,115	21,888,266	20,940,138
Total net position	138,811,528	142,091,471	142,591,882
Total Liabilities and Net Position	\$ 157,277,591	\$ 162,066,578	\$ 164,885,391

Discussion of Financial Position

Financial Position - FY2019

Current assets decreased \$3.4M from last year. Operating cash was \$2.4M lower as temporary drought conditions dramatically reduced sales and both the FY18 Rebate and the FY19 Diesel payments were issued to SEAPA's member utilities. SEAPA also performed risk assessments on its submarine cables and the Tye power tunnel, incurring one-time costs of over \$700K.

Capital assets as of June 30, 2019 decreased \$3M compared to June 30, 2018 as the capitalization of \$1.94M in newly commissioned assets was outpaced by \$4.8M in depreciation. Improvements to the Swan Lake facility's marine bulkhead, wastewater system and governors were completed this fiscal year. At the Tye Lake facility, the turbine shutoff valves were replaced, and the first phase of the intake gate refurbishment was completed. New storage structures to protect rolling stock and inventory stores were added at both sites.

Noncurrent assets consist primarily of investments held in SEAPA's Self-Insured Risk Fund that mature after June 2020 and the \$1.7M increase in this balance reflects a shift in the portion of investments that mature after one year. The Self-Insured Risk Fund is maintained at \$8M.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Current liabilities consist of accounts payable and the current portion of long-term liabilities, which are bond debt and the PERS liability for former Thomas Bay Power Authority employees. The PERS liability accompanied SEAPA's assumption of operations at the Tyee Lake facility in FY2015 (see note 5). No rebate was issued to member utilities in FY19, compared to \$800K that was part of accounts payable in FY18.

Noncurrent liabilities include \$10.295M in Series 2015 Bonds and \$4.245M in Series 2019 Bonds. Payments on the 2015 series bonds are interest-only until 2025, when principal payments begin one year after the Series 2019 bonds expire. The Series 2019 Bonds refinanced the former Series 2009 Bonds in May 2019. Refinancing through the Alaska Municipal Bond Bank resulted in a net present value savings of \$325K. Noncurrent liabilities also include \$876K in PERS Unfunded Liability, a reduction of \$74K from the previous year.

Net investment in capital assets makes up the largest component (83%) of SEAPA's Net Position. The capital assets consist of buildings, transmission lines, infrastructure, equipment and vehicles, less any outstanding related debt. Net investment in capital assets decreased \$2.1M in FY2019.

The \$1.47M restricted for debt service reflects P&I bond payments in FY2020. \$1.2M is restricted with external parties under agreements with the USFS and Alaska DNR.

Total Net Position for the year ending June 30, 2019 decreased \$3.28M compared to the previous year.

Financial Position - FY2018

Current assets increased \$659K over the previous year, primarily due to an increase in cash and investments.

Capital assets as of June 30, 2018 decreased \$2.3M compared to June 30, 2017. Numerous smaller capital projects enhancing safety and reliability were completed in FY2018, including new marker balls on the Tyee transmission line, replacement of three power poles, and the addition of new current transformers and protection-control relays on the Wrangell transmission line. \$2.4M in new assets were added in FY2018 and were offset by accumulated depreciation.

Noncurrent assets consist primarily of investments held in SEAPA's Self-Insured Risk Fund that mature after June 2019 and shifts in this balance reflects changes to the proportion of investments that mature after one year. The Self-Insured Risk Fund is maintained at \$8M.

Current liabilities include an \$800K rebate to the member utilities for FY2018, payable in December 2018, as well as the current portion of long-term debt.

Noncurrent liabilities include \$5.590M in Series 2009 Bonds and \$10.295M in Series 2015 Bonds. Payments on the 2015 series bonds are interest-only until 2025, with principal payments beginning one year after the Series 2009 bonds are scheduled to expire. Noncurrent liabilities also include \$950K in PERS Unfunded Liability. The PERS liability accompanied SEAPA's assumption of operations at the Tyee Lake facility in FY2015 (see note 5).

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Net investment in capital assets makes up the largest component (82%) of SEAPA's Net Position. The capital assets consist of buildings, transmission lines, infrastructure, equipment and vehicles, less any outstanding related debt. Net investment in capital assets decreased \$1.5M in FY2018.

The \$1.59M restricted for debt service reflects P&I bond payments in FY2019. \$1.109M is restricted under agreements with the USFS and Alaska DNR.

Total Net Position for the year ending June 30, 2018 decreased \$500K compared to the previous year.

A summary of SEAPA's operational cash, investment and trustee funds follows:

Operating Funds

Revenue Fund - All revenues from all sources are deposited to the Revenue Fund as required by bond indenture. Withdrawals from the Revenue Fund cover operational costs and fund other accounts as needed.

Commercial Checking - Monies are transferred from the Revenue Fund and corresponding dedicated funds to cover all expenditures, which are issued from this account.

Dedicated Funds

R&R Fund - R&R (Renewal and Replacement) funds are dedicated to Board-approved capital projects. A \$1M minimum balance required by bond indenture is maintained in the Required R&R Fund. The R&R Fund is capitalized by an annual levelized payment of \$2.552M from the Revenue Fund. The levelized payment amount is established by the R&R Plan and updated every five years. Project balances in the R&R Fund are typically carried forward through project completion.

New Generation Fund - Dedicated to funding new energy projects, monies are currently being used to investigate the feasibility of wind energy.

Self-Insured Risk Fund - This is a risk management fund established as coverage for uninsured portions of SEAPA's transmission lines and to pay insurance deductibles and operational costs in the event of a catastrophic event. The fund balance of \$8M was established by the Board and is based upon a risk assessment performed in 2014. Any excess earnings from this account are transferred to the R&R Fund at the beginning of each fiscal year.

Rate Stabilization Fund - Established to reserve a portion of excess revenues to supplement revenue in case of a catastrophic shortfall in income, ensure bond covenants and fund balance minimums are met, reduce the amount of future bond issuances, and to supplement the Dedicated R&R Fund to finance extraordinary capital expenditures. Withdrawals from this fund are authorized by the Board and are ultimately intended to avoid drastic adjustments to the wholesale power rate.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Restricted Funds

Trustee Funds - This includes all bond-related funds: interest, principal, reserve and escrow funds.

USFS Certificate of Deposit - This CD is required by the US Forest Service as a land remediation deposit related to the Burnett Peak communication site established during construction of the Swan-Tyee Intertie.

DNR Reclamation Funds - This is a reclamation contingency fund established in 2005 and required by the Alaska Department of Natural Resources. SEAPA maintains this trustee account which requires an annual deposit of \$75K, half of which is contributed by Copper Valley Electric Association and Kodiak Electric Association.

