



Southeast Alaska Power Agency

**Financial Statements, Supplementary
Information, and Single Audit Reports
For the Years Ended June 30, 2014 and 2013**

(With Independent Auditor's Report Thereon)

Southeast Alaska Power Agency

Financial Statements, Supplementary Information,
and Single Audit Reports

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Southeast Alaska Power Agency

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Independent Auditor's Report

The Board of Directors
Southeast Alaska Power Agency

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Alaska Power Agency, which comprise the statement of net position as of June 30, 2014 and 2013, 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 audit 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2013, Southeast Alaska Power Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and the provisions of GASB Statement number 65, *Items Previously Reported as Assets and Liabilities*. These provisions have been retrospectively applied to all periods presented in these financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages four through six 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 January 12, 2015 on our consideration of 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 Southeast Alaska Power Agency's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
January 12, 2015

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Management's Discussion and Analysis

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2014 and 2013

This presentation and analysis is intended to serve as an introduction to and discussion of the June 30, 2014 and 2013 financial statements of 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, 2014 by \$142,439,177. SEAPA's net position increased \$1,570,669 for the year ended June 30, 2014.
- The wholesale power rate was maintained at 6.8 cents/kWh in fiscal year 2014, a rate that has held steady for 17 consecutive years and was approved again for fiscal year 2015.
- A rebate totaling \$864,590 was approved for fiscal year 2014. 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.
- At the beginning of fiscal year 2015, a State of Alaska designated legislative grant through the Department of Commerce, Community and Economic Development (DCCED) in the amount of \$3,320,000 was awarded to SEAPA for the Swan Lake Hydroelectric Project Reservoir Expansion Project.
- On July 1, 2014, the last payment was made to bond holders of the Wells Fargo Alaska Electric Revenue Refunding Bonds Series 2004 (WF Refund 2004AB Escrow).

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2014 and 2013

Financial Position

Total assets, total liabilities and total net position at June 30, 2014, 2013 and 2012 follows:

<i>June 30,</i>	2014	2013	2012
Assets:			
Current assets	\$ 18,325,860	\$ 13,806,294	\$ 12,127,251
Capital assets	131,289,413	132,514,620	134,411,504
Noncurrent assets	7,760,143	10,086,926	10,363,319
Total Assets	\$ 157,375,416	\$ 156,407,840	\$ 156,902,074
Liabilities:			
Current liabilities	\$ 2,366,451	\$ 2,255,062	\$ 2,163,969
Noncurrent liabilities	12,569,788	13,284,270	13,976,778
Total liabilities	14,936,239	15,539,332	16,140,747
Net position:			
Net investment in capital assets	117,994,625	118,530,350	119,759,726
Restricted for debt service	1,359,425	1,358,925	1,355,863
Restricted under agreements with external parties	777,256	723,857	648,835
Unrestricted	22,307,871	20,255,376	18,996,903
Total net position, (as restated for 2012)	142,439,177	140,868,508	140,761,327
Total Liabilities And Net Position	\$ 157,375,416	\$ 156,407,840	\$ 156,902,074

Discussion of Financial Position

Financial Position - FY2014 Compared to FY2013

Total assets increased by \$967,576 for the year ended June 30, 2014. The growth in current assets reflects higher income from power sales in FY2014 and continued dedication of funds towards new and ongoing capital projects. New exciters and generator switch gear for the Swan Lake facility and turbine shutoff valves for the Tye Lake facility are projects scheduled to start in FY2015 that are designed to enhance system reliability.

The Swan Lake Reservoir Expansion, which is designed to increase active hydro storage capacity at the present facility by as much as 25%, will also reduce annual spill and provide additional energy to the entire system to meet growing load demand. This project is scheduled for completion in calendar year 2016. Two State of Alaska DCCED grants have been awarded to offset the cost of this project; \$3,320,000 was awarded at the beginning of FY2015 and \$578,000 of the FY2013 grant was dedicated to this project.

