

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2016

(With Independent Auditors' Report Thereon)

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

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Management's Discussion and Analysis

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Overview of the Financial Statements

The Alaska Energy Authority (AEA or Authority) is a public corporation of the State of Alaska (State) in the Department of Commerce, Community, and Economic Development (DCCED), but with a separate and independent legal existence with a separate and self-balancing set of financial statements independently audited. AEA's operations consist of governmental fund activities – special revenue fund and business-type activities – enterprise fund. The financial information in this report is later reported as a component unit of the State and is discretely presented in the State's financial statements.

AEA manages the following projects and programs – owned hydroelectric and intertie projects, rural energy programs, and energy development programs. AEA's programs are funded primarily by the State, federal grants, investment income, and utility companies—for use of AEA owned assets. Further information on AEA's programs can be found in note 1 to the financial statements.

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial position and results of operations for the year ended June 30, 2016. This information is presented to help the reader focus on significant financial matters and provide additional information regarding the activities of the Authority. This information should be read in conjunction with the Independent Auditors' Report, the audited financial statements, and the accompanying notes.

Government-Wide Financial Statements

The government-wide financial statements report information about the overall finances of the Authority similar to a business enterprise. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations. The government-wide financial statements can be found on pages 14-15 of this report.

The government-wide financial statements are divided into the following categories:

- Governmental activities – These are functions of the Authority that are financed primarily by intergovernmental revenues. AEA's governmental activities include Power Cost Equalization Fund (PCE), Renewable Energy Fund, Emerging Energy Technology Fund, Trans-Alaska Pipeline Liability Fund, and Rural Energy Grant program.
- Business-type activities – These are functions of the Authority in which customer user fees and charges are used to help cover all or most of the cost of services they provide. AEA's business-type activities include Bradley Lake Hydroelectric Project, Larsen Bay Hydroelectric Project, Alaska Intertie, Susitna-Watana Hydroelectric Project, Power Project Fund, and the Rural Electrification Revolving Loan Fund.

The Statement of Net Position presents information on all of AEA's assets and deferred outflows less liabilities and deferred inflows, which results in net position. This statement is designed to display the financial position of AEA. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities provides information which shows how the Authority's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used

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by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the Authority are divided into two categories: governmental fund and proprietary fund, both of which are further described below, and which provides more detail than the government-wide statements. AEA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the short-term view of AEA's operations. Because the focus of governmental funds is narrower than that of the government-wide, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. These funds are combined on the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. The governmental fund financial statements are presented on pages 16-17.

Proprietary Funds

The Authority reports one enterprise fund. The enterprise fund is used to account for activities for which a fee is charged to external users for goods and services. The Authority uses enterprise fund to account for activities relating to Bradley Lake Hydroelectric Project, Larsen Bay Hydroelectric Project, Alaska Intertie, Susitna-Watana Hydroelectric Project, Power Project Fund, and the Rural Electrification Revolving Loan Fund.

The Statement of Net Position reports the Authority's assets, liabilities, deferred outflows of resources, deferred inflows of resources, and resulting net position. The net position is reported as net investment in capital assets, restricted, and unrestricted. Restricted net position is subject to external limits such as bond resolutions, legal agreements, or statutes. The Statement of Revenues, Expenses, and Changes in Net Position reports the Authority's revenues, expenses, and resulting change in net position during the periods reported. Both statements report on the accrual basis of accounting and economic resources measurement focus.

The Statement of Cash Flows reports the Authority's sources and uses of cash and change in cash balance resulting from the Authority's activities during the periods reported. The proprietary fund financial statements can be found on pages 18-20 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential to fully understand the amounts reported in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-41 of this report.

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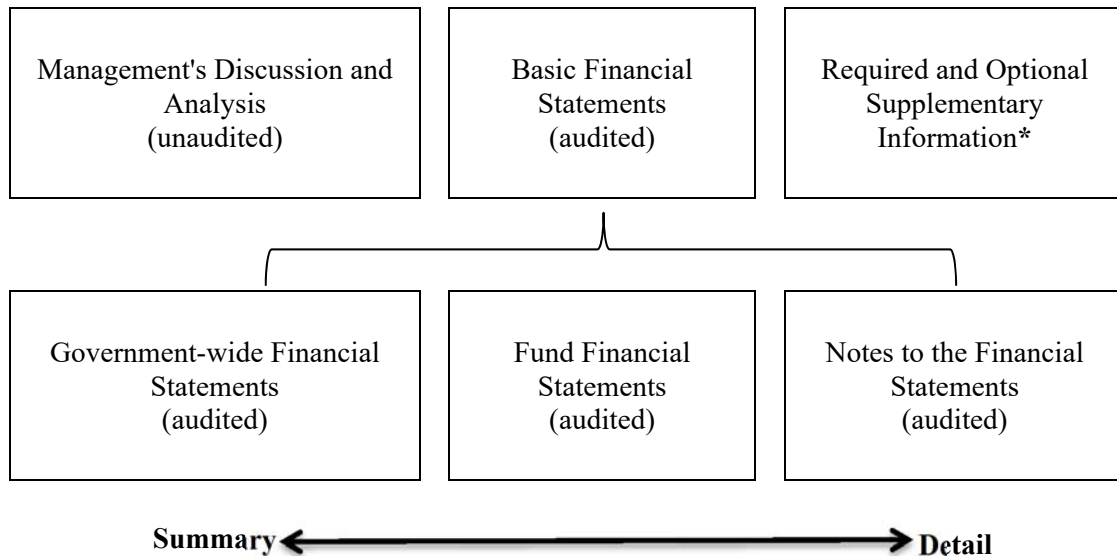
Management's Discussion and Analysis

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Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information, such as a schedule of Bradley Lake Trust Accounts, detail Statement of Net Position, detail Revenues, Expenses, and Changes in Net Position, Capital Assets reported under Federal Energy Regulatory Commission (FERC), Bradley Lake Annual Project Cost, Endowment Fund Historical Analysis, and more detailed project information. The supplementary information can be found on pages 42-52 of this report.

Required Components of the Financial Report



***Required and Optional Supplementary Information:**

- Schedule 1: Bradley Lake Hydroelectric Project Trust Accounts Activities (audited);
- Schedule 2: Governmental Fund Schedule of Projects and Programs – Balance Sheet (audited);
- Schedule 3: Governmental Fund Schedule of Projects and Programs – Revenue, Expenses and Changes in Fund Balance (audited);
- Schedule 4: Business-Type Schedule of Projects and Programs – Statement of Net Position (audited);
- Schedule 5: Business-Type Schedule of Projects and Programs – Revenue, Expenses and Changes in Net Position (audited);
- Schedules 6: Capital Assets reported under FERC (unaudited);

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- Schedule 7: Bradley Lake Historical Annual Project Cost (unaudited)
- Schedule 8: PCE Endowment Fund Historical Analysis (unaudited); and
- Schedule 9: Supplementary Organization and Project Information (unaudited).

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case with AEA as a whole, assets and deferred outflows exceeded its liabilities and deferred inflows by \$1,395 million at June 30, 2016 and \$1,427 million at June 30, 2015. Of the total net position at June 30, 2016, \$307 million was invested in capital assets net of related debt, \$1,088 million was restricted. Of the total net position at June 30, 2015, \$297 million was invested in capital assets net of related debt, and \$1,130 million was restricted.

Table 1
Net Position
(shown in thousands)

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Current and other assets	\$ 1,035,415	1,100,820	96,670	90,395
Capital assets	-	-	370,154	368,159
Total current assets	1,035,415	1,100,820	466,824	458,554
Deferred outflows of resources	-	-	53	91
Total assets and deferred outflows	1,035,415	1,100,820	466,877	458,645
Long-term liabilities	-	-	55,302	64,586
Other liabilities	22,498	46,227	29,315	21,881
Total liabilities	22,498	46,227	84,617	86,467
Total net position	1,012,917	1,054,593	382,260	372,178
Net position:				
Net investment in capital assets	-	-	307,569	297,005
Restricted	1,012,917	1,054,629	74,691	75,173
Total net position	\$ 1,012,917	1,054,629	382,260	372,178

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Governmental Activities

Current and other assets are \$65 million less in the current fiscal year. Of the \$65 million decrease, \$21 million is comprised of investment balance reductions in the Power Cost Equalization Endowment Fund, the Renewable Energy Fund, and the Emerging Energy Technology Fund. \$17 million was reduced in the Authority's cash and cash equivalents. Cash held by AEA are advances from state appropriations and are drawn based on project need; therefore, these balance will fluctuate annually.

Other liabilities, in total, decreased in the current year by \$23 million. The Authority's total amount due to the State decreased by \$17 million. Accounts payable decreased in the current year by \$6 million.

Net position, during the current fiscal year, reduced, overall, by \$42 million. This decrease is mainly a result of reduced funding from state and federal sources.

Business-Type Activities

Current and other assets are \$6 million higher in the current fiscal year. The \$6 million is an increase in due to other funds.

Capital assets, net of accumulated depreciation, also increased by \$2 million relating to the Bradley Lake and Susitna-Watana projects.

Deferred outflows of resources decreased in the current year by \$38 thousand, due to amortized costs relating to long-term debt.

Long-term liabilities reduced in the current year by \$9 million. The reduction of long-term liabilities is due to the scheduled Bradley Lake debt service payment.

Other liabilities increased in the current year by a total of \$7 million. Accrued invoices at year end for Bradley Lake projects were applied to payables; therefore, showing an increase in other liabilities.

Net position, during the current fiscal year, for business-type activities increased, overall, by \$10 million. The increase is shown in the activities for Bradley Lake Hydroelectric project and the Susitna-Watana Hydro project.

