The Southeast Alaska Power Agency

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

For the Years Ended June 30, 2018 and 2017

The Southeast Alaska Power Agency

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

For the Years Ended June 30, 2018 and 2017

The Southeast Alaska Power Agency

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Southeast Alaska Power Agency as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise The Southeast Alaska Power Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Southeast Alaska Power Agency as of June 30, 2018 and 2017, 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, and the Schedules of Pension Contributions on pages 36-38 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 January 3, 2019 on our consideration of The Southeast Alaska Power Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Southeast Alaska Power Agency's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
January 3, 2019

Management's Discussion and Analysis

This presentation and analysis are intended to serve as an introduction to and discussion of the June 30, 2018 and 2017 financial statements of The Southeast Alaska Power Agency (SEAPA).

Mission Statement

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

Financial Highlights

- Total assets and deferred outflows of resources exceeded total liabilities by $142M at June 30, 2018 and $142.6M at June 30, 2017. Of these amounts, $21.9M in FY18 and $20.9M in FY2017 were unrestricted and available to meet SEAPA's ongoing obligations to customers and creditors.
- SEAPA's total net position decreased $500K in FY2018 and $66K in FY17. The decrease in FY18 was primarily due to a $2.4M increase in capital assets that was offset by $4.7M depreciation.
- The wholesale power rate was maintained at 6.8 cents/kWh in fiscal year 2018, a rate that has held steady for 21 consecutive years and was approved again for fiscal year 2019.
- Revenue from power sales of $12.239M leveled off after a record high in FY2017, decreasing $650K from the previous fiscal year.
- A rebate of $800K was approved for fiscal year 2018 compared to a rebate of $2.7M in FY2017.
- Creation of a Rate Stabilization Fund with an initial deposit of $2M was approved in FY2018. The fund was established in July 2018.

Statement of Net Position

Total assets, total liabilities and total net assets at June 30, 2018, 2017 and 2016 follows:

June 30,	2018	2017	2016
Assets:			
Current assets	$ 21,438,570	$ 20,779,208	$ 25,924,247
Capital assets	134,078,720	136,441,287	132,304,371
Noncurrent assets	6,549,288	7,664,896	6,616,938
Total Assets	$ 162,066,578	$164,885,391	$164,845,556
Liabilities:			
Current liabilities	$ 2,702,769	$ 4,609,498	$ 3,750,280
Noncurrent liabilities	17,272,338	17,684,011	18,437,865
Total liabilities	19,975,107	22,293,509	22,188,145
Net position			
Net investment in capital assets	117,506,743	119,036,952	114,097,678
Restricted for debt service	1,587,894	1,589,894	1,590,694
Restricted under agreements with external parties	1,108,568	1,024,898	948,891
Unrestricted	21,888,266	20,940,138	26,020,148
Total net position	142,091,471	142,591,882	142,657,411
Total Liabilities and Net Position	$ 162,066,578	$164,885,391	$164,845,556

Discussion of Financial Position

Financial Position - FY2018

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

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

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

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

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

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

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

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

Financial Position - FY2017

Current assets were $5.145M lower, primarily due to depletion of the Construction Fund dedicated to the Swan Lake Reservoir Expansion capital project which was completed during the year. A $242K receivable from ARECA, payable in FY2018, is included in current assets this year.

Capital assets increased $4.137M; the completion of several major capital projects contributed to the increase, including the reservoir expansion and a new debris boom at Swan Lake, helicopter pad installations along the Swan-Tyee Intertie (transmission line), a substation upgrade in Wrangell, and installation of new exciters and switch gear at the Swan Lake facility.

Noncurrent assets consist primarily of investments held in SEAPA's Self-Insured Risk Fund that mature after June 2018.

Current liabilities include an $2.7M rebate to the municipal utilities for FY2017, payable in December 2017, as well as the current portion of long-term debt.

Noncurrent liabilities include $6.390M in Series 2009 Bonds and $10.295M in Series 2015 Bonds. Payments on the 2015 series bonds are interest-only until 2025, with principal payments beginning one year after the Series 2009 bonds are scheduled to expire. It also includes $1.005K in PERS Unfunded Liability. The PERS liability accompanied SEAPA's assumption of operations at the Tyee Lake facility in FY2015. (see note 5)

Net investment in capital assets makes up the largest component (83%) of SEAPA's Net Position. The capital assets consist of buildings, transmission lines, infrastructure, equipment and vehicles, less any outstanding related debt. Net investment in capital assets increased $4.939M in FY2017.