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Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Changes in Net Position

Components of the Agency's operating revenues, operating expenses, and non-operating revenues/expenses for the years ended June 30, 2019, 2018, and 2017 are as follows:

<i>June 30,</i>	2019	2018	2017
Operating revenues from power sales	\$ 9,341,738	\$ 12,239,368	\$ 12,700,223
Displaced power sales	—	—	189,305
Gross operating revenues	9,341,738	12,239,368	12,889,528
Rate rebate	—	(800,000)	(2,700,000)
Member diesel	(841,786)		
Net operating revenues	8,499,952	11,439,368	10,189,527
Operating expenses:			
Operating and maintenance	3,959,218	3,467,129	3,157,802
General and administrative	2,580,831	2,910,967	2,782,758
Depreciation expense	4,829,220	4,775,039	4,414,025
Total operating expenses	11,369,269	11,153,135	10,354,585
Operating income	(2,869,317)	286,233	(165,058)
Non-operating revenues (expenses):			
Investment income	370,392	49,767	9,221
Grant revenue	62,614	282,099	855,098
Grant expense	(83,351)	(282,099)	(855,098)
Interest expense	(735,522)	(724,552)	(816,106)
Other income (expense)	(24,759)	(111,859)	109,741
Net non-operating revenues (expenses)	(410,626)	(786,644)	(697,144)
Income (loss) before capital contributions and special items	(3,279,943)	(500,411)	(862,202)
Capital contributions	—	—	796,674
Special item - Tye transition	—	—	—
Change in net position	(3,279,943)	(500,411)	(65,528)
Net Position - beginning of year	142,091,471	142,591,883	142,657,411
Net Position - end of year	\$ 138,811,528	\$ 142,091,471	\$ 142,591,883

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Discussion of Operations

Operating revenues are derived solely from power generated at SEAPA's two hydroelectric facilities and sold to its three member-utility customers. Displaced Power Sales are compensation for power generated by a member-utility facility that could have otherwise been sold by SEAPA. The Long-Term Power Sales Agreement (PSA) requires that member utilities purchase power from SEAPA prior to power generated by any facilities added after the PSA was signed. A True-Up Agreement between SEAPA and Ketchikan established the process for which SEAPA is compensated for power generated by Ketchikan's Whitman Lake facility that could have otherwise been sold by SEAPA. The Whitman facility began operations in October 2014. Under the agreement, displaced sales are reviewed on a quarterly basis and invoiced at the end of each calendar year.

Operations - FY2019

Firm power sales decreased by \$2.898M compared to FY2018, and no displaced power sales were recorded in FY2019. No rebate was declared in FY2019, however, a diesel reimbursement payment of \$841,785 was paid to Member Utilities.

Total operating expenses, less depreciation, increased \$162K over the previous year. Notably, over \$750K was spent on risk assessments for the Tyee power tunnel and electrical transmission submarine cables, both of which underwent ROV surveys this year.

Investment income rose by \$320K year-over-year.

Grant revenue totaled \$60K this year. The State of Alaska FY13 Alaska DCCED grant was the only active grant this year, and its funding was applied to work on regional hydro-site analysis. A balance of \$475K is still available for expenditures through June 2020.

Operations - FY2018

Firm power sales decreased by \$650K from the record high in FY2017 and no displaced power sales were recorded in FY2018. Net operating revenues still increased by \$1.2M due to allocation of revenues to a new Rate Stabilization Fund and a reduced FY18 rebate of \$800K.

Operating expenses increased \$799K over the previous year. The expenses include increased maintenance at the Swan Lake plant, a large brushing project along the Swan-Tyee Intertie (STI) transmission line, increased regulatory expense for the STI to complete surveying of its right-of-way, and the Swan Lake reservoir expansion project that was completed at the end of FY2017.

Investment income rose by \$40K year-over-year.

Grant revenue decreased by \$573K, and no grant funds were applied towards capital projects this year, compared to \$797K last year. The State of Alaska FY13 Alaska DCCED grant was the only active grant this year, and its funding was applied to work on regional hydro-site analysis. A balance of \$554K is still available for expenditures in FY2019.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

Economic Factors in Next Year's Budgets, Rates and Revenues

SEAPA is transitioning to a calendar-based fiscal year, previously July 1 through June 30. SEAPA's Board approved this change to better align business processes and construction season activities, allowing for greater efficiencies. As part of the transition, a six-month interim budget was created to bridge the gap.

Economic factors impacting both the interim six-month budget and approaching calendar year 2020 are varied. SEAPA's revenues experienced a significant reduction over the past eighteen months due to temporary drought conditions. However, recent inflows have been robust and appear to have shifted back in line with historical trends. SEAPA's reservoirs are nearly full heading into winter and revenues are anticipated to normalize over the next year.

The interim six-month budget was premised on retaining the current Wholesale Power Rate (WPR) of 6.8 cents/kWh, which has remained stable for over 22 years. However, the SEAPA Board may consider a modest increase for 2020 to restore lost revenue due to the drought, to hedge inflationary pressures, and to offset anticipated large capital expenditures. Most notably, SEAPA experienced a single submarine cable failure on September 29, 2019, between Vank and Woronkofski Islands. Electrical sales to Petersburg were restored within 24 hours by swapping over to an existing spare cable, but repair or replacement will be a significant undertaking. The root cause of the failure, repair/replacement options, and associated costs are all currently being analyzed. SEAPA maintains adequate reserves in the Self-Insured Risk and Rate Stabilization Funds to expedite any necessary corrective actions. It is also important to note that SEAPA carries a \$5M insurance policy on submarine cables and it is unknown at this time what the overall financial impact will be.

Wage and salary audits were conducted over the past year and step change increases were implemented to establish competitive market alignment. Health and welfare premiums continue to escalate at a rate outpacing inflation. This further supports a modest rate increase.

Weather volatility remains the largest influence on revenues; however, regional trends also play an important role. Population outmigration and lower fish processing loads collectively are expected to offset any minor load growth. Additionally, the Ketchikan Shipyard has downsized, lowering loads at that facility, and workers may need to relocate outside of the region to find work. There have been notable personnel reductions in governmental agencies in the region as the legislature attempts to address a revenue shortfall at the State level. Compounding existing challenges, the legislature is attempting to shift costs from the State to local municipalities. This could result in property tax increases and a reduction in public works projects.

The bright spot in the economic outlook continues to be tourism, which has seen robust growth over the last couple of years. There is a strong interest in expanding existing infrastructure to accommodate larger ships. Additionally, there appears to be momentum in developing the Ward Cove area to accommodate additional cruise ship berthing. This could potentially lead to interruptible loads in the future, which would help the Agency hedge weather volatility.

The 2020 budget will propose continuation of works in progress and several new Renewal & Replacement (R&R) projects. These projects are forward funded through the Dedicated R&R Fund and focus on safety, reliability, and system availability of generation and transmission assets.

SEAPA assumed operations and maintenance responsibilities at the Swan Lake Hydroelectric Facility on July 1, 2019. Operations and maintenance at both of SEAPA's hydroelectric facilities had

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

historically been contracted to the member municipalities and now the Agency is in full control. The Agency is rapidly working to standardize training and procedures across all facilities, and this will help lower overall long-term risk across the SEAPA system.