Portions of several ongoing capital projects were placed into service this year:

In FY2014, a log retention system was built, the concrete weir was poured and a helipad was installed for the Tye Lake Stream Gauge project, which will enable accurate lake level and stream flow measurements as required by SEAPA's FERC license and replace the existing USGS gauging station which has deteriorated with age. Placement of the actual gauge will be coordinated with USGS, and the project is now scheduled for completion in FY2016.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2014 and 2013

The piping system was installed for the Cooling Water project at the Tye Lake facility in FY2014. The new design will allow all the water from the penstock to run through the turbine before it is used for cooling, providing more hydro for power generation and is scheduled for completion in FY2015.

The Tye Lake portion of the Supervisory Control and Data Acquisition (SCADA) upgrade was commissioned in FY2014. This upgrade replaces the original 1984 system, enables the entire system to be controlled from either hydro facility and is scheduled for completion in FY2015.

A replacement winding valued at \$890,405 for the Swan Lake facility was manufactured and placed into capital inventory this fiscal year. 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.

Total liabilities decreased by \$603,093 compared to FY2013. The decrease is primarily attributable to a \$700,000 reduction in long-term debt due to principal payments.

Total Liabilities and Net Position were \$157,375,416 at June 30, 2014, compared to \$156,407,840 at June 30, 2013. The difference can be attributed to lower liabilities, a higher level of funding dedicated to capital projects at year-end and an increase in the application of grant revenue towards capital expenditures.

Financial Position - FY2013 Compared to FY2012

Total assets decreased by \$494,234 for the year ended June 30, 2013. The decrease is attributable to capital asset related activity. Increases in capital projects, notably the first stage of an improved Supervisory Control and Data Acquisition (SCADA) system placed into service in FY2012, were offset by depreciation expense on projects in operation.

Total liabilities decreased by \$601,415 compared to FY2012. The decrease is primarily attributable to a \$675,000 reduction in long-term debt due to principal payments.

Total net position increased by \$107,181 compared to FY2012, due again to the reduced total liabilities.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2014 and 2013

Operations

Components of the Agency's operating revenues, operating expenses, and non-operating revenues/expenses for the years ended June 30, 2014, 2013, and 2012 are as follows:

<i>June 30,</i>	2014	2013	2012
Operating revenues - revenue from power sales	\$ 12,459,090	\$ 11,207,976	\$ 11,608,217
Rate rebate	(864,590)	(800,000)	(800,000)
Net operating revenues	11,594,500	10,407,976	10,808,217
Operating expenses:			
Operating and maintenance	3,438,761	3,603,519	4,347,020
General and administrative	2,373,125	2,190,623	2,023,351
Depreciation expense	4,046,332	3,912,905	3,922,821
Total operating expenses	9,858,218	9,707,047	10,293,192
Operating income	1,736,282	700,929	515,025
Non-operating revenues (expenses):			
Investment income	95,775	91,823	131,582
Grant revenue	1,114,047	216,802	
Contract revenue	373,447	-	
Grant expense	(1,114,047)	(237,681)	
Contract expense	(373,447)	-	-
Interest expense	(665,339)	(688,323)	(704,027)
Other	103,173	17,239	10,726
Net non-operating revenues (expenses)	(466,391)	(600,140)	(561,719)
Income before contributions	1,269,891	100,789	(46,694)
Capital contributions	300,778	6,392	-
Change in net position	1,570,669	107,181	(46,694)
Net Position - beginning of year	140,868,508	140,761,327	140,808,021
Net Position - end of year	\$ 142,439,177	\$ 140,868,508	\$ 140,761,327

Discussion of Operations

Operations - FY2014 Compared to FY2013

Annual revenue from power sales was \$1,186,524 higher for the year ended June 30, 2014 as seasonal demand and hydro resource availability matched optimally during the year.

Operating expenses were slightly higher in FY2014, increasing only \$151,171 over FY2013.

Grant- and contract-related activity increased in FY2014, as described below. Capital contributions represent Swan Lake Expansion project expenditures that were reimbursed by grant funds. The change in net position of \$1,570,669 is primarily due to this year's increase in power sales.

Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2014 and 2013

During 2014, Southeast Alaska Power Agency worked with the Borough of Petersburg, the City and Borough of Wrangell and Thomas Bay Power Authority (TBPA), an agency formed jointly by the two municipalities, to assume daily operations of SEAPA's Tye Lake hydroelectric project. The operations of the Tye Lake facility transitioned smoothly from TBPA in August, 2014 (FY2015) as all plant employees secured positions with SEAPA. The Swan Lake facility is still operated under contract by the City of Ketchikan dba Ketchikan Public Utilities.

In FY2012, the Alaska legislature awarded \$3,000,000 to SEAPA through the Department of Commerce, Community and Economic Development for the purpose of following up on key findings of the Southeast Alaska Integrated Resource Plan, including hydroelectric storage, generation, transmission and business analysis for Southeast Alaska. Funds are being used in part to further evaluate potential hydroelectric sites in the region and increase the reservoir storage capacity at Swan Lake. These two objectives comprised the bulk of the work performed in FY2014. The grant period spans from July 2012 through June 2017.

Pursuant to a Memorandum of Understanding (MOU) between the Alaska Energy Authority (AEA), SEAPA and Inside Passage Electric Cooperative, the AEA assigned two grants to SEAPA in the amounts of \$2,990,000 and \$2,000,000 in FY2013. The purpose of these grants is to fund evaluation and development of the pre-construction phase of an electrical intertie between the communities of Kake and Petersburg, Alaska. The community of Kake currently relies solely upon diesel generation to meet its energy needs. The MOU stipulates that SEAPA's existing rate payers and member utilities must not be negatively impacted by any development of the intertie. Permitting and preliminary design work continues, and a revised Preliminary Draft Environmental Impact Statement and revised Notice of Intent were submitted to the U.S. Forest Service during July, 2014.

SEAPA collaborated with Metlakatla Indian Community and the Alaska Energy Authority to facilitate the expansion of technical research data available for potential hydropower resources on Annette Island this year. The effort that took place in FY2014 was primarily performed by contractors, and related financial activity recorded as Contract Revenue/Expense did not have a financial impact on the Agency.

Operations - FY2013 Compared to FY2012

Annual revenue from power sales was \$400,242 lower for the year ended June 30, 2013. Lower sales were attributed to less available energy resulting from lower-than-average annual precipitation.

Operating expenses were \$586,145 lower for the year ended June 30, 2013 due to completion of the Solomon Gulch Potential Failure Mode Analysis project and FY2012 expenses related to the non-capital portion of projects placed in service in 2011 and 2012.

Economic Factors in Next Year's Budgets and Rates

Next year's revenues are anticipated to remain relatively flat, with the possibility of a slight decrease, dependent upon seasonal inflows into the reservoirs and fish processing loads. On the demand side, short-term home heating fuel prices have moderated somewhat, but we still expect continued space heating conversions to electric.

Swan Lake Storage Expansion Project: SEAPA is working closely with our FERC Board of Consultants (panel of experts) to refine design attributes for modifying the Swan Lake dam and intake structure. We have requested \$2,797,935 for the State of Alaska FY2016 legislative session, and collectively the City of Ketchikan, the Ketchikan Gateway Borough and the City of Saxman have once again selected this project as #1 on the Community Priority List of legislative requests. Fulfillment of this request would bring the state's contribution up to 50% of the current total estimated project cost of \$13,391,869.

Financial Statements

Southeast Alaska Power Agency

Statements of Net Position

<i>June 30,</i>	2014	2013
Assets		
Current Assets		
Cash and investments, including restricted cash and investments of \$2,435,439 and \$2,359,339 at June 30, 2014 and 2013, respectively	\$ 16,714,672	\$ 12,620,476
Accounts receivable	1,080,577	823,041
Grants receivable	330,069	110,116
Accrued interest receivable	33,258	39,309
Inventory	8,143	8,143
Prepaid expenses	159,141	205,209
Total Current Assets	18,325,860	13,806,294
Noncurrent assets:		
Cash and investments, unrestricted	7,760,143	10,086,926
Capital assets, net	131,289,413	132,514,620
Total noncurrent assets	139,049,556	142,601,546
Total Assets	\$ 157,375,416	\$ 156,407,840
Liabilities and Net Position		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 726,057	\$ 700,153
Rebate payable to members	864,590	800,000
Accrued interest payable	50,804	54,909
Current portion of long-term debt	725,000	700,000
Total Current Liabilities	2,366,451	2,255,062
Noncurrent liabilities:		
Long-term debt, net of current portion	12,675,000	13,400,000
Bond issue premium (discount), net	(105,212)	(115,730)
Total noncurrent liabilities	12,569,788	13,284,270
Total Liabilities	14,936,239	15,539,332
Net Position		
Net investment in capital assets	117,994,625	118,530,350
Restricted for debt service	1,359,425	1,358,925
Restricted by agreements with external parties	777,256	723,857
Unrestricted	22,307,871	20,255,376
Total Net Position	142,439,177	140,868,508
Total Liabilities and Net Position	\$ 157,375,416	\$ 156,407,840

