



# Southeast Alaska Power Agency

## Financial Statements and Supplementary Information

For the Years Ended June 30, 2013 and 2012

(With Independent Auditor's Report Thereon)

## **Southeast Alaska Power Agency**

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Financial Statements and Supplementary Information  
For the Years Ended June 30, 2013 and 2012

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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, 2013, and the related statements of revenue, expenses, and changes in net position and cash flows for the year 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 audit. 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, 2013, and the changes in its financial position and its cash flows for the year 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***

***2012 Financial Statements***

Southeast Alaska Power Agency's basic financial statements for the year ended June 30, 2012 were audited by other auditors whose report thereon, dated December 7, 2012, expressed an unmodified opinion on the basic financial statements.

***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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 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  
December 20, 2013

## Management's Discussion and Analysis

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# Southeast Alaska Power Agency

## Management's Discussion and Analysis

June 30, 2013 and 2012

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This presentation and analysis is intended to serve as an introduction to and discussion of the June 30, 2013 and 2012 financial statements of The Southeast Alaska Power Agency (SEAPA).

### Administrative Highlight: Mission Statement

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The Board of Directors adopted the following mission statement in 2013:

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

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- The Agency's assets exceeded liabilities at June 30, 2013 by \$140,868,508. This represents an increase of \$107,181 over the year ended June 30, 2012.
- The wholesale power rate was maintained at 6.8 cents/kWh in 2013, a rate that has held steady for 16 consecutive years and was approved again for fiscal year 2014.
- An \$800,000 rebate was approved for fiscal year 2013. This is equal to the rebate issued in fiscal year 2012. Rebates are approved by the Board at the end of the fiscal year and are 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 event occurs.
- Three state grants were awarded to SEAPA during the year, totaling \$7,990,000. Details regarding these grants are included in the Discussion of Operations.
- The Potential Failure Mode Analysis (PFMA) project for Solomon Gulch was completed in FY2013. This project began in 2007 and addressed FERC-mandated engineering analyses for Solomon Gulch, a facility owned by the Four Dam Pool Power Agency prior to restructuring as SEAPA.
- In 2013, SEAPA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In accordance with these provisions, bond origination costs are to be expensed in the period in which they occur. The impact is that these costs, incurred in 2009 and previously reported in the asset portion of the Statement of Net Assets, were restated for all years in the current statements. "Net Assets" were also renamed "Net Position" in these statements. (see Note 8)

# Southeast Alaska Power Agency

## Management's Discussion and Analysis

June 30, 2013 and 2012

### Financial Position

Total assets, total liabilities and total net position at June 30, 2013, 2012 and 2011 follows:

June 30,	2013	2012	2011
<b>Assets:</b>			
Current assets	\$ 13,806,294	\$ 12,127,251	\$ 10,147,102
Capital assets	132,514,620	134,411,504	138,148,449
Other noncurrent assets	10,086,926	10,363,319	10,158,302
<b>Total Assets</b>	<b>\$ 156,407,840</b>	<b>\$ 156,902,074</b>	<b>\$ 158,453,853</b>
<b>Liabilities:</b>			
Current liabilities	\$ 2,255,062	\$ 2,163,969	\$ 2,999,730
Noncurrent liabilities	13,284,270	13,976,778	14,646,102
<b>Total liabilities</b>	<b>15,539,332</b>	<b>16,140,747</b>	<b>17,645,832</b>
<b>Net position:</b>			
Net investment in capital assets	118,530,350	119,759,726	122,847,347
Restricted for debt service	1,358,925	1,355,863	1,355,513
Restricted under agreements with external parties	723,857	627,238	573,746
Unrestricted	20,255,376	19,018,500	16,031,415
<b>Total net position, as restated</b>	<b>140,868,508</b>	<b>140,761,327</b>	<b>140,808,021</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 156,407,840</b>	<b>\$ 156,902,074</b>	<b>\$ 158,453,853</b>

### Discussion of Financial Position

The Self-Insured Risk Fund, established in fiscal year 2012 to mitigate uninsured risks and pay insurance deductibles in case of a catastrophic incident, held a balance of \$10,199,470 as of June 30, 2013. A risk assessment study completed in 2013 established the highest single-event risk exposure to be an insurance deductible of \$7.85 million. An insurance audit initiated in 2013 confirmed these findings. As a result of the lower uninsured risk threshold, the Self-Insured Risk Fund balance was reduced to \$8 million in FY2014. The excess funds were moved to R&R to fully fund board-approved Repair & Replacement Projects.