The $1.59M restricted for debt service reflects P&I bond payment in FY2018. $1.025M is restricted under agreements with the USFS and Alaska DNR.

Total Net Position for the year ending June 30, 2017 decreased $66K compared to the previous year.

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

Operating Funds

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

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

Dedicated Funds

R&R Fund - R&R (Renewal and Replacement) funds are dedicated to Board-approved capital projects. A $1M minimum balance required by bond indenture is maintained in the Required R&R Fund. The R&R Fund is capitalized by an annual levelized payment of $2,552M from the Revenue Fund. The levelized payment amount is established by the R&R Plan and updated every five years. Project balances in the R&R Fund are typically carried forward through project completion.

Construction Fund - This fund, was established in May 2015 with partial proceeds from the 2015 Series Bonds and was dedicated to expenditures for the Swan Lake Reservoir Expansion Project. Construction expenses depleted the fund in March 2017.

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

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

Restricted Funds

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

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

DNR Reclamation Funds – This is a reclamation contingency fund established in 2005 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.

Changes in Net Position

Components of the Agency's operating revenues, operating expenses, and non-operating revenues/expenses for the years ended June 30, 2018, 2017, and 2016 are as follows:

June 30,	2018	2017	2016
Operating revenues from power sales	$ 12,239,368	$ 12,700,223	$ 10,917,636
Displaced power sales	—	189,305	665,056
Gross operating revenues	12,239,368	12,889,528	11,582,692
Rate rebate	(800,000)	(2,700,000)	(800,000)
Net operating revenues	11,439,368	10,189,527	10,782,692
Operating expenses:			
Operating and maintenance	3,467,129	3,157,802	2,914,958
General and administrative	2,910,967	2,782,758	2,838,880
Depreciation expense	4,775,039	4,414,025	4,187,221
Total operating expenses	11,153,135	10,354,585	9,941,059
Operating income	286,233	(165,058)	841,633
Non-operating revenues (expenses):			
Investment income	49,767	9,221	79,304
Grant revenue	282,099	855,098	2,625,913
Grant expense	(282,099)	(855,098)	(2,625,913)
Interest expense	(724,552)	(816,106)	(838,005)
Other income (expense)	(111,859)	109,741	(46,906)
Net non-operating revenues (expenses)	(619,851)	(697,144)	(805,607)
Income (loss) before capital contributions and special items	(333,618)	(862,202)	36,026
Capital contributions	—	796,674	2,330,554
Special item – Tyee transition	—	—	(588,555)
Change in net position	(500,411)	(65,528)	1,778,025
Net Position - beginning of year	142,591,883	142,657,411	140,879,386
Net Position - end of year	$142,091,471	$ 142,591,883	$142,657,411

Discussion of Operations

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

Operations – FY2018

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

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

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

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

Operations – FY2017

Firm power sales increased $1.783M over the previous year and are primarily attributed to a colder winter. Displaced Power Sales were $476K lower than FY2016. A $2.7M rebate was issued, reflecting the increase in sales.

Operating expenses increased $237K over the previous year and include additional expense for transmission line maintenance that had been deferred from the previous year.

Investment income was lower due to limited earnings.

Grant revenue decreased $1.771M as the remainder of the State of Alaska FY15 DCCED grant was expended on the Swan Lake Reservoir Expansion project. Grant funds will still be available in FY2018 under a FY13 DCCED grant for hydro site analysis.

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

The SEAPA FY19 budget is premised on retaining the current Wholesale Power Rate (WPR) of 6.8 cents/kWh, which has remained stable for over 20 years. Revenues are forecast to be lower than FY18 based primarily on predicted warmer weather conditions typically resulting in lower demand. Abnormally dry conditions in the region in FY19 have periodically limited reservoir inflows reducing energy available for sale out of both Swan Lake and Tyee Lake hydroelectric projects to Ketchikan Public Utilities. There is no indication that this year's dry weather will become the norm and revenues are anticipated to modulate within historical boundaries. Weather volatility and fluctuations in seasonal fish processing loads remain the largest influence on SEAPA revenues.

The FY19 budget includes several planned Renewal & Replacement projects, which are all forward-funded through the levelized 4R Plan annual payment. There are currently no additional anticipated major repairs or planned capital expenditures that would influence the existing wholesale power rate.

