

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

Basic Financial Statements and Schedules

June 30, 2017

(With Independent Auditors' Report Thereon)

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3601 C Street, Suite 600
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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, 2017 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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, 2017, 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.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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 3-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 27, 2017 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 27, 2017

ALASKA ENERGY AUTHORITY
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Management's Discussion and Analysis

June 30, 2017

Overview of the Financial Statements

The Alaska Energy Authority (AEA or Authority) is a public corporation of the State of Alaska (State) within the Department of Commerce, Community, and Economic Development (DCCED), but with a separate and independent legal existence and a separate and self-balancing set of independently audited financial statements. AEA's operations consist of governmental fund activities reported as special revenue funds and business-type activities reported as enterprise funds. 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, 2017. 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 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 projects.
- 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 the Bradley Lake Hydroelectric Project, the Alaska Intertie, the Susitna-Watana Hydroelectric Project, the Power Project Fund, the Rural Electrification Revolving Loan Fund, and the Power Development and Railbelt Projects.

The Statement of Net Position presents information on all of AEA's assets and deferred outflows of resources less liabilities and deferred inflows of resources, 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.

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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 full accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by private-sector businesses. Revenues are recognized when earned and expenses are recognized when a liability is incurred.

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. 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 – Special Revenue 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/Statement of Net Position – Governmental Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities – Governmental Activities.

Proprietary Funds – Enterprise Fund

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 Statement of Net Position reports the Authority's assets, deferred outflows of resources, liabilities, 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 full 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.

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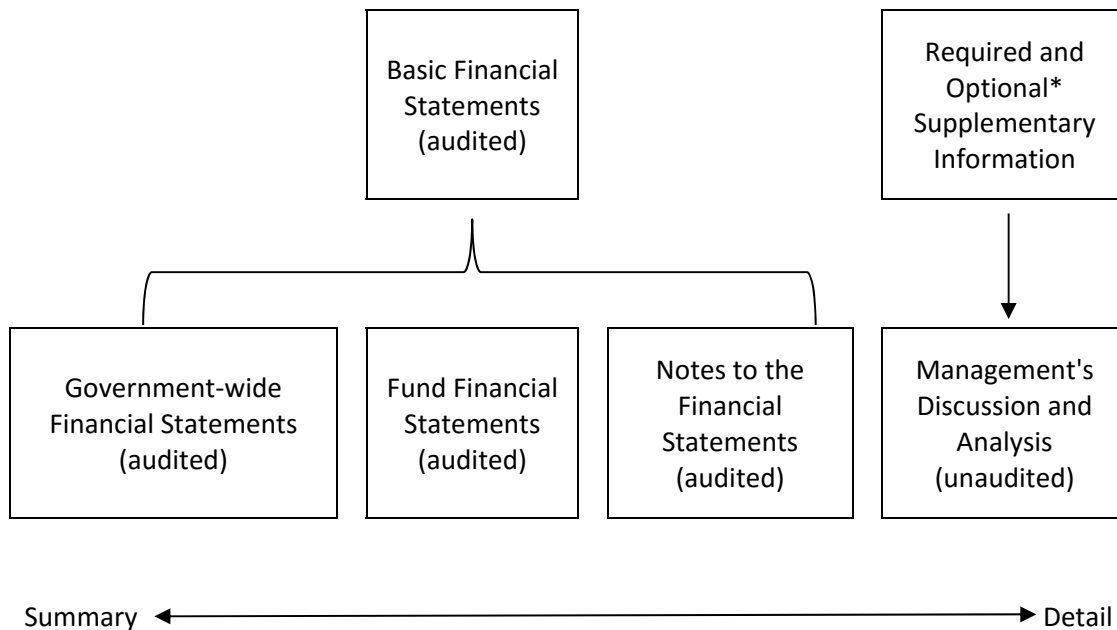
Notes to Basic Financial Statements

The notes provide additional information that is essential to fully understand the amounts reported in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information, which provides additional information about AEA's projects and programs.

Required Components of the Financial Report



***Optional Supplementary Information:**

- Schedule 1: Schedule of Bradley Lake Hydroelectric Project Trust Account Activities (audited);
- Schedule 2: Special Revenue Fund Schedule of Projects and Programs – Balance Sheet (audited);
- Schedule 3: Special Revenue Fund Schedule of Projects and Programs – Revenues, Expenses and Changes in Fund Balance (audited);
- Schedule 4: Business-Type Activities – Enterprise Fund – Schedule of Projects and Programs – Statement of Net Position (audited);

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- Schedule 5: Business-Type Activities – Enterprise Fund – Schedule of Projects and Programs – Revenues, Expenses, and Changes in Net Position (audited);
- Schedules 6: Schedule of Capital Assets Presented under Federal Energy Regulatory Commission (FERC) Requirements (unaudited);
- 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 \$1,461.2 million at June 30, 2017 and \$1,395.2 million at June 30, 2016. Of the total net position at June 30, 2017, \$321.5 million was invested in capital assets, net of related debt and \$1,139.7 million was restricted. Of the total net position at June 30, 2016, \$307.6 million was invested in capital assets, net of related debt and \$1,087.6 million was restricted.

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Management's Discussion and Analysis

June 30, 2017

Financial Analysis

The following tables are provided to show AEA's total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2017 and 2016:

Table 1
(in thousands of dollars)

	Governmental Activities			Business-Type Activities		
	2017	2016	Variance	2017	2016	Variance
Assets:						
Current and other noncurrent assets	\$ 1,088,666	1,035,415	53,251	87,444	96,670	(9,230)
Capital assets	-	-	-	374,937	370,154	4,783
Total assets	1,088,666	1,035,415	53,251	462,381	466,824	(4,447)
Deferred outflows of resources	-	-	-	20	53	(33)
Total assets and deferred outflows	\$ 1,088,666	1,035,415	53,251	462,401	466,877	(4,480)
Liabilities:						
Current liabilities	20,672	22,498	(1,826)	23,877	29,315	(5,442)
Noncurrent liabilities	-	-	-	45,308	55,302	(9,994)
Total liabilities	20,672	22,498	(1,826)	69,185	84,617	(15,436)
Net position:						
Net investment in capital assets	-	-	-	321,462	307,569	13,893
Restricted	1,067,994	1,012,917	55,077	71,754	74,691	(2,937)
Total net position	1,067,994	1,012,917	55,077	393,216	382,260	10,956
Total liabilities and net position	\$ 1,088,666	1,035,415	53,251	462,401	466,877	(4,480)

Governmental Activities:

Current and other noncurrent assets are \$53.2 million higher in the current fiscal year. The Power Cost Equalization Endowment Fund had a net increase in cash and investments of \$62.5 million. In the current fiscal year, the PCE Endowment Fund had a total of \$13.6 million reappropriated for community revenue sharing, which reduced the balance of the fund. Operating receivables increased by \$1 million in the current fiscal year and will fluctuate annually. Grant receivables increased by \$1.6 million. This increase is partially due to the inclusion of federal awards, such as bulk fuel operatory training and technical assistance, which use operating federal receipt authority. Cash and cash equivalents held by AEA are advances from state appropriations and are drawn based on project need; therefore, these balance will fluctuate annually.

