The Southeast Alaska Power Agency

Financial Statements, Supplementary Information, and Single Audit Reports
For the Years Ended June 30, 2017 and 2016

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and Single Audit Reports
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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, 2017 and 2016, 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018 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 10, 2018

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Management’s Discussion and Analysis

This presentation and analysis is intended to serve as an introduction to and discussion of the June 30, 2017 and 2016 financial statements of The Southeast Alaska Power Agency (SEAPA).

Mission Statement

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

Financial Highlights

- The Agency's assets exceeded liabilities at June 30, 2017 by $142,592K. SEAPA's net position decreased $66K compared to the year ended June 30, 2016.
- The wholesale power rate was maintained at 6.8 cents/kWh in fiscal year 2017, a rate that has held steady for 20 consecutive years and was approved again for fiscal year 2018.
- Revenue from power sales of $12.890M set a record high for SEAPA in FY2017, an increase of $1.3M over the previous fiscal year.
- A rebate of $2.7M was approved for fiscal year 2017. The rebate is the highest ever authorized, reflecting the record sales.
- The $10.983M Swan Lake Reservoir Expansion Project was completed in FY2017, increasing the active storage capacity of the lake by nearly 25%.

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Statement of Net Position

Total assets, total liabilities and total net assets at June 30, 2017, 2016 and 2015 follows:

June 30,	2017	2016	2015
Assets:			
Current assets	$ 20,779,208	$ 25,924,247	$ 27,881,909
Capital assets	136,441,287	132,304,371	128,361,609
Noncurrent assets	7,664,896	6,616,938	6,878,740
Total Assets	$ 164,885,391	$ 164,845,556	$ 163,122,258
Liabilities:			
Current liabilities	$ 4,609,498	$ 3,750,280	$ 3,344,263
Noncurrent liabilities	17,684,011	18,437,865	18,898,609
Total liabilities	22,293,509	22,188,145	22,242,872
Net position			
Net investment in capital assets	119,036,952	114,097,678	108,718,000
Restricted for debt service	1,589,894	1,590,694	1,622,843
Restricted under agreements with external parties	1,024,898	948,891	873,886
Unrestricted	20,940,138	26,020,148	29,664,657
Total net position	142,591,882	142,657,411	140,879,386
Total Liabilities and Net Position	$ 164,885,391	$ 164,845,556	$ 163,122,258

Discussion of Financial Position

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, was moved from noncurrent to 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 a $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 $1.005M 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.

Financial Position - FY2016

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

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

Nearly $3M was invested in the Swan Lake Reservoir Expansion project in FY2016, which included funding of $2.3M from the FY2015 State of Alaska DCCED grant. The overall project is funded through a combination of State of Alaska DCCED grants totaling $3.898M, $6M from the Construction Fund established with a portion of the proceeds from SEAPA's 2015 bond issuance, and the remainder from the R&R Fund. The Federal Energy Regulatory Commission (FERC) issued authorization to begin construction on June 3, 2016, and the project was completed on schedule at a cost of $10.9M.

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

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

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

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

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

Total Net Position for the year ending June 30, 2016 increased $1.778M over 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 submarine cables, and to pay insurance deductibles and operational costs in the event of a catastrophic event. The fund balance of $8M was established by the Board and is based upon a risk assessment performed in 2014. Any excess earnings from this account are transferred to the R&R Fund at the beginning of each fiscal year.

Restricted Funds

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

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

<u>DNR Reclamation Funds</u> – 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, 2017, 2016, and 2015 are as follows:

June 30,	2017	2016	2015
Operating revenues from power sales	$ 12,700,223	$ 10,917,636	$ 10,652,158
Displaced power sales	189,305	665,056	393,269
Gross operating revenues	12,889,528	11,582,692	11,045,427
Rate rebate	(2,700,000)	(800,000)	(1,500,000)
Net operating revenues	10,189,527	10,782,692	9,545,427
Operating expenses:			
Operating and maintenance	3,157,802	2,914,958	3,651,180
General and administrative	2,782,758	2,838,880	2,680,009
Depreciation expense	4,414,025	4,187,221	4,070,540
Total operating expenses	10,354,585	9,941,059	10,401,729
Operating income	(165,058)	841,633	(856,302)
Non-operating revenues (expenses):			
Investment income	9,221	79,304	126,936
Grant revenue	855,098	2,625,913	1,532,623
Contract revenue	-	-	7,179
Grant expense	(855,098)	(2,625,913)	(1,532,623)
Contract expense	-	-	(7,179)
Interest expense	(816,106)	(838,005)	(544,865)
Bond issuance and refunding expense	-	-	(324,981)
Other income (expense)	109,741	(46,906)	(21,218)
Net non-operating revenues (expenses)	(697,144)	(805,607)	(764,128)
Income (loss) before capital contributions	(862,202)	36,026	(1,620,430)
Capital contributions	796,674	2,330,554	466,347
Special item – Tyee transition	-	(588,555)	(405,708)
Change in net position	(65,528)	1,778,025	(1,559,791)
Net Position - beginning of year	142,657,411	140,879,386	142,439,177
Net Position - end of year	$142,591,883	$ 142,657,411	$140,879,386

Discussion of Operations

Operating revenues are derived from power generated at SEAPA's two hydroelectric facilities and sold to its three member-utility customers. Revenues from 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 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, which became operational in October 2014, that could have otherwise been sold by SEAPA. Under the agreement, displaced sales are reviewed on a quarterly basis and invoiced at the end of each calendar year.

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. The $2.7M rebate reflected the increased sales.

Operating and maintenance expenses increased $243K 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.

Operations – FY2016

FY2016 gross operating revenues were $537K higher than FY2015.

Displaced Power Sales increased this year as the new hydroelectric facility brought on line by Ketchikan Public Utilities in October 2014 was operational for the full fiscal year. FY2016 Displaced Power Sales consist of $338K sales in calendar year 2015 and an accrual of $327K for the first six months of 2016.

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

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

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

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

The SEAPA FY18 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.

Next year's revenues are anticipated to decrease year over year and be more in line with historical averages. Prognostic weather charts are projecting a continuation of the current mild, wet weather pattern, with a bias toward colder and dryer as we transition to the beginning of an El Nina in the Pacific Ocean. Weather volatility and fluctuations in seasonal fish processing loads remain the largest influence on SEAPA revenues. The Swan Lake Reservoir Expansion Project has resulted in additional stored energy which should help underpin revenues.

Load growth is anticipated to remain relatively flat (0-.5% year over year). Consumer driven energy efficiency improvements will likely balance out any load growth resulting from minor population increases. Heating fuel prices have seen a gradual increase over the past year, but should not significantly stimulate conversions to electric heat. Alternatives such as air sourced heat pumps appear to be a preferred choice for those looking to transition away from fuel oil and electric baseboard heat. There are no new large industrial or commercial loads anticipated at this time.

The Alaska Legislature continues to struggle with solving the State's ongoing annual revenue shortfall of approximately $3 billion. They have implemented budget cuts resulting in job reductions in State Government and capital expenditures have been limited to leveraging Federal match programs. The legislature is now considering new sources of revenue, including additional taxes. The impact of State budget reductions has not resulted in a measurable impact to SEAPA revenues and is not expected to be a major factor in Fiscal Year 2018 (FY18).

Basic Financial Statements

The Southeast Alaska Power Agency

Statements of Net Position

June 30,	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments, including restricted cash and investments of $2,874,638 and $2,796,397 at June 30, 2017 and 2016, respectively	$ 18,122,781	$ 22,844,639
Accounts receivable	1,223,012	1,477,381
Grants receivable	29,283	287,649
Accrued interest receivable	22,909	15,699
Inventory	1,155,087	944,809
Prepaid expenses	226,136	206,208
Total Current Assets	20,779,208	25,776,385
Noncurrent Assets		
Cash and investments, unrestricted	7,535,712	6,616,938
Capital assets, net	136,441,286	132,304,371
Total Noncurrent Assets	143,976,998	138,921,309
Deferred Outflows of Resources - deferred loss on refunding	129,184	147,862
Total Assets and Deferred Outflows of Resources	$ 164,885,390	$ 164,845,556
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 958,345	$ 1,887,896
Rebate payable to members	2,700,000	800,000
Accrued interest payable	96,142	68,372
Current portion of other long-term liabilities	55,009	224,012
Current portion of long-term debt	800,000	770,000
Total Current Liabilities	4,609,496	3,750,280
Noncurrent Liabilities		
Other long-term liabilities, net of current portion	950,492	853,310
Long-term debt, net of current portion	15,885,000	16,685,000
Bond issue premium (discount), net	848,519	899,555
Total Noncurrent Liabilities	17,684,011	18,437,865
Total Liabilities	22,293,507	22,188,145
Net Position		
Net investment in capital assets	119,036,951	114,097,678
Restricted for debt service	1,589,894	1,590,694
Restricted by agreements with external parties	1,024,898	948,891
Unrestricted	20,940,140	26,020,148
Total Net Position	142,591,883	142,657,411
Total Liabilities and Net Position	$ 164,885,390	$ 164,845,556