Two feasibility projects, the Swan Lake Reservoir Expansion project and the Tye Lake Stream Gauge project, transitioned to capital work in progress this year.

The Swan Lake Reservoir Expansion project will increase hydro storage capacity at the present facility by as much as 25%. The project will reduce annual spill and provide additional energy to meet growing load demand. Additional benefits of this project include reduced diesel generation costs for Member Utilities and increased sales for SEAPA. This project is scheduled for completion in 2016.

The purpose of the Tye Lake Stream Gauge project is to enable accurate lake level and stream flow measurements as required by SEAPA's FERC license. The existing USGS gauging station has deteriorated as the project ages. Additional benefits of this project include a small increase in



# Southeast Alaska Power Agency

## Management's Discussion and Analysis

*June 30, 2013 and 2012*

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storage at the project, as well as providing long-term water inflow data for the Tyee basin. This project is scheduled for completion in FY2014.

The Cooling Water R&R project, designed to increase hydro resource efficiency at the Tyee Lake facility, was also initiated this year. The old system cooled the generator by pulling water from the penstock before it reached the turbine. 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.

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# Southeast Alaska Power Agency

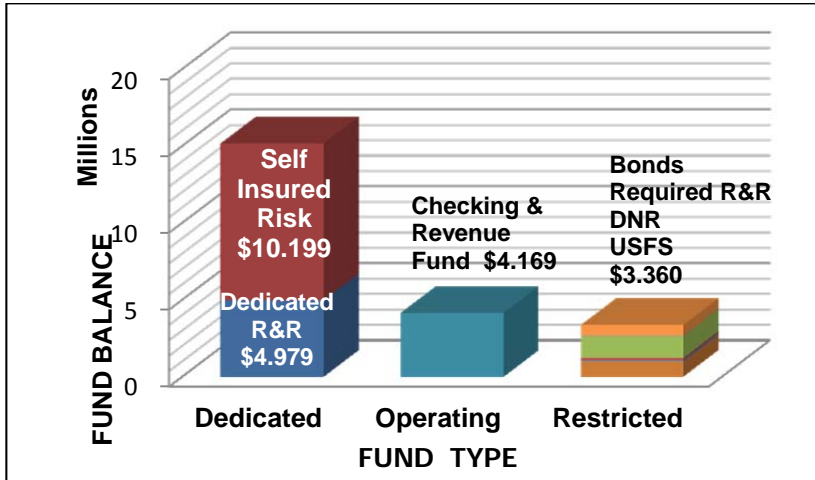
## Management's Discussion and Analysis

*June 30, 2013 and 2012*

The Fund Allocation Graph below displays SEAPA's cash balance as of June 30, 2013 (see Note 3):

### Fund Allocation Graph

Agency Funds	<u>06/30/2013</u>
<b>Operating/Capital/Insurance Funds</b>	
Revenue Fund	\$ 4,166,826
Required R&R Fund	1,000,612
Dedicated R&R Projects Fund	4,979,426
Commercial FB	1,420
Subordinate Debt Fund	309
Self-Insured Risk Fund FNBA	<u>10,199,470</u>
<b>Total Operating/Capital/Insurance Funds</b>	<b>\$20,348,063</b>
<b>Trustee Funds</b>	
Trust Bond Interest	109,841
Trust Bond Principal	116,704
Trust Bond Reserve	1,408,935
Refund 2004AB Escrow	<u>2</u>
<b>Total Trustee Funds</b>	<b>\$1,635,483</b>
<b>Restricted Funds</b>	
STI - USFS CD WF	21,608
DNR Reclamation Fund WF	<u>702,249</u>
<b>Total Restricted Funds</b>	<b>\$723,857</b>
<b>Total Agency Funds</b>	<b><u>\$22,707,402</u></b>