Total liabilities decreased in the current fiscal year by \$1.8 million. The Authority's liabilities include amounts due to the State and accounts payable and will fluctuate annually.

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Net position, during the current fiscal year increased by \$55.1 million. This increase is a result of FY17 operations. Net position was increased \$134.7 million from revenues earned in FY17 and decreased \$66.1 million by expenses incurred in FY17. Net position was further reduced by the \$13.6 million reappropriation of the PCE Endowment Fund for community revenue sharing.

Business-Type Activities:

Current and other noncurrent assets decreased by \$9.2 million in the current fiscal year. The decrease in current and noncurrent assets is primarily due to a decrease in restricted cash and cash equivalents. These balances comprise the total cash on hand for the Enterprise Fund projects and fluctuates relative to the operational needs of the projects.

Capital assets, net of accumulated depreciation increased by \$4.8 million relating to upgrades for the related projects. In the current fiscal year, Susitna-Watana Hydroelectric project spent \$696 thousand less on the FERC license capital asset compared to the prior fiscal year. In the current fiscal year, AEA has continued its efforts to complete studies and get the project to the point where the State's investment, to date, is preserved and the project can be left in abeyance. In the prior fiscal year, the Bradley Lake project repaired the turbine nozzles, removed debris from the fishwater screens, and replaced the fish water valve actuators. In the current fiscal year, the majority of spending was on the West Fork Upper Battle Creek section of the Bradley Lake project, which increased CIP by \$876 thousand. The Alaska Intertie project repaired and/or replaced station equipment in the current fiscal, which increased the CIP by \$3.2 million.

Deferred outflows of resources decreased in the current fiscal year by \$33 thousand, due to amortized costs relating to long-term debt.

Total liabilities decreased in the current fiscal year by \$15.4 million. \$9.1 million of the total decrease was due to scheduled debt service payments on the Bradley Lake project bonds. Advances to AEA from the State of Alaska decreased by \$5.1 million in the current fiscal year. Advances from the State are drawn based on project need; therefore, these amounts will fluctuate annually.

Net position increased in the current fiscal year by \$11.0 million. The increase in net position was due to the net effect of \$30.2 million of revenues and \$19.2 million of expenses in FY17.

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Management's Discussion and Analysis

June 30, 2017

Financial Analysis, continued

The following tables are provided to show AEA's revenues, expenses, and changes in net position at June 30, 2017 and 2016:

Table 2
(in thousands of dollars)

	Governmental Activities			Business-Type Activities		
	2017	2016	Variance	2017	2016	Variance
Revenues:						
Program revenues:						
Charges for services	\$ -	2	(2)	19,179	18,972	207
Operating grants and contributions	22,096	23,300	(1,204)	-	-	-
Capital grants and contributions	-	-	-	9,148	9,167	(19)
General revenues:						
Investment Income	112,618	9,313	103,305	1,825	1,735	90
Total revenues	134,714	32,615	102,099	30,152	29,874	278
Expenses:						
Grants and projects	36,776	37,918	(1,142)	-	-	-
Power cost equalization grants	25,853	31,198	(5,345)	-	-	-
General and administrative	3,452	5,211	(1,759)	1,252	1,379	(127)
Interest expense	-	-	-	2,652	3,177	(525)
Plant operations	-	-	-	4,330	4,709	(379)
Depreciation	-	-	-	10,808	10,529	279
Provision for loan loss	-	-	-	154	(2)	156
Total expenses	66,081	74,327	(8,246)	19,196	19,792	(596)
State of Alaska reappropriation of funds	(13,556)	-	(13,556)	-	-	-
Change in net position	55,077	(41,712)	96,789	10,956	10,082	874
Net position, beginning	1,012,917	1,054,629	(41,712)	382,260	372,178	10,082
Net position, ending	\$ 1,067,994	1,012,917	55,077	393,216	382,260	10,956

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Governmental Activities:

Revenues for governmental activities increased by \$102.1 million, based on the following:

- **Charges for services** are \$2 thousand less in the current fiscal year, due to decreased interagency receipts;
- **Operating grants and contributions** decreased by \$1.2 million from a reduction of state and federal funding; and
- **Investment income** earned was \$103.3 million higher than the prior fiscal year. PCE Endowment Fund investment earnings for the current fiscal year were \$112.3 million, which is a difference of \$103.3 million from the prior fiscal year. At June 30, 2017, the PCE investment balance was \$1,023.6 million. The investment earnings increase was a product of market conditions and portfolio balance compared to \$24 million decrease in FY16.

Expenses for governmental activities decreased overall by \$8.2 million from the prior fiscal year, based on the following:

- **Grants and project expenses** decreased by \$1.1 million. The reduction is from reduced state and federal funding for projects and will fluctuate annually;
- **PCE grants** decreased by \$5.3 million due to a reduction of the base rate calculated by the Regulatory Commission of Alaska (RCA). This rate is calculated to determine which communities are eligible for PCE reimbursements. Based on the calculation for FY17, several PCE communities were no longer eligible for reimbursement; therefore, the grant payments decreased.; and
- **General and administrative** expenses decreased by \$1.8 million in the current fiscal year, primarily due to decreases in payroll allocated to the rural energy operating programs and capital projects. With the decrease in state funding for projects, staff working on AEA programs has decreased; therefore, payroll expenses have been reduced from the prior year.

Business-Type Activities:

Revenues for business-type activities increased, overall, by \$278 thousand in the current fiscal year, due to the following:

- **Charges for services** were increased by \$207 thousand. Charges for services include the amounts received from the utilities for services performed by AEA on behalf of the utilities. These services are agreed to and the amounts are based on project expenditures, operating cash requirements, and will fluctuate annually;
- **Capital grants and contributions** from the State were less in the current fiscal year by \$19 thousand. The decrease is primarily due to the reduction of state funding for capital projects, such as the Susitna-Watana Hydroelectric project. In the current fiscal year, AEA has continued its efforts to complete studies and get the project to the point where the State's investment, to date, is preserved and the project can be left in abeyance; and

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Management's Discussion and Analysis

June 30, 2017

- **Investment income** increased by \$90 thousand due to higher cash and cash equivalent balances at June 30, 2017, when compared to prior fiscal year end balances. These balances will fluctuate annually, based on operating cash needs of the projects.

Expenses for business-type activities decreased by \$596 thousand in the current fiscal year, based on the following:

- **General and administrative** expenses decreased by \$127 thousand. General and administrative expenses will fluctuate annually. The current year decrease is minimal and a normal fluctuation;
- **Interest expense** represents the cost of interest on AEA's Bradley Lake Hydroelectric project bonds. Interest expense decreased in the current fiscal year by \$525 thousand due to lower outstanding bond balances;
- **Plant operations** for the Bradley Lake Hydroelectric project and the Alaska Intertie project were decreased in the current fiscal year by \$379 thousand. Plant operations consist of various activities required to maintain operations of each project. These activities are provided as needed; therefore, these amounts will fluctuate annually;
- **Depreciation** expense increased slightly in the current fiscal year by \$279 thousand, as a result of placing assets previously under construction into service; and
- **Provision for loan loss** increased by \$156 thousand from the prior fiscal year. In the current fiscal year, AEA added four new loans and, the annual provision for loan loss is calculated using the loan portfolio balance; therefore, the new loans increased the total provision for loan loss.