Contacting SEAPA's Financial Management

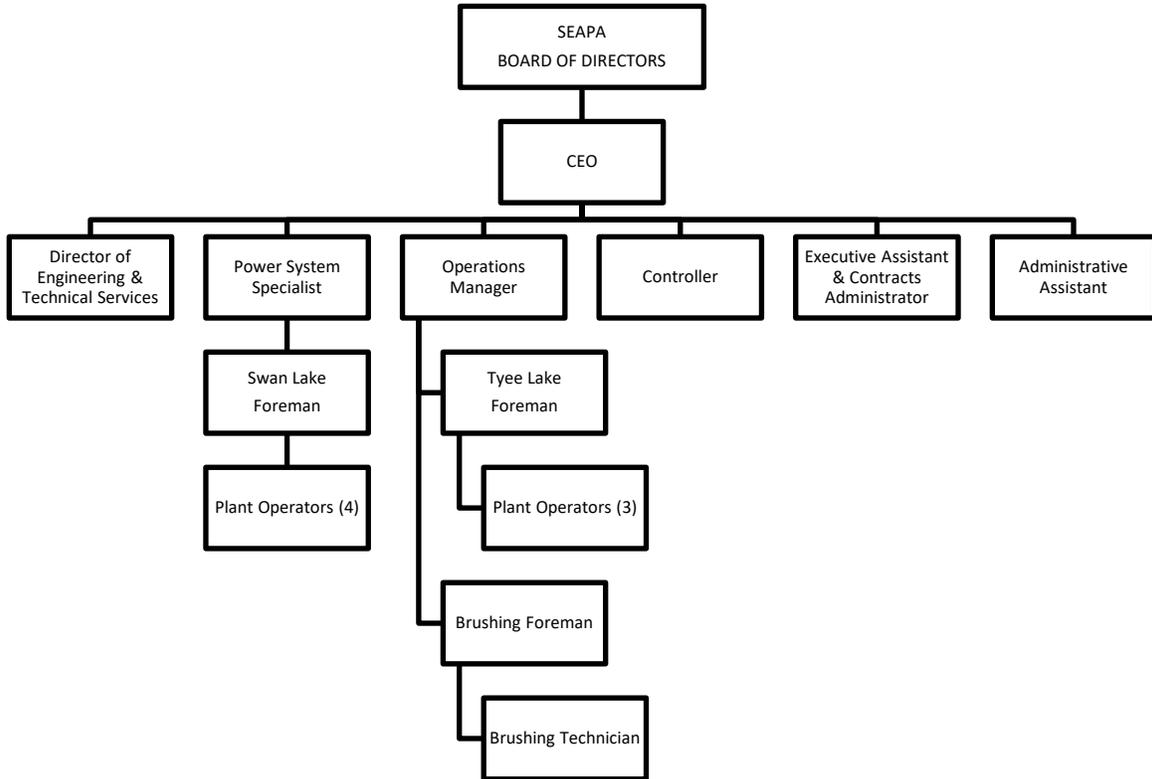
This financial report is designed to provide SEAPA's customers, creditors, and investors with a general overview of the Joint Action Agency's finances and to demonstrate the Agency's accountability for the money it receives. Questions concerning information provided in this report or requests for additional information should be directed to Controller, 1900 First Ave #318, Ketchikan, AK 99901 or call 907-228-2281. This financial report and prior year financial reports are also available on SEAPA's web site at www.seapahydro.org/SEAPA-financial-Info.php.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2019 and 2018

ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS

JUNE 30, 2019

BOARD OF DIRECTORS

Bob Sivertsen, Chairman (Ketchikan)
Robert Lynne, Vice-Chairman (Petersburg)
Karl Amylon, Secretary/Treasurer (Ketchikan)
Steve Prysunka (Wrangell)
Dick Coose (Ketchikan)

BOARD ALTERNATES

Robert Larson (Petersburg)
Cliff Skillings (Ketchikan)
Andrew Donato (Ketchikan)
Lisa Von Barga (Wrangell)
Jack Davies (Ketchikan)

SEAPA STAFF

Trey Acteson, Chief Executive Officer
Clay Hammer, Operations Manager
Kay Key, Controller
Edward Schofield, Power System Specialist
Robert Siedman, Director of Engineering and
Technical Services
Sharon Thompson, Executive Assistant and
Contracts Administrator

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Basic Financial Statements

The Southeast Alaska Power Agency
Statements of Net Position

<i>June 30,</i>	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments, including restricted cash and investments of \$2,888,048 and \$2,883,058 at June 30, 2019 and 2018, respectively	\$ 14,999,383	\$ 19,142,434
Accounts receivable	1,123,929	833,956
Grants receivable	-	60,592
Accrued interest receivable	48,219	31,327
Inventory	1,546,665	1,057,655
Prepaid expenses	300,337	312,606
Total Current Assets	18,018,533	21,438,570
Noncurrent Assets		
Cash and investments, unrestricted	8,141,489	6,438,781
Deferred charges	11,079	-
Capital assets, net	130,994,881	134,078,720
Total Noncurrent Assets	139,147,449	140,517,501
Deferred Outflows of Resources - loss on refunding	111,609	110,507
Total Assets and Deferred Outflows of Resources	\$ 157,277,591	\$ 162,066,578
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,223,902	\$ 935,503
Rebate payable to members	-	800,000
Accrued interest payable	73,144	63,158
Current portion of other long-term liabilities	78,188	74,108
Current portion of long-term debt	770,000	830,000
Total Current Liabilities	2,145,234	2,702,769
Noncurrent Liabilities		
Other long-term liabilities, net of current portion	1,389,054	1,419,854
Long-term debt, net of current portion	13,770,000	15,055,000
Bond issue premium, net	1,161,775	797,484
Total Noncurrent Liabilities	16,320,829	17,272,338
Total Liabilities	18,466,063	19,975,107
Net Position		
Net investment in capital assets	115,404,715	117,506,743
Restricted for debt service	1,469,349	1,587,894
Restricted by agreements with external parties	1,203,349	1,108,568
Unrestricted	20,734,115	21,888,266
Total Net Position	138,811,528	142,091,471
Total Liabilities and Net Position	\$ 157,277,591	\$ 162,066,578

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency
Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2019	2018
Operating Revenues		
Revenue from power sales	\$ 8,499,952	\$ 12,239,368
Rate rebate	-	(800,000)
Net Operating Revenues	8,499,952	11,439,368
Operating Expenses		
Operating and maintenance	3,959,218	3,467,129
General and administrative	2,580,831	2,910,967
Depreciation expense	4,829,220	4,775,039
Total Operating Expenses	11,369,269	11,153,135
Operating income (loss)	(2,869,317)	286,233
Nonoperating Revenues (Expenses)		
Investment income	370,392	49,767
Grant revenue	62,614	282,099
Grant expenses	(83,351)	(282,099)
Interest expense	(735,522)	(724,552)
Bond issuance expense	(69,665)	-
Other income (expense)	44,906	(111,860)
Net Nonoperating Expenses	(410,626)	(786,645)
Change in net position	(3,279,943)	(500,412)
Net Position, beginning of year	142,091,471	142,591,883
Net Position, end of year	\$ 138,811,528	\$ 142,091,471

