



The Southeast Alaska Power Agency

Financial Statements, Supplementary
Information, and Single Audit Reports
For the Years Ended June 30, 2015 and 2014

The Southeast Alaska Power Agency

Financial Statements, Supplementary Information,
and Single Audit Reports

For the Years Ended June 30, 2015 and 2014

The Southeast Alaska Power Agency

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Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report

The Board of Directors
The Southeast Alaska Power Agency

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, 2015 and 2014, 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, 2015 and 2014, 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 18, 2015 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 18, 2015

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Management's Discussion and Analysis

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 2014

This presentation and analysis is intended to serve as an introduction to and discussion of the June 30, 2015 and 2014 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, 2015 by \$140,879,386. SEAPA's net position decreased \$1,559,791 over the year ended June 30, 2014.
- The wholesale power rate was maintained at 6.8 cents/kWh in fiscal year 2015, a rate that has held steady for 18 consecutive years and was approved again for fiscal year 2016.
- A rebate totaling \$1.5M was approved for fiscal year 2015. 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.
- 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 in FY2015.
- SEAPA issued \$10,295,000 in Electric Revenue Improvement and Refunding Bonds, Series 2015, on May 6, 2015. \$4.7M of bond proceeds were used to refund callable Series 2009 bonds scheduled for maturity in years 2025-2028, resulting in a present value savings of \$743,900. \$6M was deposited in a Construction Fund for the Swan Lake Hydroelectric Reservoir Expansion Project.
- On July 1, 2014, the last payment was made to bond holders of the Electric Revenue Refunding Bonds Series 2004 from the 2004AB refunding escrow account.

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 2014

Financial Position

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

<i>June 30,</i>	2015	2014	2013
Assets:			
Current assets	\$ 27,881,909	\$ 18,325,860	\$ 13,806,294
Capital assets	128,361,609	131,289,413	132,514,620
Noncurrent assets	6,878,740	7,760,143	10,086,926
Total Assets	\$ 163,122,258	\$ 157,375,416	\$ 156,407,840
Liabilities:			
Current liabilities	\$ 3,344,263	\$ 2,366,451	\$ 2,255,062
Noncurrent liabilities	18,898,609	12,569,788	13,284,270
Total liabilities	22,242,872	14,936,239	15,539,332
Net position:			
Net investment in capital assets	109,374,861	117,994,625	118,530,350
Restricted for debt service	1,622,843	1,359,425	1,358,925
Restricted under agreements with external parties	873,886	798,875	723,857
Unrestricted	29,007,796	22,286,252	20,255,376
Total net position	140,879,386	142,439,177	140,868,508
Total Liabilities And Net Position	\$ 163,122,258	\$ 157,375,416	\$ 156,407,840

Discussion of Financial Position

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, and its scheduled payout in March 2018 is in accordance with ARECA's Subscriber Equity Allocation Plan.

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 2014

Feasibility energy projects were also included in FY15 assets totaling \$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.

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.

Financial Position - FY2014

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 control 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, 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. 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.

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 2014

Portions of several ongoing capital projects were placed into service 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.

The piping system was installed for the Cooling Water project at the Tye Lake facility. 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, enabling the entire system to be controlled from either hydro facility.

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 for the year ended June 30, 2014, compared to \$156,407,840 for the year ended 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.

A summary of SEAPA's cash, investment and trustee funds follows (see note 3):

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 \$2,243,000 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.

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Management's Discussion and Analysis

June 30, 2015 and 2014

Subordinate Debt Fund - As outlined in the bond indenture, this fund may be established to pay subordinate debt other than bonds. The \$310 balance is related to a previous line of credit.

New Generation Fund - Dedicated to funding new energy projects, monies were used to investigate project feasibility for geothermal and wind energy in FY2015.

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 Revenue 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.

Operations

Components of the Agency's operating revenues, operating expenses, and non-operating revenues/expenses for the years ended June 30, 2015, 2014, and 2013 are as follows:

<i>June 30,</i>	2015	2014	2013
Operating revenues - revenue from power sales	\$ 10,652,158	\$ 12,459,090	\$ 11,207,976
Displaced power sales	393,269	-	-
Gross operating revenues	11,045,427	12,459,090	11,207,976
Rate rebate	(1,500,000)	(864,590)	(800,000)
Net operating revenues	9,545,427	11,594,500	10,407,976
Operating expenses:			
Operating and maintenance	3,651,180	3,438,761	3,603,519
General and administrative	2,680,009	2,373,125	2,190,623
Depreciation expense	4,070,540	4,046,332	3,912,905
Total operating expenses	10,401,729	9,858,218	9,707,047
Operating income (loss)	(856,302)	1,736,282	700,929