Fund Balances

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 \$1,067.9 million, which is an increase of \$55.1 million in comparison with the prior fiscal 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.

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At the end of the current fiscal year, total fund balances for AEA's governmental funds were as follows:

Table 3
Governmental Fund – Fund Balances
(in thousands of dollars)

Power Cost Equalization Fund	\$ 1,021,600
Renewable Energy Fund	38,770
Trans-Alaska Pipeline Liability Fund	4,398
Emerging Energy Technology Fund	1,230
Rural Energy Projects	1,996
Total Fund Balance	\$ <u>1,067,994</u>

Proprietary Funds:

AEA's proprietary fund financial statements consist of enterprise funds, which provide detailed information of the same type found in the business-type activities section of the government-wide financial statements. At the end of the current fiscal year, total net position for AEA's proprietary funds were as follows:

Table 4
Proprietary Funds – Net Position
(in thousands of dollars)

Bradley Lake Hydroelectric Project	\$ 132,215
Alaska Intertie Project	29,026
Susitna-Watana Hydroelectric Project	183,021
Power Project Fund	49,006
Rural Electrification Revolving Loan Fund	(52)
Total Net Position	\$ <u>393,216</u>

At the end of the current fiscal year, AEA's proprietary funds reported combined ending net position of \$393.2 million, which is an increase of \$11.0 million in comparison with the prior fiscal year.

The combined ending net position is categorized as the following:

- invested in capital assets, net of related debt (\$321.5 million);
- restricted for debt service (\$21.5 million);
- restricted by agreements with external parties (\$1.3 million); and
- restricted by legislation (\$48.9 million).

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Management's Discussion and Analysis
June 30, 2017

Capital Assets and Debt Administration

Capital Assets:

AEA's investment in capital assets for its business-type activities as of June 30, 2017 amounts to \$374.9 million (net of accumulated depreciation), which is an increase of \$4.8 million from the prior fiscal year. The investment in capital assets only occurs in the enterprise funds and includes land and rights of way, infrastructure, equipment, and construction in progress.

Table 5
Capital Assets
(net of depreciation, in thousands of dollars)

		Business-Type Activities		
		2017	2016	Variance
Land and Rights of Way	\$	11,212	11,212	-
Infrastructure		167,600	168,782	(1,182)
Equipment		152	175	(23)
Construction in Progress		195,973	189,985	5,988
Total	\$	374,937	370,154	4,783

Major additions to capital assets during the current fiscal year include improvements to the Bradley Lake Hydroelectric Project consisting primarily of the static VAR compensator replacement for Soldotna/Daves Creek and continued work on the West Fork Upper Battle Creek project. The Susitna-Watana Hydroelectric project continued its efforts to complete studies and get the project to the point where the State's investment, to date, is preserved and the project can be left in abeyance. The Alaska Intertie capital additions included improvements to the static VAR compensator and Douglas substation upgrades.

Table 6
Capital Asset Additions
(in thousands of dollars)

SVC Replacement-Soldotna/Daves Creek	\$	5,606
Bradley Turbine Nozzle Repair		12
Bradley Battle Creek Diversion		876
AK Intertie - SVC Project		751
AK Intertie - Douglas Substation Upgrade		20
Susitna-Watana Hydroelectric		8,327
Total Capital Asset Additions	\$	15,592

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Long-Term Debt:

At the end of the current fiscal year, AEA had total long-term debt outstanding of \$53.4 million. AEA's total long-term debt decreased by \$9 million during the current fiscal year as a result of scheduled debt service payments.

Table 7
Outstanding Debt
(in thousands of dollars)

		Business-Type Activities		
		2017	2016	Variance
Bradley Lake Power Revenue				
and refunding Bonds	\$	53,495	62,585	(9,090)
Total	\$	53,495	62,585	(9,090)

Conclusion

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

ALASKA ENERGY AUTHORITY
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Statement of Net Position

June 30, 2017

(stated in thousands)

Assets and Deferred Outflows of Resources	Governmental Activities	Business-Type Activities	Total
Current assets:			
Restricted cash and cash equivalents (note 3)	\$ 34,258	53,990	88,248
Operating receivable	1,628	316	1,944
Prepaid expense	—	895	895
Grants receivable	1,565	—	1,565
Loans receivable (note 7)	—	515	515
Due from State of Alaska	1,741	—	1,741
Accrued interest receivable	—	1,079	1,079
Internal balances	712	(712)	—
Total current assets	39,904	56,083	95,987
Noncurrent assets:			
Restricted investments (note 3)	1,048,762	20,593	1,069,355
Loans receivable, net of allowance (note 7)	—	10,768	10,768
Capital assets, net of accumulated depreciation (note 4)	—	374,937	374,937
Total noncurrent assets	1,048,762	406,298	1,455,060
Deferred outflows of resources:			
Deferred charge on bond refundings	—	20	20
Total assets and deferred outflows of resources	\$ 1,088,666	462,401	1,551,067
Liabilities and Net Position			
Current liabilities:			
Advances from the State of Alaska	\$ 6,616	3,456	10,072
Accounts payable	14,056	8,687	22,743
Bonds payable – current portion (note 6)	—	9,555	9,555
Other bond liabilities – current portion (note 6)	—	743	743
Accrued interest payable	—	1,436	1,436
Total current liabilities	20,672	23,877	44,549
Noncurrent liabilities:			
Bonds payable – noncurrent portion, net (note 6)	—	43,940	43,940
Other bond liabilities – noncurrent portion (note 6)	—	790	790
Other liabilities	—	578	578
Total noncurrent liabilities	—	45,308	45,308
Total liabilities	20,672	69,185	89,857
Net Position:			
Net investment in capital assets	—	321,462	321,462
Restricted for debt service	—	21,482	21,482
Restricted by agreements with external parties	4,398	1,318	5,716
Restricted by legislation	1,063,596	48,954	1,112,550
Total net position	1,067,994	393,216	1,461,210
Total liabilities and net position	\$ 1,088,666	462,401	1,551,067
Commitments and contingencies (note 12)			

See accompanying notes to basic financial statements.

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

Statement of Activities

Year ended June 30, 2017

(stated in thousands)

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Govern- mental Activities	Business- Type Activities	Total
Governmental:							
Power Cost Equalization Fund	\$ 26,755	—	—	—	\$ (26,755)	—	(26,755)
Renewable Energy Fund	15,430	—	—	—	(15,430)	—	(15,430)
Emerging Energy Technology Fund	1,099	—	192	—	(907)	—	(907)
Trans Alaska Pipeline Liability Fund	895	—	—	—	(895)	—	(895)
Rural Energy Projects	21,902	—	21,904	—	2	—	2
Total governmental activities	66,081	—	22,096	—	(43,985)	—	(43,985)
Business-type:							
Bradley Lake Hydroelectric Project	13,782	17,970	—	51	—	4,239	4,239
Alaska Intertie Project	4,583	888	—	770	—	(2,925)	(2,925)
Susitna-Watana Hydroelectric Project	—	—	—	8,327	—	8,327	8,327
Larsen Bay Hydroelectric Project	—	11	—	—	—	11	11
Power Project Fund	767	305	—	—	—	(462)	(462)
Rural Electrification Revolving Loan Fund	64	5	—	—	—	(59)	(59)
Total business-type activities	19,196	19,179	—	9,148	—	9,131	9,131
Total activities	85,277	19,179	22,096	9,148	(43,985)	9,131	(34,854)
General Revenues							
Interest and Investment Income					112,618	1,825	114,443
Total general revenues					112,618	1,825	114,443
State of Alaska reappropriation of funds					(13,556)	—	(13,556)
Change in net position					55,077	10,956	66,033
Net Position, beginning					1,012,917	382,260	1,395,177
Net Position, ending					\$ 1,067,994	393,216	1,461,210

