



ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Basic Financial Statements and Schedules
June 30, 2015 and 2014
(With Independent Auditors' Report Thereon)

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

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ALASKA ENERGY AUTHORITY
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Management's Discussion and Analysis

June 30, 2015 and 2014

Overview of the Financial Statements

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

The 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.

This financial report consists of three sections: management's discussion and analysis, basic financial statements, and supplementary schedules. The Authority's basic financial statements are the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; the Statements of Cash Flows; and the Notes to Basic Financial Statements.

Basic Financial Statements

The Statements of Net Position report the Authority's assets, liabilities, deferred outflows of resources, deferred inflows of resources, and resulting net position. The net position is reported as net investment in capital assets; restricted; and unrestricted. Restricted net position is subject to external limits such as bond resolutions, legal agreements, or statutes.

The Statements of Revenues, Expenses, and Changes in Net Position report the Authority's revenues, expenses, and resulting change in net position during the periods reported.

Both statements report on the accrual basis of accounting and economic resources measurement focus.

The Statements of Cash Flows report the Authority's sources and uses of cash and change in cash balance resulting from the Authority's activities during the periods reported.

The Notes to Basic Financial Statements provide additional information required to fully understand the amounts reported in the basic financial statements.

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial position and results of operations at and for the years ended June 30, 2015 and 2014. 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.

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Management's Discussion and Analysis

June 30, 2015 and 2014

Financial Highlights

AEA's assets exceeded its liabilities by \$1.4 billion at both June 30, 2015 and 2014. Of the total net position at June 30, 2015, \$297 million was invested in capital assets net of related debt, \$1,129.8 million was restricted. Of the total net position at June 30, 2014, \$262.1 million was invested in capital assets net of related debt, and \$1,144.1 million was restricted.

Financial Analysis

Total assets, total liabilities, deferred outflows of resources and total net position at June 30, 2015, 2014, and 2013 follow (stated in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 144,132	147,941	149,998
Capital assets, net	368,160	341,002	270,563
Other noncurrent and restricted assets	1,045,811	1,072,371	931,599
Deferred outflows of resources	91	131	178
Total assets and deferred outflows of resources	<u>\$ 1,558,194</u>	<u>1,561,445</u>	<u>1,352,338</u>
Current liabilities	\$ 66,800	81,626	89,717
Noncurrent liabilities	64,587	73,626	81,708
Total liabilities	<u>131,387</u>	<u>155,252</u>	<u>171,425</u>
Total net position	<u>1,426,807</u>	<u>1,406,193</u>	<u>1,180,913</u>
Total liabilities and net position	<u>\$ 1,558,194</u>	<u>1,561,445</u>	<u>1,352,338</u>

Current assets were \$3.8 million lower at June 30, 2015 compared to June 30, 2014 due primarily to an increase in cash of \$5.8 million offset by a reduction in federal and state receivables of \$9.8 million. Current assets were \$2.1 million lower at June 30, 2014 compared to June 30, 2013 due to a \$12 million decrease in cash, offset by a \$7.8 million increase in receivables for hydroelectric and other energy development projects and a \$2.1 million increase in receivables from sub-recipient grantees for grant advances.

Capital assets, net increased \$27.2 million and \$70.4 million during fiscal years (FY) ended June 30, 2015 and June 30, 2014, respectively. The increases in both periods were substantially due to development of the Susitna-Watana Hydroelectric Project and other capital improvements offset by depreciation of capital assets.

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June 30, 2015 and 2014

A summary of major activity during the years ended June 30, 2015 and 2014, relating to capital assets, follows (stated in thousands):

	FY2015 - FY2014 Net change	FY2014 - FY2013 Net change
Susitna-Watana Hydroelectric Project development	\$ 34,072	75,347
Bradley Lake Hydroelectric Project improvements	1,238	2,127
Alaska Intertie Project improvements	2,335	3,429
Depreciation	(10,487)	(10,464)
Change in capital assets, net	\$ 27,158	70,439

Other noncurrent and restricted assets were \$26.6 million lower due to decreases in market value of investments at June 30, 2015 compared to June 30, 2014 and \$140.8 million higher at June 30, 2014 compared to the prior year due to increases in the Power Cost Equalization (PCE) Fund's market value of investments.

