Southeast Alaska Power Agency

Financial Statements, Required Supplementary Information, and *Government Auditing Standards* Report

For the Years Ended December 31, 2022 and 2021

(With Independent Auditor's Report Thereon)

The report accompanying these financial statements was issued by
BDO USA, P.A., a Delaware professional service corporation, and the U.S.
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Contents

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

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report

The Board of Directors
Southeast Alaska Power Agency
Ketchikan, Alaska

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Southeast Alaska Power Agency (the Agency) as of and for the years ended December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Southeast Alaska Power Agency, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southeast Alaska Power Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Southeast Alaska Power Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 11 and the Schedules of Pension Contributions and related notes on pages 38-40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 August 21, 2023 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 solely 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 the effectiveness of the Southeast Alaska Power Agency's 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, P.A.

Anchorage, Alaska
August 21, 2023

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Management's Discussion and Analysis

This presentation and analysis are intended to serve as an introduction to and discussion of the financial statements of Southeast Alaska Power Agency (SEAPA) for the fiscal years ended December 31, 2022; 2021; and 2020.

Mission Statement

SEAPA's mission is to safely provide clean, reliable, low-cost wholesale power to the communities we serve.

Financial Highlights

- Total assets and deferred outflows of resources of $178.7M in 2022 and $173.3M in 2021 exceeded total liabilities by $143.8M and $143.1M, respectively. As of December 31, 2022, 2021, and 2020; $31.8M, $31M, and $23.2M were unrestricted and available to meet SEAPA's ongoing obligations to customers and creditors, respectively.
- SEAPA's total net position increased $639K in FY2022 compared to $4.6M in FY21 and $9.8K in FY20.
- The wholesale power rate was increased a quarter-cent in 2022 and 2023, to 7.05 cents and 7.3 cents per kWh, respectively, to offset inflationary pressures and support financing for capital projects. The wholesale power rate had been maintained at 6.8 cents/kWh through 2021, a rate that held steady for 24 consecutive years.
- In September 2022, SEAPA issued $5.99M in bonds through the Alaska Municipal Bond Bank to fund the construction of their new headquarters in Ketchikan.
- Other income included insurance proceeds of $661K received in 2022 for the Wrangell warehouse fire that took place in 2021, and $5MM in 2021 for the submarine cable failure that occurred in 2019. Warehouse renovations were completed in 2022, and the submarine cable was replaced in 2021.
- SEAPA earned nearly $168K in net sales of Renewable Energy Certificates in 2022 and continues to certify and market new hydropower generation as it becomes eligible.
- SEAPA is expected to move into its new Ketchikan headquarters by mid-2023. Built on property purchased in 2019, the new construction consists of office space, a board conference room, a warehouse, and a lay-down yard.
- SEAPA experienced a fault on the Stikine submarine cable crossing between Woronkofski Island and Vank Island on September 29, 2019. This crossing has three cables in service and one spare. SEAPA was able to isolate the faulted cable and switch over to the spare cable within 24 hours, restoring energy deliveries to Petersburg. Removal and replacement of the submarine cable was completed in the summer of 2021 at a cost of $11.7M.
- SEAPA utilized its Self-Insured Risk Fund to cover submarine cable expenditures prior to its June 2021 issuance of $11.33M in Series 2021 Bonds through the Alaska Municipal Bond Bank. These bonds were issued to cover the cost of the submarine cable replacement and other capital improvements as needed.
- The COVID-19 pandemic forced SEAPA's headquarters to temporarily close in 2020 and administrative staff were transitioned to a work-from-home contingency plan. Supply-chain issues have been minor, at times delaying noncritical contractor maintenance work and capital projects; however, hydroelectric power plants have continued to operate without interruption, and power sales remained in line with historical averages.

Statement of Net Position

Total assets, total liabilities and total net assets as of December 31, 2022; 2021; and 2020 follow:

	December 31, 2022	December 31, 2021	December 31, 2020
Assets:			
Current assets	$ 31,910,408	$ 29,615,963	$ 20,121,153
Capital assets	137,040,940	136,343,266	127,198,091
Noncurrent assets	9,725,545	7,348,299	7,946,731
Total Assets	$ 178,676,893	$ 173,307,528	$ 155,265,975
Liabilities:			
Current liabilities	$ 2,459,606	$ 2,075,395	$ 1,514,127
Noncurrent liabilities	32,445,635	28,099,205	15,234,561
Total liabilities	$ 34,905,241	$ 30,174,600	$ 16,748,688
Net position			
Net investment in capital assets	$ 104,609,725	$ 108,434,672	$ 112,549,453
Restricted for debt service	2,593,000	2,253,788	1,466,438
Restricted under agreements with external parties	5,588,819	1,365,223	1,290,078
Unrestricted	30,980,108	31,079,245	23,211,318
Total net position	$ 143,771,652	$ 143,132,928	$ 138,517,287
Total Liabilities and Net Position	$ 178,676,893	$ 173,307,528	$ 155,265,975

Discussion of Financial Position

Financial Position – FYE December 31, 2022

Current assets increased overall by nearly $2.3M and included unspent proceeds from the 2022 bond issuance (approximately $4M at year-end) in the form of a dedicated Construction Fund.