See accompanying notes to financial statements.

Southeast Alaska Power Agency

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2014	2013
Operating Revenues		
Revenue from power sales	\$ 12,459,090	\$ 11,207,976
Rate rebate	(864,590)	(800,000)
Net Operating Revenues	11,594,500	10,407,976
Operating Expenses		
Operating and maintenance	3,438,761	3,603,519
General and administrative	2,373,125	2,190,622
Depreciation expense	4,046,332	3,912,906
Total Operating Expenses	9,858,218	9,707,047
Operating income	1,736,282	700,929
Nonoperating Revenues (Expenses)		
Investment income	95,775	91,823
Grant revenue	1,114,047	216,802
Contract revenue	373,447	-
Grant expenses	(1,114,047)	(237,681)
Contract expenses	(373,447)	-
Interest expense	(665,339)	(688,323)
Other	103,173	17,239
Net Nonoperating Revenues (Expenses)	(466,391)	(600,140)
Income before capital contributions	1,269,891	100,789
Capital contributions	300,778	6,392
Change in net position	1,570,669	107,181
Net Position, beginning of year, as restated	140,868,508	140,761,327
Net Position, end of year	\$ 142,439,177	\$ 140,868,508

See accompanying notes to financial statements.

Southeast Alaska Power Agency

Statements of Cash Flows

<i>Years Ended June 30,</i>	2014	2013
Cash Flows from Operating Activities		
Receipts from customers	\$ 12,201,554	\$ 11,092,136
Payment of rate rebate	(800,000)	(800,000)
Payments to suppliers and employees	(5,739,914)	(5,791,487)
Other receipts	103,173	17,239
Net cash flows from operating activities	5,764,813	4,517,888
Cash Flows from Noncapital and Related Financing Activities		
Grant and contract receipts	966,763	216,802
Grant and contract expenses	(1,186,716)	(237,681)
Net cash flows from noncapital and related financing activities	(219,953)	(20,879)
Cash Flows from Capital and Related Financing Activities		
Capital grants received	300,778	6,392
Interest payments on long-term debt	(658,926)	(680,863)
Principal payments on long-term debt	(700,000)	(675,000)
Purchase of capital assets	(2,821,125)	(2,016,022)
Net cash flows from capital and related financing activities	(3,879,273)	(3,365,493)
Cash Flows from Investing Activities		
Investment income received	101,826	101,177
Net increase in cash and cash equivalents	1,767,413	1,232,693
Cash and Investments, beginning of year	22,707,402	21,474,709
Cash and Investments, end of year	\$ 24,474,815	\$ 22,707,402
Reconciliation of change in net position to net cash flows		
from operating activities:		
Operating income	\$ 1,736,282	\$ 700,929
Adjustments to reconcile change in net position to net cash flows provided by operating activities:		
Depreciation	4,046,332	3,912,906
Other income	103,173	17,239
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Inventory	-	-
Prepaid expenses	46,068	(63,471)
Accounts receivable	(257,536)	(115,840)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	25,904	66,125
Rebate payable to members	64,590	-
Net cash flows from operating activities	\$ 5,764,813	\$ 4,517,888

See accompanying notes to financial statements.

Southeast Alaska Power Agency

Notes to Basic Financial Statements Years Ended June 30, 2014 and 2013

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 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 and the Thomas Bay Power Authority, a consortium of the City of Petersburg and the City and Borough of Wrangell, operates Tyee Lake, pursuant to operating agreements.