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,	2017	2016
Operating Revenues		
Revenue from power sales	$ 12,889,527	$ 11,582,692
Rate rebate	(2,700,000)	(800,000)
Net Operating Revenues	10,189,527	10,782,692
Operating Expenses		
Operating and maintenance	3,157,802	2,914,958
General and administrative	2,782,758	2,838,880
Depreciation expense	4,414,025	4,187,221
Total Operating Expenses	10,354,585	9,941,059
Operating income (loss)	(165,058)	841,633
Nonoperating Revenues (Expenses)		
Investment income	9,221	79,304
Grant revenue	855,098	2,625,913
Grant expenses	(855,098)	(2,625,913)
Interest expense	(816,106)	(838,005)
Other income (expense)	109,741	(46,906)
Net Nonoperating Revenues (Expenses)	(697,144)	(805,607)
Income (loss) before capital contributions and special item	(862,202)	36,026
Capital contributions	796,674	2,330,554
Special item - Tyee transition	-	(588,555)
Change in net position	(65,528)	1,778,025
Net Position, beginning of year	142,657,411	140,879,386
Net Position, end of year	$ 142,591,883	$ 142,657,411

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows

Years Ended June 30,	2017	2016
Cash Flows from Operating Activities		
Receipts from customers	$ 13,143,896	$ 11,393,106
Payment of rate rebate	(800,000)	(1,500,000)
Payments to suppliers and employees	(6,606,518)	(5,589,143)
Other miscellaneous receipts and disbursements	109,741	(46,906)
Net cash flows from operating activities	5,847,119	4,257,057
Cash Flows from (for) Noncapital and Related Financing Activities		
Grant and contract receipts	316,790	152,868
Grant and contract expenses	(58,424)	(295,359)
Net cash flows from (for) noncapital and related financing activities	258,366	(142,491)
Cash Flows for Capital and Related Financing Activities		
Capital grants received	796,674	2,330,554
Purchase of capital assets	(9,116,560)	(7,377,428)
Interest payments on long-term debt	(820,694)	(877,842)
Principal payments on long-term debt	(770,000)	(745,000)
Net cash flows for capital and related financing activities	(9,910,580)	(6,669,716)
Cash Flows from Investing Activities		
Investment income received	2,011	79,003
Net cash flows from Investing activities	2,011	79,003
Net decrease in cash and cash equivalents	(3,803,084)	(2,476,147)
Cash and Investments, beginning of year	29,461,577	31,937,724
Cash and Investments, end of year	$ 25,658,493	$ 29,461,577

See accompanying notes to basic financial statements.

The Southeast Alaska Power Agency

Statements of Cash Flows, continued

Years Ended June 30,		2017		2016
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities				
Operating income (loss)	$	(165,058)	$	841,633
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation		4,414,025		4,187,221
Other income (expense)		109,741		(46,906)
Special item - Tyee transition costs		(71,821)		(194,796)
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Inventory		(210,278)		8,143
Prepaid expenses		(19,928)		47,319
Accounts receivable		254,369		(189,586)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		(363,931)		304,029
Rebate payable to members		1,900,000		(700,000)
Net Cash Flows From Operating Activities	$	5,847,119	$	4,257,057
Reconcilation of Ending Cash and Investments to Statements of Net Position				
Cash and investments, current	$	18,122,781	$	22,844,639
Cash and investments, noncurrent		7,535,712		6,616,938
Cash and Investments, end of year	$	25,658,493	$	29,461,577
Supplemental Disclosure of Cash Flow Information				
Increase (decrease) in accounts payable related to capital asset construction	$	(565,620)	$	752,555
Supplemental Disclosure of Noncash Information				
Assumption of long-term liabilities related to Tyee transition	$	-	$	588,555

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 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 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 boroughs and utilities (the Purchasers). Revenue is recognized on the accrual basis and is recorded monthly, based on the kilowatt-hours (kWh) used by the members as operating revenue.