Capital assets increased with construction of the Ketchikan headquarters underway and the Wrangell warehouse-office refurbishment completed. A transformer circuit switcher was also updated in Wrangell and the Petersburg substation was refurbished in 2022.

The shift in noncurrent assets was due to longer-term maturities in SEAPA's Self-Insured investment fund.

Liabilities increased with the issuance of 2022 long-term debt.

Financial Position – FYE December 31, 2021

Current assets increased by over $9MM. Receipt of $5MM in submarine cable insurance proceeds contributed to this increase. Restricted funds also increased by $800K due to issuance of 2021 bonds and establishment of related reserve accounts, and inventory assets increased with the purchase of a spare length of submarine cable valued at $768K.

Capital Assets valued at $14.7M were placed into service this year, which included replacement of the $11.7M submarine cable and the $1.9M station-service switchgear project at the Swan Lake facility. These increases were offset by $5.1M in annual depreciation.

Noncurrent assets consist of investments held in SEAPA's Self-Insured Risk Fund for which the maturity is longer than one year. The balance of the Self-Insured Risk Fund was increased from $8M to $13MM in 2022, with the increase funded by the $5MM insurance proceeds collected for the submarine cable replacement.

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 $3M from the Revenue Fund. The amount of the levelized payment is established by the R&R Plan and updated every five years; consequently, it was increased to $3M in 2022 following the Plan's most recent update.

New Generation Fund – Dedicated to funding new energy projects, monies are currently being used to investigate the feasibility of potential renewable energy generation and storage resources.

Self-Insured Risk Fund – This is a risk management fund established as coverage for uninsured portions of SEAPA's transmission lines and to pay insurance deductibles and operational costs in the event of a catastrophic event. The fund balance of $8M was increased by the Board to $13M in 2022 pursuant to review of the R&R Plan, which was updated in 2021. Any excess earnings from this account are transferred to the R&R Fund at the beginning of each fiscal year.

Rate Stabilization Fund – Established in 2018 to reserve a portion of excess revenues to supplement revenue in case of a catastrophic shortfall in income, ensure bond covenants and fund balance minimums are met, reduce the amount of future bond issuances, and to supplement the Dedicated R&R Fund to finance extraordinary capital expenditures. Withdrawals from this fund are authorized by the Board and are ultimately intended to avoid drastic adjustments to the wholesale power rate.

2022 Construction Fund – Established in 2022 with proceeds from the September bond issuance for the purpose of funding construction on SEAPA headquarters. Any remaining balance may be applied to other capital projects.

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 and required by the Alaska Department of Natural Resources. SEAPA maintains this trustee account which requires an annual deposit of $75K, half of which is contributed by Copper Valley Electric Association and Kodiak Electric Association. Efforts are underway to divest this fund amongst the three participants prior to the end of 2023.

Changes in Net Position

Components of the Agency's operating revenues, operating expenses, and nonoperating revenues/expenses for the fiscal periods ended December 31, 2022; 2021; and 2020 follow:

	December 31, 2022	December 31, 2021	December 31, 2020
Operating revenues:			
Power sales revenue	$ 13,577,583	$ 12,213,210	$ 11,670,328
Net Operating Revenues	13,577,583	12,213,210	11,670,328
Operating expenses:			
Operating and maintenance	2,252,628	2,299,657	2,358,329
Transmission operations and maintenance	1,572,238	1,181,877	1,370,350
General and administrative	3,472,327	2,953,676	2,791,239
Depreciation expense & Inventory Amortization	5,169,329	5,103,867	4,851,065
Total operating expenses	12,466,522	11,539,077	11,370,983
Net Operating Income/(Loss)	1,111,061	674,133	299,345
Nonoperating revenues (expenses):			
Investment income	(351,248)	(18,269)	293,039
Grant revenue	106,110	199,797	51,269
Grant expense	(41,266)	(199,797)	(51,269)
Interest expense	(941,590)	(705,408)	(546,973)
Other income (expense)	755,656	4,666,186	(35,576
Net nonoperating revenues (expenses)	(472,338)	3,942,509	(289,510)
Change in net position	638,723	4,616,642	9,835
Net Position - beginning of year	143,933,929	138,517,287	138,507,452
Net Position - end of year	$ 144,572,652	$ 143,933,929	$ 138,517,287

Discussion of Operations

Operating revenues are derived from power generated at SEAPA's two hydroelectric facilities and sold to its three member-utility customers.

Operations – January through December 2022

Power sales of $13.578M were recorded in 2022 due to record sales of 183,340 MWh and a quarter-cent increase to the wholesale power rate. Sales were slightly more than 14,000 MWh higher than 2021 and are attributed to a cold snap in December, as well as a trend of small incremental increases in annual sales.

2022 net operating income of $1.1M includes depreciation expense of $5.1M and is an increase of $437K over 2021.