Load growth is anticipated to remain relatively flat overall on SEAPA's system (0-.5% year over year), with a slight decline anticipated in Petersburg due to closure of one of their seafood processors. Load growth in Ketchikan may be neutralized by reduced activity at the Ketchikan shipyard as the second Alaska Class Ferry reaches completion and activities shift to general maintenance of Alaska Marine Highway Ferries. The recent precipitous decline in fuel prices will likely dampen near-term conversions to air sourced heat pumps and other renewables. Electric consumers are anticipated to continue their slow integration of energy efficiency improvements. Migration to electric vehicles has been slow but will gradually accelerate over time.

Standard & Poor's conducted a bond rating review during the month of October 2018. Detailed financial information was collected from the Agency and our three Municipal Member Utilities. Additionally, SEAPA management was interviewed by a S&P review panel on October 29, 2018. Standard & Poor's has subsequently upgraded SEAPA's bond rating from an "A-" to an "A". The timing of the upgrade is excellent and should result in savings of 5-10 basis points when SEAPA refinances the remaining 2009 bonds which become eligible in June of 2019.

The Agency conducted two risk/reliability assessments of critical infrastructure in early FY19. Inspections included underwater remote operated vehicle (UROV) inspections of submarine cables and the Tyee Lake hydroelectric project rock power tunnel. Both assets have not been inspected since original installation in the early 1980's. Although the data of both inspections is still being analyzed, preliminary findings were positive and do not indicate significant damage or imminent failures. These inspections improve the Agency's ability to gage associated risk profiles and refine timing of future replacement of submarine cables.

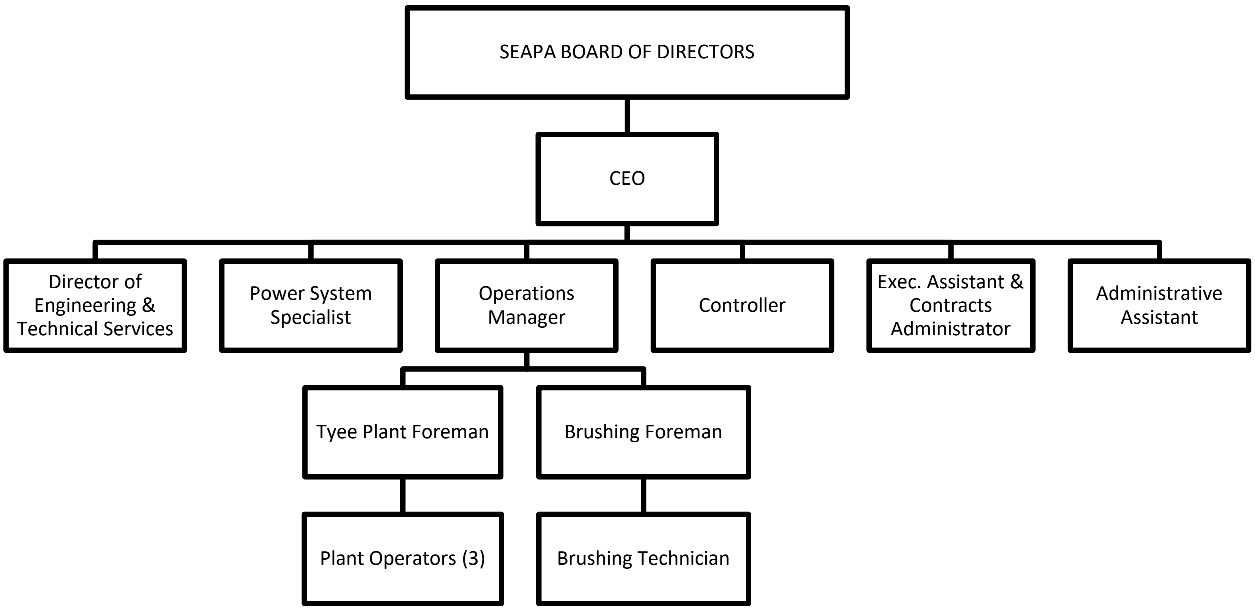
Operations and maintenance at both of SEAPA's hydroelectric facilities had historically been contracted to the member municipalities prior to 2014. During that year, operations at the Tyee Lake facility were assumed by hiring the experienced, existing staff as SEAPA employees. SEAPA is now in the process of assuming operations and maintenance responsibilities of the Swan Lake facility. The Agency anticipates adding a Roving Relief Operator to improve vacation coverage and continuity across both facilities and this will initially result in higher operational expense. However, having both facilities under SEAPA's direct control will allow for standardization of training and procedures. This will help lower overall long-term risk at the projects.