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Table 2
Changes in Net Position
(shown in thousands)

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Revenues:				
Program revenues:				
Charges for services	\$ 2	146	18,972	17,143
Operating grants and contributions	22,300	67,673	-	(66)
Capital grants and contributions	-	-	9,167	36,601
General revenues:				
Investment Income	9,313	33,477	1,735	1,618
Total revenues	32,615	101,296	29,874	55,296
Expenses:				
Grants and projects	37,918	75,056	-	-
Power cost equalization grants	31,198	36,663	-	-
General and administrative	5,211	4,812	1,379	1,303
Interest expense	-	-	3,177	3,668
Plant operations	-	-	4,709	3,984
Depreciation	-	-	10,529	10,487
Provision for loan loss	-	-	(2)	6
Total expenses	74,327	116,531	19,792	19,448
Change in net position	(41,712)	(15,235)	10,082	35,848
Net position, beginning	1,054,629	1,069,864	372,178	336,330
Net position, ending	\$ 1,012,917	1,054,629	382,260	372,178

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Governmental Activities

Revenues decreased by \$69 million, based on the following:

- **Charges for services** are \$144 thousand less in the current fiscal year, due to the reduced interagency receipts;
- **Operating grants and contributions** reduced by \$45 million from reduced state and federal funding;
- **Investment income** received \$24 million less from reduced interest earnings of \$10 million and reduced gains of \$14 million.

Expenses for governmental activities decreased overall by \$42 million from the prior year, based on the following:

- **Grants and project expenses** decreased by \$37 million, which is seen in a \$19 million reduction of funding for Renewable Energy projects and an \$18 million reduction of costs for the Emerging Energy Technology projects (EETF). EETF projects are beginning to prepare final reports and, therefore, costs are reduced;
- **PCE grants** were reduced by \$5 million due to a decrease in energy costs in communities; and
- **General and administrative** expenses increased by \$399 thousand in the current year primarily within the rural energy operating and capital project expenses related to payroll.

Business-Type Activities

Revenues for business-type activities decreased, overall, by \$25 million in the current year. The following details the \$25 million reduction:

- **Charges for services** were increased by \$1.8 million. This increase is due to upgrades to the Bradley Lake Hydroelectric project;
- **Operating grants and contributions** reduced in the current fiscal year by \$66 thousand due to the recording of the cash balance owed to the State at year end;
- **Capital grants and contributions** from the State were less in the current year by \$25 million for Susitna-Watana and \$2 million for the Alaska Intertie, compared to the prior year; and
- **Investment income** increased slightly by \$117 thousand due to higher cash balances at year end, when compared to prior year end balances.

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Expenses remained flat, based on the following:

- **General and administrative** expenses increased by \$76 thousand in the current year. This increase is related to the Bradley Lake Hydroelectric project and the Alaska Intertie project;
- **Interest expense** reduced by \$491 thousand as a result of scheduled debt service interest payments;
- **Plant operations** for Bradley Lake Hydroelectric project, Alaska Intertie project, and Power Project Fund were increased in the current fiscal year by \$725 thousand.
- **Depreciation** expense increased slightly in the current fiscal year by \$42 thousand as a result of construction work in progress capitalizations; and
- **Provision for loan loss** decreased by \$8 thousand from the prior year. In the current fiscal year, the remaining balance in the Larsen Bay project was reviewed to determine if the entire balance was retrievable. At year end, management concluded that a portion of the remaining fund was to be written off as uncollectible. Therefore, the fund only retains the portion that is receivable from the vendor.

Governmental Funds

The focus of AEA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing AEA's financing requirements.

At the end of the current fiscal year, AEA's governmental funds reported combined ending fund balances of \$1,013 million, which is a decrease of \$42 million in comparison with the prior year.

The combined ending fund balance is categorized as restricted to indicate that there is an externally enforceable limitation to its use. Specifically, the fund balance is entirely restricted by agreements with external parties or by legislation.

Governmental activities track costs related to the Power Cost Equalization Fund, Renewable Energy Fund, Emerging Energy Technology Fund, Trans-Alaska Pipeline Liability Fund, and Rural Energy Grant programs. At the end of the current fiscal year, total fund balances were as follows (shown in thousands of dollars):

Power Cost Equalization Fund	\$	949,537
Renewable Energy Fund		53,976
Trans-Alaska Pipeline Liability Fund		5,273
Emerging Energy Technology Fund		2,137
Rural Energy Projects		1,994
Total Fund Balance	\$	<u>1,012,917</u>

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Proprietary Funds

AEA's proprietary fund financial statements consist of enterprise funds, which only provide the same type of information found in the business-type activities section of the government-wide financial statements, but in more detail.

Restricted net position of the Bradley Lake Hydroelectric project at the end of the current fiscal year amounted to \$126 million, Larsen Bay Hydroelectric project was a negative \$11 thousand, the Alaska Intertie project was \$32 million, Susitna-Watana project was \$175 million, Power Project Fund was \$49 million, and the Rural Electrification Revolving Loan Fund was \$7 thousand. The total increase in net position of the proprietary fund was \$10 million, primarily consisting of the following:

1. An increase of \$5 million for the Bradley Lake Hydroelectric project, which resulted from revenues for the turbine nozzle repair and expedited payments for the static VAR compensators;
2. A decrease of \$3 million in the Alaska Intertie project, which resulted from depreciation costs of \$3 million, offset by capital additions;
3. An increase of \$9 million relating to the Susitna-Watana Hydroelectric project, which included capital assets funded by the State;
4. A decrease of \$504 thousand spread across the Power Project Fund and Revolving Rural Electrification Loan Fund, resulting from revenues totaling less than expenditures; and
5. A \$200 thousand decrease in the Power Development Fund offset by a \$200 thousand increase in the Larsen Bay Hydroelectric project, which relates to the allowance for doubtful account balance between the two funds.

Information for each of these funds is presented in more detail on pages 46 of this report.

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June 30, 2016

Capital Assets and Debt Administration

Capital Assets

AEA's investment in capital assets for its business-type activities as of June 30, 2016 amounts to \$370.1 million (net of accumulated depreciation), which is an increase of \$2 million from the prior year. The investment in capital assets only occurs in the enterprise funds and includes land and right of ways, infrastructure, equipment, and construction in progress. Additional information on AEA's capital assets can be found in Note 5 to the financial statements on page 35 and in the supplementary information section on page 47.

Capital Assets
(net of depreciation, in thousands of dollars)

	Business-Type Activities	
	2016	2015
Land and Right of Ways	\$ 11,212	\$ 11,212
Infrastructure	168,782	177,552
Equipment	175	178
Construction in Progress	189,985	179,218
Total	<u>\$ 370,154</u>	<u>\$ 368,160</u>

Major additions to capital assets during the current fiscal year include improvements to the Bradley Lake Hydroelectric Project consisting primarily of turbine nozzle repair and replacement of a static VAR compensator, along with other capital repairs. Susitna-Watana studies and costs associated with obtaining a Federal Electric Regulatory Commission license. The Alaska Intertie capital costs were improvements to the static VAR compensator and Douglas substation upgrades.

Capital Asset Additions
(in thousands of dollars)

SVC Replacement-Daves Crk/Soldotna	\$ 1,571
Bradley Turbine Nozzle Repair	1,320
Fishwater screen debris removal	290
Bradley Fish Water Valve Actuators	26
Bradley Battle Creek Diversion	190
AK Intertie-SVC Project	87
AK Intertie - Douglas Substation Upgrade	16
Susitna-Watana	9,023
Total Capital Additions	<u>\$ 12,523</u>

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Long-Term Debt

At the end of the current fiscal year, AEA had total long-term debt outstanding of \$62.6 million. AEA's total long-term debt decreased by \$8.6 million (12%) during the current fiscal year as a result of scheduled debt service payments. Additional information relating to AEA's long-term debt can be found in Note 7 to the financial statements on page 36.

Outstanding Debt
(in thousands of dollars)

	Business-Type Activities	
	2016	2015
Bradley Lake Power		
Revenue Bonds	\$ 62,585	\$ 71,155
Total	<u>\$ 62,585</u>	<u>\$ 71,155</u>

Ongoing operations and maintenance of the owned hydroelectric and intertie projects are approved by the utilities using the assets and pursuant to bond resolutions and other agreements. Susitna-Watana Hydroelectric project expenditures are funded by State capital appropriations and legislation. Continued operations of the rural energy programs and energy development programs and projects are based on State legislation, annual appropriations, and federal grant awards.



Independent Auditor's Report

The Board of Directors
Alaska Energy Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Alaska Energy Authority (a Component Unit of the State of Alaska) (Authority), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2016, and the respective changes in its financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 2 to the financial statements, the Authority changed its reporting structure from a proprietary fund to reporting a governmental fund and a proprietary fund.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1–11 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information in schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information in schedules 1, 2, 3, 4 and 5 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information in schedules 6, 7, 8 and 9 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
October 28, 2016

ALASKA ENERGY AUTHORITY
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Statement of Net Position

June 30, 2016

(stated in thousands)

Assets and Deferred Outflows of Resources	Governmental Activities	Business-Type Activities	Total
Current assets:			
Restricted cash and cash equivalents (note 3)	\$ 49,306	60,856	110,162
Operating receivable	940	809	1,749
Grants receivable	964	—	964
Loans receivable (note 8)	—	689	689
Due from State of Alaska	3,785	—	3,785
Accrued interest receivable	—	1,223	1,223
Internal balances	(5,864)	5,864	—
Total current assets	49,131	69,441	118,572
Noncurrent assets:			
Restricted investments (note 3)	986,284	21,606	1,007,890
Loans receivable, net of allowance (note 8)	—	5,623	5,623
Capital assets, net of accumulated depreciation (note 5)	—	370,154	370,154
Total noncurrent assets	986,284	397,383	1,383,667
Deferred outflows of resources:			
Deferred charge on bond refundings	—	53	53
Total assets and deferred outflows of resources	\$ 1,035,415	466,877	1,502,292
Liabilities and Net Position			
Current liabilities:			
Due to State of Alaska	\$ 9,585	8,588	18,173
Accounts payable	12,913	9,683	22,596
Bonds payable – current portion (note 7)	—	9,090	9,090
Other bond liabilities – current portion (note 7)	—	252	252
Accrued interest payable	—	1,702	1,702
Total current liabilities	22,498	29,315	51,813
Noncurrent liabilities:			
Bonds payable – noncurrent portion, net (note 7)	—	53,495	53,495
Other bond liabilities – noncurrent portion (note 7)	—	1,214	1,214
Other liabilities	—	593	593
Total noncurrent liabilities	—	55,302	55,302
Total liabilities	22,498	84,617	107,115
Net Position:			
Net investment in capital assets	—	307,569	307,569
Restricted for debt service	—	22,183	22,183
Restricted by agreements with external parties	5,273	3,210	8,483
Restricted by legislation	1,007,644	49,298	1,056,942
Total net position	1,012,917	382,260	1,395,177
Total liabilities and net position	\$ 1,035,415	466,877	1,502,292
Commitments and contingencies (note 13)			

See accompanying notes to basic financial statements.