Grant revenue of $106K and grant expense of $41K were recorded in 2022. Funding from the State of Alaska FY13 Alaska DCCED grant continues to be applied toward regional hydro site analysis. A balance of $99K was still available at the end of the fiscal year, and the grant is extended through June 2024. Grant revenue also included $65K from the Alaska Division of Homeland Security and Emergency Management as reimbursement for expenses incurred during a windstorm that took place in Wrangell in November 2021.

The change in net position was $638,723 in 2022.

Operations – January through December 2021

Power sales exceeded $12.2M in 2021, representing an increase of $846K over the previous year. Fluctuations in power sales are primarily attributed to annual variations in weather.

Net operating income was $674K, representing an increase of $369K over the previous year, and includes $5.1M in depreciation expense.

Grant revenue and expense of $199.8K were recorded in 2021, representing funding from the State of Alaska FY13 Alaska DCCED grant. A balance of $179K was still available at the end of the fiscal year.

The change in net position for the year was $4.6M, reflecting the receipt of $5M in submarine cable insurance proceeds, recorded to nonoperating revenue.

Economic Factors Influencing 2023 Budgets, Rates, and Revenues

December 2022 was a record month for SEAPA generation and sales. With output of 25,326 MWh in December, calendar year 2022 resulted in record sales for the Agency. This was due to an extended cold weather event that required 100% of SEAPA outputs in addition to apparent load growth on the SEAPA electrical grid.

SEAPA's Wholesale Power Rate (WPR) will increase in January 2023 from 7.05 cents/kWh to 7.3 cents/kWh. This will be one of only two rate increases for the past 24 years. SEAPA does not anticipate a rate increase for 2024, however, additional small incremental increases may be anticipated in the future to address rising overhead costs and debt service for major capital replacements.

Economic factors impacting fiscal year 2023 are optimistic. The cruise ship industry is a major driver for Southeast Alaska. Anticipated passengers visiting Southeast Alaska are forecasted to be the largest on record. Two additional cruise ship berths have been completed in Ketchikan near Ward Cove that accommodate larger capacity Post-Panamax vessels. Additional passengers on cruise ships require additional support by personnel on land. Population growth during the tourism months increases as a result, which directly correlates to increased energy sales. High fuel costs are also anticipated in 2023 due to foreign markets and world affairs, which should spur additional heating conversions from diesel to electric sourced heating. This would also result in increased power sales.

Electric Vehicle (EV) penetration is beginning to increase in Southeast Alaska. Juneau for example increased from less than 50 EV's a few years ago to over 500 in 2022. Ketchikan is beginning to see a similar trend. Loads are anticipated to increase on the SEAPA system because of increased EV penetration over the next few years.

Population trends typically have a strong correlation to energy sales. The lack of available and affordable housing remains a significant barrier to population growth in the region outside of the tourist season. Interest rates for 30-year fixed mortgages increased in 2022 from 3.5% in January to over 6% in December which stifled housing development. Analysts however are optimistic that the Fed will begin to slow interest rate hikes in the later part of 2023.

SEAPA plans to initiate a regional load forecast study in 2023 to ascertain the rate of anticipated growth related to beneficial electrification. The goal is to determine the optimal timing and size of new generation assets to accommodate anticipated growth, while avoiding stranding of assets.

SEAPA's 2023 budget includes continuation of works in progress and several new Renewal & Replacement (R&R) projects. These projects are forward funded through the Dedicated R&R Fund and focus on safety, reliability, and availability of generation and transmission assets. SEAPA remains proactive and committed to ensuring the long-term health of the generation and transmission system.

<u>Contacting SEAPA's Financial Management</u>

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 the information provided in this report or requests for additional information should be directed to Controller, 55 Don Finney Lane, 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 seapahydro.org/resources.

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Basic Financial Statements

Southeast Alaska Power Agency

Statements of Net Position

December 31,		2022		2021
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents, including restricted cash and investments of $8,136,131 at December 31, 2022, and $4,121,467 at December 31, 2021	$	25,139,979	$	23,044,213
Accounts receivable		3,464,854		2,799,928
Grants receivable		37,026		133,800
Accrued interest receivable		59,127		13,362
Inventory		2,250,448		2,132,503
Prepaid expenses		958,974		668,110
Total Current Assets		31,910,408		28,791,916
Noncurrent Assets				
Investments, long-term		9,680,872		8,110,466
Deferred charges		12,514		7,021
Capital assets, net		137,040,940		136,343,266
Total Noncurrent Assets		146,734,326		144,460,753
Deferred Outflows of Resources - loss on refunding		32,159		54,859
Total Assets and Deferred Outflows of Resources	$	178,676,893	$	173,307,528
Liabilities and Net Position				
Current Liabilities				
Accounts payable and accrued expenses	$	1,149,192	$	877,182
Accrued interest payable		14,549		11,125
Current portion of other long-term liabilities		40,865		41,044
Current portion of long-term debt		1,255,000		1,105,000
Total Current Liabilities		2,459,606		2,034,351
Noncurrent Liabilities				
Other long-term liabilities, net of current portion		1,237,261		1,265,127
Long-term debt, net of current portion		27,835,000		23,190,000
Bond issue premium, net		3,373,374		3,685,121
Total Noncurrent Liabilities		32,445,635		28,140,248
Total Liabilities		34,905,241		30,174,599
Net Position				
Net investment in capital assets		104,609,725		108,418,004
Restricted for debt service		2,593,000		2,253,788
Restricted by agreements with external parties		5,588,819		1,365,223
Unrestricted		30,980,108		31,095,914
Total Net Position		143,771,652		143,132,929
Total Liabilities and Net Position	$	178,676,893	$	173,307,528