A Rate Stabilization Fund was established in July 2018 with an opening deposit of $2M. The fund is intended to improve the long-term fiscal health of the agency by reserving a portion of excess revenues. The fund may be used to reduce the impact of future extraordinary capital projects or bond issuances and to ensure compliance with bond covenants as needed. Both deposits to and withdrawals from the Rate Stabilization Fund must be authorized by the Board and will be reviewed at least annually.

Contacting SEAPA's Financial Management

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

ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS

JUNE 30, 2018

BOARD OF DIRECTORS
Steve Prysunka, Chairman (Wrangell)
Karl Amylon, Secretary/Treasurer (Ketchikan)
Robert Lynne (Petersburg)
Lisa Von Bargen (Wrangell)
Judy Zenge (Ketchikan)

Board Alternates
John Jensen, Vice-Chairman (Petersburg)
Steve Beers (Wrangell)
Bob Sivertsen
Andrew Donato (Ketchikan)
Jim Nelson (Wrangell)

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

Basic Financial Statements

The Southeast Alaska Power Agency

Statements of Net Position

June 30,	2018	2017
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments, including restricted cash and investments of $2,883,058 and $2,874,638 at June 30, 2018 and 2017, respectively	$ 19,142,434	$ 18,122,781
Accounts receivable	833,956	1,223,012
Grants receivable	60,592	29,283
Accrued interest receivable	31,327	22,909
Inventory	1,057,655	1,155,087
Prepaid expenses	312,606	226,136
Total Current Assets	21,438,570	20,779,208
Noncurrent Assets		
Cash and investments, unrestricted	6,438,781	7,535,712
Capital assets, net	134,078,720	136,441,286
Total Noncurrent Assets	140,517,501	143,976,998
Deferred Outflows of Resources - deferred loss on refunding	110,507	129,184
Total Assets and Deferred Outflows of Resources	$ 162,066,578	$ 164,885,390
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 935,503	$ 620,845
Rebate payable to members	800,000	2,700,000
Accrued interest payable	63,158	96,142
Current portion of other long-term liabilities	74,108	55,009
Current portion of long-term debt	830,000	800,000
Total Current Liabilities	2,702,769	4,271,996
Noncurrent Liabilities		
Other long-term liabilities, net of current portion	1,419,854	1,287,992
Long-term debt, net of current portion	15,055,000	15,885,000
Bond issue premium (discount), net	797,484	848,519
Total Noncurrent Liabilities	17,272,338	18,021,511
Total Liabilities	19,975,107	22,293,507
Net Position		
Net investment in capital assets	117,506,743	119,036,951
Restricted for debt service	1,587,894	1,589,894
Restricted by agreements with external parties	1,108,568	1,024,898
Unrestricted	21,888,266	20,940,140
Total Net Position	142,091,471	142,591,883
Total Liabilities and Net Position	$ 162,066,578	$ 164,885,390

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2018	2017
Operating Revenues		
Revenue from power sales	$ 12,239,368	$ 12,889,527
Rate rebate	(800,000)	(2,700,000)
Net Operating Revenues	11,439,368	10,189,527
Operating Expenses		
Operating and maintenance	3,467,129	3,157,802
General and administrative	2,910,967	2,782,758
Depreciation expense	4,775,039	4,414,025
Total Operating Expenses	11,153,135	10,354,585
Operating income (loss)	286,233	(165,058)
Nonoperating Revenues (Expenses)		
Investment income	49,767	9,221
Grant revenue	282,099	855,098
Grant expenses	(282,099)	(855,098)
Interest expense	(724,552)	(816,106)
Other income (expense)	(111,860)	109,741
Net Nonoperating Expenses	(786,645)	(697,144)
Loss before capital contributions	(500,412)	(862,202)
Capital contributions	-	796,674
Change in net position	(500,412)	(65,528)
Net Position, beginning of year	142,591,883	142,657,411
Net Position, end of year	$ 142,091,471	$ 142,591,883

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows

Years Ended June 30,	2018	2017
Cash Flows from Operating Activities		
Receipts from customers	$ 12,628,424	$ 13,143,896
Payment of rate rebate	(2,700,000)	(800,000)
Payments to suppliers and employees	(5,901,515)	(6,606,518)
Other miscellaneous receipts and disbursements	(111,860)	109,741
Net cash flows from operating activities	3,915,049	5,847,119
Cash Flows from (for) Noncapital and Related Financing Activities		
Grant and contract receipts	250,790	316,790
Grant and contract expenses	(282,099)	(58,424)
Net cash flows from (for) noncapital and related financing activities	(31,309)	258,366
Cash Flows for Capital and Related Financing Activities		
Capital grants received	-	796,674
Purchase of capital assets	(2,412,473)	(9,116,560)
Interest payments on long-term debt	(789,894)	(820,694)
Principal payments on long-term debt	(800,000)	(770,000)
Net cash flows for capital and related financing activities	(4,002,367)	(9,910,580)
Cash Flows from Investing Activities		
Investment income received	41,349	2,011
Net decrease in cash and cash equivalents	(77,278)	(3,803,084)
Cash and Investments, beginning of year	25,658,493	29,461,577
Cash and Investments, end of year	$ 25,581,215	$ 25,658,493