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 2014

<i>June 30,</i>	2015	2014	2013
Non-operating revenues (expenses):			
Investment income	126,936	95,775	91,823
Grant revenue	1,532,623	1,114,047	216,802
Contract revenue	7,179	373,447	-
Grant expense	(1,532,623)	(1,114,047)	(237,681)
Contract expense	(7,179)	(373,447)	-
Interest expense	(544,865)	(665,339)	(688,323)
Bond issuance and refunding expense	(324,981)	-	-
Other income (expense)	(21,218)	103,173	17,239
Net non-operating revenues (expenses)	(764,128)	(466,391)	(600,140)
Income (loss) before capital contributions and special item	(1,620,430)	1,269,891	100,789
Capital contributions	466,347	300,778	6,392
Special item - Tye transition	(405,708)	-	-
Change in net position	(1,559,791)	1,570,669	107,181
Net Position - beginning of year	142,439,177	140,868,508	140,761,327
Net Position - end of year	\$ 140,879,386	\$ 142,439,177	\$ 140,868,508

Discussion of Operations

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 include Displaced Power Sales this year. Ketchikan brought a new hydroelectric facility on line in October 2014. The 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. 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.

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 2014

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 (see note 8).

Operations - FY2014

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.

The 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 Tyee Lake hydroelectric project. The operations of the Tyee Lake facility transitioned smoothly from TBPA in August, 2014 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 (DCCED) 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.

The Southeast Alaska Power Agency

Management's Discussion and Analysis

June 30, 2015 and 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 company.

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

Next year's revenues are anticipated to remain relatively flat, with prognostic charts projecting a continuation of the current mild, wet weather pattern. Depressed heating fuel prices will significantly slow space-heating conversions from oil to electric, effectively halting load growth in that area. Commercial and industrial loads may see a slight increase in Ketchikan due to expansions at the Coast Guard Base, Hospital and Shipyard. However, implementation of energy efficiency measures will partially offset anticipated load growth. Weather volatility and fluctuations in seasonal fish processing loads remain the largest influence on revenues.

Alaska's fiscal crisis should not directly impact the FY2016 budget, SEAPA's wholesale power rate, or revenues. However, it is expected to stifle future State renewable energy grant funding opportunities.

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Financial Statements

The Southeast Alaska Power Agency

Statements of Net Position

<i>June 30,</i>	2015	2014
Assets and Deferred Outflows		
Current Assets		
Cash and investments, including restricted cash and investments of \$2,737,335 and \$2,435,438 at June 30, 2015 and 2014, respectively	\$ 25,227,079	\$ 16,714,672
Accounts receivable	1,287,795	1,080,577
Grants receivable	145,158	330,069
Accrued interest receivable	15,398	33,258
Inventory	952,952	8,143
Prepaid expenses	253,527	159,141
Total Current Assets	27,881,909	18,325,860
Noncurrent Assets		
Cash and investments, unrestricted	6,710,645	7,760,143
Capital assets, net	128,361,609	131,289,413
Total Noncurrent Assets	135,072,254	139,049,556
Deferred Outflows - deferred loss on refunding	168,095	-
Total Assets and Deferred Outflows	\$ 163,122,258	\$ 157,375,416
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 831,312	\$ 726,057
Rebate payable to members	1,500,000	864,590
Accrued interest payable	73,154	50,804
Current portion of other long-term liabilities	194,797	-
Current portion of long-term debt	745,000	725,000
Total Current Liabilities	3,344,263	2,366,451
Noncurrent Liabilities		
Other long term liabilities	488,766	-
Long-term debt, net of current portion	17,455,000	12,675,000
Bond issue premium (discount), net	954,843	(105,212)
Total Noncurrent Liabilities	18,898,609	12,569,788
Total Liabilities	22,242,872	14,936,239
Net Position		
Net investment in capital assets	109,374,861	117,994,625
Restricted for debt service	1,622,843	1,359,425
Restricted by agreements with external parties	873,886	798,875
Unrestricted	29,007,796	22,286,252
Total Net Position	140,879,386	142,439,177
Total Liabilities and Net Position	\$ 163,122,258	\$ 157,375,416

See accompanying notes to financial statements.