See accompanying notes to basic financial statements.

Southeast Alaska Power Agency

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31,	2022	2021
Operating Revenues		
Revenue from power sales	$ 13,577,583	$ 12,213,210
Operating Expenses		
Operating and maintenance	3,824,865	3,678,883
General and administrative	3,472,327	2,953,676
Depreciation expense	5,097,857	4,906,518
Total Operating Expenses	12,395,049	11,539,077
Operating income	1,182,534	674,133
Nonoperating Revenues (Expenses)		
Investment loss	(285,045)	(18,269)
Grant revenue	106,110	199,797
Grant expenses	(41,266)	(199,797)
Interest expense	(1,007,794)	(721,114)
Bond issuance expense	(73,179)	(97,658)
Insurance recovery	661,093	5,000,000
Loss on property disposal	(11,372)	(232,442)
Other income	107,642	10,992
Net Nonoperating Revenues (Expenses)	(543,811)	3,941,509
Change in net position	638,723	4,615,642
Net Position, beginning of year	143,132,929	138,517,287
Net Position, end of year	$ 143,771,652	$ 143,132,929

See accompanying notes to basic financial statements.

Southeast Alaska Power Agency

Statements of Cash Flows

Years ended December 31,	2022	2021
Cash Flows from Operating Activities		
Receipts from customers	$ 12,912,657	$ 12,274,419
Payments to suppliers and employees	(7,467,529)	(7,028,971)
Other miscellaneous receipts and disbursements	107,642	10,992
Net cash flows from operating activities	5,552,770	5,256,440
Cash Flows from (for) Noncapital Financing Activities		
Grant and contract receipts	202,884	67,718
Grant and contract expenses	(41,266)	(199,797)
Net cash flows from (for) noncapital financing activities	161,618	(132,079)
Cash Flows from (for) Capital and Related Financing Activities		
Purchase of capital assets	(5,806,903)	(14,284,135)
Receipt of insurance payment	661,093	5,000,000
Interest payments on long-term debt	(1,345,822)	(898,836)
Proceeds from issuance of bonds	6,042,405	14,256,011
Payments for cost of issuance of bonds	(73,179)	(97,658)
Principal payments on long-term debt	(1,195,000)	(805,000)
Net cash flows from (for) capital and related financing activities	(1,717,406)	3,170,382
Cash Flows from (for) Investing Activities		
Purchase of investments	(16,303,067)	(17,352,282)
Proceeds from sales of investments	14,286,194	16,623,240
Investment income received	115,657	486,495
Net cash flows for investing activities	(1,901,216)	(242,547)
Net increase (decrease) in cash and cash equivalents	2,095,766	8,052,196
Cash and Cash Equivalents, beginning of year	23,044,213	14,992,017
Cash and Cash Equivalents, end of year	$ 25,139,979	$ 23,044,213

Southeast Alaska Power Agency

Statements of Cash Flows, continued

Years ended December 31,	2022	2021
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating income	$ 1,182,534	$ 674,133
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation	5,097,857	4,906,518
Other income	107,642	10,992
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Inventory	(117,945)	(565,058)
Prepaid expenses	(290,864)	(6,676)
Accounts receivable	(664,926)	61,209
Deferred charges	(5,493)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	272,010	260,703
Other long-term liabilities	(28,045)	(85,381)
Net Cash Flows From Operating Activities	$ 5,552,770	$ 5,256,440

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.

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

For the purpose of the statements of cash flows, cash and cash equivalents consists of cash, demand deposits, money market funds, and short-term commercial paper or certificates of deposit.

Investments

The Agency's investments are recorded in accordance with the authoritative guidance on fair value measurements and disclosures. Exceptions to fair value measurement in the guidance include valuation of certain investments at amortized cost, including nontradeable certificates of deposit. 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 an 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 year ended December 31, 2022 was set at 7.05 cents per kWh and 6.8 cents per kWh for year ended December 31, 2021. The member utilities pay for the amount of power used and displaced sales under the Whitman true-up.

The Purchasers buy power from the Agency at the same wholesale power rate. Rebates may be awarded at the Board's discretion based on operating results. The following is the percentage of volume sold to each Purchaser:

Year Ended December 31,	2022	2021
Ketchikan Public Utilities	56%	52%
Petersburg Municipal Light and Power	24%	26%
Wrangell Municipal Light and Power	20%	22%
	100%	100%

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

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. The Wrangell warehouse fire insurance proceeds received in 2022 exceeded the deductible.