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows, continued

Years Ended June 30,		2018		2017
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities				
Operating income (loss)	$	286,233	$	(165,058)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation		4,775,039		4,414,025
Other income (expense)		(111,860)		109,741
Special item - Tyee transition costs		-		(71,821)
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Inventory		97,432		(210,278)
Prepaid expenses		(86,470)		(19,928)
Accounts receivable		389,056		254,369
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		314,658		(363,931)
Rebate payable to members		(1,900,000)		1,900,000
Other long-term liabilities		150,961		-
Net Cash Flows From Operating Activities	$	3,915,049	$	5,847,119
Reconciliation of Ending Cash and Investments to Statements of Net Position				
Cash and investments, current	$	19,142,434	$	18,122,781
Cash and investments, noncurrent		6,438,781		7,535,712
Cash and Investments, end of year	$	25,581,215	$	25,658,493
Supplemental Disclosure of Cash Flow Information				
Increase (decrease) in accounts payable related to capital asset construction	$	-	$	(565,620)

See accompanying notes to basic financial statements.

1. Organization and Operations

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

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

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

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

2. Summary of Significant Accounting Policies

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

Basis of Accounting

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

Cash and Investments

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

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

Restricted Assets

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

Inventory

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

Prepaid Expenses

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

Capital Assets

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

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

Capital assets	Years
Structures	15 – 50
Infrastructure	5 – 50
Generation and distribution	5 – 35
Furniture, fixtures, and other	3 – 15

Revenue Recognition

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

The Purchasers purchase power from SEAPA pursuant to conditions of the Power Sales Agreement, adopted at the close of Restructuring on February 24, 2009. The SEAPA Board of Directors sets the wholesale power rate annually. The wholesale power rate for the years ended June 30, 2018 and 2017 was set at 6.8 cents per kWh. The member utilities only pay for the amount of power used.

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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:

	2018	2017
Ketchikan Public Utilities	53%	52%
Petersburg Municipal Light and Power	25%	25%
Wrangell Municipal Light and Power	22%	23%
	100%	100%

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

Employee Benefits

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

Risk Management

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

Environmental Issues

The Agency's policy relating to environmental issues is to record a liability when the likelihood of responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2018 and 2017, 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 when all applicable eligibility requirements, including time requirements, are met.

3. Cash and Investments

At June 30, 2018 and 2017, the Agency had the following cash and investments:

	2018	2017
Money market	$ 2,877,440	$ 2,879,775
Demand deposits	14,706,793	14,797,062
U.S. government agencies	146,647	-
U.S. government bonds	6,890,573	6,980,373
Corporate bonds	938,135	979,658
Certificates of deposit	21,627	21,625
Total Cash and Investments	$ 25,581,215	$ 25,658,493

Restrictions and Designated Funds

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

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

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

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

The Bond Fund, consisting of the Interest Account and the Principal Account (for both the 2009 and 2015 bonds), is held by the Trustee. The Bond Reserve Fund is also held by the Trustee and is required to be maintained at all times at not less than the Bond Reserve Requirement.

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

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

The cash and investments were held in accounts for the following activities as of June 30, 2018 and 2017:

	2018	2017
Unrestricted:		
Internal renewal and replacement fund	$ 1,000,610	$ 1,000,660
Dedicated renewal and replacement fund	4,890,354	4,597,207
Revenue fund	6,915,524	7,300,136
Self-insured risk fund	7,991,364	7,986,794
Commercial checking account	1,089	1,000
New generation fund	1,899,216	1,898,058
Total unrestricted	22,698,157	22,783,855
Restricted:		
Reclamation contingency fund	1,086,941	1,003,273
2009 Trust series bond interest	23,279	50,482
2009 Trust series bond principal	73,116	133,905
2009 Trust series bond reserve	1,422,552	1,411,552
2015 Trust series bond interest	40,867	40,785
2015 Trust series bond principal	214,676	213,016
STI-USFS CD	21,627	21,625
Total restricted	2,883,058	2,874,638
Total Cash And Investments	$ 25,581,215	$ 25,658,493