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Statement of Activities

Year ended June 30, 2016

(stated in thousands)

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental:							
Power Cost Equalization Fund	\$ 31,938	—	—	—	\$ (31,938)	—	(31,938)
Renewable Energy Fund	18,333	—	624	—	(17,709)	—	(17,709)
Emerging Energy Technology Fund	1,335	—	364	—	(971)	—	(971)
Trans Alaska Pipeline Liability Fund	407	—	—	—	(407)	—	(407)
Rural Energy Projects	22,314	2	22,312	—	—	—	—
Total governmental activities	74,327	2	23,300	—	(51,025)	—	(51,025)
Business-type:							
Bradley Lake Hydroelectric Project	14,554	17,709	—	41	—	3,196	3,196
Alaska Intertie Project	4,348	919	—	103	—	(3,326)	(3,326)
Susitna-Watana Hydroelectric Project	—	—	—	9,023	—	9,023	9,023
Larsen Bay Hydroelectric Project	(178)	12	—	—	—	190	190
Power Project Fund	587	327	—	—	—	(260)	(260)
Rural Electrification Revolving Loan Fund	303	5	—	—	—	(298)	(298)
Power Development and Railbelt Energy Funds	178	—	—	—	—	(178)	(178)
Total business-type activities	19,792	18,972	—	9,167	—	8,347	8,347
Total activities	94,119	18,974	23,300	9,167	(51,025)	8,347	(42,678)
General Revenues							
Interest and Investment Income					9,313	1,735	11,048
Total general revenues					9,313	1,735	11,048
Change in net position					(41,712)	10,082	(31,630)
Net Position, beginning as restated (note 2)					1,054,629	372,178	1,426,807
Net Position, ending					\$ 1,012,917	382,260	1,395,177

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Governmental Fund

Balance Sheet/Statement of Net Position - Governmental Activities

June 30, 2016

(stated in thousands)

Assets	Major Special Revenue Fund	Statement of Net Position Total
Current assets:		
Restricted cash and cash equivalents (note 3)	\$ 49,306	\$ 49,306
Operating receivable	940	940
Grants receivable	964	964
Due from State of Alaska	3,785	3,785
Total current assets	<u>54,995</u>	<u>54,995</u>
Noncurrent assets:		
Restricted investments (note 3)	986,284	986,284
Total assets	<u>\$ 1,041,279</u>	<u>\$ 1,041,279</u>
Liabilities and Fund Balance		
Current liabilities:		
Due to State of Alaska	\$ 9,585	\$ 9,585
Accounts payable	12,913	12,913
Due to other funds/Internal balances	5,864	5,864
Total liabilities	<u>28,362</u>	<u>28,362</u>
Fund balance:		
Restricted by agreements with external parties	5,273	
Restricted by legislation	1,007,644	
Total fund balance	<u>1,012,917</u>	
Total liabilities and fund balance	<u>\$ 1,041,279</u>	
Net Position:		
Restricted by agreements with external parties		5,273
Restricted by legislation		1,007,644
Total net position		<u>1,012,917</u>
Total liabilities and net position		<u>\$ 1,041,279</u>
Commitments and contingencies (note 13)		

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Governmental Fund

Statement of Revenues, Expenditures, and Changes in
Fund Balance/Statement of Activities - Governmental Activities
Year ended June 30, 2016
(stated in thousands)

	Major Special Revenue Fund	Statement of Activities
Revenues:		
State of Alaska appropriations	\$ 18,943	\$ 18,943
Federal grants	4,357	4,357
Investment income, net	9,313	9,313
Other revenues	2	2
Total revenues	<u>32,615</u>	<u>32,615</u>
Expenditures/Expenses:		
Grants and projects	37,918	37,918
Power cost equalization grants	31,198	31,198
General and administrative	5,211	5,211
Total expenditures/expenses	<u>74,327</u>	<u>74,327</u>
Net change in fund balance	(41,712)	
Change in net position		(41,712)
Fund balance/Net position – beginning as restated (note 2)	<u>1,054,629</u>	<u>1,054,629</u>
Fund balance/Net position – ending	<u><u>\$ 1,012,917</u></u>	<u><u>\$ 1,012,917</u></u>

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Enterprise Fund - Major Fund

Statement of Net Position

June 30, 2016

(stated in thousands)

Assets and Deferred Outflows of Resources

Current assets:	
Restricted cash and cash equivalents (note 3)	\$ 60,856
Operating receivable	809
Loans receivable (note 8)	689
Accrued interest receivable	1,223
Due from other funds	5,864
Total current assets	69,441
Noncurrent assets:	
Restricted investments (note 3)	21,606
Loans receivable, net of allowance (note 8)	5,623
Capital assets, net of accumulated depreciation (note 5)	370,154
Total noncurrent assets	397,383
Deferred outflows of resources:	
Deferred charge on bond refundings	53
Total assets and deferred outflows of resources	\$ 466,877

Liabilities and Net Position

Current liabilities:	
Due to State of Alaska	\$ 8,588
Accounts payable	9,683
Bonds payable – current portion (note 7)	9,090
Other bond liabilities – current portion (note 7)	252
Accrued interest payable	1,702
Total current liabilities	29,315
Noncurrent liabilities:	
Bonds payable – noncurrent portion, net (note 7)	53,495
Other bond liabilities – noncurrent portion (note 7)	1,214
Other liabilities	593
Total noncurrent liabilities	55,302
Total liabilities	84,617
Net position:	
Net investment in capital assets	307,569
Restricted for debt service	22,183
Restricted by agreements with external parties	3,210
Restricted by legislation	49,298
Total net position	382,260
Total liabilities and net position	\$ 466,877

Commitments and contingencies (note 13)

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Enterprise Fund - Major Fund

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

(stated in thousands)

Operating revenues:	
Revenue from operating plants	\$ 18,640
Interest on loans	291
Other revenues	41
Total operating revenues	<u>18,972</u>
Operating expenses:	
Depreciation	10,529
General and administrative	1,379
Interest expense	3,177
Plant operations	4,709
Provision for loan loss (note 8)	(2)
Total operating expenses	<u>19,792</u>
Operating loss	<u>(820)</u>
Nonoperating activities:	
Investment income, net	1,735
State of Alaska appropriations	9,167
Total nonoperating activities	<u>10,902</u>
Increase in net position	10,082
Net position – beginning as restated (note 2)	<u>372,178</u>
Net position – ending	<u><u>\$ 382,260</u></u>

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
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Enterprise Fund - Major Fund

Statement of Cash Flows

Year ended June 30, 2016

(stated in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 18,797
Payments to suppliers	(3,108)
Payments to State of Alaska	(66)
Net cash provided by operating activities	<u>15,623</u>
Cash flows from noncapital and related financing activities:	
Net unremitted interest returned on State appropriation advances	(5)
Net decrease in short-term borrowings from AIDEA for working capital	(897)
Net cash used by noncapital and related financing activities	<u>(902)</u>
Cash flows from capital and related financing activities:	
Principal paid on bonds	(8,570)
Interest paid on bonds	(3,428)
State of Alaska appropriation for capital assets	9,172
Investment in capital assets	(12,523)
Net cash used for capital and related financing activities	<u>(15,349)</u>
Cash flows from investing activities:	
Purchase of investments	(12,537)
Proceeds from sales and maturities of investments	10,809
Interest received from investments	1,735
Principal collected on loans	37
Interest collected on loans	116
Net cash provided by investing activities	<u>160</u>
Net decrease in cash and cash equivalents	(468)
Cash and cash equivalents at beginning of year	<u>61,324</u>
Cash and cash equivalents at end of year	<u>\$ 60,856</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (820)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	10,529
Amortization of bond deferred charges	38
Provision for loan loss and bad debt expense	(2)
Bond interest expense	3,177
Interest on loans	(291)
Changes in assets and liabilities that provided (used) cash:	
Decrease in due to State of Alaska	(692)
Decrease in other long-term assets	2
Decrease in operating receivables	116
Decrease in due to from other funds	441
Decrease in other liabilities	(35)
Decrease in other bond liabilities	(383)
Increase in operating accounts payable	3,543
Net cash provided by operating activities	<u>\$ 15,623</u>
Noncash capital and related financing and investing activities:	
Ending balance of capital assets accounts payable	\$ (3,629)
Net decrease in contingent liability on sold loans	35

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2016

(1) Organization and Operations

The Alaska Energy Authority (AEA or Authority) was created by the Alaska State Legislature in 1976. AEA is a public corporation of the State of Alaska (State) within the Department of Commerce, Community, and Economic Development with separate and independent legal existence. AEA has its own self-balancing set of financial statements independently audited separate from the State. For financial reporting, AEA is a component unit of the State. AEA finances various energy infrastructure projects and energy programs to reduce the cost of energy throughout the State. AEA also receives funding from the State, federal grants, and utility companies for use of AEA owned assets.