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, 2017

(stated in thousands)

Assets	Major Special Revenue Fund	Statement of Net Position Total
Current assets:		
Restricted cash and cash equivalents (note 3)	\$ 34,258	\$ 34,258
Operating receivable	1,628	1,628
Grants receivable	1,565	1,565
Due from State of Alaska	1,741	1,741
Due from other funds/internal balances	712	712
Total current assets	<u>39,904</u>	<u>39,904</u>
Noncurrent assets:		
Restricted investments (note 3)	1,048,762	1,048,762
Total assets	<u>\$ 1,088,666</u>	<u>\$ 1,088,666</u>
Liabilities and Fund Balance		
Current liabilities:		
Due to State of Alaska	\$ 6,616	\$ 6,616
Accounts payable	14,056	14,056
Total current liabilities	<u>20,672</u>	<u>20,672</u>
Total liabilities	<u>20,672</u>	<u>20,672</u>
Fund balance:		
Restricted by agreements with external parties	4,398	
Restricted by legislation	1,063,596	
Total fund balance	<u>1,067,994</u>	
Total liabilities and fund balance	<u>\$ 1,088,666</u>	
Net Position:		
Restricted by agreements with external parties		4,398
Restricted by legislation		1,063,596
Total net position		<u>1,067,994</u>
Total liabilities and net position		<u>\$ 1,088,666</u>
Commitments and contingencies (note 12)		

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, 2017
(stated in thousands)

	Major Special Revenue Fund	Statement of Activities
Revenues:		
State of Alaska appropriations	\$ 16,092	\$ 16,092
Federal grants	5,992	5,992
Revenue from operating plants	8	8
Investment income, net	112,618	112,618
Other revenues	4	4
Total revenues	<u>134,714</u>	<u>134,714</u>
Expenditures/Expenses:		
Grants and projects	36,776	36,776
Power cost equalization grants	25,853	25,853
General and administrative	3,452	3,452
Total expenditures/expenses	<u>66,081</u>	<u>66,081</u>
State of Alaska reappropriation of funds	<u>(13,556)</u>	(13,556)
Net change in fund balance	55,077	
Change in net position		<u>55,077</u>
Fund balance/Net position – beginning	<u>1,012,917</u>	<u>1,012,917</u>
Fund balance/Net position – ending	<u><u>\$ 1,067,994</u></u>	<u><u>\$ 1,067,994</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, 2017

(stated in thousands)

Assets and Deferred Outflows of Resources

Current assets:

Restricted cash and cash equivalents (note 3)	\$ 53,990
Operating receivable	316
Prepaid expense	895
Loans receivable (note 7)	515
Accrued interest receivable	1,079

Total current assets

56,795

Noncurrent assets:

Restricted investments (note 3)	20,593
Loans receivable, net of allowance (note 7)	10,768
Capital assets, net of accumulated depreciation (note 4)	374,937

Total noncurrent assets

406,298

Deferred outflows of resources:

Deferred charge on bond refundings	20
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Total assets and deferred outflows of resources

\$ 463,113

Liabilities and Net Position

Current liabilities:

Advances from the State of Alaska	\$ 3,456
Accounts payable	8,687
Bonds payable – current portion (note 6)	9,555
Other bond liabilities – current portion (note 6)	743
Accrued interest payable	1,436
Due to other funds	712

Total current liabilities

24,589

Noncurrent liabilities:

Bonds payable – noncurrent portion, net (note 6)	43,940
Other bond liabilities – noncurrent portion (note 6)	790
Other liabilities	578

Total noncurrent liabilities

45,308

Total liabilities

69,897

Net position:

Net investment in capital assets	321,462
Restricted for debt service	21,482
Restricted by agreements with external parties	1,318
Restricted by legislation	48,954

Total net position

393,216

Total liabilities and net position

\$ 463,113

Commitments and contingencies (note 12)

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, 2017

(stated in thousands)

Operating revenues:	
State of Alaska appropriations	\$ 179
Revenue from operating plants	18,690
Interest on loans	292
Other revenues	18
Total operating revenues	19,179
Operating expenses:	
Depreciation	10,809
General and administrative	1,251
Interest expense	2,652
Plant operations	4,330
Provision for loan loss (note 7)	154
Total operating expenses	19,196
Operating loss	(17)
Nonoperating activities:	
Investment income, net	1,825
State of Alaska appropriations	9,148
Total nonoperating activities	10,973
Increase in net position	10,956
Net position – beginning	382,260
Net position – ending	\$ 393,216

See accompanying notes to basic financial statements.

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

Enterprise Fund - Major Fund

Statement of Cash Flows

Year ended June 30, 2017

(stated in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 19,641
Payments from State of Alaska	179
Payments to suppliers	<u>(5,454)</u>
Net cash provided by operating activities	<u>14,366</u>
Cash flows from noncapital and related financing activities:	
Net unremitted interest returned on State appropriation advances	(70)
Net decrease in short-term borrowings from AIDEA for working capital	<u>(493)</u>
Net cash used for noncapital and related financing activities	<u>(563)</u>
Cash flows from capital and related financing activities:	
Principal paid on bonds	(9,090)
Interest paid on bonds	(3,138)
State of Alaska appropriation for capital assets	9,078
Investment in capital assets	<u>(15,592)</u>
Net cash used for capital and related financing activities	<u>(18,742)</u>
Cash flows from investing activities:	
Purchase of investments	(22,751)
Proceeds from sales and maturities of investments	24,125
Interest received from investments	1,825
Principal collected on loans	137
New loans issued	<u>(5,263)</u>
Net cash used for investing activities	<u>(1,927)</u>
Net decrease in cash and cash equivalents	(6,866)
Cash and cash equivalents at beginning of year	<u>60,856</u>
Cash and cash equivalents at end of year	<u><u>\$ 53,990</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (17)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	10,809
Amortization of bond deferred charges	33
Provision for loan loss and bad debt expense	154
Bond interest expense	2,652
Changes in assets and liabilities that provided (used) cash:	
Decrease in due to State of Alaska	(5,132)
Decrease in operating receivables	497
Decrease in due to from other funds	6,576
Decrease in accrued interest	144
Decrease in other liabilities	(15)
Increase in other bond liabilities	67
Increase in prepaid assets	(895)
Decrease in operating accounts payable	<u>(507)</u>
Net cash provided by operating activities	<u><u>\$ 14,366</u></u>
Noncash capital and related financing and investing activities:	
Ending balance of capital assets accounts payable	\$ (3,075)
Net decrease in contingent liability on sold loans	21

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

June 30, 2017

(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 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 2018 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 Alaska Intertie Agreement appointed the Intertie Management Committee (IMC) and AEA to oversee the activities of the Alaska Intertie project. AEA contracts with the following Participating Utilities for operations and maintenance: Golden Valley Electric Association (GVEA) in Fairbanks, and Southcentral Alaska utilities, Chugach Electric Association (CEA), Matanuska Electric Association (MEA), and the Municipality of Anchorage, d/b/a Municipal Light and Power (ML&P). 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 Intertie

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2017

enables GVEA to obtain lower cost power from Southcentral utilities and allows Southcentral Alaska utilities to purchase power from Fairbanks during power shortages. It also enables GVEA to receive power generated by the Bradley Lake Project, which is some of the lowest priced power in the Railbelt region.