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).

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.

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 cities 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 estimated wholesale power rate for the years ended June 30, 2014 and 2013 was set at 6.8 cents per Kwh. The member utilities only pay for the amount of power used.

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:

	2014	2013
Ketchikan Public Utilities	55%	52%
Wrangell Municipal Light and Power	21%	23%
Petersburg Municipal Light and Power	24%	25%
	100%	100%

Southeast Alaska Power Agency

Notes to Basic Financial Statements

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

Inventory

Inventory is valued at cost using the specific identification method.

Employee Benefits

Operating and maintenance personnel are employees of the Purchasers. All salaries and employee benefits, including compensated absences, health care, other insurance, and pension benefits, are paid by the Purchasers 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, 2014 and 2013, 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.

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.

Southeast Alaska Power Agency

Notes to Basic Financial Statements

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the current presentation. These reclassifications did not affect net position.

Change in Accounting Principle

In 2013, the Agency adopted newly issued Governmental Accounting Standards Board (GASB) pronouncements 63 and 65, resulting in a change in presentation of the financial statements. The new pronouncements require reporting two new categories of accounts. Certain items previously reported as assets are now categorized as deferred outflows of resources. A deferred outflow of resources represents the consumption of the government's net position or fund balance that is applicable to a future reporting period. Other items previously categorized as liabilities are now categorized as deferred inflows of resources. A deferred inflow of resources represents the acquisition of net position that is applicable to a future reporting period. The residual net of all of the accounts is now called net position. The adoption of these statements has resulted in a restatement of previously reported net position.

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) was required to deposit \$75,000 annually into this fund. DNR and the Agency have been in discussions to amend this agreement to reflect the change in ownership of the projects.

Southeast Alaska Power Agency

Notes to Basic Financial Statements

The cash and investments were held in trust accounts for the following activities as of June 30, 2014:

	Cash and Cash Equivalents	Investments	Total
Unrestricted - current:			
Internal renewal and replacement fund	\$ 1,000,610	\$ -	\$ 1,000,610
Dedicated renewal and replacement fund	8,715,678	-	8,715,678
Revenue fund	4,228,428	-	4,228,428
Commercial checking account	4,520	-	4,520
Subordinate debt	310	-	310
Investment fund	329,688	-	329,688
Total unrestricted	14,279,234	-	14,279,234
Unrestricted - noncurrent -			
Investment fund	-	7,760,143	7,760,143
Restricted - current:			
Insurance escrow fund	1	-	1
Reclamation contingency fund	777,256	-	777,256
2009 Trust series bond interest	105,758	-	105,758
2009 Trust series bond principal	120,872	-	120,872
2009 Trust series bond reserve	1,409,933	-	1,409,933
STI CD	21,618	-	21,618
Total restricted - current	2,435,438	-	2,435,438
Total Cash And Investments	\$ 16,714,672	\$ 7,760,143	\$ 24,474,815

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Southeast Alaska Power Agency

Notes to Basic Financial Statements

The cash and investments were held in trust accounts for the following activities as of June 30, 2013:

	Cash and Cash Equivalents	Investments	Total
Unrestricted - current:			
Internal renewal and replacement fund	\$ 1,000,612	\$ -	\$ 1,000,612
Dedicated renewal and replacement fund	4,979,426	-	4,979,426
Revenue fund	4,166,826	-	4,166,826
Commercial checking account	1,420	-	1,420
Subordinate debt	309	-	309
Investment fund	112,544	-	112,544
Total unrestricted	10,261,137	-	10,261,137
Unrestricted - noncurrent -			
Investment fund	-	10,086,926	10,086,926
Restricted - current:			
Insurance escrow fund	2	-	2
Reclamation contingency fund	702,249	-	702,249
2009 Trust series bond interest	109,841	-	109,841
2009 Trust series bond principal	116,704	-	116,704
2009 Trust series bond reserve	1,043,724	365,211	1,408,935
STI CD	21,608	-	21,608
Total restricted - current	1,994,128	365,211	2,359,339
Total Cash And Investments	\$ 12,255,265	\$ 10,452,137	\$ 22,707,402

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;

Southeast Alaska Power Agency

Notes to Basic Financial Statements

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 2(a) 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
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.