The Southeast Alaska Power Agency

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2015	2014
Operating Revenues		
Revenue from power sales	\$ 11,045,427	\$ 12,459,090
Rate rebate	(1,500,000)	(864,590)
Net Operating Revenues	9,545,427	11,594,500
Operating Expenses		
Operating and maintenance	3,651,180	3,438,761
General and administrative	2,680,009	2,373,125
Depreciation expense	4,070,540	4,046,332
Total Operating Expenses	10,401,729	9,858,218
Operating income (loss)	(856,302)	1,736,282
Nonoperating Revenues (Expenses)		
Investment income	126,936	95,775
Grant revenue	1,532,623	1,114,047
Contract revenue	7,179	373,447
Grant expenses	(1,532,623)	(1,114,047)
Contract expenses	(7,179)	(373,447)
Interest expense	(544,865)	(665,339)
Costs of bond issuance and refunding	(324,981)	-
Other income (expense)	(21,218)	103,173
Net Nonoperating Revenues (Expenses)	(764,128)	(466,391)
Income (loss) before capital contributions and special item	(1,620,430)	1,269,891
Capital contributions	466,347	300,778
Special item - Tyee transition	(405,708)	-
Change in net position	(1,559,791)	1,570,669
Net Position, beginning of year	142,439,177	140,868,508
Net Position, end of year	\$ 140,879,386	\$ 142,439,177

See accompanying notes to financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows

<i>Years Ended June 30,</i>	2015	2014
Cash Flows from Operating Activities		
Receipts from customers	\$ 11,080,708	\$ 12,201,554
Payment of rate rebate	(864,590)	(800,000)
Payments to suppliers and employees	(6,372,174)	(5,739,914)
Other receipts	11,572	103,173
Net cash flows from operating activities	3,855,516	5,764,813
Cash Flows from Noncapital and Related Financing Activities		
Grant and contract receipts	1,258,366	966,763
Grant and contract expenses	(1,073,455)	(1,186,716)
Net cash flows from (for) noncapital and related financing activities	184,911	(219,953)
Cash Flows from Capital and Related Financing Activities		
Capital grants received	466,347	300,778
Interest payments on long-term debt	(533,551)	(658,925)
Principal payments on long-term debt	(725,000)	(700,000)
Proceeds from issuance of bonds	6,427,996	-
Payments for issuance costs of long-term debt	(324,981)	-
Purchase of capital assets	(2,033,125)	(2,821,126)
Net cash flows from (for) capital and related financing activities	3,277,686	(3,879,273)
Cash Flows from Investing Activities		
Investment income received	144,796	101,826
Net increase in cash and cash equivalents	7,462,909	1,767,413
Cash and Investments, beginning of year	24,474,815	22,707,402
Cash and Investments, end of year	\$ 31,937,724	\$ 24,474,815
Supplemental Disclosure of Noncash Information		
Transfer of inventory from construction in progress	\$ 890,389	\$ -
Assumption of receivables related to Tyee transition	\$ 242,499	\$ -
Assumption of long-term liabilities related to Tyee transition	\$ 683,563	\$ -

The Southeast Alaska Power Agency

Statements of Cash Flows, Continued

Years Ended June 30,	2015	2014
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities		
Operating income (loss)	\$ (856,302)	\$ 1,736,282
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	4,070,540	4,046,332
Other income (expense)	(21,218)	103,173
Special item - Tyee transition costs paid	35,356	-
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Inventory	(54,420)	-
Prepaid expenses	(94,386)	46,068
Accounts receivable	35,281	(257,536)
Increase in liabilities:		
Accounts payable and accrued expenses	105,255	25,904
Rebate payable to members	635,410	64,590
Net Cash Flows From Operating Activities	\$ 3,855,516	\$ 5,764,813

See accompanying notes to financial statements.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements Years Ended June 30, 2015 and 2014

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, 2015 and 2014 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:

	2015	2014
Ketchikan Public Utilities	50%	55%
Wrangell Municipal Light and Power	24%	21%
Petersburg Municipal Light and Power	26%	24%
	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, 2015 and 2014, 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, 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

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

	Cash and Cash Equivalents	Investments	Total
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 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 - current	14,279,234	-	14,279,234
Unrestricted - noncurrent - Investment fund	-	7,760,143	7,760,143
Restricted - current:			
Reclamation contingency fund	777,257	-	777,257
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

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 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;

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, 2015 and 2014, the Agency had the following cash and investments:

<i>June 30,</i>	2015	2014
Money market	\$ 2,748,035	\$ 2,743,508
Demand deposits	21,068,198	13,949,546
U.S. government agencies	1,153,337	1,530,392
U.S. government bonds	5,735,634	4,742,648
Corporate bonds	1,210,899	1,487,103
Certificates of deposit	21,621	21,618
Total	\$ 31,937,724	\$ 24,474,815

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.