**Dedicated Funds**

Self-Insured Risk Fund: Coverage for uninsured transmission lines, submarine cables and insurance deductibles

Dedicated R&R: Funding for Replacement & Repair projects approved by Board

**Operating Funds**

Checking and Revenue Funds

**Restricted Funds (legally or contractually restricted)**

Bonds: All Trustee Funds, Bond Interest, Principal, Reserve and Escrow accounts

R&R: \$1,000,000 minimum balance required by bond indenture

DNR: Alaska Dept. of Natural Resources Reclamation Agreement

USFS: USFS Land Remediation Certificate of Deposit

# Southeast Alaska Power Agency

## Management's Discussion and Analysis

June 30, 2013 and 2012

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### 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.

### Financial Position - FY2012 Compared to FY2011

Total assets decreased by \$1,551,779 for the year ended June 30, 2012. This decrease is also attributable to capital asset related activity. The Agency received an expected In-Lieu Fee credit from Alaska Energy Authority in fiscal year 2011, which comprised the majority of the increase in cash and investments.

Total liabilities decreased by \$1,505,085 compared to FY2011. The decrease is attributable to a decrease in the rate rebate payable of \$850,000 and a \$655,000 reduction in long-term debt due to principal payments.

Total net position decreased by \$46,694 compared to FY2011. This is mostly attributable to increases in depreciation expense as grant funded projects from fiscal year 2011 and older are placed into service. During years the Agency has capital projects funded by grants, net assets tend to increase followed by decreases in net assets in subsequent years once those projects are placed into service and depreciation commences.

### Operations

Components of the Agency's operating revenues, operating expenses, and non-operating revenues/expenses for the years ended June 30, 2013, 2012, and 2011 are as follows:

<i>June 30,</i>	2013	2012	2011
Operating revenues - revenue from power sales	\$ 11,207,976	\$ 11,608,217	\$ 11,099,706
Rate rebate	(800,000)	(800,000)	(1,650,000)
Net operating revenues	10,407,976	10,808,217	9,449,706
Operating expenses:			
Operating and maintenance	3,603,519	4,347,020	3,301,870
General and administrative	2,190,623	2,023,351	1,923,624
Depreciation expense	3,912,905	3,922,821	3,827,841
Total operating expenses	9,707,047	10,293,192	9,053,335
Operating income	700,929	515,025	396,371

# Southeast Alaska Power Agency

## Management's Discussion and Analysis

*June 30, 2013 and 2012*

<i>June 30,</i>	2013	2012	2011
<b>Non-operating revenues (expenses):</b>			
Grant revenue	\$ 223,194	\$ -	\$ -
Grant expense	(237,681)	-	-
Investment income	91,823	131,582	163,236
Interest expense	(688,323)	(704,027)	(807,911)
Other	17,239	10,726	3,786
<b>Net non-operating revenues (expenses)</b>	<b>(593,748)</b>	<b>(561,719)</b>	<b>(640,889)</b>
Change in net position	107,181	(46,694)	(244,518)
<b>Net Position - beginning of year</b>	<b>140,761,327</b>	<b>140,808,021</b>	<b>140,563,503</b>
<b>Net Position - end of year</b>	<b>\$ 140,868,508</b>	<b>\$ 140,761,327</b>	<b>\$ 140,808,021</b>

### Discussion of Operations

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 will be used in part to further evaluate potential hydroelectric sites in the region and increase the reservoir storage capacity at Swan Lake. 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 issued two grants to SEAPA in the amounts of \$2,990,000 and \$2,000,000. 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.