Pursuant to legislation enacted in 1993, the Members of the Board of the Alaska Industrial Development and Export Authority (AIDEA) also serve as the Board of Directors of AEA. AIDEA provides personnel services for AEA (per statute, AEA has no employees) and has a Board approved borrowing agreement to provide short-term working capital funds to AEA. AIDEA and AEA have separate executive directors, both are employees of AIDEA. There is no commingling of funds, assets, or liabilities between AIDEA and AEA and there is no responsibility of one for the debts or the obligations of the other. Neither AIDEA's accounts nor activities are included in the accompanying financial statements.

The following is a description of AEA's existing owned projects and programs:

(a) *Bradley Lake Hydroelectric Project*

The project has 120 megawatts of installed capacity and transmits its power to the State's main power grid via two parallel 20-mile transmission lines. The project, which cost in excess of \$300 million, went into commercial operation in 1991. The project is now operated by Homer Electric Association under contract with AEA. Bradley Lake serves Alaska's Railbelt (the power-sharing area between Interior Alaska and South Central Alaska, connected by roads, generating facilities, and transmission lines) from the Kenai Peninsula to Fairbanks, as well as the Delta Junction area.

In September 2016 the Authority received an amendment to the Federal Energy Regulatory Commission (FERC) license for a diversion of West Fork Upper Battle Creek into the Bradley Lake project. The diversion will increase the Bradley Lake projects annual energy by approximately 37,000 megawatt hours (mWh). Construction may begin in 2017 and be completed in the fall of 2019.

(b) *Alaska Intertie Project*

The Alaska Intertie is a 170-mile transmission line designed for 345 kilovolts and is operating at 138 kilovolts. It runs between Willow and Healy and interconnects the power systems in the Anchorage and Fairbanks areas. The Intertie reduces the number of black/brownouts throughout the system by enabling power to move either north or south when major system disturbances occur. The Alaska Intertie allows Golden Valley Electric Association (GVEA) in Fairbanks to purchase lower cost electricity produced by Chugach Electric Association (CEA) and the Municipality of Anchorage, d/b/a Municipal Light and Power (ML&P). It also allows Southcentral Alaska utilities to purchase power

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Notes to Basic Financial Statements

June 30, 2016

from Fairbanks during power shortages. AEA contracts with the above Participating Utilities for operations and maintenance. These duties are overseen by the Intertie Management Committee (IMC) and AEA under the Alaska Intertie Agreement.

(c) *Susitna-Watana Hydroelectric Project*

The Alaska Legislature appropriated \$193 million in funding to AEA for the development of a large hydroelectric project to be built in the Railbelt Region. AEA is currently in the process of obtaining a FERC license for this project. Pursuant to Administrative Order 271, AEA is using existing appropriations to incrementally advance the licensing process through the updated FERC Study Plan Determination.

The proposed project would be located approximately half-way between Anchorage and Fairbanks on the upper Susitna River and would include a single dam that would produce 2,800,000 mWh annually, equivalent to approximately 50% of the Railbelt's electrical demand.

(d) *Rural Energy Programs*

The rural energy programs include Bulk Fuel Storage Upgrades, Rural Power System Upgrades, the Power Cost Equalization (PCE) Grant Program, Utility Training, Technical Assistance, one active loan program (the Power Project Fund), and one inactive loan program (Rural Electrification Revolving Loan Fund). The PCE Endowment Fund provides the PCE program a long-term stable financing source in order to reduce electricity costs for residential and community facility customers in otherwise high-cost service areas.

(e) *Energy Development Programs*

The energy development programs include the Renewable Energy Grant Fund and Recommendation Program, Alternative Energy and Energy Efficiency (AEEE) programs, and the Emerging Energy Technology Fund (EETF) grant program.

The purpose of the Renewable Energy Grant Fund and Recommendation program is to finance renewable energy projects in Alaska. The AEEE programs support the development of alternative energy resources specific to Alaska. The purpose of the EETF grant program is to promote and provide financial assistance to applicants to test, conserve, and improve emerging energy technologies.

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Notes to Basic Financial Statements

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(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

As a component unit of the State, and for the purpose of preparing financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP), the Authority, as a public corporation of the State with separate and independent legal existence, is subject to the accounting requirements as set forth by the Governmental Accounting Standards Board (GASB).

The accounts of the Authority are organized as Governmental Fund and Proprietary Fund. The financial activities of the Authority are recorded in various funds as necessitated by sound fiscal management. The funds are combined for financial statement purposes.

(b) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Authority. In general, the effect of inter-fund activity has been removed from these statements to minimize the double-counting of internal activities. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Investment earnings are program revenues due to the restriction to their function by legislation.

Separate financial statements are provided for the special revenue fund and enterprise fund.

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Notes to Basic Financial Statements

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(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers all revenues, except reimbursement grants, to be available if they are collected within 60 days after year end. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only to the extent they have matured.

(d) *The Authority reports the following major funds:*

Major governmental funds:

AEA uses a special revenue fund to account for its governmental activities. This fund does not have a legally adopted budget, and hence the budget and actual is not presented in the financial statements.

Major proprietary fund:

The Enterprise Fund accounts for all financial activities primarily related to fees and charges to external parties.

AEA does not have a General Fund since all funds are legally restricted with specific purposes by external agreements, legislation or statute. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include federal and State of Alaska entitlement revenues.

For purposes of proprietary fund presentation, the Authority considers its revenues and expenses, except investment income, the sale of program loans, fund transfers with the State, and conveyance of capital assets, to be part of its principal ongoing operations and therefore classifies these revenues and expenses as operating in the statement of revenues, expenses, and changes in net position.

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June 30, 2016

(e) Capital Assets

Capital assets are stated at cost and depreciation is charged to operations by use of the straight-line method over their estimated useful lives.

The estimated economic lives of the assets are as follows:

<u>Utility plant</u>	<u>Life in years</u>
Intangible	30–50
Production	30–50
Transmission	20–40
General	5–30

AEA recognizes intangible assets per the guidance of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Intangible assets are assets which are nonfinancial in nature, lack physical substance, are identifiable and have a useful life extending beyond a single reporting period. Costs associated with the generation of internally generated intangible assets are capitalized when incurred after the following milestones have been met:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset

The Authority recognizes impairment losses for long-lived assets whenever there is a significant unexpected decline in service utility.

(f) Cash and Investments

All of AEA's cash and investments are restricted or designated as to use. AEA has trust accounts defined by bond resolutions, agreements with external parties, and state legislation restricting the use of cash and investments.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash, short-term commercial paper, and money market funds.

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June 30, 2016

AEA's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of the change in net position. Fair values are obtained from independent sources.

(g) *Loans and Related Interest Income*

Loans are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest is discontinued whenever the payment of interest or principal is more than ninety days past due or when the loan terms are restructured. The Authority considers lending activities to be part of its principal operations and classifies it as operating in the statement of revenues, expenses, and changes in net position. For purposes of the statement of cash flows, the loan program activities are treated as investing activities.

(h) *Allowance for Loan Losses*

The allowance for loan losses represents management's judgment as to the amount required to absorb probable losses in the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, economic conditions, and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

(i) *Fund Balance*

In the fund financial statements, the Special Revenue Fund reports aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance – this classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – if applicable, these amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Authority's board—the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Authority's board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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June 30, 2016

Assigned fund balance – if applicable, this classification reflects the amounts constrained by the Authority’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Authority’s board and management have the authority to assign amounts to be used for specific purposes.

Unassigned fund balance – if applicable, this classification is the residual classification for the governmental fund. It is also used to report negative fund balances if applicable for governmental funds.

All of the Authority’s fund balance is restricted.

(j) Net Position

Equity is displayed in three components as follows:

Net investment in capital assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – this consists of net assets that are legally restricted by outside parties. Those restrictions come in the form of legislation or State statute that cannot be modified by AEA’s board of directors,

Unrestricted – This consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

The Authority’s spending policy is to evaluate, on a case by case basis, whether restricted or unrestricted net position should be spent. This evaluation is performed by management as part of the overall spending plan.

(k) Environmental Issues

The Authority’s policy relating to environmental issues, including pollution and contamination remediation obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups, is to record a liability when the likelihood of Authority responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2016, there were no outstanding environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2016

(l) *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 or from any public utility. AEA is a public corporation of the State performing an essential governmental function and is therefore exempt from State and federal income taxes.

(m) *Appropriations and Grants*

The Authority recognizes appropriations and grant revenue when all applicable eligibility requirements, including time requirements, are met.

(n) *Estimates*

In preparing the financial statements, management of the Authority is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the Statements of Net Position. These estimates impact revenue and expenses for the period. Actual results could differ from those estimates.

(o) *Deferred Outflows/Inflows of Resources*

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. AEA only has one item that qualifies for reporting in this category. It is the deferred charge on debt refunding reported in the statements of net position. A deferred charge on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. AEA has no activity that qualifies for reporting in this category.

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Notes to Basic Financial Statements

June 30, 2016

(p) Recently Issued Accounting Pronouncements

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Statement 76) was issued by the GASB in June 2015. The objective of Statement 76 is to identify the hierarchy of generally accepted accounting principles (GAAP). Statement 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Statement 76 is required to be implemented for the fiscal year ending June 30, 2017. We have not implemented Statement 76 and are currently evaluating the impact on future financial statements.