(c) *Susitna-Watana Hydroelectric Project*

The Alaska Legislature appropriated \$193 million in funding to AEA towards the development of a large hydroelectric project to be built in the Railbelt Region. 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 annual electrical use.

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. Currently, efforts are being made to get the project to the point where the State's investment is preserved and the project can be left in abeyance.

(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.

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

Notes to Basic Financial Statements

June 30, 2017

(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 funds 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 general revenues.

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

(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 full 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.

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

Notes to Basic Financial Statements

June 30, 2017

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 full 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 to actual is not presented in the financial statements.

Major proprietary funds:

The enterprise fund accounts for all financial activities primarily related to fees and charges to external parties.

(e) Revenue Recognition

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 appropriations.

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.

(f) Fair Value Measurement and Application

Securities or other assets are reported and measured at fair value if (a) we hold it primarily for the purpose of income or profit and (b) it has a present service capacity based solely on its ability to generate cash or be sold to generate cash.

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

Notes to Basic Financial Statements

June 30, 2017

(g) Cash and Cash Equivalents

All of AEA's cash and cash equivalents 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.

(h) Investments

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. Investments are segregated between current and noncurrent based on stated maturity and intended use. Investments maturing within a year are classified as current if they are considered to be potentially needed for current operations. This classification recognizes that a portion of our investment portfolio may be needed for current operations. A noncurrent investment may be sold for operational cash flow needs, if needed, and is beneficial under current market conditions.

(i) 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.

(j) 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.

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2017

(k) 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.

(l) 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.

All of the Authority's fund balance is restricted.

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

Notes to Basic Financial Statements

June 30, 2017

(m) Net Position

Net position 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, and accounts payable 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.

(n) 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, 2017, 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.

(o) 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.

(p) Appropriations and Grants

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

(q) 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.

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

Notes to Basic Financial Statements

June 30, 2017

(r) *Deferred Outflows/Inflows of Resources*

In addition to assets, the statements of net position reports 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 sometime 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.

(s) *Recently Issued Accounting Pronouncements*

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements* (Statement 81) – was issued by the GASB in March 2016. The objective of Statement 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing guidance for recognition and measurement in situations that a government is an agreement beneficiary. Split-Interest agreements are a giving agreement which provides resources to two or more beneficiaries, including governments. The provisions of this Statement are required to be implemented for the fiscal year ending June 30, 2017 with retroactive application. The Authority has determined that there is no financial statement impact from GASB Statement No. 81.

GASB Statement No. 83, *Certain Asset Retirement Obligations* (Statement 83) was issued by the GASB in November 2016. Statement 83 addresses accounting and financial reporting for certain assets retirement obligations. Statement 83 generally requires a government that has legal obligations to perform future assets retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Asset retirement obligation is defined as a legally enforceable liability associated with the retirement of a tangible capital asset. The Statement establishes criteria for determining the time and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Statement requires that recognition occurs when the liability is both incurred and reasonably estimable. Statement 83 is required to be implemented for financial reporting periods beginning after June 15, 2018. We have not implemented Statement 83 and are currently evaluating the impact on future financial statements.

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Notes to Basic Financial Statements

June 30, 2017

GASB Statement No. 84, *Fiduciary activities* (Statement 84) was issued by the GASB in January 2017. The objective of Statement 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be recorded. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of this Statement are required to be implemented for the reporting periods beginning after December 15, 2018. We have not implemented Statement 84 and are currently evaluating the impact on future financial statements.

GASB Statement No. 85, *Omnibus 2017* (Statement 85) was issued by the GASB in March 2017. The objective of Statement 85 is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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The provisions of this Statement are required to be implemented for the periods beginning after June 15, 2017. We have not implemented Statement 85 and are currently evaluating the impact on future financial statements.

GASB Statement No. 86, *Certain Debt Extinguishing Issues* (Statement 86) was issued by the GASB in May 2017. The objective of Statement 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of this Statement are required to be implemented for the reporting periods beginning after June 15, 2017. We have not implemented Statement 86 and are currently evaluating the impact on future financial statements.

GASB Statement No. 87, *Leases* (Statement 87) was issued by the GASB in June 2017. The objective of Statement 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are required to be implemented for the reporting periods beginning after December 15, 2019. We have not implemented Statement 87 and are currently evaluating the impact on future financial statements.

(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 note, "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.

At June 30, 2017, the Authority's carrying amount of cash and cash equivalents (all of which were restricted or designated for specific purposes) was \$88,248,000. The total of all bank balances on the same dates totaled \$88,248,000.

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

Restricted Cash and Cash Equivalents
(in thousands of dollars)

	Governmental Activities	Business- Type Activities	Totals
Power Cost Equalization Endowment Fund	\$ 2,423	-	2,423
Renewable Energy Grant Fund	15,124	-	15,124
Emerging Energy Technology Fund	1,262	-	1,262
Trans-Alaska Pipeline Liability Fund	4,532	-	4,532
Rural Energy and Energy Development Programs	634	-	634
Funds advanced from state and federal agencies	10,283	1,285	11,568
Bradley Lake Hydroelectric Project	-	11,884	11,884
Alaska Intertie Project	-	842	842
Rural Energy Loan Funds	-	38,769	38,769
Power Development Fund	-	1,210	1,210
Total restricted cash and cash equivalents	\$ 34,258	53,990	88,248

Restricted Investments
(in thousands of dollars)

	Governmental Activities	Business- Type Activities	Totals
Power Cost Equalization Endowment Fund	\$ 1,023,566	-	1,023,566
Renewable Energy Grant Fund	25,196	-	25,196
Bradley Lake Hydroelectric Project	-	20,593	20,593
Total restricted investments	\$ 1,048,762	20,593	1,069,355

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Investment Holdings

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).

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. These investments are in nonparticipating contracts and are measured at cost in accordance with GASB 31.

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.

Internal staff manage AEA's internally managed portfolio for liquidity and safety. There is no AEA Board approved investment policy; however, 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);
- Money market funds collateralized by U.S. Treasury, agency securities, and repurchase agreements;
- Units in the investment pool or any series of investment pool of the Alaska Municipal League Investment Pool, Inc., or any successor to that entity, or any other investment pool for public entities of the State of Alaska that is established under the Alaska Investment Pool Act (AS 37.23.010-37.23.900); and
- Other investments specifically approved by the board.