#### Operations - FY2013 Compared to FY2012

Annual revenue from power sales was \$400,241 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 Project Failure Mode Analysis project and FY2012 expenses related to the non-capital portion of projects placed in service in 2011 and 2012.

In summary, the change in net assets for the year ended June 30, 2013 was \$107,181 higher than the year ended June 30, 2012. Total net assets at June 30, 2013 were \$140,868,508 compared to \$140,761,327 at June 30, 2012.

# Southeast Alaska Power Agency

## Management's Discussion and Analysis

*June 30, 2013 and 2012*

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### Operations - FY2012 Compared to FY2011

Revenue from FY2012 power sales, before the rate rebate, was \$508,511 higher than FY2011 due to continued load growth and favorable hydro conditions.

Operating expenses for the year ended June 30, 2012 were \$1,239,857 higher. This is primarily due to increases in operating and maintenance expenses related to projects placed into service in fiscal years 2011 and 2012. Notable increases are related to PFMA analysis, SCADA and helipad costs that are not considered capital investments, in addition to required routine maintenance on generation and transmission capital assets. Depreciation expense increased significantly for the year ended June 30, 2012 due to generation and transmission assets placed into service.

### **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 increase, dependent upon seasonal inflows into the reservoirs. On the demand side, the high price of diesel is expected to continue to motivate conversions of residential heating from diesel to electric.

Swan Lake Increased Storage - SEAPA has requested full funding of \$12.3 million for the balance of this project through the Community Priority Process from the Office of the Governor. SEAPA may also seek a direct legislative appropriation as an alternate means of funding the project. A Renewable Energy Fund grant in the amount of \$4 million was applied for in the autumn of 2013, and on a parallel path, SEAPA will be exploring bond options.

## Financial Statements

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# Southeast Alaska Power Agency

## Statements of Net Position

<i>June 30,</i>	2013	(Restated) 2012
<b>Assets</b>		
Current assets:		
Cash and investments, including restricted cash and investments of \$2,359,339 and \$1,915,234 at June 30, 2013 and 2012, respectively	\$ 12,620,476	\$ 11,111,390
Accounts receivable	933,157	817,317
Accrued interest receivable	39,309	48,663
Inventory	8,143	8,143
Prepaid expenses and other assets	205,209	141,738
<b>Total current assets</b>	<b>13,806,294</b>	<b>12,127,251</b>
Noncurrent assets:		
Cash and investments, including restricted cash and investments of \$0 and \$364,675 at June 30, 2013 and 2012, respectively	10,086,926	10,363,319
Capital assets, net	132,514,620	134,411,504
<b>Total noncurrent assets</b>	<b>142,601,546</b>	<b>144,774,823</b>
<b>Total Assets</b>	<b>\$ 156,407,840</b>	<b>\$ 156,902,074</b>
<b>Liabilities and Net Position</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 700,153	\$ 634,028
Rebate payable to members	800,000	800,000
Accrued interest payable	54,909	54,941
Current portion of long-term debt	700,000	675,000
<b>Total current liabilities</b>	<b>2,255,062</b>	<b>2,163,969</b>
Noncurrent liabilities:		
Long-term debt, net of current portion	13,400,000	14,100,000
Bond issue premium (discount), net	(115,730)	(123,222)
<b>Total noncurrent liabilities</b>	<b>13,284,270</b>	<b>13,976,778</b>
<b>Total liabilities</b>	<b>15,539,332</b>	<b>16,140,747</b>
Net position:		
Net investment in capital assets	118,530,350	119,759,726
Restricted for debt service	1,358,925	1,355,863
Restricted by agreements with external parties	723,857	627,238
Unrestricted	20,255,376	19,018,500
<b>Total net position, as restated</b>	<b>140,868,508</b>	<b>140,761,327</b>
<b>Total Liabilities and Net Position, as restated</b>	<b>\$ 156,407,840</b>	<b>\$ 156,902,074</b>