Deferred outflows of resources decreased by \$40,000 and \$47,000 at June 30, 2015 and June 30, 2014, respectively, due to the amortization of charges on bond refundings.

Current liabilities were \$14.8 million lower at June 30, 2015 compared to June 30, 2014 and \$8.1 million lower at June 30, 2014 compared to June 30, 2013. The changes are primarily related to amounts due to the State relating to Susitna-Watana and other program accrued expense.

Noncurrent liabilities decreased by \$9 million at June 30, 2015 and June 30, 2014. The bonds payable decreases were due to scheduled debt service payments.

Total net position was \$20.6 million higher at June 30, 2015 compared to June 30, 2014 and \$225.3 million higher at June 30, 2014 compared to June 30, 2013 due to operating and nonoperating activities.

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Components of the Authority's operating revenues, operating expenses, nonoperating activity for the years ended June 30 were as follows (stated in thousands):

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 55,978	92,783
Operating expenses	<u>135,978</u>	<u>156,499</u>
Operating loss	(80,000)	(63,716)
Nonoperating activities:		
Investment income, net	35,095	173,093
State of Alaska appropriation for capital assets	36,601	78,875
State of Alaska appropriation to AEA Funds	28,888	37,000
Decrease in contingent liability from loan sale	30	28
Nonoperating activities	<u>100,614</u>	<u>288,996</u>
Increase in net position	<u>\$ 20,614</u>	<u>225,280</u>

Operating revenues decreased \$36.8 million during the year ended June 30, 2015 compared to June 30, 2014 and decreased \$9.6 million during the year ended June 30, 2014 compared to June 30, 2013. Components of changes were as follows (stated in thousands):

	<u>FY 2015-2014</u> <u>Net change</u>	<u>FY 2014-2013</u> <u>Net change</u>
Increased (decreased) Federal grant revenue	\$ (2,720)	1,377
Increased (decreased) revenue from operating plants	(714)	605
Decreased revenue from State for PCE grant program	(8,679)	(9,948)
Decreased revenue from State energy projects for Alaska Railbelt utilities	(6,868)	(17,208)
Increased (decreased) revenue from other State general fund operating appropriations	(17,897)	20,325
Decreased revenue from other State agencies	—	(4,811)
Increased revenue from loan interest and other miscellaneous revenues	<u>73</u>	<u>—</u>
	<u>\$ (36,805)</u>	<u>(9,660)</u>

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June 30, 2015 and 2014

Operating expenses decreased \$20.5 million during the year ended June 30, 2015 compared to June 30, 2014 and decreased \$9.4 million during the year ended June 30, 2014 compared to June 30, 2013. Components of the changes were as follows (stated in thousands):

	<u>FY 2015-2014</u> <u>Net change</u>	<u>FY 2014-2013</u> <u>Net change</u>
(Decreased) increased federally funded grant and project expenses in active rural energy construction projects	\$ (2,597)	836
Decreased State funded grant and project expenses	(14,227)	(5,955)
Increased (decreased) State agency and component unit funded expenses for interagency contracts	448	(3,083)
(Decreased) increased PCE grant expenditures	(3,642)	205
Decreased other expenses	(503)	(1,425)
	<u>\$ (20,521)</u>	<u>(9,422)</u>

Net operating losses were caused by the following activity during the years ended June 30, 2015 and 2014 (stated in thousands):

	<u>2015</u>	<u>2014</u>
PCE grants funded by prior period nonoperating investment earnings from the PCE Endowment Fund	\$ (38,445)	(33,091)
Depreciation	(10,487)	(11,500)
Renewable Energy grant expenses funded by nonoperating State fund capitalizations received in prior periods	(37,614)	(22,500)
Plant operations	8,886	8,282
Other income received from programs and projects	(2,340)	(4,907)
Operating loss	<u>\$ (80,000)</u>	<u>(63,716)</u>

When the State capitalizes funds or authorizes interest earnings to fund program expense, this can result in nonoperating revenue recognition in one year and related expenses recorded in a different year. Other operating losses are a result of depreciation expenses of capital assets.