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 December 31, 2022 and 2021, 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.

Subsequent Events

The Agency has evaluated subsequent events through August 21, 2023, the date on which the financial statements were available to be issued.

Reclassification

Certain prior year amounts included in the comparative financial statements have been reclassified to achieve comparability with current year presentation.

Accounting Pronouncements Implemented

The Governmental Accounting Standards Board (GASB) has issued several new accounting standards with upcoming implementation dates (effective dates are adjusted for the issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance). The following new accounting standards were implemented by the Agency for 2022 reporting:

GASB Statement No. 87 – Leases – Effective for year-end June 30, 2022. 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. The Agency analyzed all active leases to determine which leases applied to GASB 87, then accounted for those leases accordingly.

GASB Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period – Effective for year-end June 30, 2022. 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. The Agency evaluated the impacts of GASB 89 and determined there to be no impact to the financial statements for the current fiscal year.

GASB Statement No. 92 - Omnibus 2020 – Provisions of this Statement related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The effective date for all other provisions of the Statement are to be implemented for year-end June 30, 2022. This Statement addresses a variety of topics such as leases, the applicability of Statement No. 73 and Statement No. 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments. The Agency evaluated the impacts of GASB 92 and determined there to be no impact to the financial statements for the current fiscal year.

GASB Statement No. 93 – Replacement of Interbank Offered Rates – The provisions of this Statement, except for paragraph 11b, 13 and 14, are required to be implemented for year-end June 30, 2021. The requirements in paragraph 11b, 13 and 14 are required to be implemented for year-end June 30, 2022. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The Agency evaluated the impacts of GASB 93 and determined there to be no impact to the financial statements for the current fiscal year.

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – Effective for year-end June 30, 2022, except the portion of the pronouncement related to component unit criteria, which is effective for year-end June 30, 2020. This Statement modifies certain guidance contained in Statement No. 84 and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Agency evaluated the impacts of GASB 97 and determined there to be no impact to the financial statements for the current fiscal year.

Recently Issued Pronouncements

The GASB has issued several new accounting standards with upcoming implementation dates (effective dates adjusted for the issuance of GASB Statement No. 95). Management has not fully evaluated the potential effects of these statements, and actual impacts have not yet been determined. The statements are as follows:

GASB Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements – Effective for year-end December 31, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APA).

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements – Effective for year-end December 31, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.

GASB Statement No. 99 – Omnibus 2022 – Provisions of this Statement related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, classification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance. The effective date for the provisions of this Statement related to leases, PPPs, and SBITAs are to be implemented for year-end December 31, 2023. The effective date for the provisions of this Statement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53, are to be implemented for year-end December 31, 2024.

GASB Statement No. 100 – Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62 – Effective for year-end December 31, 2024. Earlier application is encouraged. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

GASB Statement No. 101 – Compensated Absences – Effective for year-end December 31, 2025. Earlier application is encouraged. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

3. Cash and Investments

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 2022.

The Agency established a Rate Stabilization Fund in 2018 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 the 2015, 2019, 2021 and 2022 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 accounts and short-term investments such as money market funds.

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The cash and investments were held in accounts for the following activities:

December 31,	2022	2021
Unrestricted:		
Internal renewal and replacement fund	$ 1,000,526	$ 1,000,933
Dedicated renewal and replacement fund	4,649,564	5,841,215
Revenue fund	4,586,559	8,017,832
Self-insured risk fund	12,557,353	8,279,734
Commercial checking account	1,262	1,000
New generation fund	1,884,392	1,888,893
Rate stabilization fund	2,004,658	2,003,605
Total unrestricted	26,684,314	27,033,212
Restricted:		
Reclamation contingency fund	1,431,047	1,343,584
2015 Trust series bond interest	659	169
2015 Trust series bond principal	207,087	205,246
2019 Series bond interest fund	215	11,166
2019 Series bond principal fund	81	493,264
2019 Series bond reserve fund	1,276,271	1,264,297
2021 Series bond interest fund	1,280	206
2021 Series bond principal fund	297	-
2021 Series bond reserve fund	789,257	781,896
2022 Series bond interest fund	85	-
2022 Series bond principal fund	135	-
2022 Series bond COI fund	4,246	-
2022 Series capitalized interest fund	268,105	-
STI-USFS CD	21,641	21,639
Construction Fund	4,136,131	-
Total restricted	8,136,537	4,121,467
Total Cash And Investments	$ 34,820,851	$ 31,154,679

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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.

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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 Bond.

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.

