



The Southeast Alaska Power Agency

Financial Statements, Supplementary
Information, and Single Audit Reports
For the Years Ended June 30, 2016 and 2015

The Southeast Alaska Power Agency

Financial Statements, Supplementary Information,
and Single Audit Reports

For the Years Ended June 30, 2016 and 2015

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, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenue, expenses, and changes in net position 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 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, 2016 and 2015, 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 6 through 13 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state financial assistance, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016 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, 2016

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Management's Discussion and Analysis

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

This presentation and analysis is intended to serve as an introduction to and discussion of the June 30, 2016 and 2015 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

- The Agency's assets exceeded liabilities at June 30, 2016 by \$142,657,411. SEAPA's net position increased \$1,778,025 over the year ended June 30, 2015.
- The wholesale power rate was maintained at 6.8 cents/kWh in fiscal year 2016, a rate that has held steady for 19 consecutive years and was approved again for fiscal year 2017.
- Power sales in FY2016 were steady, with an increase of \$537,000 over the previous fiscal year.
- A rebate totaling \$800,000 was approved for fiscal year 2016. The rebate was approved by the Board at the end of the fiscal year and is recorded as an offset to power sales. Payment of the rebate takes place prior to the calendar year-end, contingent upon successful completion of a financial audit, compliance with the bond indenture and the condition that no catastrophic events occur.
- In fiscal year 2015, the State of Alaska legislature awarded a \$3.32M grant through the Department of Commerce, Community and Economic Development (DCCED) for the Swan Lake Hydroelectric Reservoir Expansion Project. \$2.3M of this grant was expended in FY2016 as construction activities began in earnest in May of 2016.
- Only \$108K of the \$6M Construction Fund dedicated to the Swan Lake Hydroelectric Reservoir Expansion Project was expended in FY2016 as the available grant funds were drawn down. The Construction Fund was created in FY2015 with partial proceeds of the \$10,295,000 Electric Revenue Improvement and Refunding Bonds, Series 2015.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

Financial Position

Total assets, total liabilities and total net assets at June 30, 2015, 2014 and 2013 follows:

<i>June 30,</i>	2016	2015	2014
Assets:			
Current assets	\$ 25,776,385	\$ 27,881,909	\$ 18,325,860
Capital assets	132,304,371	128,361,609	131,289,413
Noncurrent assets	6,764,800	6,878,740	7,760,143
Total Assets	\$ 164,845,556	\$ 163,122,258	\$ 157,375,416
Liabilities:			
Current liabilities	\$ 3,750,280	\$ 3,344,263	\$ 2,366,451
Noncurrent liabilities	18,437,865	18,898,609	12,569,788
Total liabilities	22,188,145	22,242,872	14,936,239
Net position			
Net investment in capital assets	114,097,678	108,718,000	117,994,625
Restricted for debt service	1,590,694	1,622,843	1,359,425
Restricted under agreements with external parties	948,891	873,886	798,875
Unrestricted	26,020,148	29,664,657	22,286,252
Total net position	142,657,411	140,879,386	142,439,177
Total Liabilities And Net Position	\$ 164,845,556	\$ 163,122,258	\$ 157,375,416

Discussion of Financial Position

Financial Position - FY2016

Total assets increased by \$1,723,298 for the year ended June 30, 2016, due to increased investments in capital assets. However, the Agency's unrestricted funds balance was lower in FY2016, primarily due to the increased expenditures from the Dedicated R&R Project Fund, from which all capital projects except the Swan Lake Reservoir Expansion Project, are financed.

Over \$2M was expended in FY2016 during the manufacture and installation phases of the multi-year helipad project. Fifty two helipads were installed on the 57-mile transmission line, known as the Swan-Tyee Intertie, which stretches between SEAPA's two remote hydro facilities through extremely rugged, mountainous terrain. This project enhances worker safety and improves accessibility to efficiently perform scheduled maintenance and expedite corrective work as needed. An additional 45 helipads will be installed in early FY2017.

Nearly \$3M was invested in the Swan Lake Reservoir Expansion project in FY2016, which included funding of \$2.3M from the FY2015 State of Alaska DCCED grant. The overall project is funded through a combination of State of Alaska DCCED grants totaling \$3.898M, \$6M from the Construction Fund established with a portion of the proceeds from SEAPA's 2015 bond issuance, and the remainder from the R&R Fund. The project was originally estimated at \$13.3M and updated cost projections show it coming in around \$11M. The Federal Energy Regulatory Commission (FERC) issued authorization to begin construction on June 3, 2016, and this project is on schedule for completion in calendar year 2016.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

SEAPA's assets still includes a \$242K receivable, created in FY2015 to record the balance of an ARECA Insurance Exchange subscriber savings account. This receivable was acquired when the operations of the Tye Lake facility were assumed by SEAPA in August 2014, and its scheduled payout in March 2018 is in accordance with ARECA's Subscriber Equity Allocation Plan.