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows

Years Ended June 30,	2019	2018
Cash Flows from Operating Activities		
Receipts from customers	\$ 8,209,979	\$ 12,628,424
Payment of rate rebate	(800,000)	(2,700,000)
Payments to suppliers and employees	(6,766,190)	(5,901,515)
Other miscellaneous receipts and disbursements	44,906	(111,860)
Net cash flows from operating activities	688,695	3,915,049
Cash Flows from (for) Noncapital and Related Financing Activities		
Grant and contract receipts	123,206	250,790
Grant and contract expenses	(83,351)	(282,099)
Net cash flows from (for) noncapital and related financing activities	39,855	(31,309)
Cash Flows for Capital and Related Financing Activities		
Purchase of capital assets	(1,745,381)	(2,412,473)
Interest payments on long-term debt	(725,536)	(789,894)
Proceeds from issuance of refunding bonds	4,643,863	-
Payments from issuance of bonds	(69,665)	-
Payment to bond refunding escrow agent	(5,625,674)	-
Principal payments on long-term debt	-	(800,000)
Net cash flows for capital and related financing activities	(3,522,393)	(4,002,367)
Cash Flows from Investing Activities		
Investment income received	353,500	41,349
Net decrease in cash and cash equivalents	(2,440,343)	(77,278)
Cash and Investments, beginning of year	25,581,215	25,658,493
Cash and Investments, end of year	\$ 23,140,872	\$ 25,581,215

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows, continued

Years Ended June 30,	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities		
Operating income (loss)	\$ (2,869,317)	\$ 286,233
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	4,829,220	4,775,039
Other income (expense)	44,906	(111,860)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Inventory	(489,010)	97,432
Prepaid expenses	12,269	(86,470)
Accounts receivable	(289,973)	389,056
Deferred charges	(11,079)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	288,399	314,658
Rebate payable to members	(800,000)	(1,900,000)
Other long-term liabilities	(26,720)	150,961
Net Cash Flows From Operating Activities	\$ 688,695	\$ 3,915,049
Reconciliation of Ending Cash and Investments to Statements of Net Position		
Cash and investments, current	\$ 14,999,383	\$ 19,142,434
Cash and investments, noncurrent	8,141,489	6,438,781
Cash and Investments, end of year	\$ 23,140,872	\$ 25,581,215

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements Years Ended June 30, 2019 and 2018

1. Organization and Operations

The Southeast Alaska Power Agency (the Agency) is a joint action agency of the State of Alaska and was created pursuant to Alaska Statutes Section 42.45.300. The Agency (formerly known as The Four Dam Pool Power Agency (FDPPA) was established in 2001 to take over ownership from the State (the Alaska Energy Authority) of the Terror Lake, Solomon Gulch, Tyee Lake, and Swan Lake hydroelectric projects. This transaction was completed on January 31, 2002. On February 24, 2009, the Agency completed a restructuring, whereby the Terror Lake and Solomon Gulch projects were transferred to Kodiak Electric Association and Copper Valley Electric Association, respectively. Effective with this transfer, the name of the Agency was changed to The Southeast Alaska Power Agency (SEAPA).

The member cities (Ketchikan, Wrangell, and Petersburg) and utilities purchase power from the Agency at the same wholesale power rate. Ketchikan Public Utilities, serving the Ketchikan area, operates Swan Lake pursuant to an operating agreement.

The current bylaws that govern SEAPA provide for a total of five board members that are selected from each of the communities being served by the projects. Two board members are appointed by Ketchikan, one each from Wrangell and Petersburg, and a fifth board member that rotates annually between each of the projects (Swan Lake and Tyee Lake).

SEAPA is an independent agency of the State. SEAPA has the ability to finance its own projects. This independence was proven during the restructuring, completed in 2009, where SEAPA was able to sell its own bonds, secured by the power sales agreement between SEAPA and Ketchikan, Wrangell and Petersburg.

2. Summary of Significant Accounting Policies

The Agency is a joint action agency under the authority of AS 42.45.300-320, of which all the members are governments. Therefore, the Agency is treated as a special purpose government and financial reporting is in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The financial activities of the Agency are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when goods or services are received or the related liability is incurred.

Cash and Investments

For the purpose of the statements of cash flows, cash consists of cash, money market funds, and short-term commercial paper, whether unrestricted or restricted.

The Agency's investments are recorded at fair value in the financial statements. Unrealized gains and losses are included in earnings and are reported as investment income (loss).

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Restricted Assets

As described in Note 3, assets that are restricted for specific uses by bond indentures or other requirements are classified as restricted assets. When both restricted and unrestricted assets are available for use, it is the Agency's policy to use restricted assets first, then unrestricted assets, as they are required.

Inventory

Inventory of parts and supplies is valued at cost using the specific identification method.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

The Agency's capital assets are recorded at cost and depreciation is charged to operations by use of the straight-line method over their estimated useful lives. Repairs and maintenance charges are expensed as incurred.

The estimated useful lives of the capital assets are as follows:

<i>Capital assets</i>	Years
Structures	15 - 50
Infrastructure	5 - 50
Generation and distribution	5 - 35
Furniture, fixtures, and other	3 - 15

Revenue Recognition

The primary source of the Agency's revenue is from power sales to the Agency's member utilities (the Purchasers). Revenue is recognized on the accrual basis and is recorded monthly, based on the kilowatt-hours (kWh) used by the members as operating revenue.

The Purchasers purchase power from SEAPA pursuant to conditions of the Power Sales Agreement, adopted at the close of Restructuring on February 24, 2009. The SEAPA Board of Directors sets the wholesale power rate annually. The wholesale power rate for the years ended June 30, 2019 and 2018 was set at 6.8 cents per kWh. The member utilities only pay for the amount of power used.

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

The Purchasers buy power from the Agency at the same wholesale power rate. Rebates are given at the Board's discretion based on operating results. The following is the percentage of volume sold to each Purchaser for the years ended June 30:

	2019	2018
Ketchikan Public Utilities	54%	53%
Petersburg Municipal Light and Power	25%	25%
Wrangell Municipal Light and Power	21%	22%
	100%	100%

Contract revenue, grant revenue, and investment income are recognized when earned.

Employee Benefits

Operating and maintenance personnel at Swan Lake are employees of the City of Ketchikan. All salaries and employee benefits for these employees, including compensated absences, health care, other insurance, and pension benefits, are paid by the City of Ketchikan and reimbursed by the Agency.