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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 are as follows:

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less Than 1	1-5
December 31, 2022			
U.S. government bonds	$ 11,236,195	$ 2,007,607	$ 9,228,588
Corporate bonds	233,395	-	233,395
U.S. agency obligation	729,936	729,936	-
Certificates of deposit	318.456	99,567	218,889
Total investments	12,517,982	2,837,110	9,680,872
Cash and cash equivalents:			
Certificates of deposit	21,641	-	-
Money market	4,018,135	-	-
Demand deposits	18,263,093	-	-
Total cash and cash equivalents	22,302,869	-	-
Total	$ 34,820,851	$ 2,837,110	$ 9,680,872

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less Than 1	1-5
December 31, 2021			
U.S. government bonds	$ 5,659,839	$ -	$ 5,659,839
Corporate bonds	727,522	254,214	473,308
U.S. agency obligation	248,427	-	248,427
Certificates of deposit	1,474,678	739,101	735,577
Total investments	8,110,466	993,315	7,117,151
Cash and cash equivalents:			
Certificates of deposit	21,639	-	-
Money market	4,269,097	-	-
Demand deposits	18,753,477	-	-
Total cash and cash equivalents	23,044,213	-	-
Total	$ 31,154,679	$ 993,315	$ 7,117,151

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 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	December 31, 2022	December 31, 2021
U.S. government bonds	AAA	95.32%	85.29%
U.S. government agencies	AA+	1.98%	3.75%
Corporate bonds	AA-	0%	5.40%
Corporate bonds	A	0.84%	1.92%
Corporate bonds	A-	1.86%	2.45%
Corporate bonds	Not rated	0%	1.19%
Total		100%	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 December 31, 2022 and 2021, 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. Certificates of deposit held as investments are fully insured, as they do not exceed the $250,000 limit per underlying institution by the Federal Deposit Insurance Corporation.

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%:

December 31,	2022		2021	
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	$ 11,236,195	95.32%	$ 5,659,839	85.29%
Corporate bonds	-	-%	727,522	10.96%

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 December 31, 2022 and 2021:

- U.S. government agency securities of $233,395 and $248,427 as of December 31, 2022 and 2021, 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 bonds, corporate bonds, and long-term certificates of deposit investments of $11,554,651 and $7,874,789 as of December 31, 2022 and 2021, 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 $39,370 and $61,639 as of December 31, 2022 and 2021, respectively, that are not held at fair value, but instead recorded at amortized cost. Management believes that these values approximate fair value.

4. Capital Assets

The components of the Agency's capital assets are as follows:

Year Ended December 31,	2022	2021
Tyee Lake	$ 45,638,584	$ 43,906,095
Swan Lake	36,396,739	36,161,983
Swan-Tyee Intertie	115,329,753	115,184,260
General plant	5,322,534	1,696,581
	202,687,610	196,948,919
Less accumulated depreciation	(65,646,670)	(60,605,653)
Total Capital Assets, Net of Accumulated Depreciation	$ 137,040,940	$ 136,343,266

Capital asset activity for the Agency for the year ended December 31, 2022 follows:

	Balance at December 31, 2021	Additions	Transfers and Deletions	Balance at December 31, 2022
Capital assets not being depreciated:				
Swan Lake construction in progress	$ 119,319	$ 234,459	$ (214,974)	$ 138,804
Tyee Lake construction in progress	124,055	2,033,801	(2,083,953)	73,903
Other construction in progress	284,787	3,670,491	(44,538)	3,910,740
Land	474,953	-	-	474,953
Total capital assets not being depreciated	1,003,114	5,938,751	(2,343,465)	4,598,400
Capital assets being depreciated:				
Structures	23,827,438	997,866	-	24,825,304
Infrastructure	10,758,181	414,740	(8,029)	11,164,892
Generation and distribution	159,419,694	667,809	(51,182)	160,036,321
Furniture, fixtures and other	1,849,560	122,202	-	1,971,762
Leasehold improvements	90,932	-	-	90,932
Total capital assets being depreciated	195,945,805	2,202,617	(59,211)	198,089,211
Less accumulated depreciation:				
Structures	(8,708,015)	(753,410)	-	(9,461,425)
Infrastructure	(2,770,136)	(395,268)	(43,344)	(3,208,748)
Generation and distribution	(48,036,370)	(3,839,157)	100,182	(51,775,345)
Furniture, fixtures and other	(1,055,692)	(106,724)	-	(1,162,416)
Leasehold improvements	(35,440)	(3,297)	-	(38,737)
Total accumulated depreciation	(60,605,653)	(5,097,856)	56,838	(65,646,671)
Capital assets being depreciated, net	135,340,152	(2,895,239)	(2,373)	132,442,540
Total Capital Assets, net	$136,343,266	$ 3,043,512	$ (2,345,838)	$137,040,940

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Capital asset activity for the Agency for the year ended December 31, 2021 follows:

	Balance at December 31, 2020	Additions	Transfers and Deletions	Balance at December 31, 2021
Capital assets not being depreciated:				
Swan Lake construction in progress	$ 389,105	$ 2,187,410	$ (2,457,196)	$ 119,319
Tyee Lake construction in progress	446,484	11,841,050	(12,163,479)	124,055
Other construction in progress	87,948	205,927	(9,088)	284,787
Land	474,953	-	-	474,953
Total capital assets not being depreciated	1,398,490	14,234,387	(14,629,763)	1,003,114
Capital assets being depreciated:				
Structures	23,827,438	-	-	23,827,438
Infrastructure	10,687,382	100,154	(29,355)	10,758,181
Generation and distribution	145,982,842	14,570,361	(1,133,509)	159,419,694
Furniture, fixtures and other	1,847,822	9,088	(7,350)	1,849,560
Leasehold improvements	90,932	-	-	90,932
Total capital assets being depreciated	182,436,416	14,679,603	(1,170,214)	195,945,805
Less accumulated depreciation:				
Structures	(7,978,551)	(729,464)	-	(8,708,015)
Infrastructure	(2,454,570)	(333,836)	18,270	(2,770,136)
Generation and distribution	(45,225,859)	(3,729,155)	918,644	(48,036,370)
Furniture, fixtures and other	(945,692)	(110,766)	766	(1,055,692)
Leasehold improvements	(32,143)	(3,297)	-	(35,440)
Total accumulated depreciation	(56,636,815)	(4,906,518)	937,680	(60,605,653)
Capital assets being depreciated, net	125,799,601	9,773,085	(232,534)	135,340,152
Total Capital Assets, net	$ 127,198,091	$ 24,007,472	$ (14,862,297)	$ 136,343,266

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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. 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.

The following reflects the changes in other long-term liabilities for the year ended December 31, 2022:

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Due Within One Year
PERS Unfunded Liability	$ 634,379	$ -	$ (71,776)	$ 562,603	$ 40,865
DNR Reclamation	671,792	43,732	-	715,524	-
Total Other Long-Term Liabilities	$ 1,306,171	$ 43,732	$ (71,776)	$ 1,278,127	$ 40,865

The following reflects the changes in other long-term liabilities for the year ended December 31, 2021:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Due Within One Year
PERS Unfunded Liability	$ 757,332	$ -	$ (122,953)	$ 634,379	$ 41,044
DNR Reclamation	634,220	37,572	-	671,792	-
Total Other Long-Term Liabilities	$ 1,391,552	$ 37,572	$ (122,953)	$ 1,306,171	$ 41,044

6. Long-term Debt

In May 2019, previously issued and outstanding Series 2009 bonds were advance refunded, and the Agency issued $4.245 million in Series 2019 (Tax-Exempt) electric revenue refunding bonds. Interest is payable on these bonds on May 1 and November 1, commencing November 1, 2019 at an interest rate of 5.00%. The refunding also resulted in a bond issue premium of $398,863 that is being amortized over the life of the bonds. The remaining Series 2009 bonds have been defeased. A loss on refunding of $111,609 was recorded as a deferred outflow of resources and is being amortized to interest expense over the life of the original bonds.

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.

To fund repairs of a submarine transmission cable, the Agency issued a Series 2021 bond through the Alaska Municipal Bond Bank in the amount of $11,330,000 on June 16, 2022. The bond bears an annual interest rate between 4-5% and has a 24-year payback period.

On September 29, 2022, the Agency issued a Series 2022 bond through the Alaska Municipal Bond Bank in the amount of $5,990,000. The bond bears an annual interest rate between 4-5% and has a 24-year payback period. Combined annual debt service requirements for these bonds as of December 31, 2022 follow:

Year Ending December 31,	Principal	Interest	Total
2023	$ 1,255,000	$ 1,360,251	$ 2,615,251
2024	1,320,000	1,297,251	2,617,251
2025	1,370,000	1,231,501	2,601,501
2026	1,440,000	1,160,588	2,600,588
2027	1,510,000	1,086,051	2,596,051
2028-2032	8,510,000	4,210,553	12,720,553
2033-2052	13,685,000	5,251,292	18,936,292
	$ 29,090,000	$ 15,597,487	$ 44,687,487

The following reflects the changes in long-term debt for the year ended December 31, 2022:

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Due Within One Year
Series 2019 Bonds	$ 2,670,000	$ -	$ (845,000)	$ 1,825,000	$ 890,000
Series 2015 Bonds	10,295,000	-		10,295,000	-
Series 2021 Bonds	11,330,000	-	(260,000)	11,070,000	270,000
Series 2022 Bonds	-	5,990,000	(90,000)	5,900,000	95,000
Total	$ 24,295,000	$ 5,990,000	$ 1,195,000	$ 29,090,000	$ 1,255,000

The following reflects the changes in long-term debt for the year ended December 31, 2021:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Due Within One Year
Series 2019 Bonds	$ 3,475,000	$ -	$ (805,000)	$ 2,670,000	$ 845,000
Series 2015 Bonds	10,295,000	-	-	10,295,000	-
Series 2021 Bonds	-	11,330,000	-	11,330,000	260,000
Total	$ 13,770,000	$ 11,330,000	$ (805,000)	$ 24,295,000	$ 1,105,000

Bond premiums and discounts are as follows:

December 31,	2022	2021
Premium	$ 4,370,449	$ 4,317,607
Less accumulated amortization	(997,075)	(632,486)
Net Premiums	$ 3,373,374	$ 3,685,121

The Agency recorded $259,342 and $197,087 as amortization to interest expense for the years ended December 31, 2022 and 2021, respectively.