At June 30, 2017, the fair values of AEA's cash and investments are as follows:

Fair Value of Cash and Investments
(in thousands of dollars)

	Governmental Activities	Business-Type Activities	Totals
Deposits	\$ 4	-	4
Money market funds	34,254	53,990	88,244
Investment agreements	-	20,593	20,593
Investments managed by Department of Revenue	1,048,762	-	1,048,762
Total invested assets	\$ 1,083,020	74,583	1,157,603

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will negatively affect the fair value of an investment. The Resolution addresses interest rate risk. Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, major factors affecting duration are (in order of importance):

- 1) Maturity
- 2) Prepayment frequency
- 3) Level of market interest rates
- 4) Size of coupon
- 5) Coupon payments

Rising interest rates generally translate into the fair market value of fixed income investments declining, while falling interest rates are generally associated with increasing market values. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. For example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0%.

AEA Internally Managed Investments – AEA has no written policy for interest rate risk for internally managed investments; however, staff follows and is in compliance with AIDEA's written policy for interest rate risk. The duration for investments is 2 years or less. The maximum maturity of any issue is 3 years from the date of purchase.

Credit Risk

AEA has no written policy with regard to credit risk; however, staff follows and is in compliance with AIDEA's written policy for credit risk. 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.

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, 2017, AEA's deposits managed by Treasury were uncollateralized and uninsured.

With respect to AEA managed investments, amounts totaling approximately \$88,244,000 at June 30, 2017 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 \$20,593,000 are held with the custodian institution and are collateralized.

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June 30, 2017

Renewable Energy Fund and Emerging Energy Technology Fund Investment Holdings

The State Department of Revenue – Treasury Division has created a pooled environment by which it manages the investments for which its Commissioner has fiduciary responsibility. Actual investing is performed by investment officers within Treasury or by contracted external investment managers. The Fund invests in the State’s internally managed General 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 full 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 the 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.

At June 30, 2017, the GeFONSI total for the Renewable Energy Fund was \$25,196,000. The Emerging Energy Technology fund had no balance invested in the GeFONSI at June 30, 2017. 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>.

Power Cost Equalization Endowment Fund Investment Holdings

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 State - 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 full 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.

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At June 30, 2017, the Fund's share of pool investments was as follows:

Power Cost Equalization Fund
Investment Pools
(in thousands of dollars)

		<u>FY17</u>
Cash and cash equivalents		
Short-term fixed income pool	\$	1,742
Domestic fixed income		
Broad market fixed income pool		325,084
Equity		
Domestic equity pool		381,215
International Equity Pools		287,266
Real Estate Investment Trust Pool		28,257
Income receivable (payables)		<u>2</u>
Net Invested Assets	\$	<u><u>1,023,566</u></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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ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2017

(4) Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (stated in thousands):

Business-Type Activities		Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets not being depreciated:					
Land and Rights of Way	\$	11,212	-	-	11,212
Construction in progress:					
Intangibles		179,287	9,203	-	188,490
Other		10,698	6,377	(9,592)	7,483
Total capital assets not being depreciated		201,197	15,580	(9,592)	207,185
Depreciable capital assets:					
Infrastructure		438,763	9,604	-	448,367
Equipment		5,576	-	-	5,576
Total depreciable capital assets		444,339	9,604	-	453,943
Less accumulated depreciation:					
Infrastructure		(269,981)	(10,786)	-	(280,767)
Equipment		(5,401)	(23)	-	(5,424)
Total accumulated depreciation		(275,382)	(10,809)	-	(286,191)
Capital assets, net	\$	370,154	14,375	(9,592)	374,937

Depreciation expense was charged to the functions as follows for the year ended June 30, 2017 (stated in thousands):

Business-Type Activities		
Bradley Lake Hydroelectric Project	\$	7,118
Alaska Intertie Project		3,691
Total depreciation expense – business type activities	\$	10,809

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Notes to Basic Financial Statements

June 30, 2017

(5) 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, 2017 follows (stated in thousands):

Due from other funds

Due to Special Revenue Fund from Enterprise Fund \$ 712

(6) Long-Term Debt

Long-term debt activity for the year ended June 30, 2017 was as follows (stated in thousands):

Business-Type Activities	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017	Due within one year
Bradley Lake Power					
Revenue Bonds:					
First Series (a)	\$ 100	-	-	100	-
Refunding, Third Series (a)	11,135	-	(5,405)	5,730	5,730
Refunding, Fourth Series (a)	22,920	-	(3,285)	19,635	3,485
Refunding, Sixth Series (a)(b)	28,430	-	(400)	28,030	340
Total bonds payable	62,585	-	(9,090)	53,495	9,555
Arbitrage interest payable (c)	660	319	-	979	504
Bond original issue premium	806	-	(252)	554	239
Total other bond liabilities	1,466	319	(252)	1,533	743
Total long-term debt	\$ 64,051	319	(9,342)	55,028	10,298

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- (a) AEA issued the Power Revenue Bonds, First and Second Series (Bradley Lake Hydroelectric Project 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. The First Series refunded bonds were called on July 1, 1999. 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. The Second Series refunded bonds were called on July 1, 2000. 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 3.0% 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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The minimum payments related to all bonds, for the years subsequent to June 30, 2017, are as follows:

Business-Type Activities
(in thousands of dollars)

	Principal	Interest	Total
Fiscal Year Ending June 30:			
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	\$ 53,495	7,284	60,779

(7) Loans Receivable

The Authority administers the Power Project Fund Loan Program and the Rural Electrification Revolving Loan Program. Loans outstanding at June 30, 2017 are classified as follows (stated in thousands):

Business-Type Activities
(in thousands of dollars)

	No. of Loans	Amount
Power Project Fund Loan Programs	14	\$ 11,442
Rural Electrification Revolving Loan Program	2	190
	<u>16</u>	
Less: Allowance for Loan Loss		(349)
Balance at end of year		\$ <u>11,283</u>

Loans more than 90 days past due are not included in the accrual of interest. At June 30, 2017, 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, 2017 follows (stated in thousands):

Balance at beginning of year	\$ 195
Provision for loan loss	<u>154</u>
Balance at end of year	\$ <u>349</u>

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On September 30, 2010, the Authority sold a portion of its Power Project Fund loan portfolio to AIDEA. Under the agreement, upon AIDEA's request, AEA is required to repurchase any loan upon a payment default. On June 30, 2017, the outstanding principal balance of the loans sold was \$15,235,010 for which AEA has recognized an estimated liability for potential repurchase of \$457,050.

(8) Fund Balance

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

	Restricted by External Parties	Restricted by Legislation
Power Cost Equalization Fund	\$ -	1,021,600
Renewable Energy Fund	-	38,770
Emerging Energy Technology Fund	-	1,230
Trans-Alaska Pipeline Liability Fund	4,398	-
Rural Energy Projects	-	1,996
Total fund balance	<u>\$ 4,398</u>	<u>1,063,596</u>

(9) Net Position

At June 30, 2017, the Authority reports net position in the amount of \$1,461,210, of which restricted net position amounted to \$1,139,748. At June 30, 2017, net investment in capital assets totaled \$321,462.

(10) Risk Management

AEA is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. AEA covers that risk through the purchase of commercial insurance and participation in the State's Risk Management Pool. The Risk Management Pool administers a self-insurance program for each State agency, which covers all sudden and accidental property and casualty claims. Annual assessments allocated by Risk Management are the maximum each agency is called upon to pay, forestalling the need for supplemental appropriation or disruption of vital state services after a major property loss, adverse civil jury award, or significant workers compensation claim.