Risk Management

The Agency is exposed to various risks of loss related to: torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which it carries commercial insurance, subject to standard deductibles and limitations. Loss that is not covered by insurance, both in the form of uninsured property (transmission lines) and various insurance deductibles and self-insured retentions, are funded by the internal Self-Insured Risk Fund. No settlements have occurred which exceeded its commercial deductible limits.

Environmental Issues

The Agency's policy relating to environmental issues is to record a liability when the likelihood of responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2019 and 2018, there were no environmental issues that met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory or any political subdivision thereof, which is derived from the exercise of any essential governmental function.

Estimates

In preparing the financial statements, management of the Agency is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net position and revenues and expenses for the period. Actual results could differ from those estimates.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Grants

The Agency recognizes grant revenue when all applicable eligibility requirements, including time requirements, are met.

3. Cash and Investments

At June 30, 2019 and 2018, the Agency had the following cash and investments:

	2019	2018
Money market	\$ 2,885,250	\$ 2,877,440
Demand deposits	11,967,509	14,706,793
U.S. government agencies	149,414	146,647
U.S. government bonds	7,184,164	6,890,573
Corporate bonds	932,901	938,135
Certificates of deposit	21,634	21,627
Total Cash and Investments	\$ 23,140,872	\$ 25,581,215

Restrictions and Designated Funds

All revenues, including revenue received from the utilities for the purchase of power pursuant to the Long Term Power Sales Agreement, are deposited into the Revenue Fund. The Revenue Fund is held by the Agency. The Revenue and Replacement (R&R) Fund is also an Agency-held fund. The R&R Fund is used to fund renewal and replacement projects, and the bond indenture requires that the account balance in this fund shall never be less than \$1,000,000.

The Agency established a Self-Insured Risk Fund, which is an investment fund to cover SEAPA's uninsured transmission lines, insurance deductibles and operational costs in the event of a catastrophic event. This fund was established by the Board and is based upon a risk assessment performed in 2014.

The Agency may also establish and hold a Rate Stabilization Fund and may at any time, from time to time, as determined by the Agency, deposit available revenues in the Rate Stabilization Fund.

The Agency has also established a Commercial Account from which all payments and obligations are paid.

The Bond Fund, consisting of the Interest Account and the Principal Account (for both the 2019 and 2015 bonds), is held by the Trustee. The Bond Reserve Fund is also held by the Trustee and is required to be maintained at all times at not less than the Bond Reserve Requirement.

The Reclamation Contingency Fund is an Agency-held, restricted fund, used to satisfy certain conditions of the lease and easement agreements between the Agency and the Department of Natural Resources (DNR). The FDPPA (pre-restructured) is required to deposit \$75,000 annually into this fund, half of which is contributed by Copper Valley Electric Association and Kodiak Electric Association. DNR and the Agency have been in discussions to amend this agreement to reflect the change in ownership of the projects.

All restricted funds are kept in current cash and investment accounts.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

The cash and investments were held in accounts for the following activities as of June 30, 2019 and 2018:

	2019	2018
Unrestricted:		
Internal renewal and replacement fund	\$ 1,000,610	\$ 1,000,610
Dedicated renewal and replacement fund	5,698,762	4,890,354
Revenue fund	1,372,744	6,915,524
Self-insured risk fund	8,285,313	7,991,364
Commercial checking account	1,001	1,089
New generation fund	1,893,273	1,899,216
Rate stabilization fund	2,001,121	-
Total unrestricted	20,252,824	22,698,157
Restricted:		
Reclamation contingency fund	1,181,715	1,086,941
2009 Trust series bond interest	-	23,279
2009 Trust series bond principal	-	73,116
2009 Trust series bond reserve	-	1,422,552
2015 Trust series bond interest	55,482	40,867
2015 Trust series bond principal	203,981	214,676
2019 Series bond COI fund	5,669	-
2019 Series bond interest fund	41,214	-
2019 Series bond principal fund	128,333	-
2019 Series bond reserve fund	1,250,019	-
STI-USFS CD	21,635	21,627
Total restricted	2,888,048	2,883,058
Total Cash And Investments	\$ 23,140,872	\$ 25,581,215

Investment Securities

General - Investment Policies, Portfolio Information, and Restrictions

The Agency's investments are governed by the terms of the Agency's Investment Policy. The Agency's cash and investments are either governed by long-term debt agreements or the Agency's Investment Policy. The Investment Policy for Agency-held funds was amended and adopted by the Board of Directors in June 2009. The following Agency-held securities are eligible for investment under the Investment Policy:

1. Obligations of, or obligations insured or guaranteed by, the United States;
2. Obligations of United States agencies or instrumentalities;
3. Corporate debt securities with a minimum rating of "A" or the equivalent by a nationally recognized rating organization;

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

4. United States Agency mortgage-backed securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or Government National Mortgage Association;
5. Uncollateralized deposits at banks, to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC);
6. Prime commercial paper bearing the highest rating of a nationally recognized rating organization; and
7. Money market mutual funds, whose portfolios consist entirely of instruments specified in 1 and 2 above and who meet the definition of SEC 2a-7 money-market fund.

Investments shall be diversified to minimize the risk of loss resulting from over concentration of investments in a specific issuer, maturity, or class of security. At the time of purchase, corporate securities may not exceed 25% of the market value of the total portfolio. With the exception of U.S. Agency mortgage-backed securities, no security may have a final maturity greater than five years. To further control interest rate risk, the overall duration of the portfolio may not exceed 120% of the Barclays 1-3 Year Governmental Index.

Should any security be downgraded below Investment Grade (BAA or equivalent) by a nationally recognized rating organization, the security will be sold in an orderly manner within 90 days of such downgrade. The following Trustee-held securities are eligible for investment under the Bond Indenture of Trust:

1. Obligations of the United States or of an agency or instrumentality of the United States;
2. Repurchase and reverse repurchase agreements secured by the Treasury of the United States or obligations of an agency or instrumentality of the United States; certificates of deposit, bankers' acceptances, and other similar obligations of a bank domiciled in the United States that has on the date of purchase:
 - Outstanding debt rated Aa or AA or higher by at least one of the nationally recognized rating services, including dollar-denominated obligations issued by a United States branch of a foreign bank, if the debt of the parent is rated A or higher; and
 - A combined capital and surplus aggregating at least \$500,000,000;
3. Commercial paper and other short-term taxable instruments that maintain the highest rating by at least two nationally recognized rating services on the date of purchase;
4. Obligations of a corporation domiciled in the United States or obligations of a municipality, if the obligations are rated on the date of purchase Aa or AA or higher by at least two nationally recognized rating services;
5. Certificates of deposit issued by a state or federally chartered financial institution that is a commercial or mutual bank, savings and loan association, or credit union, but only if, and to the extent, the institution's accounts are insured through the appropriate federal insuring agency of the United States;
6. Money market funds in which the securities of the fund consist of obligations listed above; and

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

7. Any other investment permitted under the Issuer's investment policy, as amended, from time to time in writing, which will not adversely affect the ratings of the Outstanding Bond.