Nonoperating activities decreased \$188.4 million in fiscal year 2015 compared to 2014 and increased \$114.9 million in fiscal year 2014 compared to fiscal year 2013.

The components of the changes are as follows:

	<u>FY 2015-2014</u> <u>Net change</u>	<u>FY 2014-2013</u> <u>Net change</u>
Investment income	\$ (137,998)	59,678
Nonoperating State contributions	(50,384)	39,391
One time transfer of Bulk Fuel Loan program to DCCED	—	15,873
	<u>\$ (188,382)</u>	<u>114,942</u>

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June 30, 2015 and 2014

Investment income decreased in fiscal year 2015 and increased in 2014 due to market conditions relating to the PCE Endowment Fund.

Nonoperating State contributions decreased in fiscal year 2015 from a reduction in Susitna-Watana and the Power Project Loan Fund contributions. Fiscal year 2014 nonoperating State contributions increased due to major energy development initiatives in the State legislature.

Outlook

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



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Independent Auditors' Report

The Board of Directors
Alaska Energy Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alaska Energy Authority (a Component Unit of the State of Alaska) (Authority), as of and for the years ended June 30, 2015 and 2014 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 U.S. generally accepted accounting principles; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information in schedules 1 through 6 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 and 3 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 4, 5 and 6 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 26, 2015 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.

KPMG LLP

October 26, 2015

ALASKA ENERGY AUTHORITY
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Statements of Net Position

June 30, 2015 and 2014

(Stated in thousands)

Assets and Deferred Outflows of Resources	2015	2014
Current assets:		
Restricted cash and cash equivalents (note 3)	\$ 128,037	122,225
Grants receivable	1,384	2,587
Loans receivable (note 6)	454	167
Due from State of Alaska	10,616	18,209
Accrued interest receivable	1,048	1,041
Operating receivable	2,593	3,712
Total current assets	<u>144,132</u>	<u>147,941</u>
Noncurrent assets:		
Restricted investments (note 3)	1,039,916	1,066,389
Loans receivable, net of allowance (note 6)	5,893	5,977
Capital assets, net of accumulated depreciation (note 4)	368,160	341,002
Other long term assets	2	5
Total noncurrent assets	<u>1,413,971</u>	<u>1,413,373</u>
Deferred outflows of resources:		
Deferred charge on bond refundings	91	131
Total assets and deferred outflows of resources	<u>\$ 1,558,194</u>	<u>1,561,445</u>
Liabilities and Net Position		
Current liabilities:		
Due to State of Alaska	\$ 29,199	18,925
Accounts payable	26,603	52,430
Bonds payable – current portion (note 5)	8,570	7,735
Other bond liabilities – current portion (note 5)	475	351
Accrued interest payable	1,953	2,185
Total current liabilities	<u>66,800</u>	<u>81,626</u>
Noncurrent liabilities:		
Bonds payable – noncurrent portion, net (note 5)	62,585	71,155
Other bond liabilities – noncurrent portion (note 5)	1,374	1,813
Other liabilities	628	658
Total noncurrent liabilities	<u>64,587</u>	<u>73,626</u>
Total liabilities	<u>131,387</u>	<u>155,252</u>
Net position:		
Net investment in capital assets	297,005	262,112
Restricted for debt service	21,825	21,007
Restricted by agreements with external parties	9,041	8,313
Restricted by legislation	1,098,936	1,114,761
Total net position	<u>1,426,807</u>	<u>1,406,193</u>
Total liabilities and net position	<u>\$ 1,558,194</u>	<u>1,561,445</u>
Commitments and contingencies (notes 7 and 9)		