*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>	2013	(Restated) 2012
Operating revenues:		
Revenue from power sales	\$ 11,207,976	\$ 11,608,217
Rate rebate	(800,000)	(800,000)
<b>Net operating revenues</b>	<b>10,407,976</b>	<b>10,808,217</b>
Operating expenses:		
Operating and maintenance	3,603,519	4,347,020
General and administrative	2,190,622	2,023,351
Depreciation expense	3,912,906	3,922,821
<b>Total operating expenses</b>	<b>9,707,047</b>	<b>10,293,192</b>
Operating income	700,929	515,025
Nonoperating revenues (expenses):		
Investment income	91,823	131,582
Grant revenue	223,194	-
Grant expenses	(237,681)	-
Interest expense	(688,323)	(704,027)
Other	17,239	10,726
<b>Net nonoperating revenues (expenses)</b>	<b>(593,748)</b>	<b>(561,719)</b>
Change in net position	107,181	(46,694)
<b>Net Position - beginning of year, as restated</b>	<b>140,761,327</b>	<b>140,808,021</b>
<b>Net Position - end of year</b>	<b>\$ 140,868,508</b>	<b>\$ 140,761,327</b>

*See accompanying notes to financial statements.*



## Southeast Alaska Power Agency

### Statements of Cash Flows

<i>Years Ended June 30,</i>	2013	2012
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 11,092,136	\$ 11,696,431
Payment of rate rebate	(800,000)	(1,650,000)
Payments to suppliers and employees	(5,791,487)	(6,402,400)
Grant receipts	223,194	-
Grant expenses	(237,681)	-
Other receipts	17,239	10,726
<b>Net cash flows from operating activities</b>	<b>4,503,401</b>	<b>3,654,757</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Interest payments on long-term debt	(680,863)	(703,992)
Principal payments on long-term debt	(675,000)	(655,000)
Purchase of capital assets	(2,016,022)	(185,876)
<b>Net cash flows from capital and related financing activities</b>	<b>(3,371,885)</b>	<b>(1,544,868)</b>
<b>Cash Flows from Investing Activities</b>		
Investment income received	101,177	132,169
<b>Net increase in cash and cash equivalents</b>	<b>1,232,693</b>	<b>2,242,058</b>
<b>Cash and Investments at beginning of year</b>	<b>21,474,709</b>	<b>19,232,651</b>
<b>Cash and Investments at end of year</b>	<b>\$ 22,707,402</b>	<b>\$ 21,474,709</b>
Reconciliation of change in net position to net cash flows from operating activities:		
Change in net position	\$ 107,181	\$ (46,694)
Adjustments to reconcile change in net position to net cash flows provided by operating activities:		
Depreciation	3,912,906	3,922,821
Investment income	(91,823)	(131,582)
Interest expense	688,323	704,027
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Inventory	-	(8,143)
Prepaid expenses and other assets	(63,471)	(10,820)
Accounts receivable	(115,840)	77,488
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	66,125	(2,340)
Rebate payable to members	-	(850,000)
<b>Net cash flows from operating activities</b>	<b>\$ 4,503,401</b>	<b>\$ 3,654,757</b>

*See accompanying notes to financial statements.*

# Southeast Alaska Power Agency

## Notes to Basic Financial Statements Years Ended June 30, 2013 and 2012

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### 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

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### *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.

### *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

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### *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.

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, 2013 and 2012 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:

	2013	2012
Ketchikan Public Utilities	52%	53%
Wrangell Municipal Light and Power	23%	22%
Petersburg Municipal Light and Power	25%	25%
	100%	100%

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# Southeast Alaska Power Agency

## Notes to Basic Financial Statements

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### *Operating Revenues and Expenses*

The Agency considers all its revenues and expenses, except for contributions, investment income, capital grants, and interest expense, to be part of its principal ongoing operations and therefore classifies these revenues and expenses as operating in the statement of revenues, expenses, and changes in net position.

### *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, 2013 and 2012, 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

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### *Change in Accounting Principle*

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 as outlined in note 8.