7. Operating Lease

The Agency entered into a lease agreement for office space in Ketchikan, Alaska in that expired on January 15, 2022. The lease then converted to a month-to-month basis with rent escalations of $0.05 per month per square foot through January 15, 2023, or a monthly increase of $141. The Agency is obligated to rental payments of $2,616 for the year ended December 31, 2022.

The Agency expensed $64,665 and $62,718 under this noncancelable lease obligation for the years ended December 31, 2022 and 2021, respectively.

The Agency also holds a month-to-month lease for apartment space. Rent expense for the years ended December 31, 2022 and 2021 totaled $18,300 and $18,300 per year, respectively.

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8. Employee Benefits

Union Agreements

The Agency entered into a union agreement with the International Brotherhood of Electrical Workers (IBEW) that became effective July 1, 2018 and will expire December 31, 2025. This agreement has distinct insurance and retirement programs and covers employees located in Wrangell and both hydroelectric facilities at Tyee Lake and Swan Lake, 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 2022 and in 2021 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. For the years ended December 31, 2022 and 2021, SEAPA made contributions to the RS Plan of $370,764 and $363,439, respectively.

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, 2022 and January 1, 2021, 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 Agency's contributions to the Plan in 2022 and in 2021 represented less than 5% of the total contributions made to the Plan by all participating employers. For the years ended December 31, 2022 and 2021 SEAPA made contributions to the Plan of $160,798 and $145,236, respectively. The collective bargaining agreement in place related to this Plan expires in June 2025.

In total, the Alaska Electrical Pension Plan was more than 80% funded at December 31, 2022 and 2021 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 fiscal year 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. Related Parties

SEAPA is an agency of the state that sells power to three member cities; thus, revenue is generated solely through these three cities. Its Board of Directors are made up of board members from Ketchikan, Petersburg and Wrangell. The following table reflects the percentage of revenue each related party makes up during the year and the percent of accounts receivable from members at the end of the year.

	Percent of Revenue/Accounts Receivable	
Related Party	December 31, 2022	December 31, 2021
Ketchikan	56%/69%	52%/73%
Petersburg	24%/12%	26%/15%
Wrangell	20%/19%	22%/12%

12. Insurance Recovery

The agency received insurance recovery funds during 2021 and 2022. The 2021 amount was $5,000,000 as an insurance settlement for a damaged underwater cable. In 2022, $661,093 was received for the destruction of an Agency warehouse and office building in Wrangell.

Required Supplementary Information

Southeast Alaska Power Agency

National Rural Electric Cooperative Association (NRECA)
Schedule of Contributions

Period ended	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2022	$ 370,764	$ 370,764	$ -	$ 915,694	40%
December 31, 2021	363,439	363,439	-	915,694	40%
December 31, 2020	350,119	350,119	-	908,692	39%
December 31, 2019 (six months)	152,895	152,895	-	456,807	33%
June 30, 2019	274,519	274,519	-	868,855	32%
June 30, 2018	267,892	267,892	-	915,321	29%
June 30, 2017	271,275	271,275	-	905,489	30%
June 30, 2016	272,999	272,999	-	839,014	33%
June 30, 2015	221,899	221,899	-	781,056	28%
June 30, 2014	210,410	210,410	-	661,818	32%
June 30, 2013	155,947	155,947	-	574,652	27%

See accompanying notes to Required Supplementary Information.

Southeast Alaska Power Agency

Alaska Electrical Pension Plan
Schedule of Contributions

Period ended	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2022	$ 160,798	$ 160,798	$ -	$ 1,236,603	13.00%
December 31, 2021	143,236	145,236	(2,000)	1,241,875	11.53%
December 31, 2020	136,321	136,321	-	1,343,140	10.15%
December 31, 2019 (six months)	76,284	76,284	-	652,735	11.69%
June 30, 2019	77,678	77,678	-	625,764	12.41%
June 30, 2018	86,859	86,859	-	831,118	10.45%
June 30, 2017	75,425	75,425	-	768,526	9.81%
June 30, 2016	73,698	73,698	-	804,889	9.16%
June 30, 2015	57,945	57,945	-	992,299	5.84%
June 30, 2014	*	*	*	*	*
June 30, 2013	*	*	*	*	*

* Employees covered by the AEPP were first hired in FY2015.

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 years ended. 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 years ended. 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 Report

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

3601 C Street, Suite 600
Anchorage, AK 99503

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

The Board of Directors
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 December 31, 2022, 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 August 21, 2023.

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) as a basis for designing 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 financial statements. 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, P.A.

Anchorage, Alaska
August 21, 2023

Southeast Alaska Power Agency

Schedule of Findings and Responses

Year Ended December 31, 2022

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*.