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2015 and 2014
(Stated in thousands)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
State of Alaska appropriations	\$ 33,985	67,429
Revenue from operating plants	16,828	17,542
Revenue from state agencies and component units	131	81
Interest on loans	282	277
Federal grants	4,734	7,454
Other revenues	18	—
Total operating revenues	<u>55,978</u>	<u>92,783</u>
Operating expenses:		
Grants and projects	75,056	91,431
Power cost equalization grants	36,663	40,305
Depreciation	10,487	10,464
General and administrative	6,113	5,424
Interest expense	3,668	4,127
Plant operations	3,985	4,720
Provision for loan loss (note 6)	6	28
Total operating expenses	<u>135,978</u>	<u>156,499</u>
Operating loss	<u>(80,000)</u>	<u>(63,716)</u>
Nonoperating activities:		
Investment income, net	35,095	173,093
State of Alaska appropriation for capital assets	36,601	78,875
State of Alaska appropriation to the Renewable Energy Fund	28,888	25,000
State of Alaska appropriation to the Power Project Loan Fund	—	10,000
State of Alaska appropriation to the Emerging Energy Technology Fund	—	2,000
Decrease in contingent liability on sold loans	30	28
Total nonoperating activities	<u>100,614</u>	<u>288,996</u>
Increase in net position	20,614	225,280
Net position – beginning	<u>1,406,193</u>	<u>1,180,913</u>
Net position – ending	<u>\$ 1,426,807</u>	<u>1,406,193</u>

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
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Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Stated in thousands)

	2015	2014
Cash flows from operating activities:		
Receipts from federal grants	\$ 5,937	7,331
Receipts from customers and users	16,159	17,811
Receipts from State of Alaska appropriations	30,530	70,208
Payments to suppliers	(16,530)	(16,747)
Payments to grantees	(123,178)	(111,561)
Receipts from state agencies and component units	150	340
Net cash used for operating activities	(86,932)	(32,618)
Cash flows from noncapital and related financing activities:		
Net unremitted interest returned on State appropriation advances	(10)	11
Net State appropriations to communities managed by AEA for the communities	(382)	576
Renewable Energy Fund contribution from State	28,888	25,000
Power Project Fund contribution from State	—	10,000
Net (increase) decrease in subrecipient grant advances	1,848	(2,541)
Net decrease in short term borrowings from AIDEA for working capital	(997)	(157)
Net cash provided by noncapital and related financing activities	29,347	32,889
Cash flows from capital and related financing activities:		
Principal paid on bonds	(7,735)	(7,300)
Interest paid on bonds	(4,138)	(4,589)
State of Alaska appropriation for capital assets	60,150	50,488
Investment in capital assets	(46,480)	(83,080)
Net cash used for capital and related financing activities	1,797	(44,481)
Cash flows from investing activities:		
Purchase of investments	(305,263)	(143,768)
Proceeds from sales and maturities of investments	354,412	160,361
Interest received from investments	12,351	16,243
Principal collected on loans	284	490
Interest collected on loans	309	256
Loans originated	(493)	(1,416)
Net cash provided by investing activities	61,600	32,166
Net (decrease) increase in cash and cash equivalents	5,812	(12,044)
Cash and cash equivalents at beginning of year	122,225	134,269
Cash and cash equivalents at end of year	\$ 128,037	122,225
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (80,000)	(63,716)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	10,487	10,464
Provision for loan loss and bad debt expense	6	28
Bond interest expense	3,668	4,127
Interest on loans	(282)	(277)
Changes in assets and liabilities that provided (used) cash:		
Due to State of Alaska	(1,175)	1,045
Due from the State of Alaska	(2,211)	2,051
Grants receivable	1,203	(122)
Operating receivable	(720)	492
Operating accounts payable	(17,908)	13,290
Net cash used for operating activities	\$ (86,932)	(32,618)
Noncash capital and related financing and investing activities:		
Ending balance of capital assets accounts payable	\$ (1,489)	(8,523)
Net decrease in contingent liability on sold loans	30	28
Net (decrease) increase in unrealized gain/loss of investments	(589,063)	124,172

See accompanying notes to basic financial statements.