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants – Effective for year-end June 30, 2017 – This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. We have not implemented Statement 79 and are currently evaluating the impact on future financial statements.

(q) Restatement of Net Position/Fund Balance

To better reflect the Authority’s financial position, the presentation of the financial statements has been changed for fiscal year 2016. In previous years, the Authority presented the financial statement as an Enterprise Fund. In the current fiscal year, the accounts of the Authority are organized as a Governmental Fund and a Proprietary Fund.

As a result of the change, the Authority has recorded an opening balance adjustment to reflect opening net position as follows:

	Opening net position, as originally presented	Restatement of Net Position	Opening net position, as restated
Governmental Activities	\$ -	\$ 1,054,629	\$ 1,054,629
Business-type Activities	\$ 1,426,807	\$ (1,054,629)	\$ 372,178

The Authority has also recorded an opening balance adjustment to reflect opening fund balance in governmental funds of \$1,054,629.

(3) Cash and Investments

Pursuant to various agreements, appropriations, and statutory requirements relating to its operations, AEA has established accounts for assets restricted to construction, operation, and financing activities. As used throughout this footnote, “Fund” means a separate account established by the State legislature and does not refer to a separate group of self-balancing accounts as contemplated by GAAP.

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June 30, 2016

At June 30, 2016, the Authority's carrying amount of cash and cash equivalents (all of which were restricted or designated for specific purposes) was \$110,162,000. The total of all bank balances on the same dates was \$110,224,000.

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

Restricted Cash and Cash Equivalents
(in thousands of dollars)

	Governmental Activities	Business-Type Activities	Totals
Power Cost Equalization Endowment Fund	\$ 4,032	\$ -	\$ 4,032
Renewable Energy Grant Fund	17,146	-	17,146
Emerging Energy Technology Fund	2,147	-	2,147
Trans-Alaska Pipeline Liability Fund	5,329	-	5,329
Rural Energy and Energy Development Programs	513	-	513
Funds advanced from state and federal agencies	20,139	2,458	22,597
Bradley Lake Hydroelectric Project	-	10,808	10,808
Alaska Intertie Project	-	2,197	2,197
Rural Energy Loan Funds	-	43,444	43,444
Power Development Fund	-	1,949	1,949
Total restricted cash and cash equivalents	<u>\$ 49,306</u>	<u>\$ 60,856</u>	<u>\$ 110,162</u>

Restricted Investments
(in thousands of dollars)

	Governmental Activities	Business-Type Activities	Totals
Power Cost Equalization Endowment Fund	\$ 946,939	\$ -	\$ 946,939
Renewable Energy Grant Fund	39,345	-	39,345
Bradley Lake Hydroelectric Project	-	21,606	21,606
Total restricted investments	<u>\$ 986,284</u>	<u>\$ 21,606</u>	<u>\$ 1,007,890</u>

Investment Holdings

Power Cost Equalization Endowment Fund, Renewable Energy Grant Fund, and Emerging Energy Technology Fund – The Power Cost Equalization Endowment Fund (PCE Fund), created under Alaska Statute (AS) 42.45.070, the Renewable Energy Fund (RE Fund), created under AS 42.45.045, and the Emerging Energy Technology Fund (EET Fund), created under AS 42.45.375, are under the fiduciary authority of the State Department of Revenue, Treasury Division (Treasury).

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Other AEA Cash and Investments – Bradley Lake Hydroelectric Project investments are substantially invested pursuant to investment agreements with JP Morgan Chase Bank that guarantees annual interest earnings of 7.38% or 7.41% per annum that end the earlier of July 1, 2021 or the date of repayment of the Bradley Lake Power Revenue Bonds, First Series.

Under the Internal Revenue Code of 1986, as amended, certain earnings in excess of arbitrage yield on the Bradley Lake bonds must be rebated to the U.S. Treasury. The bulk of the Bradley Lake investments are subject to rebate computation.

All other AEA assets are managed by internal staff for liquidity and minimal risk. There is no AEA Board approved investment policy, but staff follows AIDEA's Board approved investment policy for internally managed investments. The AEA managed portfolio consists of the following eligible securities:

- Debt instruments issued or guaranteed by the U.S. government, its agencies and instrumentalities, and Government Sponsored Enterprises (GSEs); and
- Money market funds collateralized by U.S. Treasury and agency securities.

At June 30, 2016, the fair values of AEA's cash and investments in its other funds were (stated in thousands):

Fair Value of Cash and Investments			
(in thousands of dollars)			
	Governmental Activities	Business-Type Activities	Totals
Deposits	\$ 1,005	\$ -	\$ 1,005
Money market funds	48,301	60,856	109,157
Investment agreements	-	21,606	21,606
Investments managed by Department of Revenue	986,284	-	986,284
Total invested assets	<u>\$ 1,035,590</u>	<u>\$ 82,462</u>	<u>\$ 1,118,052</u>

AEA Internally Managed Investments – There is no written policy for interest rate risk for AEA's internally managed investments, but AIDEA's policy is followed. The duration for investments is 2 years or less. The maximum maturity of any issue is 3 years from the date of purchase.

There is no written policy with regard to credit risk for investments managed by AEA. Since AEA only invests in highly rated money markets and U.S. government and agency securities and GSEs, credit risk is minimal.

The Bradley Lake Hydroelectric Project investments are substantially invested in guaranteed investment contracts collateralized by federal obligations, which minimize credit risk.

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Custodial Credit Risk

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury's policy with regard to custodial credit risk is to collateralize State deposits to the extent possible. At June 30, 2016, AEA's deposits managed by Treasury were uncollateralized and uninsured.

With respect to AEA managed investments, amounts totaling approximately \$109,157,000 at June 30, 2016 are held in money market funds with the custodian, the trust department of a commercial bank; therefore, no custodial risk exists for these securities. Investment agreements in the amount of \$21,606,000 are held with the custodian institution and are collateralized.

Renewable Energy Fund and Emerging Energy Technology Fund Investment Holdings

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Fund invests in the State's internally managed Special Revenue Fund and Other Non-Segregated Investments Pool (GeFONSI). The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. The Complete financial activity of the Fund is shown in the Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

The accrual basis of accounting is used for the investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term, Short-term Liquidity, and Intermediate-term Fixed Income Pools is allocated to the pool participants daily on a pro-rata basis.

June 30, 2016

GeFONSI

(in thousands of dollars)

Renewable Energy Fund	Emerging Energy Technology Fund
IRIS Fund 1210	IRIS Fund 1219
\$ 39,345	\$ -

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk see the separately issued report on the Invested Assets of the Commissioner of Revenue at: <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>

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Power Cost Equalization Endowment Fund Investment Holdings

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Fund invests in the State's internally managed Short-term Fixed Income Pool, the Broad Market Fixed Income Pool, as well as the State's internally managed Domestic Equity and International Equity Pools. The Complete financial activity of the Fund is shown in the Comprehensive Annual Financial Report (CAFR) available from the Department of Administration, Division of Finance.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Fixed income and equity securities are valued each business day. Securities expressed in terms of foreign currencies are translated into U.S dollars at the prevailing exchange rates.

The accrual basis of accounting is used for investment income. Income in the Short-term and Broad Market Fixed Income Pools is allocated to pool participants daily on a pro-rata basis.

At June 30, 2016, the Fund's share of pool investments was as follows (stated in thousands):

Power Cost Equalization Fund Investment Pools	
	AY13
Cash and cash equivalents	
Short-term fixed income pool	\$ 1,831
Domestic fixed income	
Broad market fixed income pool	277,177
Equity	
SSgA Russell 3000	446,199
SSgA MSCI EA FE index pool	139,118
Lazard International Equities	82,614
Total	<u>\$ 946,939</u>

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk see the separately issued report on the Invested Assets of the Commissioner of Revenue at: <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>

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Notes to Basic Financial Statements

June 30, 2016

(4) Fair Value Measurements

Various inputs are used in valuing the investments held by the Authority. Generally Accepted Accounting Principles (GAAP) establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These inputs are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market;

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly; and

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

The Authority categorizes fair value measurements within the fair value hierarchy established by GAAP. At June 30, 2016, the Authority has the following recurring fair value measurements (stated in thousands):

**Business-type activities -
investments by fair value
level**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Guaranteed investment contracts	\$ <u>21,606</u>	<u>-</u>	<u>21,606</u>	<u>-</u>

Debt securities classified as level 2 are valued using Net Asset Valuation. Values are obtained from the custodian entity.