Investment Securities

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

1. Obligations of, or obligations insured or guaranteed by, the United States;

2. Obligations of United States agencies or instrumentalities;

3. Corporate debt securities with a minimum rating of "A" or the equivalent by a nationally recognized rating organization;

4. United States Agency mortgage-backed securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or Government National Mortgage Association;

5. Uncollateralized deposits at banks, to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC);

6. Prime commercial paper bearing the highest rating of a nationally recognized rating organization; and

7. Money market mutual funds, whose portfolios consist entirely of instruments specified in 1 and 2 above and who meet the definition of SEC 2a-7 money-market fund.

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

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

1. Obligations of the United States or of an agency or instrumentality of the United States;

2. Repurchase and reverse repurchase agreements secured by the Treasury of the United States or obligations of an agency or instrumentality of the United States; certificates of deposit, bankers' acceptances, and other similar obligations of a bank domiciled in the United States that has on the date of purchase:

    - Outstanding debt rated Aa or AA or higher by at least one of the nationally recognized rating services, including dollar-denominated obligations issued by a United States branch of a foreign bank, if the debt of the parent is rated A or higher; and

    - A combined capital and surplus aggregating at least $500,000,000;

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.

Interest Rate Risk

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

Investment maturities at June 30 are as follows:

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less Than 1	1-5
June 30, 2018			
U.S. government bonds	$ 6,890,573	$ 1,536,574	$ 5,353,999
US agency obligations	146,647	-	146,647
Corporate bonds	938,135	-	443,474
Total investments	7,975,355	1,536,574	6,438,781
Cash and cash equivalents:			
Certificates of deposit	21,627	21,627	-
Money market	2,877,440	2,877,440	-
Demand deposits	14,706,793	14,706,793	-
Total	$ 25,581,215	$ 19,142,434	$ 6,438,781
June 30, 2017			
U.S. government bonds	$ 6,980,373	$ 424,319	$ 6,556,054
Corporate bonds	979,658	-	979,658
Total investments	7,960,031	424,319	7,535,712
Cash and cash equivalents:			
Certificates of deposit	21,625	21,625	-
Money market	2,879,775	2,879,775	-
Demand deposits	14,797,062	14,797,062	-
Total	$ 25,658,493	$ 18,122,781	$ 7,535,712

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, 2018 and 2017, as described by nationally recognized statistical rating organizations, are shown below (using Standard & Poor's Corporation rating scale unless otherwise noted):

		Percent of Total	
Investment Type	Rating	2018	2017
U.S. government agencies	AA	1.8%	-%
U.S. government bonds	AAA	86.4%	87.7%
Corporate bonds	AA	1.5%	-%
Corporate bonds	AA-	1.6%	1.6%
Corporate bonds	A	4.3%	4.7%
Corporate bonds	A-	2.8%	3.1%
Corporate bonds	BBB+	1.6%	1.6%
Corporate bonds	Not rated	0.0%	1.3%
Total		100.0%	100.0%

Custodial Credit Risk

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Agency has not established a formal policy for custodial credit risk over its investments. However, the Agency has a custodial agreement in place with their primary banking institution. At June 30, 2018 and 2017, the Agency had no uncollateralized or uninsured bank deposits. The Agency also has money market fund investments it considers to be cash which are not included in the evaluation of bank deposits. These funds are AAA rated and have no restrictions.

Concentration Risk

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

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

Year ended June 30,	2018		2017	
Investment Type	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
U.S. government bonds and agency securities	$ 7,037,220	88.24 %	$ 6,980,373	87.69 %
Corporate bonds	938,134	11.76 %	979,658	12.31 %

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

The Agency has the following recurring fair value measurements as of June 30, 2018 and 2017:

- U.S. government agency securities of $146,647 and $0 as of June 30, 2018 and 2017, respectively, are valued using information for market sources, integrated relative credit information, observed market movements, and sector news into the evaluated pricing applications and models (Level 2 inputs)
- U.S. government and corporate bonds of $7,828,708 and $7,960,031 as of June 30, 2018 and 2017, respectively, are valued using information for market sources, integrated relative credit information, observed market movements, and sector news into the evaluated pricing applications and models (Level 2 inputs)

The Agency has investments in money market funds and certificates of deposits totaling $2,899,067 and $2,901,400 as of June 30, 2018 and 2017, respectively that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2018. Management believes that these values approximate fair value.