Southeast Alaska Power Agency

Notes to Basic Financial Statements

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, 2014 and 2013, the Agency had the following cash and investments:

	2014	2013
Money market	\$ 2,743,508	\$ 2,085,062
Demand deposits	13,949,546	10,148,595
U.S. government agencies	1,530,392	6,905,910
U.S. government bonds	4,742,648	1,414,457
Corporate bonds	1,487,103	2,131,770
Certificates of deposit	21,618	21,608
Total	\$ 24,474,815	\$ 22,707,402

Interest Rate

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, 2014</i>			
U.S. government agencies	\$ 1,530,392	\$ -	\$ 1,530,392
U.S. government bonds	4,742,648	-	4,742,648
Corporate bonds	1,487,103	-	1,487,103
Total	\$ 7,760,143	\$ -	\$ 7,760,143
<i>June 30, 2013</i>			
U.S. government agencies	\$ 6,905,910	\$ 365,211	\$ 6,540,699
U.S. government bonds	1,414,457	-	1,414,457
Corporate bonds	2,131,770	-	2,131,770
Total	\$ 10,452,137	\$ 365,211	\$ 10,086,926

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, 2014 and 2013, 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	
		2014	2013
U.S. government agencies	AAA	19.7%	66.1%
U.S. government bonds	AAA	61.1%	13.5%
Corporate bonds	AAA	19.2%	20.4%
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, 2014 and 2013, \$753,887 and \$700,408, 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.

At June 30, 2014, the Agency's investments included the following concentrations greater than 5%:

Investment Type	Investment at Fair Value	Percentage of Total Portfolio
Federal National Mortgage Association	\$ 1,530,392	19.72%
U.S. Treasury Bond	4,742,648	61.12%
Corporate Bonds	1,487,103	19.16%

Southeast Alaska Power Agency

Notes to Basic Financial Statements

At June 30, 2013, the Agency's investments included the following concentrations greater than 5%:

Investment Type	Investment at Fair Value	Percentage of Total Portfolio
Federal Home Loan Mortgage Corporation	\$ 1,707,367	16.34%
Federal National Mortgage Association	4,083,249	39.07%
U.S. Treasury Bond	1,414,457	13.53%

4. Capital Assets

The components of the Agency's capital assets at June 30, 2014 and 2013 are as follows:

<i>June 30,</i>	2014	2013
Tyee Lake	\$ 28,035,495	\$ 26,347,903
Swan Lake	18,803,247	17,818,959
Swan-Tyee Intertie	111,616,420	111,542,302
SEAPA office - SCADA	739,668	664,541
Leasehold improvements	25,000	25,000
	159,219,830	156,398,705
Less accumulated depreciation	(27,930,417)	(23,884,085)
Total Capital Assets, Net Of Accumulated Depreciation	\$ 131,289,413	\$ 132,514,620

Capital asset activity for the Agency for the year ended June 30, 2014 follows:

	Balance at June 30, 2013	Additions	Transfers and Deletions	Balance at June 30, 2014
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 1,587,251	\$ 1,874,693	\$ (1,049,243)	\$ 2,412,701
Swan-Tyee construction in progress	160,434	74,179	(197,067)	37,546
SEAPA office - SCADA construction in progress	20,588	73,295	(64,942)	28,941
Tyee Lake construction in progress	287,337	1,691,963	(1,592,770)	386,530
Total capital assets not being depreciated	2,055,610	3,714,130	(2,904,022)	2,865,718