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Notes to Basic Financial Statements

June 30, 2016

(5) Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (stated in thousands):

Business-Type Activities	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets not being depreciated:				
Land and Rights of Way	\$ 11,212	-	-	11,212
Construction in progress:				
Intangibles	170,074	9,213	-	179,287
Other	9,144	3,283	(1,729)	10,698
Total capital assets not being depreciated	190,430	12,496	(1,729)	201,197
Depreciable capital assets:				
Infrastructure	437,034	1,729	-	438,763
Equipment	5,549	27	-	5,576
Total depreciable capital assets	442,583	1,756	-	444,339
Less accumulated depreciation:				
Infrastructure	(259,482)	(10,499)	-	(269,981)
Equipment	(5,371)	(30)	-	(5,401)
Total accumulated depreciation	(264,853)	(10,529)	-	(275,382)
Capital assets, net	\$ 368,160	3,723	(1,729)	370,154

Depreciation expense was charged to the functions as follows for the year ended June 30, 2016 (stated in thousands):

Business-Type Activities	
Bradley Lake Hydroelectric Project	\$ 7,102
Alaska Intertie Project	3,427
Total depreciation expense – business type activities	\$ 10,529

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Notes to Basic Financial Statements

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(6) Interfund Receivables, Payables, and Transfers

Interfund balances typically result from short-term operating or capital advances. Transfers typically result from operating activities. A schedule of interfund balances as of and for the year ended June 30, 2016 follows:

Due from other funds

Due from Special Revenue Fund to Enterprise Fund \$ 5,864

(7) Long-Term Debt

Long-term debt activity for the year ended June 30, 2016 was as follows (stated in thousands):

Business-Type Activities	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016	Due within one year
Bradley Lake Power					
Revenue Bonds:					
First Series (a)	\$ 100	-	-	100	-
Refunding, Third Series (a)	16,235	-	(5,100)	11,135	5,405
Refunding, Fourth Series (a)	26,020	-	(3,100)	22,920	3,285
Refunding, Sixth Series (a)(b)	28,800	-	(370)	28,430	400
Total bonds payable	71,155	-	(8,570)	62,585	9,090
Arbitrage interest payable (c)	776	359	(475)	660	-
Bond original issue premium	1,073	-	(267)	806	252
Total other bond liabilities	1,849	359	(742)	1,466	252
Total long-term debt	\$ 73,004	359	(9,312)	64,051	9,342

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- (a) AEA issued the Power Revenue Bonds, First and Second Series (Bradley Lake Bonds), in September 1989 and August 1990, respectively, for the long-term financing of the construction costs of the Bradley Lake Hydroelectric Project and refunded AEA's Variable Rate Demand Bonds which were issued in November 1985 to provide interim financing of the project. AEA issued the Power Revenue Refunding Bonds, Third and Fifth Series in April 1999 to refund a portion of the First Series Bonds and to provide costs of issuance. AEA issued the Power Revenue Refunding Bonds, Fourth Series in April 2000 to refund a portion of the Second Series Bonds and to provide costs of issuance. All of the revenues derived by AEA from the operation of the project and all moneys, securities and funds (except the excess investment earnings fund), including a capital reserve fund, held or set aside are pledged and assigned to secure the payment of principal, redemption premium, if any, and interest on the bonds. No other revenues of AEA are pledged as security for the payment of the bonds. AEA has covenanted to notify the State Legislature of any failure to maintain the capital reserve fund at its required level. The bonds, except for the Sixth Series, are further secured by bond insurance. AEA collects from each power purchaser a percentage share of annual project costs. The outstanding Bradley Lake bonds mature annually each July 1 through the year 2021 with interest rates ranging from 2.5% to 6.25%.
- (b) In July 2010, the Authority issued \$28,800,000 of Power Revenue Refunding Bonds, Sixth Series, to refund and defease \$30,640,000 aggregate outstanding principal amount of the Authority's Power Revenue Refunding Bonds, Fifth Series, and to pay costs of issuing the bonds. The refunding resulted in aggregate debt service payments over the next eleven years of approximately \$3,316,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately \$2,350,000 which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid. The refunded bonds were called on August 2, 2010.
- (c) The arbitrage interest payable is due to the U.S. Treasury for the excess of investment income on the proceeds of each series of AEA's tax exempt Bradley Lake bonds over the related interest expense computed in accordance with Section 148 of the Internal Revenue Code of 1986, as amended. The accumulated arbitrage interest payable amount is computed each year, and the amount for each series is first due after the end of the fifth bond year and every five years thereafter. AEA maintains a separate account for each series with the trustee and each year sets aside a sufficient amount to satisfy the liability.

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Notes to Basic Financial Statements

June 30, 2016

The minimum payments related to all bonds for the years subsequent to June 30, 2016 are as follows (stated in thousands):

Business-Type Activities				
	Principal	Interest	Total	
Year Ending June 30:				
2017	\$ 9,090	3,138	12,228	
2018	9,555	2,590	12,145	
2019	10,470	2,031	12,501	
2020	11,025	1,479	12,504	
2021	11,575	893	12,468	
2022	10,870	291	11,161	
Total	\$ 62,585	10,422	73,007	

In addition, the Authority has participated in the following debt agreements:

- *Other Debt* – In 1982, AEA assumed \$44,859,000 of 5% mortgage notes payable, which requires quarterly principal and interest payments to the Rural Utilities Service (RUS) in connection with the Solomon Gulch Hydroelectric Project. Concurrent with the assumption, AEA deposited with a trustee Treasury notes sufficient to satisfy and provide for timely repayment of all principal and interest due on the assumed RUS loans. Accordingly, the loans and related trust assets are not included in the financial statements of AEA. At June 30, 2016, there was no unpaid principal balance on the note and the trust assets had a fair value of \$38,000.

(8) Loans Receivable

The Authority administers the Power Project Fund Loan Program and the Rural Electrification Revolving Loan Program. Loans outstanding at June 30, 2016 are classified as follows (dollar amounts stated in thousands):

Business-Type Activities		
	No. of Loans	Amount
Power Project Fund Loan Programs	11	\$ 6,255
Rural Electrification Revolving Loan Program	2	251
	13	
Less: Allowance for Loan Loss		(194)
Balance at end of year		\$ 6,312

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June 30, 2016

Loans more than 90 days past due are not included in the accrual of interest. At June 30, 2016, there were no loans more than 90 days past due.

An analysis of changes in the allowance for loan losses for the years ended June 30, 2016 follows (stated in thousands):

Balance at beginning of year	\$ 196
Provision for loan loss	<u>(2)</u>
Balance at end of year	<u>\$ 194</u>

On September 30, 2010, the Authority sold to AIDEA its Power Project Fund loans. Under the agreement, upon AIDEA's request, AEA is required to repurchase any loan upon a payment default. On June 30, 2016, the outstanding principal balance of the loans sold was \$16,307,000, for which AEA has recognized an estimated liability for potential repurchase of \$489,200.

(9) Fund Balance

Fund balances reported in the aggregate on the governmental fund balance sheet are subject to the following constraints:

	<u>Restricted by External Parties</u>	<u>Restricted by Legislation</u>
Power Cost Equalization Fund	\$ -	949,537
Renewable Energy Fund	-	53,976
Emerging Energy Technology Fund	-	2,137
Trans-Alaska Pipeline Liability Fund	5,273	-
Rural Energy Projects	<u>-</u>	<u>1,994</u>
Total fund balance	<u>\$ 5,273</u>	<u>1,007,644</u>

(10) Net Position

The Authority reports net position totaling \$1,395,177, of which total restricted net assets at June 30, 2016 totaled \$1,087,608. Total net investment in capital assets totals \$307,569.

(11) Risk Management

AEA is exposed to various risks of loss and obtains coverage for its risks through the purchase of commercial insurance and participation in the State Risk Management Pool.

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2016

(12) Related Parties

(a) *Alaska Industrial Development and Export Authority*

Pursuant to understandings and agreements between AIDEA and AEA, AIDEA provides administrative, treasury, personnel, data processing, communications, and other services to AEA. During 2016, AEA incurred the following for services (stated in thousands):

Expensed services – governmental activities	\$ 6,238
Capitalized services – business-type activities	<u>1,019</u>
Total services	<u>\$ 7,257</u>

AEA has a Board approved borrowing agreement with AIDEA to provide short-term working capital funds up to a maximum of \$7,500,000. At June 30, 2016, AEA had \$3,300,000 payable to AIDEA for services and borrowings.

As a result of implementing Governmental Accounting Standards Board No. 68 Accounting and Financial Reporting for Pensions, AIDEA recorded a net pension liability. AEA's annual payments to AIDEA for personnel services supporting AEA activities includes a Public Employees Retirement System contribution component. Payments to AIDEA for AEA personnel services comprise approximately two-thirds of AIDEA's personnel costs.

(b) *Alaska Intertie Management Committee*

AEA is party to agreement with utilities (GVEA, MEA, CEA, and ML&P) using the Alaska Intertie for wheeling of electrical power. Pursuant to the Intertie Agreement, the IMC was established to manage the system. The IMC is comprised of a representative from AEA and each of the utilities. AEA is reimbursed for operation and maintenance costs on a monthly basis with an annual settlement to adjust the payments to actual costs. AEA received \$53,800 during fiscal year 2016 for administrative services.

(c) *Bradley Lake Project Management Committee*

Effective December 7, 1987, AEA entered into a power sales agreement with entities purchasing electric powers produced by the Bradley Lake Hydroelectric Project. Pursuant to the agreement, a Project Management Committee (PMC) was formed. The PMC is comprised of a representative from AEA and each of the power purchasers. The participating power purchasers make monthly payments directly to the bond trustee based on their respective percentage share of the estimated annual project costs. AEA has an agreement with the PMC to provide administrative services to the Bradley Lake Project.

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2016

(13) Commitments and Contingencies

In the normal course of business, AEA also has various commitments, such as commitments for the extension of credit and award of grants. At June 30, 2016, AEA had open Power Project Fund loan commitments of \$22,307,000.

At June 30, 2016, AEA had cumulative prior year commitments from grant awards that are funded by State appropriations and federal awards; the amounts committed were \$76,847,000.

In management's opinion, the final outcome of any present legal proceedings or other contingent liabilities and commitments will not materially affect our financial position.