### **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, 2013:

<i>June 30, 2013</i>	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
<b>Total unrestricted</b>	<b>10,261,137</b>	<b>-</b>	<b>10,261,137</b>
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
<b>Total restricted - current</b>	<b>1,994,128</b>	<b>365,211</b>	<b>2,359,339</b>
<b>Total Cash And Investments</b>	<b>\$ 12,255,265</b>	<b>\$ 10,452,137</b>	<b>\$ 22,707,402</b>

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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, 2012:

<i>June 30, 2012</i>	Cash and Cash Equivalents	Investments	Total
<b>Unrestricted - current:</b>			
Internal renewal and replacement fund	\$ 1,000,187	\$ -	\$ 1,000,187
Dedicated renewal and replacement fund	6,581,534	-	6,581,534
Revenue fund	1,500,330	-	1,500,330
Commercial checking account	974	-	974
Subordinate debt	309	-	309
Investment fund	112,822	-	112,822
<b>Total unrestricted</b>	<b>9,196,156</b>	<b>-</b>	<b>9,196,156</b>
<b>Unrestricted - noncurrent -</b>			
Investment fund	-	9,998,644	9,998,644
<b>Restricted - current:</b>			
Insurance escrow fund	1	-	1
Reclamation contingency fund	627,238	-	627,238
2009 Trust series bond interest	113,497	-	113,497
2009 Trust series bond principal	112,534	-	112,534
2009 Trust series bond reserve	355,577	684,790	1,040,367
STI CD	21,597	-	21,597
<b>Total restricted - current</b>	<b>1,230,444</b>	<b>684,790</b>	<b>1,915,234</b>
<b>Restricted - noncurrent -</b>			
2009 Trust series bond reserve	-	364,675	364,675
<b>Total Cash And Investments</b>	<b>\$ 10,426,600</b>	<b>\$ 11,048,109</b>	<b>\$ 21,474,709</b>

### *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;

# Southeast Alaska Power Agency

## Notes to Basic Financial Statements

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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;
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



# Southeast Alaska Power Agency

## Notes to Basic Financial Statements

7. Any other investment permitted under the Issuer's investment policy, as amended, from time to time in writing, which will not adversely affect the ratings of the Outstanding 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, 2013 and 2012, the Agency had the following cash and investments:

<i>June 30,</i>	2013	2012
Money market	\$ 2,085,062	\$ 1,321,668
Demand deposits	10,148,595	9,083,335
U.S. government agencies	6,905,910	6,655,828
U.S. government bonds	1,414,457	2,120,230
Corporate bonds	2,131,770	2,272,051
Certificates of deposit	21,608	21,597
<b>Total</b>	<b>\$ 22,707,402</b>	<b>\$ 21,474,709</b>

### *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, 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
<b>Total</b>	<b>\$ 10,452,137</b>	<b>\$ 365,211</b>	<b>\$ 10,086,926</b>
<i>June 30, 2012</i>			
U.S. government agencies	\$ 6,655,828	\$ 684,790	\$ 5,971,038
U.S. government bonds	2,120,230	-	2,120,230
Corporate bonds	2,272,051	-	2,272,051
<b>Total</b>	<b>\$ 11,048,109</b>	<b>\$ 684,790</b>	<b>\$ 10,363,319</b>

# 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, 2013 and 2012, 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	
		2013	2012
U.S. government agencies	AAA	66.1%	60.2%
U.S. government bonds	AAA	13.5%	19.2%
Corporate bonds	AAA	20.4%	20.6%
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>

*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, 2013 and 2012, \$700,408 and \$83,465, 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, 2013, the Agency's investments included the following concentrations greater than 5%:

<i>June 30, 2013</i> 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%

# Southeast Alaska Power Agency

## Notes to Basic Financial Statements

At June 30, 2012, the Agency's investments included the following concentrations greater than 5%:

<i>June 30, 2012</i> Investment Type	Investment at Fair Value	Percentage of Total Portfolio
Federal Home Loan Mortgage Corporation	\$ 2,490,539	22.6%
Federal National Mortgage Association	2,594,579	23.5%
U.S. Treasury Bond	2,120,230	19.2%
Federal Home Loan Bank	1,570,710	14.2%

### 4. Capital Assets

The components of the Agency's capital assets at June 30, 2013 and 2012 are as follows:

<i>June 30,</i>	2013	2012
Tyee Lake	\$ 26,347,903	\$ 25,968,384
Swan Lake	17,818,959	16,169,752
Swan-Tyee Intertie	111,542,302	111,484,555
SEAPA office - SCADA	664,541	707,427
Leasehold improvements	25,000	52,566
	<u>156,398,705</u>	<u>154,382,684</u>
Less accumulated depreciation	(23,884,085)	(19,971,180)
<b>Total Capital Assets, Net Of Accumulated Depreciation</b>	<b>\$ 132,514,620</b>	<b>\$ 134,411,504</b>

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

<i>June 30, 2013</i>	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
<b>Total capital assets not being depreciated</b>	<b>392,671</b>	<b>1,774,771</b>	<b>(111,832)</b>	<b>2,055,610</b>

# Southeast Alaska Power Agency

## Notes to Basic Financial Statements

<i>June 30, 2013</i>	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	768,626	204,192	-	972,818
Leasehold improvements	25,000	-	-	25,000
<b>Total capital assets being depreciated</b>	<b>153,990,013</b>	<b>353,083</b>	<b>-</b>	<b>154,343,096</b>
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)
<b>Total accumulated depreciation</b>	<b>(19,971,180)</b>	<b>(3,912,906)</b>	<b>-</b>	<b>(23,884,086)</b>
<b>Capital assets being depreciated, net</b>	<b>134,018,833</b>	<b>(3,559,823)</b>	<b>-</b>	<b>130,459,010</b>
<b>Total Capital Assets, Net</b>	<b>\$ 134,411,504</b>	<b>(1,785,052)</b>	<b>(111,832)</b>	<b>132,514,620</b>

Capital asset activity for the Agency for the year ended June 30, 2012 follows:

<i>June 30, 2012</i>	Balance at June 30, 2011	Additions	Transfers and Deletions	Balance at June 30, 2012
Capital assets not being depreciated:				
Swan Lake construction in progress	\$ 35,264	184,231	68,074	151,421
Swan-Tyee construction in progress	959,393	-	856,707	102,686
SEAPA office - SCADA construction in progress	-	130,663	-	130,663
Tyee Lake construction in progress	21,475	14,523	28,097	7,901
<b>Total capital assets not being depreciated</b>	<b>1,016,132</b>	<b>329,417</b>	<b>952,878</b>	<b>392,671</b>

# Southeast Alaska Power Agency

## Notes to Basic Financial Statements

<i>June 30, 2012</i>	Balance at June 30, 2011	Additions	Transfers and Deletions	Balance at June 30, 2012
Capital assets being depreciated:				
Structures	\$ 11,415,466	\$ -	-	\$ 11,415,466
Infrastructure	1,776,658	28,097	-	1,804,755
Generation and distribution	139,340,179	635,987	-	139,976,166
Furniture, fixtures and other	595,806	145,253	-	741,059
Leasehold improvements	52,567	-	-	52,567
<b>Total capital assets being depreciated</b>	<b>153,180,676</b>	<b>809,337</b>	<b>-</b>	<b>153,990,013</b>
Less accumulated depreciation:				
Structures	(3,137,930)	(363,120)	-	(3,501,050)
Infrastructure	(658,671)	(78,280)	-	(736,951)
Generation and distribution	(11,915,228)	(3,438,221)	-	(15,353,449)
Furniture, fixtures and other	(334,030)	(40,700)	-	(374,730)
Leasehold improvements	(2,500)	(2,500)	-	(5,000)
<b>Total accumulated depreciation</b>	<b>(16,048,359)</b>	<b>(3,922,821)</b>	<b>-</b>	<b>(19,971,180)</b>
<b>Capital assets being depreciated, net</b>	<b>137,132,317</b>	<b>(3,113,484)</b>	<b>-</b>	<b>134,018,833</b>
<b>Total Capital Assets, Net</b>	<b>\$ 138,148,449</b>	<b>(2,784,067)</b>	<b>952,878</b>	<b>134,411,504</b>

### 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, 2013, the amount of the bonds considered defeased was \$22,000,000.