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, 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
<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

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, 2015 and 2014, 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	
		2015	2014
U.S. government agencies	AAA	14.3%	19.7%
U.S. government bonds	AAA	70.8%	61.1%
Corporate bonds	AAA	14.9%	19.2%
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, 2015 and 2014, \$1,987,335 and \$753,887, 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, 2015, 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	\$ 1,153,337	14.2 %
U.S. Treasury Bond	5,735,634	70.8 %
Corporate Bonds	1,210,899	15.0 %

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 Home Loan Mortgage Corporation	\$ 1,530,392	19.7 %
Federal National Mortgage Association	4,742,648	61.1 %
U.S. Treasury Bond	1,487,103	19.2 %

4. Capital Assets

The components of the Agency's capital assets at June 30, 2015 and 2014 are as follows:

	2015	2014
Tyee Lake	\$ 28,706,181	\$ 28,035,495
Swan Lake	18,484,868	18,803,247
Swan-Tyee Intertie	112,144,397	111,616,420
SEAPA office - SCADA	750,474	739,668
Leasehold improvements	25,000	25,000
	160,110,920	159,219,830
Less accumulated depreciation	(31,749,311)	(27,930,417)
Total Capital Assets, Net Of Accumulated Depreciation	\$ 128,361,609	\$ 131,289,413

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

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

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
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

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

5. Long-Term Liabilities

In 2015, the Agency assumed operations of the Tyee 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 are the components of long-term liabilities:

	Balance at June 30, 2014	Additions	Reduction	Balance at June 30, 2015	Due Within One Year
PERS Unfunded Liability	\$ -	\$ 683,563	\$ -	\$ 683,563	\$ 194,797

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%-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 bonds.

The Southeast Alaska Power Agency

Notes to Basic Financial Statements

Annual debt service requirements as of June 30, 2015 follow:

Year Ending June 30,	Series 2009		Series 2015		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	\$ 745,000	\$ 356,288	\$ -	\$ 521,555	\$ 745,000	\$ 877,843	\$ 1,622,843
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
2021-2025	3,890,000	504,793	965,000	2,438,440	4,855,000	2,943,233	7,798,233
2026-2030	-	-	5,490,000	1,627,313	5,490,000	1,627,313	7,117,313
2031-2033	-	-	3,840,000	301,476	3,840,000	301,476	4,141,476
	\$ 7,905,000	\$ 1,999,355	\$ 10,295,000	\$ 6,839,536	\$ 18,200,000	\$ 8,838,891	\$ 27,038,891

The following tables reflect the changes in long-term debt for the years ended June 30, 2015 and 2014, respectively:

	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

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

Bond premiums and discounts as of June 30, 2015 and 2014 are as follows:

	2015	2014
Premium	\$ 991,049	\$ -
Discount	(53,880)	(125,430)
Total	937,169	(125,430)
Less accumulated amortization	17,674	20,218
Net premium (discount)	\$ 954,843	\$ (105,212)

The Agency recorded \$16,285 and \$6,602 as amortization to interest expense for the years ended June 30, 2015 and 2014, 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 2012.

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
2016	\$ 52,577
2017	48,560
2018	50,045
2019	51,530
2020	26,136
Total	\$ 228,848

During 2015 and 2014, the Agency expensed \$58,819 and \$54,350, respectively, under non-cancelable lease obligations.

8. Special Item - Tye Transition

In 2015, the Agency assumed operations of the Tye 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
Expenses paid	35,356
Total Special Item - Tye Transition	\$ (405,708)

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.

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Supplementary Information

The Southeast Alaska Power Agency

Schedule of State Financial Assistance

Year Ended June 30, 2015

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	\$ 194,568
*Hydroelectric Storage, Generation, Transmission & Business Analysis	13-DC-553	3,000,000	<u>1,095,340</u>
Total Department of Commerce, Community and Economic Development			<u>1,289,908</u>
Alaska Energy Authority			
*Kake-Petersburg Intertie Final Design	2195414	2,990,000	<u>242,715</u>
Total State Financial Assistance			<u>\$ 1,532,623</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



Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

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

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, 2015, 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 18, 2015.

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 18, 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
The Southeast Alaska Power Agency

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, 2015. 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, 2015.

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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 18, 2015

The Southeast Alaska Power Agency

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

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, 2015*

There were no prior year audit findings.

The Southeast Alaska Power Agency

Corrective Action Plan *Year Ended June 30, 2015*

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