Schedule 1

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Schedule of Bradley Lake Hydroelectric Project Trust Account Activities
Year ended June 30, 2016
(stated in thousands)

		Debt Service Fund	Capital Reserve Fund	Renewal and Contingency Reserve Fund	Excess Investment Earnings Fund	Revenue Fund	Operating Fund	Operating Reserve Account	Total
Balance at July 1, 2015	\$	10,523	12,779	3,213	476	432	1,852	1,126	30,401
Interest received		226	961	287	32	220	152	83	1,961
Bond principal paid		(8,570)	—	—	—	—	—	—	(8,570)
Bond interest paid		(3,655)	—	—	—	—	—	—	(3,655)
Arbitrage paid		—	—	—	(475)	—	—	—	(475)
Operating budget surplus paid		—	—	(20)	—	—	(1,394)	—	(1,414)
Construction expenditures		—	—	(1,288)	—	(74)	—	—	(1,362)
Operating revenue received		—	—	—	—	19,954	—	—	19,954
Operating expenses paid		—	—	—	—	—	(4,426)	—	(4,426)
Transfers between funds		12,268	(961)	3,432	281	(20,147)	5,220	(93)	—
Balance at June 30, 2016	\$	<u>10,792</u>	<u>12,779</u>	<u>5,624</u>	<u>314</u>	<u>385</u>	<u>1,404</u>	<u>1,116</u>	<u>32,414</u>

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Special Revenue Fund
Schedule of Projects and Programs – Balance Sheet
June 30, 2016
(stated in thousands)

Assets	Power Cost Equalization Fund	Renewable Energy Fund	Emerging Energy Technology Fund	Trans Alaska Pipeline Liability Fund	Rural Energy Projects	Eliminations	Totals
Current assets:							
Restricted cash and cash equivalents	\$ 4,032	17,146	2,147	5,329	20,652	—	49,306
Operating receivable	—	650	21	—	269	—	940
Grants receivable	—	—	5	—	959	—	964
Due from State of Alaska	3,594	—	—	—	191	—	3,785
Due from other funds	33	—	—	—	1,238	(1,271)	—
Total current assets	7,659	17,796	2,173	5,329	23,309	(1,271)	54,995
Noncurrent assets:							
Restricted investments	946,939	39,345	—	—	—	—	986,284
Total assets	\$ 954,598	57,141	2,173	5,329	23,309	(1,271)	1,041,279
Liabilities and Fund Balance							
Current liabilities:							
Due to State of Alaska	\$ 21	—	—	—	9,564	—	9,585
Accounts payable	5,040	2,807	36	—	5,030	—	12,913
Due to other funds	—	358	—	56	6,721	(1,271)	5,864
Total current liabilities	5,061	3,165	36	56	21,315	(1,271)	28,362
Total liabilities	5,061	3,165	36	56	21,315	(1,271)	28,362
Fund Balance:							
Restricted by agreements with external parties	—	—	—	5,273	—	—	5,273
Restricted by legislation	949,537	53,976	2,137	—	1,994	—	1,007,644
Total fund balance	949,537	53,976	2,137	5,273	1,994	—	1,012,917
Total liabilities and fund balance	\$ 954,598	57,141	2,173	5,329	23,309	(1,271)	1,041,279
Commitments and contingencies							

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Special Revenue Fund
Schedule of Projects and Programs – Revenues, Expenses, and Changes in Fund Balance
Year ended June 30, 2016
(stated in thousands)

	Power Cost Equalization Fund	Renewable Energy Fund	Emerging Energy Technology Fund	Trans Alaska Pipeline Liability Fund	Rural Energy Projects	Totals
Operating revenues:						
State of Alaska appropriations	\$ —	624	—	—	18,319	18,943
Federal grants	—	—	364	—	3,993	4,357
Investment income, net	8,926	380	—	7	—	9,313
Other revenues	—	—	—	—	2	2
Total operating revenues	8,926	1,004	364	7	22,314	32,615
Operating expenditures:						
Grants and projects	—	16,256	1,335	389	19,938	37,918
Power cost equalization grants	31,198	—	—	—	—	31,198
General and administrative	740	2,077	—	18	2,376	5,211
Total operating expenditures	31,938	18,333	1,335	407	22,314	74,327
Increase (decrease) in fund balance	(23,012)	(17,329)	(971)	(400)	—	(41,712)
Fund balance – beginning as restated (note 2)	972,549	71,305	3,108	5,673	1,994	1,054,629
Fund balance – ending	\$ 949,537	53,976	2,137	5,273	1,994	1,012,917

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Business-Type Activities - Enterprise Fund
Schedule of Projects and Programs – Statement of Net Position
June 30, 2016
(stated in thousands)

	Bradley Lake Hydroelectric Project	Alaska Intertie Project	Susitna-Watana Hydroelectric Project	Larsen Bay Hydroelectric Project	Power Project Fund	Rural Electrification Revolving Loan Fund	Power Development and Railbelt Energy Projects	Eliminations	Totals
Assets and Deferred Outflows of Resources									
Current assets:									
Restricted cash and cash equivalents	\$ 10,808	2,197	—	—	43,378	66	4,407	—	60,856
Operating receivable	85	724	—	—	—	—	—	—	809
Loans receivable	—	—	—	—	628	61	—	—	689
Accrued interest receivable	1,103	—	—	—	118	2	—	—	1,223
Due from other funds	—	1	33	—	216	—	5,868	(254)	5,864
Total current assets	11,996	2,922	33	—	44,340	129	10,275	(254)	69,441
Noncurrent assets:									
Restricted investments	21,606	—	—	—	—	—	—	—	21,606
Loans receivable, net of allowance	—	—	—	—	5,440	183	—	—	5,623
Capital assets, net of accumulated depreciation	163,531	31,929	174,694	—	—	—	—	—	370,154
Total noncurrent assets	185,137	31,929	174,694	—	5,440	183	—	—	397,383
Deferred outflows of resources:									
Deferred charge on bond refundings	53	—	—	—	—	—	—	—	53
Total assets and deferred outflows of resources	\$ 197,186	34,851	174,727	—	49,780	312	10,275	(254)	466,877
Liabilities and Net Position									
Current liabilities:									
Due to State of Alaska	\$ 7	(1)	(1,552)	—	—	66	10,068	—	8,588
Accounts payable	4,953	2,906	1,585	—	—	239	—	—	9,683
Bonds payable – current portion	9,090	—	—	—	—	—	—	—	9,090
Other bond liabilities – current portion	252	—	—	—	—	—	—	—	252
Accrued interest payable	1,702	—	—	—	—	—	—	—	1,702
Due to other funds	36	—	—	11	—	—	207	(254)	—
Total current liabilities	16,040	2,905	33	11	—	305	10,275	(254)	29,315
Noncurrent liabilities:									
Bonds payable – noncurrent portion, net	53,495	—	—	—	—	—	—	—	53,495
Other bond liabilities – noncurrent portion	1,214	—	—	—	—	—	—	—	1,214
Other liabilities	104	—	—	—	489	—	—	—	593
Total noncurrent liabilities	54,813	—	—	—	489	—	—	—	55,302
Total liabilities	70,853	2,905	33	11	489	305	10,275	(254)	84,617
Net position:									
Net investment in capital assets	100,946	31,929	174,694	—	—	—	—	—	307,569
Restricted for debt service	22,183	—	—	—	—	—	—	—	22,183
Restricted by agreements with external parties	3,204	17	—	(11)	—	—	—	—	3,210
Restricted by legislation	—	—	—	—	49,291	7	—	—	49,298
Total net position	126,333	31,946	174,694	(11)	49,291	7	—	—	382,260
Total liabilities and net position	\$ 197,186	34,851	174,727	—	49,780	312	10,275	(254)	466,877
Commitments and contingencies									

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Business-Type Activities - Enterprise Fund
Schedule of Projects and Programs – Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2016
(stated in thousands)

	Bradley Lake Hydroelectric Project	Alaska Intertie Project	Susitna-Watana Hydroelectric Project	Larsen Bay Hydroelectric Project	Power Project Fund	Rural Electrification Revolving Loan Fund	Power Development and Railbelt Energy Projects	Totals
Operating revenues:								
Revenue from operating plants	\$ 17,709	919	—	12	—	—	—	18,640
Interest on loans	—	—	—	—	286	5	—	291
Other revenues	—	—	—	—	41	—	—	41
Total operating revenues	17,709	919	—	12	327	5	—	18,972
Operating expenses:								
Depreciation	7,102	3,427	—	—	—	—	—	10,529
General and administrative	399	88	—	—	587	305	—	1,379
Interest expense	3,177	—	—	—	—	—	—	3,177
Plant operating	3,876	833	—	—	—	—	—	4,709
Provision for loan loss	—	—	—	(178)	—	(2)	178	(2)
Total operating expenses	14,554	4,348	—	(178)	587	303	178	19,792
Operating income (loss)	3,155	(3,429)	—	190	(260)	(298)	(178)	(820)
Nonoperating activities:								
Investment income, net	1,679	2	—	—	54	—	—	1,735
State of Alaska appropriations	41	103	9,023	—	—	—	—	9,167
Increase (decrease) in net position	4,875	(3,324)	9,023	190	(206)	(298)	(178)	10,082
Net position – beginning as restated (note 2)	121,458	35,270	165,671	(201)	49,497	305	178	372,178
Net position – ending	\$ 126,333	31,946	174,694	(11)	49,291	7	—	382,260

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY

(A Component Unit of the State of Alaska)

Schedule of Capital Assets Presented under Federal Energy Regulatory Commission

June 30, 2016

(stated in thousands)

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets:				
Intangible	\$ 165,685	9,023	—	174,708
Production	264,121	1,828	—	265,949
Transmission	188,690	1,571	—	190,261
General	14,517	101	—	14,618
Total capital assets	633,013	12,523	—	645,536
Less accumulated depreciation:				
Intangible	(6)	—	—	(6)
Production	(122,081)	(5,477)	—	(127,558)
Transmission	(137,396)	(5,025)	—	(142,421)
General	(5,370)	(27)	—	(5,397)
Total accumulated depreciation	(264,853)	(10,529)	—	(275,382)
Capital assets, net	\$ 368,160	1,994	—	370,154

Unaudited - See accompanying independent auditors' report.