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4. Capital Assets

The components of the Agency's capital assets at June 30, 2018 and 2017 are as follows:

	2018	2017
Tyee Lake	$ 31,788,787	$ 30,569,686
Swan Lake	31,607,811	30,580,947
Swan-Tyee Intertie	114,858,010	114,795,439
SEAPA office – SCADA	784,677	784,677
Leasehold improvements	90,933	25,000
	179,130,218	176,755,749
Less accumulated depreciation	(45,051,498)	(40,314,463)
Total Capital Assets, Net of Accumulated Depreciation	$ 134,078,720	$ 136,441,286

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

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

Capital asset activity for the Agency for the year ended June 30, 2017 follows:

	Balance at June 30, 2016	Additions	Transfers and Deletions	Balance at June 30, 2017
Capital assets not being depreciated:				
Swan Lake construction in progress	$ 5,377,595	$ 7,511,266	$ (12,883,272)	$ 5,589
Swan-Tyee construction in progress	631,217	564,693	(719,735)	476,175
SCADA construction in progress	61,050	591,549	(652,599)	-
Tyee Lake construction in progress	-	5,316	(5,316)	-
Total capital assets not being depreciated	6,069,862	8,672,824	(14,260,922)	481,764
Capital assets being depreciated:				
Structures	15,439,965	6,431,475	(36,332)	21,835,108
Infrastructure	2,780,787	6,226,477	-	9,007,264
Generation and distribution	142,264,267	1,517,418	-	143,781,685
Furniture, fixtures and other	1,592,052	97,160	(64,284)	1,624,928
Leasehold improvements	25,000	-	-	25,000
Total capital assets being depreciated	162,102,071	14,272,530	(100,616)	176,273,985
Less accumulated depreciation:				
Structures	(5,061,236)	(568,842)	-	(5,626,647)
Infrastructure	(1,138,818)	(179,286)	-	(1,321,535)
Generation and distribution	(29,077,483)	(3,575,364)	-	(32,652,847)
Furniture, fixtures and other	(575,025)	(88,033)	(32,876)	(695,934)
Leasehold improvements	(15,000)	(2,500)	-	(17,500)
Total accumulated depreciation	(35,867,562)	(4,414,025)	(32,876)	(40,314,463
Capital assets being depreciated, net	126,234,509	9,858,505	(133,492)	135,959,522
Total Capital Assets, net	$132,304,371	$ 18,531,329	$ (14,394,414)	$136,441,286

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5. Other Long-term Liabilities

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

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

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

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

The following reflects the changes in other long-term liabilities for the year ended June 30, 2017:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017	Due Within One Year
PERS Unfunded Liability	$ 1,077,322	$ -	$ 71,821	$ 1,005,501	$ 55,009
DNR Reclamation	300,000	37,500	-	337,500	-
Total Other Long-Term Liabilities	$ 1,377,322	$ 37,500	$ 71,821	$ 1,343,001	$ 55,009

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 5.125% (currently 4.00% to 5.125% for remaining maturities). 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 for capital improvements, provide for current refunding of a portion of the Series 2009 Bonds, fund the Bond Reserve Requirement, and pay the cost of issuing the Series 2015 Bonds. Interest rates range from 3.875% to 5.250%; principal payments commence in 2025. The bonds mature June 1, 2033.

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 was recorded as a deferred outflow of resources and is being amortized to interest expense over the life of the new bonds.

Annual debt service requirements as of June 30, 2018 follow:

Year Ending	Series 2009		Series 2015		Total		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2019	$ 830,000	$ 270,206	$ -	$ 487,688	$ 830,000	$ 757,894	$ 1,587,894
2020	870,000	232,856	-	487,688	870,000	720,544	1,590,544
2021	905,000	193,706	-	487,688	905,000	681,394	1,586,394
2022	945,000	152,981	-	487,688	945,000	640,669	1,585,669
2023	995,000	104,550	-	487,688	995,000	592,238	1,587,238
2024-2028	1,045,000	53,556	4,175,000	2,123,964	5,220,000	2,177,520	7,397,520
2029-2033	-	-	6,120,000	780,201	6,120,000	780,201	6,900,201
	$ 5,590,000	$ 1,007,855	$ 10,295,000	$5,342,605	$15,885,000	$ 6350,460	$ 22,235,460

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

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

The following reflects the changes in long-term debt for the year ended June 30, 2017:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017	Due Within One Year
Series 2015 Bonds	$ 10,295,000	$ -	$ -	$ 10,295,000	$ -
Series 2009 Bonds	7,160,000	-	(770,000)	6,390,000	800,000
Total	$ 17,455,000	$ -	$ (770,000)	$ 16,685,000	$ 800,000

Bond premiums and discounts as of June 30, 2018 and 2017 are as follows:

	2018	2017
Premium	$ 991,049	$ 991,049
Discount	(53,880)	(53,880)
Total	937,169	937,169
Less accumulated amortization	(139,685)	(88,650)
Net Premium (Discount)	$ 797,484	$ 848,519

The Agency recorded $51,035 and $51,036 as amortization to interest expense for the years ended June 30, 2018 and 2017, respectively.