SEAPA halted its geothermal investigation of a potential site on Bell Island in FY2016 after completing an initial surface investigation. The preliminary feasibility assessment was inconclusive and did not strongly support further expenditures, and the \$72K investment was expensed. SEAPA continues efforts to study wind energy resources near our transmission infrastructure and is working with state agencies to permit a site upon which a meteorological tower can be erected.

Current liabilities include an \$800K rebate to the municipal utilities for FY2016, payable in December 2016.

Noncurrent liabilities include \$7.16M in Series 2009 Bonds and \$10.295M in Series 2015 Bonds. Payments on the 2015 bonds are interest-only until 2025, with principal payments beginning one year after the Series 2009 bonds are scheduled to expire.

There was an increase in the PERS Unfunded Liability of from \$489K to \$1.077M in FY2016. This liability was assumed by SEAPA when the Tye Lake operations were assumed in FY2015. Because an entire department was eliminated by Wrangell during the transition, the State of Alaska ruled that the liability expanded to cover all employees, not just those who were vested in PERS at the time. (see note 5)

Total Liabilities and Net Position were \$164,845,556 for the year ended June 30, 2016 compared to \$163,122,258 for the previous year-end.

Financial Position - FY2015

Total assets increased by \$5,746,842 for the year ended June 30, 2015, primarily due to activity related to SEAPA's bond issuance of \$10,295,000 in May 2015.

FY2015 current assets include a \$6M Construction Fund for the Swan Lake Reservoir Expansion project, established with a portion of the proceeds from SEAPA's 2015 bond issuance. Combined with \$3.898M in State of Alaska DCCED grants awarded in FY2013 and FY2015, these resources are expected to fully fund the project, although final engineering, design and manufacturing bids are still pending. The Federal Energy Regulatory Commission (FERC) issued the non-capacity license amendment on August 18, 2015, and this project is on schedule for completion in calendar year 2016.

The addition of a \$242K receivable also increased assets, recording the balance of an ARECA Insurance Exchange subscriber savings account payable to SEAPA. The account was included when the operations of the Tye Lake facility were assumed by SEAPA in August 2014.

Feasibility energy projects included in FY15 assets totaled \$72K. A surface investigation was performed at a potential geothermal site located near existing transmission lines. SEAPA has also been exploring potential sites for the erection of a meteorological tower to study wind resources.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

A replacement winding, valued at \$890,405 for the Swan Lake facility, was manufactured and placed into capital inventory. The existing windings will be tested during the annual maintenance cycle, and the spare winding will allow an expedited repair when system load demand is lowest if the winding experiences a fault in the controlled test environment. Other assets in inventory include marker balls and transmission poles.

Trustee Funds increased \$227K with the establishment of a Series 2015 Bond Reserve and payments into the 2015 Series Bond Interest fund. Payments on the 2015 bonds are interest-only until 2025; principal payments begin one year after the Series 2009 bonds are scheduled to expire.

Accumulated depreciation of \$4M and the retirement of Tye SCADA assets, upgraded the prior year, contributed to the capital assets decrease of \$2.9M in FY2015. This was offset by FY2015 additions to capital including a \$157K crew boat for Swan Lake and expenditures of \$533K towards helicopter pads on the Swan-Tye Intertie, \$447K towards a new reactor in the Wrangell switchyard and \$521K towards the Swan Lake Reservoir Expansion. Work on the last three projects continues in FY2016.

Current liabilities increased as the Board issued a \$1.5M rebate for FY2015, payable in December, an increase from last year's rebate of \$864K.

Noncurrent liabilities include \$7.9M in Series 2009 Bonds and \$10.295M in Series 2015 Bonds. It also includes a PERS Unfunded Liability of \$489K that was assumed by SEAPA with the operations of Tye Lake, relieving the municipality of Wrangell of the estimated liability for which two employees qualified. (see note 5)

Total Liabilities and Net Position were \$163,122,258 for the year ended June 30, 2015 compared to \$157,375,416 for the previous year-end. Bond-related activity again accounts for the majority of activity in FY2015.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

A summary of SEAPA's 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. A \$1,000 minimum balance is maintained.

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 \$2,552,000 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. FY2015 R&R expenditures were relatively low as several projects were in the early stages of development. Most now have contracts in place and are poised for execution.

Construction Fund - This fund is dedicated to the Swan Lake Reservoir Expansion Project, which is still on schedule for completion by the end of calendar year 2016.

Subordinate Debt Fund - As outlined in the bond indenture, this fund may be established to pay subordinate debt other than bonds. The small balance in this account was transferred to the Revenue Fund in FY2015, and the account was closed.

New Generation Fund - Dedicated to funding new energy projects, monies were used in FY2016 to investigate the project feasibility of wind energy.

Self-Insured Risk Fund - This is an investment fund established as coverage for SEAPA's uninsured transmission lines and submarine cables 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.