The Purchasers purchase power from SEAPA pursuant to conditions of the Power Sales Agreement, adopted at the close of Restructuring on February 24, 2009. The SEAPA Board of Directors sets the wholesale power rate annually. The wholesale power rate for the years ended June 30, 2017 and 2016 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:

	2017	2016
Ketchikan Public Utilities	52%	52%
Petersburg Municipal Light and Power	25%	25%
Wrangell Municipal Light and Power	23%	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 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, 2017 and 2016, 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 when all applicable eligibility requirements, including time requirements, are met.

3. Cash and Investments

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

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

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

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

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

	Cash and Cash Equivalents	Investments	Total
Unrestricted - current:			
Internal renewal and replacement fund	$ 1,000,660	$ -	$ 1,000,660
Dedicated renewal and replacement fund	4,597,207	-	4,597,207
Revenue fund	7,300,136	-	7,300,136
Commercial checking account	1,000	-	1,000
New generation fund	1,898,058	-	1,898,058
Investment fund	26,763	424,319	451,082
Total unrestricted - current	$ 14,823,824	$ 424,319	$ 15,248,143

	Cash and Cash Equivalents	Investments	Total
Unrestricted - noncurrent - Investment fund	$ -	$ 7,535,712	$ 7,535,712
Restricted - current:			
Reclamation contingency fund	1,003,273	-	1,003,273
2009 Trust series bond interest	50,482	-	50,482
2009 Trust series bond principal	133,905	-	133,905
2009 Trust series bond reserve	1,411,552	-	1,411,552
2015 Trust series bond interest	40,785	-	40,785
2015 Trust series bond principal	213,016	-	213,016
STI CD	21,625	-	21,625
Total restricted - current	2,874,638	-	2,874,638
Total Cash And Investments	$ 17,698,462	$ 7,960,031	$ 25,658,493

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

	Cash and Cash Equivalents	Investments	Total
Unrestricted - current:			
Internal renewal and replacement fund	$ 1,001,223	$ -	$ 1,001,223
Dedicated renewal and replacement fund	4,491,319	-	4,491,319
Revenue fund	5,317,152	-	5,317,152
Commercial checking account	1,000	-	1,000
Construction fund	5,891,886	-	5,891,886
New generation fund	1,898,074	-	1,898,074
Investment fund	446,270	1,001,318	1,447,588
Total unrestricted - current	19,046,924	1,001,318	20,048,242
Unrestricted - noncurrent - Investment fund	-	6,616,938	6,616,938
Restricted - current:			
Reclamation contingency fund	927,269	-	927,269
2009 Trust series bond interest	55,501	-	55,501
2009 Trust series bond principal	128,333	-	128,333
2009 Trust series bond reserve	1,410,216	-	1,410,216
2015 Trust series bond interest	40,641	-	40,641
2015 Trust series bond principal	212,814	-	212,814
STI CD	21,623	-	21,623
Total restricted - current	2,796,397	-	2,796,397
Total Cash And Investments	$ 21,843,321	$ 7,618,256	$ 29,461,577

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.