Schedule 7

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Bradley Lake Historical Annual Project Cost
Year ended June 30, 2016
(stated in thousands)

Operating Data	2016
Project costs:	
Operations and maintenance	\$ 3,057
General and administrative	686
Insurance	531
Capital purchases	26
Contributions to renewal and contingency fund and operating reserve account	3,739
Subtotal	<u>8,039</u>
Debt service	12,495
Less investment income	<u>(1,649)</u>
Total cost of power	<u>\$ 18,885</u>
Energy delivered (mWh)	429,882
Total unit cost of power (cents per kWh)	4.39

This schedule is provided as part of the Bradley Bond continuing disclosure requirement.

Unaudited - See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
 (A Component Unit of the State of Alaska)
 PCE Endowment Fund Historical Analysis
 June 30, 2016
 (stated in thousands)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Beginning investment fund balance	\$ 303,354	320,714	364,529	751,780	840,215	977,867	969,389
Inflows:							
Annual investment earnings	38,387	67,651	10,948	111,488	171,112	33,192	8,912
Capital fund transfers in	—	—	400,000	—	—	—	—
Total inflows	<u>38,387</u>	<u>67,651</u>	<u>410,948</u>	<u>111,488</u>	<u>171,112</u>	<u>33,192</u>	<u>8,912</u>
Outflows:							
Transfers to AEA for PCE payments (1)	(20,725)	(23,458)	(23,154)	(22,527)	(32,773)	(41,002)	(30,622)
Program administration - AEA	(160)	(174)	(211)	(198)	(241)	(248)	(255)
Administrative fee - Regulatory Commission	—	(78)	(129)	(90)	(110)	(107)	(100)
Management fee - Department of Revenue	(142)	(126)	(203)	(238)	(336)	(313)	(385)
Total outflows	<u>(21,027)</u>	<u>(23,836)</u>	<u>(23,697)</u>	<u>(23,053)</u>	<u>(33,460)</u>	<u>(41,670)</u>	<u>(31,362)</u>
Ending investment fund balance	\$ <u><u>320,714</u></u>	<u><u>364,529</u></u>	<u><u>751,780</u></u>	<u><u>840,215</u></u>	<u><u>977,867</u></u>	<u><u>969,389</u></u>	<u><u>946,939</u></u>

(1) final PCE program expenditures reported may vary depending on outstanding PCE payables at June 30, not included in this presentation.

Unaudited - See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Supplementary Organization and Project Information

June 30, 2016

Organization and Operations

Throughout the 1980's, Alaska Energy Authority (AEA or Authority) worked to develop the State's energy resources as a key element in diversifying Alaska's economy. A number of large-scale projects were constructed; four of those projects were sold in 2002 and one was transferred to the City of Larsen Bay in the fall of 2010. The Bradley Lake Hydroelectric project provides some of the least expensive electric energy to the Railbelt. The Alaska Intertie provides for connection and movement of power north or south to increase reliability and allow Interior Alaska to obtain less expensive electric energy available from the Southcentral portion of the state.

Pursuant to statute, on August 12, 1993, the Board of Alaska Industrial Development and Export Authority (AIDEA), a public corporation and a political subdivision of the State, became the Board of Directors of AEA. AEA continues to exist as a separate legal entity. The corporate structure and operating assets of AEA were retained, but the ability to have employees and construct or acquire energy projects was eliminated. Among other things, AIDEA provides personnel services, at cost, for AEA. The AEA executive director is an employee of AIDEA, but is separate and independent and is not subject to supervision by AIDEA's executive director. There is no commingling of funds, assets, or liabilities between AIDEA and AEA, and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AIDEA are not included in the accompanying financial statements. The Legislature, in 1993 required AEA, to the maximum extent feasible, to enter into contracts with public utilities and other entities to carry out AEA duties with respect to the ongoing operation and maintenance of the AEA owned operating assets; this has occurred with oversight responsibility retained by AEA.

Pursuant to legislation effective July 1, 1999, rural energy programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration, as part of a larger reorganization of State agencies. These rural energy programs were originally part of AEA prior to the 1993 reorganization. During fiscal year 2009, legislation added energy development programs to AEA.

Effective July 14, 2011, the legislature empowered AEA to acquire, construct, own, and operate a hydroelectric project located on the Susitna River. Under this legislative authorization, AEA is working on planning, designing, and Federal Energy Regulatory Commission (FERC) licensing of the Susitna-Watana Hydroelectric Project.

Bradley Lake Hydroelectric Project

The project has 120 megawatts (MW) of installed capacity and transmits its power to the State's main power grid via two parallel 20-mile transmission lines. The project, which cost in excess of \$300 million, went into commercial operation in 1991. The project is now operated by Homer Electric Association under contract with AEA. Bradley Lake serves Alaska's Railbelt from the Kenai Peninsula to Fairbanks, as well as the Delta Junction area.

In September 2016, the Authority received an amendment to the FERC license for a diversion of West Fork Upper Battle Creek into Bradley Lake project. The diversion will increase the Bradley Lake Hydroelectric Project annual energy by approximately 37,000 megawatt hours (mWh). The Battle Creek project addition includes construction of three miles of road, a concrete diversion dam, a pipe and canal to convey the water to Bradley Lake. The estimated cost of construction provided in June 2016 was approximately \$44 million. Construction could begin in 2017 and be completed in the fall of 2019.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Supplementary Organization and Project Information

June 30, 2016

Alaska Intertie Project

The Alaska Intertie is a 170-mile transmission line, designed for 345 kilovolts and is operating at 138 kilovolts. It runs between Willow and Healy and interconnects the power systems in the Anchorage and Fairbanks areas. The Intertie reduces the number of black/brownouts throughout the system by enabling power to move either north or south when major system disturbances occur. The Alaska Intertie allows Golden Valley Electric Association (GVEA) in Fairbanks to purchase lower cost electricity produced by Chugach Electric Association (CEA), Homer Electric Association (HEA), and Municipal Light and Power (ML&P). It also allows Southcentral Alaska utilities to purchase power from Fairbanks during power shortages. AEA contracts with certain Participating Utilities for operations and maintenance. The Intertie Management Committee (IMC) and AEA oversee the Alaska Intertie under an amended and restated Intertie Agreement (Agreement) executed on November 18, 2011. The Agreement improves the reliability of the interconnected electrical systems, outlines how the transfer over the Intertie of electrical capacity and energy among the participants will occur, and establishes the IMC. The IMC's primary responsibility is to provide governance, control, operation, maintenance, repair, and improvement to the Intertie, subject to AEA's oversight. The IMC is comprised of a representative from AEA and each of the Participating Utilities.

Summarized below are the State's appropriations to upgrade and extend a portion of the Alaska Intertie (in thousands):

Appropriation description	Year	Amount
Upgrade and extension of intertie (net of FY08 and FY12 reappropriations)	FY02	\$ 9,300
Repair of static VAR compensators (SVC) and a tower foundation repair	FY08	10,000
Substation upgrades and tower repairs	FY12	5,000
Railbelt transmission plan	FY12	1,000

ML&P was contracted to perform the repairs and upgrades. The tower repairs are now complete. Design and construction of the new static VAR compensator (SVC) is substantially complete as of June 30, 2016, with minor punch list items being completed and a service warranty being negotiated. AEA will continue to work with the Railbelt utilities to extend the intertie to Lake Lorraine.

Susitna-Watana Hydroelectric Project

Starting in 2010, AEA conducted preliminary planning and conceptual design for a large hydroelectric project to be built in the Railbelt Region. A number of hydroelectric generation alternatives were studied and AEA issued a Preliminary Decision Document selecting what is now known as the Susitna-Watana Hydroelectric Project as the primary large hydroelectric project for the State to pursue. The Alaska Legislature empowered AEA to acquire a Susitna River power project under AS 44.83.080 (18).

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)

Supplementary Organization and Project Information

June 30, 2016

The proposed Susitna-Watana Hydroelectric Project would be located approximately half-way between Anchorage and Fairbanks on the upper Susitna River. The Susitna-Watana dam would be located within a steep-sided valley of the Susitna River below Watana Creek at River Mile 184, above the mouth approximately 22 miles upstream of the Devil's Canyon rapids.

The project would include a single roller compacted concrete dam with a height providing nominal crest elevation at 2,050 feet mean sea level with a 23,546 acre, 42.5-mile long reservoir with an average width of one to two miles. The height of the dam was determined to be 705 feet tall during the engineering feasibility studies. The powerhouse, dam, and related facilities would be linked by transmission lines connecting the project to the Alaska Intertie. The project would produce about 50% of the Railbelt's electrical demand or an annual average of 2,800,000 mWh.

AEA filed a Notice of Intent and Pre-Application Document with the FERC to begin the licensing process for the project in December 2011. The FERC approved all 58 environmental study plans in early 2013. In implementing the study plans, AEA is working closely with the Alaska Department of Fish and Game in conducting the fishery and wildlife studies. On June 3, 2014, AEA filed the Initial Study Report (ISR) for the project. The approximately 7,000 page ISR presents information collected from the first year of field studies.

The Alaska Legislature has appropriated a total of \$193,400,000 for AEA to plan, design, and obtain a FERC permit for the project. On December 26, 2014, the Governor of Alaska issued Administrative Order 271 suspending discretionary spending on the project. On January 8, 2015, the FERC granted AEA's request to hold the licensing process in abeyance. On July 6, 2015, the Governor's office authorized AEA to proceed with the Integrated Licensing Process (ILP) using previously appropriated funds. AEA, in August 2015, requested the FERC's permission to resume the licensing efforts. On August 4, 2016, the Governor issued a letter to FERC requesting to proceed with the ILP to the point of issuing an updated Study Plan Determination (SPD) to preserve the State of Alaska's investment in the project. On August 26, 2016, FERC responded to the Governor's letter stating that FERC will proceed with the ILP to complete the SPD. After issuing the SPD, the project will be put into abeyance as requested by the Governor.