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 required by the Alaska Department of Natural Resources. SEAPA maintains the trustee account which requires an annual deposit of \$75K, half of which is contributed by Copper Valley Electric Association and Kodiak Electric Association.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

Operations

Components of the Agency's operating revenues, operating expenses, and non-operating revenues/expenses for the years ended June 30, 2016, 2015, and 2014 are as follows:

<i>June 30,</i>	2016	2015	2014
Operating revenues - revenue from power sales	\$ 10,917,636	\$ 10,652,158	\$ 12,459,090
Displaced power sales	665,056	393,269	
Gross operating revenues	11,582,692	11,045,427	12,459,090
Rate rebate	(800,000)	(1,500,000)	(864,590)
Net operating revenues	10,782,692	9,545,427	11,594,500
Operating expenses:			
Operating and maintenance	2,914,958	3,651,180	3,438,761
General and administrative	2,838,880	2,680,009	2,373,125
Depreciation expense	4,187,221	4,070,540	4,046,332
Total operating expenses	9,941,059	10,401,729	9,858,218
Operating income	841,633	(856,302)	1,736,282
<i>June 30,</i>	2016	2015	2014
Non-operating revenues (expenses):			
Investment income	79,304	126,936	95,775
Grant revenue	2,625,913	1,532,623	1,114,047
Contract revenue	—	7,179	373,447
Grant expense	(2,625,913)	(1,532,623)	(1,114,047)
Contract expense	—	(7,179)	(373,447)
Interest expense	(838,005)	(544,865)	(665,339)
Bond issuance and refunding expense	—	(324,981)	—
Other income (expense)	(46,906)	(21,218)	103,173
Net non-operating revenues (expenses)	(805,607)	(764,128)	(466,391)
Income (loss) before capital contributions	36,575	(1,620,430)	1,269,891
Capital contributions	2,330,554	466,347	300,778
Special item - Tyee transition	(588,555)	(405,708)	
Change in net position	1,778,028	(1,559,791)	1,570,669
Net Position - beginning of year	140,879,386	142,439,177	140,868,508
Net Position - end of year	\$ 142,657,411	\$ 140,879,386	\$ 142,439,177

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

Discussion of Operations

Operations - FY2016

FY2016 gross operating revenues were \$537K higher than FY2015 as moderate weather conditions that began in FY2015 again resulted in lower demand and increased utilization of member utilities' existing hydro facilities as compared to the record-high sales of FY2014.

Displaced Power Sales increased this year as the new hydroelectric facility brought on line by Ketchikan Public Utilities in October 2014 was operational for the full fiscal year. SEAPA's 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 the new facility that could have otherwise been sold by SEAPA. Under the agreement, displaced sales are reviewed on a quarterly basis and invoiced at the end of each calendar year. FY2016 Displaced Power Sales consist of \$338K sales in calendar year 2015 and an accrual of \$327K for the first six months of 2016; this accrual is an estimate, and actual sales will be reflected in calendar year-end invoicing.

Operating expenses, excluding depreciation, decreased approximately \$580K as the bulk of annual transmission line maintenance was deferred to FY2017. The line maintenance conflicted with the need to manage water levels for construction mobilization at the Swan Lake Reservoir Expansion project, and deferring it one year helped keep the construction project on schedule.

Nonoperational activity in FY2016 included \$2.6M in grant revenues and expenses for the Swan Lake Reservoir Expansion (Alaska DCCED FY15 grant), Hydro Site Analysis (Alaska DCCED FY13 grant) and the Kake-Petersburg Intertie (AEA FY13 grant). Interest expense increased as SEAPA began paying interest only on the Series 2015 bonds, but that FY16 increase was offset by the absence of the one-time issuance costs incurred in FY15.

The \$2.33M capital contributions represents Swan Lake Reservoir Expansion capital expenditures that were paid with grant funds. The Special Item Tye Transition cost of \$588K recorded increased expenses related to the assumption of operations at Tye Lake in FY2015. (see note 8).

Operations - FY2015

FY2015 gross operating revenues were \$1.4M lower than FY2014 due to very moderate weather, resulting in lower demand and increased utilization of member utilities' existing hydro facilities.

Operating revenues included Displaced Power Sales for the first time this year. This revenue represents power generated by Ketchikan Public Utilities' new hydroelectric facility that resulted in displaced sales from SEAPA. FY2015 Displaced Power Sales consist of \$158K sales in calendar year 2014 and an accrual of \$235K for the first six months of 2015; this accrual is an estimate, and actual sales will be reflected in year-end invoicing.

Operating expenses, excluding depreciation, increased approximately \$500K and reflect increased transmission line and hydro facility maintenance and increases to insurance and professional services.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2016 and 2015

Nonoperational activity in FY2015 included grant revenues and expenses related to the Swan Lake Reservoir Expansion (Alaska DCCED FY15 grant), Hydro Site Analysis (Alaska DCCED FY13 grant) and the Kake-Petersburg Intertie (AEA FY13 grant). Refunded 2009 Bonds lowered interest expense compared to last year, and issuance costs were incurred related to the refunding and issuance of new bonds.