ALASKA ENERGY AUTHORITY
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Notes to Basic Financial Statements

June 30, 2015 and 2014

(1) Organization and Operations

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

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

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

(a) *Bradley Lake Hydroelectric Project*

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

The Authority is in the process of amending the Federal Energy Regulatory Commission (FERC) license for a diversion of Battle Creek into the Bradley Lake project to provide increased energy of approximately 37,000 megawatt hours (mWh) annually. The license amendment is anticipated to be received in 2016 with construction expected to be completed in the fall of 2018.

(b) *Alaska Intertie Project*

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

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Notes to Basic Financial Statements

June 30, 2015 and 2014

(c) ***Susitna-Watana Hydroelectric Project***

The Alaska Legislature appropriated \$192.1 million in funding to AEA for the development of a large hydroelectric project to be built in the Railbelt Region. AEA is currently in the process of obtaining a FERC license for this project. Pursuant to Administrative Order 271, AEA is using existing appropriations to incrementally advance the licensing process through the updated FERC Study Plan Determination.

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

(d) ***Rural Energy Programs***

The rural energy programs include Bulk Fuel Storage Upgrades, Rural Power System Upgrades, the Power Cost Equalization (PCE) Grant Program, Utility Training, Technical Assistance, one active loan program (the Power Project Fund), and one inactive loan program (Rural Electric 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.

(2) **Summary of Significant Accounting Policies**

(a) ***Basis of Accounting – Enterprise Fund Accounting***

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

The accounts of the Authority are organized as an Enterprise Fund. Accordingly, the financial activities of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when goods or services are received or the related liability is incurred. 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.

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Operating Revenue and Expense

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. Pass through State appropriations to fund operating grants and projects are included in operating revenue.

(b) 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.

(c) Cash and Investments

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

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

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

(d) *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.

(e) *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.

(f) *Net Position*

Equity is displayed in three components as follows:

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

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

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

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

(g) *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, 2015 and June 30, 2014, 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.

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(h) *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.

(i) *Appropriations and Grants*

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

(j) *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.

(k) *Deferred Outflows/Inflows of Resources*

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

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

(l) *Prior Period Information*

Certain reclassifications were made to prior year information to conform to current year presentation.

(m) *Recently Issued Accounting Pronouncements*

GASB Statement No. 72, *Fair Value Measurement and Application* (Statement 72) was issued by the GASB in February 2015. Statement 72 addresses accounting and financial reporting related to fair value measurements. Statement 72 generally requires investments to be measured at fair value. Investments are defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate

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cash or to be sold to generate cash. Fair value is described as an exit price. The Statement provides guidance and techniques appropriate to determine fair value. Statement 72 is required to be implemented for financial reporting periods beginning after June 15, 2015. AEA has not implemented Statement 72 and is currently evaluating the impact on future financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (Statement 76) was issued by the GASB in June 2015. The objective of Statement 76 is to identify the hierarchy of generally accepted accounting principles (GAAP). Statement 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Statement 76 is required to be implemented for the fiscal year ending June 30, 2016. AEA has not implemented Statement 76 and is 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 footnote, Fund means a separate account established by the State legislature and does not refer to a separate group of self-balancing accounts as contemplated by GAAP.

At June 30, 2015 and 2014, the Authority's carrying amount of cash and cash equivalents (all of which were restricted or designated for specific purposes) was \$128,037,000 and \$122,225,000, respectively. The total of all bank balances on the same dates was \$128,206,000 and \$123,542,000, respectively.

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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, 2015 and 2014 (stated in thousands):

	2015	2014
Bradley Lake Hydroelectric Project	\$ 10,523	9,920
Trans-Alaska Pipeline (TAPL) Appropriation	5,707	5,913
Alaska Intertie Project	1,467	829
Renewable Energy Grant Program	16,765	21,832
Funds advanced from State and federal agencies	34,772	34,437
Rural Energy and Energy Development Programs	97	158
Emerging Energy Technology Fund	1,826	2,467
Rural Energy Loan Funds	43,892	44,778
Power Development Fund	2,019	1,866
Power Cost Equalization Endowment Fund	10,969	25
	\$ 128,037	122,225
Total restricted cash and cash equivalents		
Bradley Lake Hydroelectric Project	\$ 19,878	19,532
Emerging Energy Technology Fund	1,500	2,953
Renewable Energy Grant Fund	49,148	66,061
Power Cost Equalization Endowment Fund	969,390	977,843
	\$ 1,039,916	1,066,389
Total restricted investments		

Investment Holdings

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

Treasury has created a pooled environment by which it manages the investments. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. PCE Fund assets are held 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. RE and EET Fund assets are held 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 funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the State Department of Administration.