At June 30, 2017 and 2016, the Agency had the following cash and investments:

	2017	2016
Money market	$ 2,879,775	$ 3,221,043
Demand deposits	14,797,062	18,600,655
U.S. government agencies	-	753,434
U.S. government bonds	6,980,373	5,731,140
Corporate bonds	979,658	1,133,682
Certificates of deposit	21,625	21,623
Total Cash and Investments	$ 25,658,493	$ 29,461,577

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

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Investment maturities at June 30 are as follows:

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1-5
June 30, 2017			
U.S. government bonds	$ 6,980,373	$ 424,319	$ 6,556,054
Corporate bonds	979,658	-	979,658
Total	$ 7,960,031	$ 424,319	$ 7,535,712
June 30, 2016			
U.S. government agencies	$ 753,434	$ -	$ 753,434
U.S. government bonds	5,731,140	1,001,318	4,729,822
Corporate bonds	1,133,682	-	1,133,682
Total	$ 7,618,256	$ 1,001,318	$ 6,616,938

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, 2017 and 2016, 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 2017	2016
U.S. government agencies	AAA	-%	9.9%
U.S. government bonds	AAA	87.7%	75.2%
Corporate bonds	AAA	-%	14.9%
Corporate bonds	AA-	1.6%	-%
Corporate bonds	A	4.7%	-%
Corporate bonds	A-	3.1%	-%
Corporate bonds	BBB+	1.6%	-%
Corporate bonds	Not rated	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, 2017 and 2016, 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.

At June 30, 2017, the Agency's investments included the following concentrations greater than 5%:

Investment Type	Investments at Fair Value	Percentage of Total Portfolio
U.S. government bonds	$ 6,980,373	87.69 %
Corporate bonds	979,658	12.31 %

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

Investment Type	Investments at Fair Value	Percentage of Total Portfolio
Federal National Mortgage Association	$ 753,434	9.9 %
U.S. government bonds	5,731,140	75.2 %
Corporate bonds	1,133,682	14.9 %

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, 2017 and 2016:

- U.S. government agency securities of $0 and $753,434 as of June 30, 2017 and 2016, 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 $7,960,031 and $6,864,823 as of June 30, 2017 and 2016, 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 $2,901,400 and $3,242,666 as of June 30, 2017 and 2016, respectively that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2017. Management believes that these values approximate fair value.

4. Capital Assets

The components of the Agency's capital assets at June 30, 2017 and 2016 are as follows:

	2017	2016
Tyee Lake	$ 30,569,686	$ 29,960,218
Swan Lake	30,580,947	23,075,342
Swan-Tyee Intertie	114,795,439	114,335,503
SEAPA office - SCADA	784,677	775,870
Leasehold improvements	25,000	25,000
	176,755,749	168,171,933
Less accumulated depreciation	(40,314,463)	(35,867,562)
Total Capital Assets, Net of Accumulated Depreciation	$ 136,441,286	$ 132,304,371

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

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

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5. Long-term Liabilities

In 2015, the Agency assumed operations of the Tyee facility from the City and Borough of Wrangell and the Petersburg Borough (see Note 8). As part of the transition of the operations, the Agency assumed long-term liabilities related to long-term employee benefit payments to the State of Alaska Public Employees' Retirement System (PERS). While the Agency is not an employer in PERS itself, the Agency has assumed responsibility for the payments of retirement benefits for certain former employees as part of the transaction.

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

	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

The following reflects the changes in long-term liabilities for the year ended June, 30, 2016:

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

6. Long-term Debt

In February 2009, previously issued and outstanding bonds were advance refunded, and the Agency issued $16.495 million in Series 2009 (Tax-Exempt) electric revenue refunding bonds. Interest is payable on these bonds on June 1 and December 1, commencing December 1, 2009 at interest rates of 3.00% to 5.375%. The refunding also resulted in a bond issue discount of approximately $125,000 that is being amortized over the life of the bonds. The 2004 bonds were defeased by placing a portion of the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. These have been fully paid to bondholders.

In addition, the Agency issued general obligation bonds, Series 2015, denominations of $5,000, dated May 6, 2015, total issue of $10,295,000. The bond proceeds were used to pay a portion of the costs of certain capital improvements, provide for current refunding of a portion of the Series 2009 Bonds, fund the Bond Reserve Requirement, and pay the cost of issuing the Series 2015 Bonds. Interest rates range from 3.875% to 5.250%. The bonds mature June 1, 2033.