Capital contributions of \$466K represent Swan Lake Reservoir Expansion expenditures that were paid with grant funds. Expenses related to the assumption of operations at Tyee Lake include PERS expense offset by an insurance receivable.

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

Next year's revenues are anticipated to increase slightly year over year, with prognostic charts projecting a continuation of the current mild, wet weather pattern, with a bias beginning toward colder and dryer. Weather volatility and fluctuations in seasonal fish processing loads will remain the largest influence on revenues. The Swan lake Reservoir Expansion Project, when completed, will provide additional storage capacity that may result in additional revenues.

Depressed heating fuel prices continue to moderate space-heating conversions from oil to electric, minimizing load growth in that area. Commercial and industrial loads may see a slight increase in Ketchikan due to higher utilization of expanded facilities at the Coast Guard base, hospital and shipyard. However, implementation of energy efficiency measures will partially offset load growth. Population growth in the three member utility communities is forecast to remain flat.

Alaska's significant State budget revenue shortfall resulting from the recent decline in oil prices should not directly impact SEAPA's FY2017 budget, wholesale power rate, or revenues. However, there will likely be eventual job losses and reduced infrastructure spending in subsequent years, possibly reducing local energy demand. Additionally, if the State continues to experience large budget deficits, renewable energy and emerging technology grant funding opportunities will dry up.

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Financial Statements

The Southeast Alaska Power Agency

Statements of Net Position

June 30,	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments, including restricted cash and investments of \$2,796,397 and \$2,737,335 at June 30, 2016 and 2015, respectively	\$ 22,844,639	\$ 25,227,079
Accounts receivable	1,477,381	1,287,795
Grants receivable	287,649	145,158
Accrued interest receivable	15,699	15,398
Inventory	944,809	952,952
Prepaid expenses	206,208	253,527
Total Current Assets	25,776,385	27,881,909
Noncurrent Assets		
Cash and investments, unrestricted	6,616,938	6,710,645
Capital assets, net	132,304,371	128,361,609
Total Noncurrent Assets	138,921,309	135,072,254
Deferred Outflows of Resources - deferred loss on refunding	147,862	168,095
Total Assets and Deferred Outflows of Resources	\$ 164,845,556	\$ 163,122,258
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,887,896	\$ 831,312
Rebate payable to members	800,000	1,500,000
Accrued interest payable	68,372	73,154
Current portion of other long-term liabilities	224,012	194,797
Current portion of long-term debt	770,000	745,000
Total Current Liabilities	3,750,280	3,344,263
Noncurrent Liabilities		
Other long term liabilities, net of current portion	853,310	488,766
Long-term debt, net of current portion	16,685,000	17,455,000
Bond issue premium (discount), net	899,555	954,843
Total Noncurrent Liabilities	18,437,865	18,898,609
Total Liabilities	22,188,145	22,242,872
Net Position		
Net investment in capital assets	114,097,678	109,374,861
Restricted for debt service	1,590,694	1,622,843
Restricted by agreements with external parties	948,891	873,886
Unrestricted	26,020,148	29,007,796
Total Net Position	142,657,411	140,879,386
Total Liabilities and Net Position	\$ 164,845,556	\$ 163,122,258

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2016	2015
Operating Revenues		
Revenue from power sales	\$ 11,582,692	\$ 11,045,427
Rate rebate	(800,000)	(1,500,000)
<hr/>		
Net Operating Revenues	10,782,692	9,545,427
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Operating Expenses		
Operating and maintenance	2,914,958	3,651,180
General and administrative	2,838,880	2,680,009
Depreciation expense	4,187,221	4,070,540
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Total Operating Expenses	9,941,059	10,401,729
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Operating income (loss)	841,633	(856,302)
Nonoperating Revenues (Expenses)		
Investment income	79,304	126,936
Grant revenue	2,625,913	1,532,623
Contract revenue	-	7,179
Grant expenses	(2,625,913)	(1,532,623)
Contract expenses	-	(7,179)
Interest expense	(838,005)	(544,865)
Costs of bond issuance and refunding	-	(324,981)
Other income (expense)	(46,906)	(21,218)
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Net Nonoperating Revenues (Expenses)	(805,607)	(764,128)
<hr/>		
Income (loss) before capital contributions and special item	36,026	(1,620,430)
Capital contributions	2,330,554	466,347
Special item - Tyee transition	(588,555)	(405,708)
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Change in net position	1,778,025	(1,559,791)
Net Position, beginning of year	140,879,386	142,439,177
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Net Position, end of year	\$ 142,657,411	\$ 140,879,386

See accompanying notes to the basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows

<i>Years Ended June 30,</i>	2016	2015
Cash Flows from Operating Activities		
Receipts from customers	\$ 11,393,106	\$ 11,080,708
Payment of rate rebate	(1,500,000)	(864,590)
Payments to suppliers and employees	(5,589,143)	(6,372,174)
Other receipts	(46,906)	11,572
Net cash flows from operating activities	4,257,057	3,855,516
Cash Flows from Noncapital and Related Financing Activities		
Grant and contract receipts	152,868	1,258,366
Grant and contract expenses	(295,359)	(1,073,455)
Net cash flows from (for) noncapital and related financing activities	(142,491)	184,911
Cash Flows from Capital and Related Financing Activities		
Capital grants received	2,330,554	466,347
Interest payments on long-term debt	(877,842)	(533,551)
Principal payments on long-term debt	(745,000)	(725,000)
Proceeds from issuance of bonds	-	6,427,996
Payments for issuance costs of long-term debt	-	(324,981)
Net cash flows from (for) capital and related financing activities	707,712	3,277,686
Cash Flows from Investing Activities		
Purchase of capital assets	(7,377,428)	(2,033,125)
Investment income received	79,003	144,796
Net cash flows from (for) Investing activities	(7,298,425)	(1,888,329)
Net increase (decrease) in cash and cash equivalents	(2,476,147)	5,429,784
Cash and Investments, beginning of year	31,937,724	24,474,815
Cash and Investments, end of year	\$ 29,461,577	\$ 31,937,724

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows, Continued

Years Ended June 30,	2016	2015
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities		
Operating income (loss)	\$ 841,633	\$ (856,302)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	4,187,221	4,070,540
Other income (expense)	(46,906)	(21,218)
Special item - Tye transition costs	(194,796)	35,356
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Inventory	8,143	(54,420)
Prepaid expenses	47,319	(94,386)
Accounts receivable	(189,586)	35,281
Decrease (increase) in liabilities:		
Accounts payable and accrued expenses	304,029	105,255
Rebate payable to members	(700,000)	635,410
Net Cash Flows From Operating Activities	\$ 4,257,057	\$ 3,855,516
Reconciliation of Ending Cash to Statements of Net Position		
Cash and investments, current	\$ 22,844,639	\$ 25,227,079
Cash and investments, noncurrent	6,616,938	6,710,645
Cash and Investments, end of year	\$ 29,461,577	\$ 31,937,724
Supplemental Disclosure of Cash Flow Information		
Increase in accounts payable related to capital asset construction	\$ 752,555	\$ -
Supplemental Disclosure of Noncash Information		
Transfer of inventory from construction in progress	\$ -	\$ 890,389
Assumption of receivables related to Tye transition	\$ -	\$ 242,499
Assumption of long-term liabilities related to Tye transition	\$ 588,555	\$ 683,563

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements Years Ended June 30, 2016 and 2015

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 and 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 the majority of the members are governments. Therefore, the Agency is treated as a special purpose local 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 statement 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 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 boroughs and 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, 2016 and 2015 was set at 6.8 cents per kWh. The member utilities only pay for the amount of power used.

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:

	2016	2015
Ketchikan Public Utilities	52%	50%
Wrangell Municipal Light and Power	25%	24%
Petersburg Municipal Light and Power	23%	26%
	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 submarine cables) 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, 2016 and 2015, 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 under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, whereby revenue is recognized when all applicable eligibility requirements, including time requirements, are met.

3. Cash and Investments

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 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 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, 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, but restricted fund 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.

The cash and investments were held in trust accounts for the following activities as of June 30, 2016:

	Cash and Cash Equivalents	Investments	Total
Unrestricted - current:			
Internal renewal and replacement fund	\$ 1,001,223	\$ -	\$ 1,001,223
Dedicated renewal and replacement fund	4,491,319	-	4,491,319
Revenue fund	5,317,152	-	5,317,152
Commercial checking account	1,000	-	1,000
Construction fund	5,891,886	-	5,891,886
New generation fund	1,898,074	-	1,898,074
Investment fund	446,270	1,001,318	1,447,588
Total unrestricted - current	19,046,924	1,001,318	20,048,242

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

	Cash and Cash Equivalents	Investments	Total
Unrestricted - noncurrent - Investment fund	\$ -	\$ 6,616,938	\$ 6,616,938
Restricted - current:			
Reclamation contingency fund	927,269	-	927,269
2009 Trust series bond interest	55,501	-	55,501
2009 Trust series bond principal	128,333	-	128,333
2009 Trust series bond reserve	1,410,216	-	1,410,216
2015 Trust series bond interest	40,641	-	40,641
2015 Trust series bond principal	212,814	-	212,814
STI CD	21,623	-	21,623
Total restricted - current	2,796,397	-	2,796,397
Total Cash And Investments	\$ 21,843,321	\$ 7,618,256	\$ 29,461,577

The cash and investments were held in trust accounts for the following activities as of June 30, 2015:

	Cash and Cash Equivalents	Investments	Total
Unrestricted - current:			
Internal renewal and replacement fund	\$ 1,001,221	\$ -	\$ 1,001,221
Dedicated renewal and replacement fund	7,060,970	-	7,060,970
Revenue fund	5,090,038	-	5,090,038
Commercial checking account	7,448	-	7,448
Construction fund	6,000,563	-	6,000,563
New generation fund	1,907,648	-	1,907,648
Subordinate debt	310	-	310
Investment fund	32,321	1,389,225	1,421,546
Total unrestricted - current	21,100,519	1,389,225	22,489,744
Unrestricted - noncurrent - investment fund	-	6,710,645	6,710,645
Restricted - current:			
Reclamation contingency fund	852,264	-	852,264
2009 Trust series bond interest	70,083	-	70,083
2009 Trust series bond principal	124,215	-	124,215
2009 Trust series bond reserve	1,410,074	-	1,410,074
2015 Trust series bond interest	46,285	-	46,285
2015 Trust series bond principal	212,793	-	212,793
STI CD	21,621	-	21,621
Total restricted - current	2,737,335	-	2,737,335
Total Cash And Investments	\$ 23,837,854	\$ 8,099,870	\$ 31,937,724

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

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;
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;

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

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
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 Bonds.

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.

At June 30, 2016 and 2015, the Agency had the following cash and investments:

<i>June 30,</i>	2016	2015
Money market	\$ 3,221,043	\$ 2,748,035
Demand deposits	18,600,655	21,068,198
U.S. government agencies	753,434	1,153,337
U.S. government bonds	5,731,140	5,735,634
Corporate bonds	1,133,682	1,210,899
Certificates of deposit	21,623	21,621
Total	\$ 29,461,577	\$ 31,937,724

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.

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Investment maturities at June 30 are as follows:

Investment Type	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1-5
<i>June 30, 2016</i>			
U.S. government agencies	\$ 753,434	\$ -	\$ 753,434
U.S. government bonds	5,731,140	1,001,318	4,729,822
Corporate bonds	1,133,682	-	1,133,682
Total	\$ 7,618,256	\$ 1,001,318	\$ 6,616,938
<i>June 30, 2015</i>			
U.S. government agencies	\$ 1,153,337	\$ -	\$ 1,153,337
U.S. government bonds	5,735,634	1,010,218	4,725,416
Corporate bonds	1,210,899	379,007	831,892
Total	\$ 8,099,870	\$ 1,389,225	\$ 6,710,645

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, 2016 and 2015, 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	
		2016	2015
U.S. government agencies	AAA	9.9%	14.3%
U.S. government bonds	AAA	75.2%	70.8%
Corporate bonds	AAA	14.9%	14.9%
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 custodial credit risk policy for its investments. However, the Agency has a custodial agreement in place with their primary banking institution. At June 30, 2016 and 2015, \$2,274,774 and \$1,987,335, respectively, of bank deposits were uninsured and uncollateralized.

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.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

At June 30, 2016, the Agency's investments included the following concentrations greater than 5%:

Investment Type	Investments at Fair Value	Percentage of Total Portfolio
Federal National Mortgage Association	\$ 753,434	9.9%
U.S. Treasury Bond	5,731,140	75.2%
Corporate Bonds	1,133,683	14.9%

At June 30, 2015, the Agency's investments included the following concentrations greater than 5%:

Investment Type	Investments at Fair Value	Percentage of Total Portfolio
Federal National Mortgage Association	\$ 1,153,337	14.2%
U.S. Treasury Bond	5,735,634	70.8%
Corporate Bonds	1,210,899	15.0%

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, 2016:

- U.S. government agency securities of \$753,434 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 \$6,864,823 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 \$3,242,666 that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2016. Management believes that these values approximate fair value.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

4. Capital Assets

The components of the Agency's capital assets at June 30, 2016 and 2015 are as follows:

	2016	2015
Tyee Lake	\$ 29,960,218	\$ 28,706,181
Swan Lake	23,075,342	18,484,868
Swan-Tyee Intertie	114,335,503	112,144,397
SEAPA office - SCADA	775,870	750,474
Leasehold improvements	25,000	25,000
	168,171,933	160,110,920
Less accumulated depreciation	(35,867,562)	(31,749,311)
Total Capital Assets, Net of Accumulated Depreciation	\$ 132,304,371	\$ 128,361,609

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Capital asset activity for the Agency for the year ended June 30, 2016 follows:

	Balance at June 30, 2015	Additions	Transfers and Deletions	Balance at June 30, 2016
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 2,056,590	\$ 4,592,947	\$ (1,271,942)	\$ 5,377,595
Swan-Tyee construction in progress	1,139,262	1,298,939	(1,806,984)	631,217
SCADA construction in progress	565,523	2,191,106	(2,695,579)	61,050
Tyee Lake construction in progress	41,579	56,453	(98,032)	-
Total capital assets not being depreciated	3,802,954	8,139,445	(5,872,537)	6,069,862
Capital assets being depreciated:				
Structures	12,210,802	3,229,163	-	15,439,965
Infrastructure	2,187,028	593,759	-	2,780,787
Generation and distribution	140,456,643	1,807,624	-	142,264,267
Furniture, fixtures and other	1,428,493	263,586	(100,027)	1,592,052
Leasehold improvements	25,000	-	-	25,000
Total capital assets being depreciated	156,307,966	5,984,132	(100,027)	162,102,071
Less accumulated depreciation:				
Structures	(4,624,182)	(437,054)	-	(5,061,236)
Infrastructure	(1,023,101)	(115,717)	-	(1,138,818)
Generation and distribution	(25,525,846)	(3,551,637)	-	(29,077,483)
Furniture, fixtures and other	(563,682)	(80,313)	68,970	(575,025)
Leasehold improvements	(12,500)	(2,500)	-	(15,000)
Total accumulated depreciation	(31,749,311)	(4,187,221)	68,970	(35,867,562)
Capital assets being depreciated, net	124,558,655	1,706,911	(31,057)	126,234,509
Total Capital Assets, net	\$ 128,361,609	\$ 9,846,356	\$ (5,903,594)	\$ 132,304,371

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Capital asset activity for the Agency for the year ended June 30, 2015 follows:

	Balance at June 30, 2014	Additions	Transfers and Deletions	Balance at June 30, 2015
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 2,412,701	\$ 538,452	\$ (894,563)	\$ 2,056,590
Swan-Tyee construction in progress	386,530	834,945	(82,213)	1,139,262
SCADA construction in progress	37,546	527,977	-	565,523
Tyee Lake construction in progress	28,941	12,638	-	41,579
Total capital assets not being depreciated	2,865,718	1,914,012	(976,776)	3,802,954
Capital assets being depreciated:				
Structures	12,210,802	-	-	12,210,802
Infrastructure	2,187,028	-	-	2,187,028
Generation and distribution	140,724,674	788	(268,819)	140,456,643
Furniture, fixtures and other	1,206,608	225,865	(3,980)	1,428,493
Leasehold improvements	25,000	-	-	25,000
Total capital assets being depreciated	156,354,112	226,653	(272,799)	156,307,966
Less accumulated depreciation:				
Structures	(4,242,044)	(382,138)	-	(4,624,182)
Infrastructure	(921,955)	(101,146)	-	(1,023,101)
Generation and distribution	(22,266,133)	(3,507,380)	247,667	(25,525,846)
Furniture, fixtures and other	(490,285)	(77,377)	3,980	(563,682)
Leasehold improvements	(10,000)	(2,500)	-	(12,500)
Total accumulated depreciation	(27,930,417)	(4,070,541)	251,647	(31,749,311)
Capital assets being depreciated, net	128,423,695	(3,843,888)	(21,152)	124,558,655
Total Capital Assets, net	\$ 131,289,413	\$ (1,929,876)	\$ (997,928)	\$ 128,361,609

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

5. Long-term Liabilities

In 2015, the Agency assumed operations of the Tye facility from the City and Borough of Wrangell and the Petersburg Borough (see Note 8). 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 following reflect the changes in long-term liabilities for the year ended June, 30, 2016:

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Due Within One Year
PERS Unfunded Liability	\$ 683,563	\$ 588,555	\$ 194,796	\$ 1,077,322	\$ 224,012

6. Long-term Debt

In February 2009, previously issued and outstanding bonds were advance refunded, and the Agency issued \$16.495 million in Series 2009 (Tax-Exempt) electric revenue refunding bonds. Interest is payable on these bonds on June 1 and December 1, commencing December 1, 2009 at interest rates of 3.00% to 5.375%. The refunding also resulted in a bond issue discount of approximately \$125,000 that is being amortized over the life of the bonds. The 2004 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. These have been fully paid to bondholders.

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 a portion of the costs of certain 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%. The bonds mature June 1, 2033.

Because the refunded bonds were fully paid to bondholders, there are no resulting assets held by the escrow agent. The refunding resulted in an economic gain of \$743,900 and a net cash flow savings of \$1,023,023. A loss on refunding of \$168,095 has been recorded as a deferred outflow and will be amortized to interest expense over the life of the new bonds.

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The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Annual debt service requirements as of June 30, 2016 follow:

Year Ending June 30,	Series 2009		Series 2015		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	\$ 770,000	\$ 333,006	\$ -	\$ 487,688	\$ 770,000	\$ 820,694	\$ 1,590,694
2018	800,000	302,206	-	487,688	800,000	789,894	1,590,894
2019	830,000	270,206	-	487,688	830,000	757,894	1,587,894
2020	870,000	232,856	-	487,688	870,000	720,544	1,590,544
2021	905,000	193,706	-	487,688	905,000	681,394	1,586,394
2022-2026	2,985,000	311,087	1,980,000	2,387,777	4,965,000	2,698,864	7,663,864
2027-2031	-	-	5,705,000	1,339,008	5,705,000	1,339,088	7,044,088
2032-2034	-	-	2,610,000	152,676	2,610,000	152,676	2,762,676
	\$ 7,160,000	\$ 1,643,067	\$ 10,295,000	\$ 6,317,901	\$ 17,455,000	\$ 7,961,048	\$ 25,416,048