Southeast Alaska Power Agency

Notes to Basic Financial Statements

	Balance at June 30, 2013	Additions	Transfers and Deletions	Balance at June 30, 2014
Capital assets being depreciated:				
Structures	\$ 11,415,466	\$ 795,336	\$ -	\$ 12,210,802
Infrastructure	1,879,918	307,110	-	2,187,028
Generation and distribution	140,049,894	674,780	-	140,724,674
Furniture, fixtures and other	972,818	233,790	-	1,206,608
Leasehold improvements	25,000	-	-	25,000
Total capital assets being depreciated	154,343,096	2,011,016	-	156,354,112
Less accumulated depreciation:				
Structures	(3,864,170)	(377,874)	-	(4,242,044)
Infrastructure	(818,040)	(103,915)	-	(921,955)
Generation and distribution	(18,784,199)	(3,481,934)	-	(22,266,133)
Furniture, fixtures and other	(410,177)	(80,108)	-	(490,285)
Leasehold improvements	(7,500)	(2,500)	-	(10,000)
Total accumulated depreciation	(23,884,086)	(4,046,331)	-	(27,930,417)
Capital assets being depreciated, net	130,459,010	(2,035,315)	-	128,423,695
Total Capital Assets, Net	\$ 132,514,620	\$ 1,678,815	\$ (2,904,022)	\$ 131,289,413

Capital asset activity for the Agency for the year ended June 30, 2013 follows:

	Balance at June 30, 2012	Additions	Transfers and Deletions	Balance at June 30, 2013
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 151,421	\$ 1,435,830	\$ -	\$ 1,587,251
Swan-Tyee construction in progress	102,686	57,748	-	160,434
SEAPA office - SCADA construction in progress	130,663	1,757	(111,832)	20,588
Tyee Lake construction in progress	7,901	279,436	-	287,337
Total capital assets not being depreciated	392,671	1,774,771	(111,832)	2,055,610

Southeast Alaska Power Agency

Notes to Basic Financial Statements

	Balance at June 30, 2012	Additions	Transfers and Deletions	Balance at June 30, 2013
Capital assets being depreciated:				
Structures	\$ 11,415,466	\$ -	\$ -	\$ 11,415,466
Infrastructure	1,804,755	75,163	-	1,879,918
Generation and distribution	139,976,166	73,728	-	140,049,894
Furniture, fixtures and other	741,059	204,192	-	945,251
Leasehold improvements	52,567	-	-	52,567
Total capital assets being depreciated	153,990,013	353,083	-	154,343,096
Less accumulated depreciation:				
Structures	(3,501,050)	(363,120)	-	(3,864,170)
Infrastructure	(736,951)	(81,089)	-	(818,040)
Generation and distribution	(15,353,449)	(3,430,750)	-	(18,784,199)
Furniture, fixtures and other	(374,730)	(35,447)	-	(410,177)
Leasehold improvements	(5,000)	(2,500)	-	(7,500)
Total accumulated depreciation	(19,971,180)	(3,912,906)	-	(23,884,086)
Capital assets being depreciated, net	134,018,833	(3,559,823)	-	130,459,010
Total Capital Assets, Net	\$ 134,411,504	\$ (1,785,052)	\$ (111,832)	\$ 132,514,620

5. Long-Term Debt

In February 2002, the Alaska Industrial Development and Export Authority (AIDEA) loaned the Agency \$77.1 million at 6.5% to finance the purchase of the Swan Lake and Tyee Lake facilities. The Agency used \$68 million for the purchase of assets and the remaining \$9.1 million to fund closing costs and the initial funding of required reserves. During 2004, the Agency made principal payments on the loan of \$1.5 million.

On October 6, 2004, the Agency issued an aggregate of \$62.175 million electric revenue refunding bonds, comprised of \$28.905 million Series 2004A (Tax-Exempt) fixed rate bonds and \$33.27 million Series 2004B (Taxable) weekly variable rate bonds. The bond proceeds, together with other available funds, were used to refund the AIDEA loan.

In February 2009, the 2004 bonds were advance refunded as part of the Agency's restructure, 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%.

Southeast Alaska Power Agency

Notes to Basic Financial Statements

As part of the refunding, the Agency incurred loan origination costs of approximately \$497,000; these costs were written off in accordance with GASB Statement number 65. 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. Accordingly, trust accounts are not included in these financial statements. At June 30, 2014, the amount of the bonds considered defeased was \$21,242,003.