Because the refunded bonds were fully paid to bondholders, there are no resulting assets held by the escrow agent. The refunding resulted in an economic gain of $743,900 and a net cash flow savings of $1,023,023. A loss on refunding of $168,095 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, 2017 follow:

Year Ending	Series 2009		Series 2015		Total		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2018	$ 800,000	$ 302,206	$ -	$ 487,688	$ 800,000	$ 789,894	$ 1,589,894
2019	830,000	270,206	-	487,688	830,000	757,894	1,587,894
2020	870,000	232,856	-	487,688	870,000	720,544	1,590,544
2021	905,000	193,706	-	487,688	905,000	681,394	1,586,394
2022	945,000	152,981	-	487,688	945,000	640,669	1,585,669
2023-2027	2,040,000	158,106	3,045,000	2,283,827	5,085,000	2,441,933	7,526,933
2028-2032	-	-	5,920,000	1,056,488	5,920,000	1,056,488	6,976,488
2033-2033	-	-	1,330,000	51,538	1,330,000	51,538	1,381,538
	$ 6,390,000	$ 1,310,061	$ 10,295,000	$ 5,830,293	$ 16,685,000	$ 7,140,354	$ 23,825,354

The following tables reflect the changes in long-term debt for the years ended June 30, 2017 and 2016, respectively:

	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

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

Bond premiums and discounts as of June 30, 2017 and 2016 are as follows:

	2017	2016
Premium	$ 991,049	$ 991,049
Discount	(53,880)	(53,880)
Total	937,169	937,169
Less accumulated amortization	(88,650)	(37,614)
Net Premium (Discount)	$ 848,519	$ 899,555

The Agency recorded $51,036 and $55,288 as amortization to interest expense for the years ended June 30, 2017 and 2016, 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
2018	$	56,809
2019		58,496
2020		32,181
Total	$	147,486

During 2017 and 2016, the Agency expensed $49,743 and $54,957, 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, 2017 and 2016 totaled $17,850 and $17,700, respectively.

8. Special Item – Tyee Transition

In 2015, the Agency assumed operations of the Tyee facility from the City and Borough of Wrangell and the Petersburg Borough. As part of this transaction, the Agency assumed assets and liabilities associated with the facility and recorded a special item. Additional transition items were identified and recorded in 2016, related to the unfunded PERS liability (see Note 5), resulting in a special item of $588,555 recorded for the year ended June 30, 2016.

9. Union Agreement

The Agency has a union agreement expiring June 30, 2018 with the International Brotherhood of Electrical Workers (IBEW). 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.

10. 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.

11. Subsequent Events

The Agency has evaluated subsequent events through January 10, 2018, the date on which the financial statements were issued.

Supplementary Information

The Southeast Alaska Power Agency

Schedule of State Financial Assistance

Year Ended June 30, 2017

Name of Grant	Grant Number	Grant Award	State Expenditures
Department of Commerce, Community, and Economic Development			
*Swan Lake Hydroelectic Project Reservoir Expansion Project	15-DC-468	$ 3,320,000	$ 794,877
Hydroelectric Storage, Generation, Transmission & Business Analysis	13-DC-553	3,000,000	29,118
Total Department of Commerce, Community and Economic Development			823,995
Alaska Energy Authority			
Kake-Petersburg Intertie Final Design	7910025	2,000,000	31,103
Total State Financial Assistance			$ 855,098

*Major Program

Note 1. Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state grant activity of The Southeast Alaska Power Agency under programs of the State government for the year ended June 30, 2017. The information on this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of The Southeast Alaska Power Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of The Southeast Alaska Power Agency.

Note 2. Summary of Significant Accounting Policies

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

Single Audit Section

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Southeast Alaska Power Agency as of and for the year ended June 30, 2017, 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 10, 2018.

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 10, 2018

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

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

Report on Compliance for Each Major State Program

We have audited The Southeast Alaska Power Agency's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of The Southeast Alaska Power Agency's major state programs for the year ended June 30, 2017. The Southeast Alaska Power Agency's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major State Program

In our opinion, The Southeast Alaska Power Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

BDO USA, LLP

Anchorage, Alaska
January 10, 2018

The Southeast Alaska Power Agency

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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

State Financial Assistance

Internal control over major programs:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified?	____ yes	X (none reported)
Type of auditor's report issued on compliance for major programs:		Unmodified
Dollar threshold used to distinguish a state major program:		$ 50,000

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

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

Section III - State Financial Assistance

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

The Southeast Alaska Power Agency

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

There were no prior year audit findings.

Corrective Action Plan

Year Ended June 30, 2017

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