The following tables reflect the changes in long-term debt for the years ended June 30, 2016 and 2015, respectively:

	Balance at June 30, 2015	Refunded	Additions/ (Reductions)	Balance at June 30, 2016	Due Within One Year
Series 2015 Bonds	\$ 10,295,000	\$ -	\$ -	\$ 10,295,000	\$ -
Series 2009 Bonds	7,905,000	-	(745,000)	7,160,000	770,000
Total	\$ 18,200,000	\$ -	\$ (745,000)	\$ 17,455,000	\$ 770,000

	Balance at June 30, 2014	Refunded	Additions/ (Reductions)	Balance at June 30, 2015	Due Within One Year
Series 2015 Bonds	\$ -	\$ -	\$ 10,295,000	\$ 10,295,000	\$ -
Series 2009 Bonds	13,400,000	4,770,000	(725,000)	7,905,000	745,000
Total	\$ 13,400,000	\$ 4,770,000	\$ 9,570,000	\$ 18,200,000	\$ 745,000

Bond premiums and discounts as of June 30, 2016 and 2015 are as follows:

	2016	2015
Premium	\$ 991,049	\$ 991,049
Discount	(53,880)	(53,880)
Total	937,169	937,169
Less accumulated amortization	(37,614)	17,674
Net premium (discount)	\$ 899,555	\$ 954,843

The Agency recorded \$55,288 and \$16,285 as amortization to interest expense for the years ended June 30, 2016 and 2015, respectively.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

7. Operating Leases

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. The Agency also entered into a five-year lease for a printer in March 2011.

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

<i>Year Ending June 30:</i>	Amount
2017	\$ 48,500
2018	49,985
2019	51,470
2020	28,244
Total	\$ 178,199

During 2016 and 2015, the Agency expensed \$54,957 and \$58,819, respectively, under non-cancelable lease obligations.

8. Special Item - Tyee Transition

In 2015, the Agency assumed operations of the Tyee facility from the City and Borough of Wrangell and the Petersburg Borough. As part of this transaction, the Agency assumed the following assets and liabilities:

Terminated employee retirement benefits - unfunded PERS liability (see Note 5)	\$ (683,563)
Receivables	242,499
Expensed	35,356
Total Special Item - Tyee Transition	\$ (405,708)

In 2016, an additional \$588,555 was recorded related to a change in the estimate for the unfunded PERS liability.

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.

Supplementary Information

The Southeast Alaska Power Agency

Schedule of State Financial Assistance

Year Ended June 30, 2016

Name of Grant	Grant Number	Grant Award	State Expenditures
Department of Commerce, Community, and Economic Development			
*Swan Lake Hydroelectric Project Reservoir Expansion Project	15-DC-468	\$ 3,320,000	\$ 2,330,554
*Hydroelectric Storage, Generation, Transmission & Business Analysis	13-DC-553	3,000,000	<u>151,915</u>
Total Department of Commerce, Community and Economic Development			<u>2,482,469</u>
Alaska Energy Authority			
*Kake-Petersburg Intertie Final Design	2195414	2,990,000	<u>143,444</u>
Total State Financial Assistance			<u>\$ 2,625,913</u>

*Major Program

Note 1: Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state grant activity of The Southeast Alaska Power Agency under programs of the State government for the year ended June 30, 2015. The information on this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of The Southeast Alaska Power Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of The Southeast Alaska Power Agency.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the full accrual basis of accounting.

Single Audit Section



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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, 2016, 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, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 entity's 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, 2016



Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

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

Report on Compliance for Each Major State Program

We have audited The Southeast Alaska Power Agency's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of The Southeast Alaska Power Agency's major state programs for the year ended June 30, 2016. The Southeast Alaska Power Agency's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Southeast Alaska Power Agency's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about The Southeast Alaska Power Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of The Southeast Alaska Power Agency's compliance.

Opinion on Each Major State Program

In our opinion, The Southeast Alaska Power Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of The Southeast Alaska Power Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Southeast Alaska Power Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Southeast Alaska Power Agency's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
December 19, 2016

The Southeast Alaska Power Agency

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> (none reported)
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

State Financial Assistance

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> (none reported)
Type of auditor's report issued on compliance for major programs:	Unmodified	
Dollar threshold used to distinguish a state major program:		\$ 75,000

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*.

Section III - State Financial Assistance

There were no findings and questioned costs for State awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.

The Southeast Alaska Power Agency

Summary Schedule of Prior Audit Findings *Year Ended June 30, 2016*

There were no prior year audit findings.

The Southeast Alaska Power Agency

Corrective Action Plan *Year Ended June 30, 2016*

There are no current year findings; therefore, no corrective action is needed.