Provided that it is expressly understood that the definition of Permitted Investments shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to this Indenture by a Supplemental Indenture, thus permitting investments with different characteristics from those permitted above, which the Issuer deems from time to time to be in the interest of the Issuer to include as Permitted Investments, if at the time of inclusion such inclusion will not, in and of itself, adversely affect the rating on the Outstanding Bonds.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of the investment's fair value to changes in the market interest rates.

Investment maturities at June 30 are as follows:

Investment Type	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1-5
<i>June 30, 2019</i>			
U.S. government bonds	\$ 7,184,164	\$ -	\$ 7,184,164
US agency obligations	149,414	-	149,414
Corporate bonds	932,901	124,990	807,911
Total investments	8,266,479	124,990	8,141,489
Cash and cash equivalents:			
Certificates of deposit	21,634	21,634	-
Money market	2,885,250	2,885,250	-
Demand deposits	11,967,509	11,967,509	-
Total	\$ 23,140,872	\$ 14,999,383	\$ 8,141,489
<i>June 30, 2018</i>			
U.S. government bonds	\$ 6,890,573	\$ 1,536,574	\$ 5,353,999
US agency obligations	146,647	-	146,647
Corporate bonds	938,135	-	443,474
Total investments	7,975,355	1,536,574	6,438,781
Cash and cash equivalents:			
Certificates of deposit	21,627	21,627	-
Money market	2,877,440	2,877,440	-
Demand deposits	14,706,793	14,706,793	-
Total	\$ 25,581,215	\$ 19,142,434	\$ 6,438,781

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The credit quality ratings of the Agency's investments as of June 30, 2019 and 2018, as described by nationally recognized statistical rating organizations, are shown below (using Standard & Poor's Corporation rating scale unless otherwise noted):

Investment Type	Rating	Percent of Total	
		2019	2018
U.S. government bonds	AAA	86.9%	86.4%
U.S. government agencies	AA	1.8%	1.8%
Corporate bonds	AA	1.5%	1.5%
Corporate bonds	AA-	1.2%	1.6%
Corporate bonds	A	0.0%	4.3%
Corporate bonds	A-	5.5%	2.8%
Corporate bonds	BBB+	1.6%	1.6%
Corporate bonds	Not rated	1.5%	0.0%
Total		100.0%	100.0%

Custodial Credit Risk

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Agency has not established a formal policy for custodial credit risk over its investments. However, the Agency has a custodial agreement in place with their primary banking institution. At June 30, 2019 and 2018, the Agency had no uncollateralized or uninsured bank deposits. The Agency also has money market fund investments it considers to be cash which are not included in the evaluation of bank deposits. These funds are AAA rated and have no restrictions.

Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. None of SEAPA's investments (other than those issued or guaranteed by the U.S. government) represent more than 5% of total investments.

The Agency's investments included the following concentrations greater than 5%:

Year ended June 30,	2019		2018	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
U.S. government bonds and agency securities	\$ 7,333,578	88.71%	\$ 7,037,220	88.24%
Corporate bonds	932,900	11.29%	938,134	11.76%

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Fair Value Measurement

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Agency has the following recurring fair value measurements as of June 30, 2019 and 2018:

- U.S. government agency securities of \$149,414 and \$146,647 as of June 30, 2019 and 2018, respectively, are valued using information for market sources, integrated relative credit information, observed market movements, and sector news into the evaluated pricing applications and models (Level 2 inputs)
- U.S. government and corporate bonds of \$8,117,064 and \$7,828,708 as of June 30, 2019 and 2018, respectively, are valued using information for market sources, integrated relative credit information, observed market movements, and sector news into the evaluated pricing applications and models (Level 2 inputs)

The Agency has investments in money market funds and certificates of deposits totaling \$2,906,884 and \$2,899,067 as of June 30, 2019 and 2018, respectively that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2019. Management believes that these values approximate fair value.

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

4. Capital Assets

The components of the Agency's capital assets at June 30, 2019 and 2018 are as follows:

	2019	2018
Tyee Lake	\$ 32,423,968	\$ 31,788,787
Swan Lake	32,097,950	31,607,811
Swan-Tyee Intertie	114,974,348	114,858,010
SEAPA office - SCADA	1,288,401	784,678
Leasehold improvements	90,933	90,933
	180,875,600	179,130,219
Less accumulated depreciation	(49,880,719)	(45,051,499)
Total Capital Assets, Net of Accumulated Depreciation	\$ 130,994,881	\$ 134,078,720

Capital asset activity for the Agency for the year ended June 30, 2019 follows:

	Balance at June 30, 2018	Additions	Transfers and Deletions	Balance at June 30, 2019
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 408,667	\$ 488,914	\$ (720,803)	\$ 176,778
Swan-Tyee construction in progress	11,096	635,782	(603,209)	43,669
Other construction in progress	-	145,732	(145,732)	-
Land	-	474,953	-	474,953
Total capital assets not being depreciated	419,763	1,745,381	(1,469,744)	695,400
Capital assets being depreciated:				
Structures	22,054,993	545,517	-	22,600,510
Infrastructure	9,529,164	602,285	-	10,131,449
Generation and distribution	145,314,050	288,286	-	145,602,336
Furniture, fixtures and other	1,721,317	33,656	-	1,754,973
Leasehold improvements	90,932	-	-	90,932
Total capital assets being depreciated	178,710,456	1,469,744	-	180,180,200
Less accumulated depreciation:				
Structures	(6,261,617)	(676,991)	-	(6,938,608)
Infrastructure	(1,652,607)	(351,511)	-	(2,004,118)
Generation and distribution	(36,361,044)	(3,694,308)	-	(40,055,352)
Furniture, fixtures and other	(755,132)	(102,812)	-	(857,944)
Leasehold improvements	(21,099)	(3,598)	-	(24,697)
Total accumulated depreciation	(45,051,499)	(4,829,220)	-	(49,880,719)
Capital assets being depreciated, net	133,658,957	(3,359,475)	-	130,299,481
Total Capital Assets, net	\$ 134,078,720	\$ (1,614,095)	\$ (1,469,744)	\$ 130,994,881

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Capital asset activity for the Agency for the year ended June 30, 2018 follows:

	Balance at June 30, 2017	Additions	Transfers and Deletions	Balance at June 30, 2018
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 5,589	\$ 1,026,867	\$ (623,789)	\$ 408,667
Swan-Tyee construction in progress	476,175	1,257,103	(1,722,182)	11,096
SCADA construction in progress	-	62,571	(62,571)	-
Tyee Lake construction in progress	-	65,932	(65,932)	-
Total capital assets not being depreciated	481,764	2,412,473	(2,474,474)	419,763
Capital assets being depreciated:				
Structures	21,835,108	219,885	-	22,054,993
Infrastructure	9,007,264	521,900	-	9,529,164
Generation and distribution	143,781,685	1,532,365	-	145,314,050
Furniture, fixtures and other	1,624,928	134,392	(38,003)	1,721,317
Leasehold improvements	25,000	65,932	-	90,932
Total capital assets being depreciated	176,273,985	2,474,474	(38,003)	178,710,456
Less accumulated depreciation:				
Structures	(5,626,647)	(634,970)	-	(6,261,617)
Infrastructure	(1,321,535)	(331,072)	-	(1,652,607)
Generation and distribution	(32,652,847)	(3,708,197)	-	(36,361,044)
Furniture, fixtures and other	(695,934)	(97,201)	38,003	(755,132)
Leasehold improvements	(17,500)	(3,599)	-	(21,099)
Total accumulated depreciation	(40,314,463)	(4,775,039)	38,003	(45,051,499)
Capital assets being depreciated, net	135,959,522	(2,300,565)	-	133,658,957
Total Capital Assets, net	\$ 136,441,286	\$ 111,908	\$ (2,474,474)	\$ 134,078,720

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

5. Other Long-term Liabilities

In 2015, the Agency assumed operations of the Tye facility from the City and Borough of Wrangell and the Petersburg Borough. As part of the transition of the operations, the Agency assumed long-term liabilities related to long-term employee benefit payments to the State of Alaska Public Employees' Retirement System (PERS). While the Agency is not an employer in PERS itself, the Agency has assumed responsibility for the payments of retirement benefits for certain former employees as part of the transaction.

The Reclamation Contingency liability was established as part of the conditions of the lease and easement agreements between the Agency and the Department of Natural Resources (DNR). An annual deposit of \$75,000 is required to be added to a cash reserve, half of which is contributed by Copper Valley Electric Association and Kodiak Electric Association. The liability carried at SEAPA represents the portion of the contributions received into this fund from Copper Valley Electric Association and Kodiak Electric Association, and would be used to cover eligible costs at those companies. DNR and the Agency have held discussions to investigate the option of each project owner individually covering the cost of reclamation of their projects, possibly with a reclamation bond in lieu of the annual payment. In 2018, SEAPA conducted a full review of the balances in the reclamation liability back to the original establishment of the fund in 2002. It was determined that certain balances associated with the restructuring of FDPPA in 2009 would be reallocated to the other companies, and an additional accrual of \$166,471 was made to the liability to reflect this change in estimate. This is included in other expense on the financial statements.

The following reflects the changes in other long-term liabilities for the year ended June 30, 2019:

	Balance at June 30, 2018			Balance at June 30, 2019		
		Additions	Reductions		Due Within One Year	
PERS Unfunded Liability	\$ 950,492	\$ -	\$ 74,108	\$ 876,384	\$ 78,188	
DNR Reclamation	543,470	47,387	-	590,858	-	
Total Other Long-Term Liabilities	\$ 1,493,962	\$ 47,387	\$ 74,108	\$ 1,467,242	\$ 78,188	

The following reflects the changes in other long-term liabilities for the year ended June 30, 2018:

	Balance at June 30, 2017			Balance at June 30, 2018		
		Additions	Reductions		Due Within One Year	
PERS Unfunded Liability	\$ 1,005,501	\$ -	\$ 55,009	\$ 950,492	\$ 74,108	
DNR Reclamation	337,500	205,970	-	543,470	-	
Total Other Long-Term Liabilities	\$ 1,343,001	\$ 205,970	\$ 55,009	\$ 1,493,962	\$ 74,108	

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

6. Long-term Debt

In May 2019, previously issued and outstanding Series 2009 bonds were advance refunded, and the Agency issued \$4.245 million in Series 2019 (Tax-Exempt) electric revenue refunding bonds. Interest is payable on these bonds on May 1 and November 1, commencing November 1, 2019 at an interest rate of 5.00%. The refunding also resulted in a bond issue premium of approximately \$398,863 that is being amortized over the life of the bonds. The remaining Series 2009 bonds were defeased by placing a portion of the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds.

Because the refunded bonds were fully paid to bondholders in June 2019, there are no resulting assets held by the escrow agent. The refunding resulted in an economic gain of \$595,740 and a net cash flow savings of \$325,868. A loss on refunding of \$111,609 was recorded as a deferred outflow of resources and is being amortized to interest expense over the life of the original bonds.

In addition, the Agency issued general obligation bonds, Series 2015, denominations of \$5,000, dated May 6, 2015, total issue of \$10,295,000. The bond proceeds were used to pay for capital improvements, provide for current refunding of a portion of the Series 2009 Bonds, fund the Bond Reserve Requirement, and pay the cost of issuing the Series 2015 Bonds. Interest rates range from 3.875% to 5.250%; principal payments commence in 2025. The bonds mature June 1, 2033.

Annual debt service requirements as of June 30, 2019 follow:

Year Ending June 30,	Series 2019		Series 2015		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2020	\$ 770,000	\$ 211,411	\$ -	\$ 487,688	\$ 770,000	\$ 699,099	\$ 1,469,099
2021	805,000	173,500	-	487,688	805,000	661,188	1,466,188
2022	845,000	133,250	-	487,688	845,000	620,938	1,465,938
2023	890,000	91,000	-	487,688	890,000	578,688	1,468,688
2024	935,000	46,500	-	487,688	935,000	534,188	1,469,188
2025-2029	-	-	5,285,000	1,904,776	5,285,000	1,904,776	7,189,776
2030-2033	-	-	5,010,000	511,701	5,010,000	511,701	5,521,701
	\$ 4,245,000	\$ 655,661	\$ 10,295,000	\$ 4,854,917	\$ 14,540,000	\$ 5,510,578	\$ 20,050,578

The following reflects the changes in long-term debt for the year ended June 30, 2019:

	Balance at June 30, 2018	Additions	Reductions	Balance at June 30, 2019	Due Within One Year
Series 2019 Bonds	-	\$ 4,245,000	\$ -	\$ 4,245,000	\$ 770,000
Series 2015 Bonds	\$ 10,295,000	-	-	10,295,000	-
Series 2009 Bonds	5,590,000	-	(5,590,000)	-	-
Total	\$ 15,885,000	\$ 4,245,000	\$ (5,590,000)	14,540,000	\$ 770,000

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

The following reflects the changes in long-term debt for the year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018	Due Within One Year
Series 2015 Bonds	\$ 10,295,000	\$ -	\$ -	\$ 10,295,000	\$ -
Series 2009 Bonds	6,390,000	-	(800,000)	5,590,000	830,000
Total	\$ 16,685,000	\$ -	\$ (800,000)	\$ 15,885,000	\$ 830,000

Bond premiums and discounts as of June 30, 2019 and 2018 are as follows:

	2019	2018
Premium	\$ 1,391,596	\$ 991,049
Discount	-	(53,880)
Total	1,391,596	937,169
Less accumulated amortization	(220,233)	(139,685)
Net Premium (Discount)	\$ 1,171,363	\$ 797,484

The Agency recorded \$31,256 and \$51,035 as amortization to interest expense for the years ended June 30, 2019 and 2018, respectively.