(11) Related Parties

(a) Alaska Industrial Development and Export Authority

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

Expensed services – governmental activities	\$ 5,534
Capitalized services – business-type activities	<u>592</u>
Total services	<u>\$ 6,126</u>

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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, 2017, AEA had \$3,800,000 payable to AIDEA for services and borrowings, which are included in accounts payable.

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 personnel services supporting AEA activities comprise over half 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 \$43,446 during fiscal year 2017 for administrative services.

(c) *Bradley Lake Project Management Committee*

On December 7, 1987, AEA entered into a Power Sales Agreement (PSA) with entities purchasing electric power produced by the Bradley Lake Hydroelectric Project. In 1988, legislation was passed which made the PSA effective. Pursuant to the PSA, 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.

(12) 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, 2017, AEA had open Power Project Fund loan commitments of \$16,841,000.

At June 30, 2017, AEA had cumulative prior year commitments from grant awards that are funded by State appropriations and federal awards; the amounts committed were \$60,278,000.

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.

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Schedule of Bradley Lake Hydroelectric Project Trust Account Activities
Year ended June 30, 2017
(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, 2016	\$ 10,792	12,779	5,624	314	385	1,404	1,116	32,414
Interest received	233	951	362	34	245	123	78	2,026
Bond principal paid	(9,090)	—	—	—	—	—	—	(9,090)
Bond interest paid	(3,138)	—	—	—	—	—	—	(3,138)
Operating budget surplus paid	—	—	(1,056)	—	—	(1,064)	—	(2,120)
Construction expenditures	—	—	(4,973)	—	—	—	—	(4,973)
Operating revenue received	—	—	—	—	20,416	—	—	20,416
Operating expenses paid	—	—	—	—	—	(3,063)	—	(3,063)
Transfers between funds	12,193	(951)	3,263	334	(19,707)	5,031	(163)	—
Balance at June 30, 2017	<u>\$ 10,990</u>	<u>12,779</u>	<u>3,220</u>	<u>682</u>	<u>1,339</u>	<u>2,431</u>	<u>1,031</u>	<u>32,472</u>

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
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Special Revenue Fund
Schedule of Projects and Programs – Balance Sheet
June 30, 2017
(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	\$ 2,423	15,124	1,262	4,532	10,917	—	34,258
Operating receivable	—	1,409	—	—	219	—	1,628
Grants receivable	—	—	7	—	1,558	—	1,565
Due from State of Alaska	—	—	—	—	1,741	—	1,741
Due from other funds	—	—	—	—	4,795	(4,083)	712
Total current assets	<u>2,423</u>	<u>16,533</u>	<u>1,269</u>	<u>4,532</u>	<u>19,230</u>	<u>(4,083)</u>	<u>39,904</u>
Noncurrent assets:							
Restricted investments	1,023,566	25,196	—	—	—	—	1,048,762
Total assets	<u>\$ 1,025,989</u>	<u>41,729</u>	<u>1,269</u>	<u>4,532</u>	<u>19,230</u>	<u>(4,083)</u>	<u>1,088,666</u>
Liabilities and Fund Balance							
Current liabilities:							
Due to State of Alaska	\$ 41	—	—	—	6,575	—	6,616
Accounts payable	4,269	1,651	39	—	8,097	—	14,056
Due to other funds	79	1,308	—	134	2,562	(4,083)	—
Total current liabilities	<u>4,389</u>	<u>2,959</u>	<u>39</u>	<u>134</u>	<u>17,234</u>	<u>(4,083)</u>	<u>20,672</u>
Total liabilities	<u>4,389</u>	<u>2,959</u>	<u>39</u>	<u>134</u>	<u>17,234</u>	<u>(4,083)</u>	<u>20,672</u>
Fund Balance:							
Restricted by agreements with external parties	—	—	—	4,398	—	—	4,398
Restricted by legislation	1,021,600	38,770	1,230	—	1,996	—	1,063,596
Total fund balance	<u>1,021,600</u>	<u>38,770</u>	<u>1,230</u>	<u>4,398</u>	<u>1,996</u>	<u>—</u>	<u>1,067,994</u>
Total liabilities and fund balance	<u>\$ 1,025,989</u>	<u>41,729</u>	<u>1,269</u>	<u>4,532</u>	<u>19,230</u>	<u>(4,083)</u>	<u>1,088,666</u>
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, 2017
(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	\$ —	—	—	—	16,092	16,092
Federal grants	—	—	192	—	5,800	5,992
Revenue from operating plants	—	—	—	—	8	8
Investment income, net	112,374	224	—	20	—	112,618
Other revenues	—	—	—	—	4	4
Total operating revenues	112,374	224	192	20	21,904	134,714
Operating expenditures:						
Grants and projects	—	14,008	1,099	878	20,791	36,776
Power cost equalization grants	25,853	—	—	—	—	25,853
General and administrative	902	1,422	—	17	1,111	3,452
Total operating expenditures	26,755	15,430	1,099	895	21,902	66,081
State of Alaska reappropriation of funds	(13,556)	—	—	—	—	(13,556)
Increase (decrease) in fund balance	72,063	(15,206)	(907)	(875)	2	55,077
Fund balance – beginning	949,537	53,976	2,137	5,273	1,994	1,012,917
Fund balance – ending	\$ 1,021,600	38,770	1,230	4,398	1,996	1,067,994

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, 2017
(stated in thousands)

	Bradley Lake Hydroelectric Project	Alaska Intertie Project	Susitna-Watana 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	\$ 11,884	842	—	38,703	66	2,495	—	53,990
Operating receivable	—	312	—	—	—	4	—	316
Prepaid expense	—	895	—	—	—	—	—	895
Loans receivable	—	—	—	453	62	—	—	515
Accrued interest receivable	1,038	—	—	39	2	—	—	1,079
Due from other funds	—	—	—	—	—	797	(797)	—
Total current assets	12,922	2,049	—	39,195	130	3,296	(797)	56,795
Noncurrent assets:								
Restricted investments	20,593	—	—	—	—	—	—	20,593
Loans receivable, net of allowance	—	—	—	10,645	123	—	—	10,768
Capital assets, net of accumulated depreciation	162,907	29,009	183,021	—	—	—	—	374,937
Total noncurrent assets	183,500	29,009	183,021	10,645	123	—	—	406,298
Deferred outflows of resources:								
Deferred charge on bond refundings	20	—	—	—	—	—	—	20
Total assets and deferred outflows of resources	\$ 196,442	31,058	183,021	49,840	253	3,296	(797)	463,113
Liabilities and Net Position								
Current liabilities:								
Due to/from State of Alaska, net	\$ —	904	(1,049)	—	305	3,296	—	3,456
Accounts payable	6,867	1,120	644	56	—	—	—	8,687
Bonds payable – current portion	9,555	—	—	—	—	—	—	9,555
Other bond liabilities – current portion	743	—	—	—	—	—	—	743
Accrued interest payable	1,436	—	—	—	—	—	—	1,436
Due to other funds	793	8	405	303	—	—	(797)	712
Total current liabilities	19,394	2,032	—	359	305	3,296	(797)	24,589
Noncurrent liabilities:								
Bonds payable – noncurrent portion, net	43,940	—	—	—	—	—	—	43,940
Other bond liabilities – noncurrent portion	790	—	—	—	—	—	—	790
Other liabilities	103	—	—	475	—	—	—	578
Total noncurrent liabilities	44,833	—	—	475	—	—	—	45,308
Total liabilities	64,227	2,032	—	834	305	3,296	(797)	69,897
Net position:								
Net investment in capital assets	109,432	29,009	183,021	—	—	—	—	321,462
Restricted for debt service	21,482	—	—	—	—	—	—	21,482
Restricted by agreements with external parties	1,301	17	—	—	—	—	—	1,318
Restricted by legislation	—	—	—	49,006	(52)	—	—	48,954
Total net position	132,215	29,026	183,021	49,006	(52)	—	—	393,216
Total liabilities and net position	\$ 196,442	31,058	183,021	49,840	253	3,296	(797)	463,113