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 using prices obtained from a pricing

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service. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates.

The accrual basis of accounting is used for investment income 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, Intermediate-term Fixed Income, and Broad Market Fixed Income pools is allocated to pool participants daily on a pro rata basis.

At June 30, 2015, AEA's financials had the following investments to report in the PCE, RE, and EET Funds (stated in thousands):

Investment type	Investments at fair value				
	RE, EET, and PCE Funds	RE and EET Funds	PCE Fund		Total PCE Broad market and US Treasury Investments
	Short-term fixed income pool	Short and intermediate- terms and liquidity fixed income pools	Broad market and U.S. Treasuries fixed income pools	Other	
U.S. Treasury bonds, bills, notes and TIPS	\$ 7,525	21,114	133,363	—	133,363
U.S. government agency	—	10	6,328	—	6,328
Mortgage-backed	840	543	92,916	—	92,916
Other asset-backed	24,400	821	6,716	—	6,716
Repurchase agreement	3,895	—	—	—	—
Municipal bonds	31	—	1,452	—	1,452
Corporate bonds	995	1,345	58,558	—	58,558
Deposits	25	—	—	—	—
Certificate of Deposits	61	40	—	—	—
Yankee:					
Government	—	65	4,493	—	4,493
Corporate	443	348	9,374	—	9,374
Domestic equity	—	—	—	426,862	426,862
International equity	—	—	—	219,755	219,755
Total invested assets	38,215	24,286	313,200	646,617	959,817
Pool related net assets (liabilities)	(1,633)	138	(1,158)	372	(786)
Other pool ownership	(10,274)	—	10,274	—	10,274
Net invested assets	\$ 26,308	24,424	322,316	646,989	969,305

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At June 30, 2014, AEA's financials had the following cash and investments to report in the PCE, RE, and EET Funds (stated in thousands):

Investment type	Cash		Investments at fair value			
	PCE Fund	RE and EET Funds	PCE Fund			
			Short-term fixed income pool	Short and intermediate-terms and liquidity fixed income pools	Broad market and U.S. Treasuries fixed income pools	Other
U.S. Treasury bonds	\$ —	—	4,494	—	—	4,494
U.S. Treasury bills	6,789	29,925	—	—	—	—
U.S. Treasury notes	1,527	23,362	54,312	—	—	54,312
U.S. Treasury strip	—	51	3,551	—	—	3,551
U.S. government agency	—	32	3,445	—	—	3,445
Mortgage-backed	55	812	52,612	—	—	52,612
Other asset-backed	3,879	11,600	8,218	—	—	8,218
Overnight sweep account	1,260	3,536	—	—	—	—
Repurchase agreement	787	2,209	—	—	—	—
Municipal bonds	—	—	474	—	—	474
Corporate bonds	804	3,681	33,595	—	—	33,595
Yankee:						
Government	—	108	2,006	—	—	2,006
Corporate	182	840	6,116	—	—	6,116
Domestic equity	—	—	—	512,002	—	512,002
International equity	—	—	—	284,660	—	284,660
Total invested assets	15,283	76,156	168,823	796,662	—	965,485
Pool related net assets (liabilities)	(3,213)	(7,142)	179	134	—	313
Other pool ownership	(12,045)	—	12,045	—	—	12,045
Net invested assets	\$ 25	69,014	181,047	796,796	—	977,843

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

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

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

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

At June 30, 2015 and 2014, the fair values of AEA's cash and investments in its other funds (stated in thousands) were:

Investment type	2015	2014
Deposits	\$ 119	71
Money market funds	127,918	122,129
Investment agreements	19,878	19,532
Total invested assets	\$ 147,915	141,732

State of Alaska, Department of Revenue Treasury has provided the following footnotes for the funds managed for AEA:

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration is the average fair value weighted duration of each security taking into account all related cash flows. Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

Short-Term Fixed Income Pool – As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months to maturity or fourteen months expected average life upon purchase. Floating rate securities are limited to three years to maturity or three years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2015, the expected average life of individual fixed rate securities ranged from ten days to 3.3 years and the expected average life of floating rate securities ranged from ten days to 14.5 years. At June 30, 2014, the expected average life of individual fixed rate securities ranged from one day to 2.2 years and the expected average life of floating rate securities ranged from eight days to 3.2 years.

Short-Term Liquidity Fixed Income Pool – Treasury's investment policy limits individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2015, the days to maturity of fixed rate securities ranged from 65 to 170 days.

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Intermediate-Term Fixed Income Pool – Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting effective duration of the Intermediate-term Fixed Income Pool to $\pm 20\%$ of the Barclays 1-3 year Government Bond Index. The effective duration for the Barclays 1-3 year Government Bond Index was 1.8 years at June 30, 2015 and 1.94 years at June 30, 2014.

Broad Market Fixed Income Pools – Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

Broad Market Fixed Income Pool: $\pm 20\%$ of the Barclay’s Capital U.S. Aggregate Bond Index. The effective duration of the Index at June 30, 2015 was 5.48 years. The effective duration of the Index at June 30, 2014 was 5.52 years.

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

Treasury has no policy with regard to interest rate risk for the money market balance held in the International Equity Pool.

At June 30, 2015 and 2014, the effective duration by investment type (not including the investment agreements) was as follows:

<u>Managed by Treasury</u>	<u>Intermediate-term fixed income pool</u>	<u>Broad market fixed income pool</u>
2015:		
U.S. Treasury notes, bills, bonds and TIPS	1.96	5.02
U.S. government agency	3.96	8.96
Mortgage-backed	1.03	3.91
Other asset-backed	0.61	0.95
Municipal bonds	—	14.68
Corporate bonds	1.63	8.53
Certificate of deposit	0.14	—
Yankees:		
Government	1.08	7.61
Corporate	0.94	6.04
Portfolio effective duration	1.81	5.45

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<u>Managed by Treasury</u>	<u>Intermediate- term fixed income pool</u>	<u>Broad market fixed income pool</u>
2014:		
U.S. Treasury notes	2.14	4.71
U.S. Treasury strip	3.27	3.44
U.S. Treasury bills	0.42	—
U.S. Treasury bonds	—	19.07
U.S. government agency	1.71	8.00
Mortgage-backed	0.99	4.24
Other asset-backed	0.70	0.69
Municipal bonds	—	15.09
Corporate bonds	1.40	8.11
Yankees:		
Government	0.78	8.21
Corporate	0.62	5.89
Portfolio effective duration	1.72	5.21
	Managed by AEA	
	<u>2015</u>	<u>2014</u>
Money market	0.11	0.09
Portfolio effective duration	0.11	0.09

Credit Risk

Credit risk is the financial risk that an issuer or other counter party to an investment will not fulfill its obligations. Treasury's investment policy has the following limitations with regard to credit risk:

Short-Term Fixed Income Pool – Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody's and A-1 by Standards and Poor's. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Short-Term Liquidity Pool – Short-term Liquidity Pool investments are limited to U.S. Treasury obligations or other U.S. Government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. Government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars, and the State's internally managed Short-Term Fixed Income Pool.

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Intermediate-Term and Broad Market Fixed Income Pools – Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor’s Corporation, Moody’s and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

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

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

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At June 30, 2015, the Pools managed by Treasury and the investments managed by AEA consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale).