7. Operating Lease

The Agency entered into a three-year lease agreement for office space in Ketchikan, Alaska in February 2012, which was a transfer from the previous lease with a five-year period. The Agency has the right to renew the lease for two consecutive five-year periods and exercised the first option effective January 2015. In September of 2019, the Agency elected to renew the lease for an additional 2 years effective January 16, 2019.

Under the terms of this lease, the Agency is obligated to pay the following amounts in future years:

Year Ended June 30,	
2019	\$ 60,184
2021	61,872
2022	34,009
2023	-
2024	-
Total	\$ 118,680

During 2019 and 2018, the Agency expensed \$58,496 and \$56,809, respectively, under non-cancelable lease obligations.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

The Agency also holds a month-to-month lease for apartment space. Effective April 1, 2017, the monthly rent increased from \$1,475 to \$1,525. Rent expense for the years ended June 30, 2019 and 2018 each totaled \$18,300.

8. Employee Benefits

Union Agreements

The Agency entered into a union agreement with the International Brotherhood of Electrical Workers (IBEW) that became effective July 1, 2018 and will expire June 30, 2022. This agreement has distinct insurance and retirement programs and covers employees of the office in Wrangell, Alaska and the Tyee-Hydroelectric Facility, excluding managerial and administrative employees.

Defined Benefit Pension Plans

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) and Alaska Electrical Trust Fund retirement programs. Both plans are master multi-employer defined benefit plans qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

NRECA Retirement Security Plan Information

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

SEAPA's contributions to the RS Plan in 2019 and in 2018 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. SEAPA made contributions to the RS Plan of \$274,519 in 2019 and \$267,892 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2017 and January 1, 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the Plan and may change as a result of plan experience.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Alaska Electrical Pension Plan Information

The Alaska Electrical Pension Plan sponsor's Employer Identification Number is 92-6005171 and the Plan Number is 001. The Association's contributions to the Plan in 2019 and in 2018 represented less than 5% of the total contributions made to the Plan by all participating employers. SEAPA made contributions to the Plan of \$77,678 in 2019 and \$86,859 in 2018. There have been no significant changes that affect the comparability of 2019 and 2018 contributions. The collective bargaining agreement in place related to this Plan expired in June 2018, and employees are currently working under the expired agreement.

In total, the Alaska Electrical Pension Plan was more than 80% funded at December 31, 2017 and 2016 as certified by the Plan actuary. The Plan is not subject to funding improvement plans or rehabilitation plans and as a result, the Association is not subject to contribution surcharges. There are no minimum funding commitments as negotiated contributions currently satisfy SEAPA's commitment towards meeting the annual minimum funding requirement for the Alaska Electrical Pension Plan. Future contribution requirements are determined each year as part of the actuarial valuation of the Plan and may change as a result of plan experience.

9. Commitments and Contingencies

During the normal course of business, the Agency may be subject to various claims and disputes related to the conduct of its business. Management believes the resolution of these matters will not have a material effect on financial position, results of operations, or cash flows.

10. Rate Stabilization

The Agency established a Rate Stabilization Fund in 2019, transferring \$2 million as an initial deposit into a separate investment account. Funds are intended to improve SEAPA's long-term fiscal health by reserving a portion of excess revenues. Proceeds may be used to minimize the impact on future rates of an unforeseen extraordinary expenditure, or to ensure bond covenant compliance is maintained.

11. Upcoming GASB Pronouncements

GASB 84 - *Fiduciary Activities* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses criteria for identifying and reporting fiduciary activities.

GASB 87 - *Leases* - Effective for year-end June 30, 2021, with earlier application encouraged - This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses note disclosures related to debt, clarifies which liabilities to include when disclosing information related to debt, and defines debt for the purpose of disclosure. It requires additional essential information related to debt be disclosed in the notes, as well as information for direct borrowings and direct placements.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period* - Effective for year-end June 30, 2021, with earlier application encouraged - This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* - Effective for year-end June 30, 2019, with earlier application encouraged - This statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

Required Supplementary Information

The Southeast Alaska Power Agency
National Rural Electric Cooperative Association (NRECA)
Schedule of Contributions

<i>Year Ended June 30,</i>	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 274,519	\$ 274,519	\$ -	\$ 868,855	32%
2018	267,892	267,892	-	915,321	29%
2017	271,275	271,275	-	905,489	30%
2016	272,999	272,999	-	839,014	33%
2015	221,899	221,899	-	781,056	28%
2014	210,410	210,410	-	661,818	32%
2013	155,947	155,947	-	574,652	27%
2012	108,369	108,369	-	498,346	22%
2011	99,132	99,132	-	424,912	23%
2010	100,824	100,824	-	437,724	23%

See accompanying notes to Required Supplementary Information.

The Southeast Alaska Power Agency
Alaska Electrical Pension Plan
Schedule of Contributions

<i>Year Ended June 30,</i>	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 77,678	\$ 137,668	\$ -	\$ 625,764	22.00%
2018	86,859	182,846	-	831,118	22.00%
2017	75,425	169,076	-	768,526	22.00%
2016	73,698	177,076	-	804,889	22.00%
2015	57,945	218,306	-	992,299	22.00%
2014	*	*	-	*	*
2013	*	*	-	*	*
2012	*	*	-	*	*
2011	*	*	-	*	*
2010	*	*	-	*	*

* Employees covered by AEPP were first hired in FY2015.

See accompanying notes to Required Supplementary Information.

The Southeast Alaska Power Agency
Notes to Required Supplementary Information
Years Ended June 30, 2019 and 2018

1. National Rural Electric Cooperative Association (NRECA)

Schedule of Contributions

- This table is based on SEAPA's contributions based on SEAPA's fiscal year. All contributions are recognized in expense/expenditures when paid. There is no net pension liability associated with this plan at this time.

2. Alaska Electrical Pension Plan

Schedule of Contributions

- This table is based on SEAPA's contributions based on SEAPA's fiscal year. All contributions are recognized in expense/expenditures when paid. There is no net pension liability associated with this plan at this time.

Government Auditing Standards Reports



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors
The Southeast Alaska Power Agency
Ketchikan, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Southeast Alaska Power Agency as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Southeast Alaska Power Agency's basic financial statements, and have issued our report thereon dated December 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered The Southeast Alaska Power Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Southeast Alaska Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of The Southeast Alaska Power Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Southeast Alaska Power Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Southeast Alaska Power Agency internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
December 19, 2019

The Southeast Alaska Power Agency

Schedule of Findings and Responses Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes

no

Significant deficiency(ies) identified?

yes

(none reported)

Noncompliance material to financial statements noted?

yes

no

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements which are required to be reported in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.