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, 2017
(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:								
State of Alaska appropriations	\$ —	179	—	—	—	—	—	179
Revenue from operating plants	17,970	709	—	11	—	—	—	18,690
Interest on loans	—	—	—	—	287	5	—	292
Other revenues	—	—	—	—	18	—	—	18
Total operating revenues	17,970	888	—	11	305	5	—	19,179
Operating expenses:								
Depreciation	7,118	3,691	—	—	—	—	—	10,809
General and administrative	290	284	—	—	611	66	—	1,251
Interest expense	2,652	—	—	—	—	—	—	2,652
Plant operating	3,722	608	—	—	—	—	—	4,330
Provision for loan loss	—	—	—	—	156	(2)	—	154
Total operating expenses	13,782	4,583	—	—	767	64	—	19,196
Operating income (loss)	4,188	(3,695)	—	11	(462)	(59)	—	(17)
Nonoperating activities:								
Investment income, net	1,643	5	—	—	177	—	—	1,825
State of Alaska appropriations	51	770	8,327	—	—	—	—	9,148
Increase (decrease) in net position	5,882	(2,920)	8,327	11	(285)	(59)	—	10,956
Net position – beginning	126,333	31,946	174,694	(11)	49,291	7	—	382,260
Net position – ending	\$ 132,215	29,026	183,021	—	49,006	(52)	—	393,216

See accompanying independent auditors' report.

Schedule 6

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

Schedule of Capital Assets Presented under Federal Energy Regulatory Commission Requirements

June 30, 2017

(stated in thousands)

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets:				
Intangible	\$ 174,708	8,327	—	183,035
Production	265,949	888	—	266,837
Transmission	190,261	15,198	—	205,459
General	14,618	771	(9,592)	5,797
Total capital assets	645,536	25,184	(9,592)	661,128
Less accumulated depreciation:				
Intangible	(6)	—	—	(6)
Production	(127,558)	(5,498)	—	(133,056)
Transmission	(142,421)	(5,291)	—	(147,712)
General	(5,397)	(20)	—	(5,417)
Total accumulated depreciation	(275,382)	(10,809)	—	(286,191)
Capital assets, net	\$ 370,154	14,375	(9,592)	374,937

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, 2017
(stated in thousands)

Operating Data	2017
Project costs:	
Operations and maintenance	\$ 2,867
General and administrative	590
Insurance	555
Contributions to renewal and contingency fund and operating reserve account	3,539
Subtotal	7,551
Debt service	12,426
Less investment income	(1,657)
Total cost of power	\$ 18,320
Energy delivered (MWh)	422,006
Total unit cost of power (cents per kWh)	4.34

This schedule is provided as part of the municipal secondary market disclosure requirements relating to the Bradley Lake Hydroelectric Power Revenue and Refunding Bonds.

Unaudited - See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
PCE Endowment Fund Historical Analysis
June 30, 2017
(stated in thousands)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning investment fund balance	\$ 303,354	320,714	364,529	751,780	840,215	977,867	969,389	946,939
Inflows:								
Annual investment earnings	38,387	67,651	10,948	111,488	171,112	33,192	8,912	112,331
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>	<u>112,331</u>
Outflows:								
Transfers to AEA for PCE payments (1)	(20,725)	(23,458)	(23,154)	(22,527)	(32,773)	(41,002)	(30,622)	(34,956)
Program administration - AEA	(160)	(174)	(211)	(198)	(241)	(248)	(255)	(243)
Administrative fee - Regulatory Commission	—	(78)	(129)	(90)	(110)	(107)	(100)	(112)
Management fee - Department of Revenue	(142)	(126)	(203)	(238)	(336)	(313)	(385)	(393)
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>	<u>(35,704)</u>
Ending investment fund balance	<u>\$ 320,714</u>	<u>364,529</u>	<u>751,780</u>	<u>840,215</u>	<u>977,867</u>	<u>969,389</u>	<u>946,939</u>	<u>1,023,566</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, 2017

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.

The Alaska Legislature empowered AEA to acquire the Susitna River power project under AS 44.83.080 (18), 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. Homer Electric Association now operates the project 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 output by approximately 37,000 Megawatt hours (MWh). The Battle Creek project addition includes construction of three miles of road, a concrete diversion dam, and a pipe and canal to convey the water to Bradley Lake. The estimated cost of construction provided in February 2017 was approximately \$46.5 million. Construction could begin in 2018 and be completed in the fall of 2020.

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

Supplementary Organization and Project Information

June 30, 2017

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 Railbelt utilities to implement informal power to lower the costs to rate paying consumers. It also allows Southcentral Alaska utilities to purchase power from Fairbanks during power shortages. AEA contracts with the following Participating Utilities for operations and maintenance: 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). The Alaska Intertie also enables GVEA to receive power generated by the Bradley Lake Project, which is some of the lowest priced power in the Railbelt region. It also allows Southcentral Alaska utilities to purchase power from Fairbanks during power shortages.

The Alaska Intertie Agreement appointed the Intertie Management Committee (IMC) and AEA to oversee the activities of the Alaska Intertie project. AEA contracts with certain Participating Utilities for operations and maintenance. The IMC and AEA oversee the Alaska Intertie under the second amended and restated Intertie Agreement (Agreement) executed on March 11, 2014. 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):

<u>Appropriation Description</u>	<u>Year</u>	<u>Amount</u>
Upgrade and extension of the 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 compensators (SVC's) is substantially complete as of June 30, 2017, with minor punch list items being completed and periodic training for utility maintenance personnel. AEA will continue to work with the Railbelt utilities to extend the intertie to Lake Lorraine.

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

Supplementary Organization and Project Information

June 30, 2017

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 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 worked 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.

On June 22, 2017, FERC issued its Determination on the ISR for Susitna. Overall, it was very favorable to the State. However, since it was issued more than 100 days beyond the ILP schedule of March 10, 2017, there was insufficient time within FY17 to complete previously authorized scopes of work to complete a comprehensive analysis of the Determination and revise study reports as needed. AEA requested that a portion of the Susitna appropriation be extended for 90 days to complete this work and preserve the value of the State's investment to the maximum extent possible.

On July 18, 2017, the OMB issued a memo to AEA authorizing the continued spending on the project 90 days from June 30, 2017. AEA was granted concurrence and authorization to spend necessary funds in order to proceed to the point where the State's investment, to date, is preserved and the project can be left in abeyance.