The following tables reflect the changes in long-term debt for the years ended June 30, 2014 and 2013, respectively:

	Balance at June 30, 2013	Additions	Retired	Balance at June 30, 2014	Due Within One Year
Series 2009 Bonds	\$ 14,100,000	\$ -	\$ 700,000	\$ 13,400,000	\$ 725,000

	Balance at June 30, 2012	Additions	Retired	Balance at June 30, 2013	Due Within One Year
Series 2009 Bonds	\$ 14,775,000	\$ -	\$ 675,000	\$ 14,100,000	\$ 700,000

The minimum payments of the outstanding bonds for the years subsequent to June 30, 2014, based on scheduled maturities, are as follows:

<i>Year Ending June 30:</i>	Principal	Interest	Total
2015	\$ 725,000	\$ 634,425	\$ 1,359,425
2016	745,000	612,675	1,357,675
2017	770,000	589,394	1,359,394
2018	800,000	558,594	1,358,594
2019	830,000	526,594	1,356,594
2020-2024	4,760,000	2,019,589	6,779,589
2025-2029	4,770,000	657,902	5,427,902
	\$ 13,400,000	\$ 5,599,173	\$ 18,999,173

6. 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. The Agency also entered into five-year leases for a copier and printer in March 2012. Under the terms of these leases, the Agency is obligated to pay the following amounts in future years:

Southeast Alaska Power Agency

Notes to Basic Financial Statements

<i>Year Ending June 30:</i>	<i>Amount</i>
2015	\$ 55,895
2016	53,697
2017	48,560
2018	50,045
2019	51,530
Thereafter	26,136
Total	\$ 285,863

During 2014 and 2013, the Agency expensed \$54,350 and \$52,925, respectively, under non-cancelable lease obligations.

7. 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.

8. Subsequent Events

In August 2014, SEAPA assumed operations of the Tye Lake hydroelectric plant from Thomas Bay Power Authority (TBPA). As a result, an expense of approximately \$400,000 will be recorded as a special item in fiscal year 2015 to account for related assets and liabilities expected to be settled by SEAPA in the future.

On July 1, 2014, the final payment of \$21,446,987.50 was made from the escrow account for the Series 2004AB Electric Revenue bonds. (see note 5)

The Alaska Department of Commerce, Community and Economic Development issued a \$3,320,000 grant to SEAPA for the Swan Lake Hydroelectric Project Reservoir Expansion.

Supplementary Information

Southeast Alaska Power Agency
Schedule of State Financial Assistance
Year Ended June 30, 2014

Name of Grant	Grant Number	Grant Award	State Expenditures
Department of Commerce, Community, and Economic Development			
*Hydroelectric Storage, Generation, Transmission & Business Analysis	13-DC-553	\$ 3,000,000	\$ 861,370
Alaska Energy Authority			
*Kake-Petersburg Intertie Final Design	2195414	2,990,000	<u>252,677</u>
Total State Financial Assistance			<u>\$ 1,114,047</u>

*Major Program

Note 1: Basis of Presentation

The Schedule of State Financial Assistance includes the state grant activity of Southeast Alaska Power Agency under programs of the State of Alaska for the year ended June 30, 2014. 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 Southeast Alaska Power Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of Southeast Alaska Power Agency.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the 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
Southeast Alaska Power Agency

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 Southeast Alaska Power Agency as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Southeast Alaska Power Agency's basic financial statements, and have issued our report thereon dated January 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Southeast Alaska Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Alaska Power Agency's internal control.

A *deficiency in internal controls* 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 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
January 12, 2015



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
Southeast Alaska Power Agency

Report on Compliance for Each Major State Program

We have audited 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 Southeast Alaska Power Agency's major state programs for the year ended June 30, 2014. 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 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 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 Southeast Alaska Power Agency's compliance.

Opinion on Each Major State Program

In our opinion, 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, 2014.

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Report on Internal Control over Compliance

Management of 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 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 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
January 12, 2015

Southeast Alaska Power Agency

Schedule of Finding and Questioned Costs Year Ended June 30, 2014

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.

Southeast Alaska Power Agency

Summary Schedule of Prior Audit Findings *Year Ended June 30, 2014*

There were no prior year audit findings.

Southeast Alaska Power Agency

Corrective Action Plan *Year Ended June 30, 2014*

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