7. Operating Lease

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

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

Year Ending June 30:	Amount
2019	$ 58,496
2020	32,181
Total	$ 90,677

During 2018 and 2017, the Agency expensed $56,809 and $49,743, respectively, under non-cancelable lease obligations.

The Agency also holds a month-to-month lease for apartment space. Effective April 1, 2017, the monthly rent increased from $1,475 to $1,525. Rent expense for the years ended June 30, 2018 and 2017 totaled $18,300 and $17,850, respectively.

8. Employee Benefits

Union Agreements

The Agency has a union agreement that expired June 30, 2018 with the International Brotherhood of Electrical Workers (IBEW). These employees are currently working under the expired agreement. This agreement has distinct insurance and retirement programs and covers employees of the office in Wrangell, Alaska and the Tyee-Hydroelectric Facility, excluding managerial and administrative employees.

Defined Benefit Pension Plans

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

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

NRECA Retirement Security Plan Information

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

SEAPA's contributions to the RS Plan in 2018 and in 2017 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. SEAPA made contributions to the RS Plan of $267,892 in 2018 and $271,275 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

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

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

Alaska Electrical Pension Plan Information

The Alaska Electrical Pension Plan sponsor's Employer Identification Number is 92-6005171 and the Plan Number is 001. The Association's contributions to the Plan in 2018 and in 2017 represented less than 5% of the total contributions made to the Plan by all participating employers. SEAPA made contributions to the Plan of $86,859 in 2018 and $75,425 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017 contributions. The collective bargaining agreement in place related to this Plan expired in June 2018, and employees are currently working under the expired agreement.

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

9. Commitments and Contingencies

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

10. Rate Stabilization

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

11. Upcoming GASB Pronouncements

GASB 83 – *Certain Asset Retirement Obligations* – Effective for year-end June 30, 2019, with earlier application encouraged – This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

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

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

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

GASB 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* – Effective for year-end June 30, 2020, with earlier application encouraged – This statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

Required Supplementary Information

The Southeast Alaska Power Agency

National Rural Electric Cooperative Association (NRECA)
Schedule of Contributions

Year Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 267,892	$ 267,892	$ -	$ 915,321	29%
2017	271,275	271,275	-	905,489	30%
2016	272,999	272,999	-	839,014	33%
2015	221,899	221,899	-	781,056	28%
2014	210,410	210,410	-	661,818	32%
2013	155,947	155,947	-	574,652	27%
2012	108,369	108,369	-	498,346	22%
2011	99,132	99,132	-	424,912	23%
2010	100,824	100,824	-	437,724	23%
2009	*	*	-	*	*

* Information for this year is not available.

See accompanying notes to Required Supplementary Information.

The Southeast Alaska Power Agency

Alaska Electrical Pension Plan
Schedule of Contributions

Year Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 86,859	$ 182,846	$ -	$ 831,118	22.00%
2017	75,425	169,076	-	768,526	22.00%
2016	73,698	177,076	-	804,889	22.00%
2015	57,945	218,306	-	992,299	22.00%
2014	*	*	-	*	*
2013	*	*	-	*	*
2012	*	*	-	*	*
2011	*	*	-	*	*
2010	*	*	-	*	*
2009	*	*	-	*	*

* Information for these years is not available.

See accompanying notes to Required Supplementary Information.

1. National Rural Electric Cooperative Association (NRECA)

Schedule of Contributions

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

2. Alaska Electrical Pension Plan

Schedule of Contributions

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

Government Auditing Standards Reports

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Southeast Alaska Power Agency as of and for the year ended June 30, 2018, 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 January 3, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BDO USA, LLP

Anchorage, Alaska
January 3, 2019

The Southeast Alaska Power Agency

Schedule of Findings and Responses

Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	X no
Significant deficiency(ies) identified?	___ yes	X (none reported)
Noncompliance material to financial statements noted?	___ yes	X no

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

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