The following tables reflect the changes in long-term debt for the years ended June 30, 2013 and 2012, respectively:

<i>June 30, 2013</i>	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

<i>June 30, 2012</i>	Balance at June 30, 2011	Additions	Retired	Balance at June 30, 2012	Due Within One Year
Series 2009 Bonds	\$ 15,430,000	\$ -	\$ 655,000	\$ 14,775,000	\$ 675,000

The minimum payments of the outstanding bonds for the years subsequent to June 30, 2013, based on scheduled maturities, are as follows:

<i>Year Ending June 30:</i>	Principal	Interest	Total
2014	\$ 700,000	\$ 658,925	\$ 1,358,925
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
2019-2023	4,545,000	2,236,239	6,781,239
2024-2028	5,815,000	1,259,416	7,074,446
	\$ 14,100,000	\$ 6,549,698	\$ 20,649,698

### 6. Operating Lease

The Agency entered into a three-year lease agreement for office space in Ketchikan, Alaska in December 2011, 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. The Agency also entered into five-year leases for a copier and printer in March 2011. 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

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<i>Year Ending June 30:</i>	<i>Amount</i>
2014	\$ 54,410
2015	31,986
2016	5,880

During 2013 and 2012, the Agency expensed \$52,925 and \$48,982, 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.

In 2007, as part of its Federal Energy Regulatory Commission (FERC) mandated engineering guidelines, the Agency assembled a team of engineers to review certain potential failure modes at the Solomon Gulch Project ("PFMA Analysis"). Because the outcome of this analysis and associated financial impacts were unknown prior to the closing of the Restructuring transaction, the pre-closing utilities agreed that any resultant costs would be shared between the utilities of the Agency (pre-closing). This agreement is included in the Asset Transfer Agreement. This Post-Closing obligation will continue until all issues related to the Solomon Gulch PFMA have been resolved with FERC, all actions required by FERC have been taken and completed, or a ten (10) year period from Closing has passed, whichever comes first. The total allowed expenses to satisfy this requirement for all members cannot exceed \$5,000,000. SEAPA's maximum exposure would be limited to 45.8% or \$2,291,315. The PFMA projects were completed in FY2013.

### 8. Restatement

Net assets were restated to be properly presented as "net position" with the implementation of GASB Statement numbers 63 and 65 as outlined in Note 2 as follows:

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Beginning net assets previously reported	\$ 141,065,697	\$ 141,187,502
Effect of retroactive implementation of GASB 63 and 65 - unamortized bond issuance costs	(304,370)	(379,481)
<b>Net Position, as Restated</b>	<b>\$ 140,761,327</b>	<b>\$ 140,808,021</b>

## Supplementary Information

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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, 2013, 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 December 20, 2013.

### *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  
December 20, 2013

# Southeast Alaska Power Agency

## Schedule of Findings and Responses

Year Ended June 30, 2013

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### 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?

yes

no

Significant deficiency(ies) identified?

yes

(none reported)

Noncompliance material to financial statements noted?

yes

no

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

None noted.

# Southeast Alaska Power Agency

## Summary Schedule of Prior Audit Findings *Year Ended June 30, 2013*

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Financial Statement Findings Required to be Reported in Accordance with *Governmental Auditing Standards*

There were no prior year audit findings.

# Southeast Alaska Power Agency

## Corrective Action Plan *Year Ended June 30, 2013*

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