Investment type	Rating	Short-term fixed income pool	Short-term liquidity fixed income pool	Intermediate- term fixed income pool	Broad market fixed income pool	AEA managed
Money market	AAA	—%	—%	—%	—%	86%
U.S. Treasury notes, bills, bonds and TIPS	AA	21	100	77	42	—
Mortgage-backed	AAA	1	—	1	1	—
Mortgage-backed	AA	1	—	1	—	—
Mortgage backed	A	—	—	1	—	—
Mortgage backed	BBB	—	—	—	—	—
Mortgage-backed	BB	—	—	—	—	—
Mortgage-backed	Not Rated	—	—	1	27	—
Other pool ownership	Not Rated	—	—	3	3	—
Certificate of deposit	Not Rated	—	—	—	—	—
Deposits	Not Rated	—	—	—	—	—
Other asset backed	AAA	47	—	3	1	—
Other asset backed	AA	1	—	—	—	—
Other asset backed	A-1	2	—	—	—	—
Other asset backed	Not Rated	17	—	2	1	—
Repurchase agreement	AAA	8	—	—	—	—
Repurchase agreement	Not Rated	3	—	—	—	—
U.S. Government agency	AA	—	—	—	2	—
Yankee corporate	AAA	—	—	—	—	—
Yankee corporate	AA	1	—	1	1	—
Yankee corporate	A	1	—	1	1	—
Yankee corporate	BBB	—	—	—	1	—
Yankee government	AAA	—	—	—	—	—
Yankee government	AA	—	—	—	—	—
Yankee government	A	—	—	—	—	—
Yankee government	BBB	—	—	—	1	—
Yankee government	Not Rated	—	—	—	1	—
Municipal bonds	AA	—	—	—	—	—
Municipal bonds	A	—	—	—	—	—
Corporate bonds	AAA	—	—	—	—	—
Corporate bonds	AA	1	—	1	3	—
Corporate bonds	A	1	—	5	9	—
Corporate bonds	BBB	—	—	2	6	—
Corporate bonds	BB	—	—	—	—	—
Corporate bonds	Not Rated	—	—	—	—	—
No credit exposure		(5)	—	1	—	14
		<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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At June 30, 2014, the Pools managed by Treasury and the investments managed by AEA consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale).

Investment type	Rating	Short-term fixed income pool	Short-term liquidity fixed income pool	Intermediate- term fixed income pool	Broad market fixed income pool	AEA managed
Money market	AAA	—%	—%	—%	—%	86%
U.S. Treasury notes	AA	13	3	68	30	—
U.S. Treasury bills	AA	56	97	5	—	—
U.S. Treasury strips	AA	—	—	—	2	—
U.S. Treasury bond	AA	—	—	—	2	—
U.S. government agency	AA	—	—	—	2	—
Mortgage-backed	AAA	—	—	1	3	—
Mortgage-backed	AA	—	—	1	25	—
Mortgage-backed	Not Rated	—	—	—	1	—
Other asset-backed	AAA	23	—	2	3	—
Other asset-backed	AA	—	—	—	1	—
Other asset-backed	A	1	—	—	—	—
Other asset-backed	Not Rated	8	—	1	1	—
Overnight sweep account	Not Rated	10	—	—	—	—
Other pool ownership	Not Rated	—	—	9	7	—
Repurchase agreement	AA	7	—	—	—	—
Corporate bonds	AA	3	—	1	3	—
Corporate bonds	A	4	—	3	10	—
Corporate bonds	BBB	—	—	1	6	—
Yankees – government	AA	—	—	—	1	—
Yankees – corporate	AA	1	—	1	1	—
Yankees – corporate	A	1	—	—	1	—
Yankees – corporate	BBB	—	—	—	1	—
No credit exposure		(27)	—	7	—	14
		<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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, 2015, AEA's deposits managed by Treasury were uncollateralized and uninsured.

With respect to AEA managed investments, amounts totaling approximately \$117,395,000 at June 30, 2015 and \$112,209,000 at June 30, 2014, are held in money market funds not registered in AEA's name. The investment agreements are collateralized. All other investment securities are registered in AEA's name and are held by its custodian, the trust department of a commercial bank; therefore, no custodial risk exists for these securities.

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Foreign Currency Risk

The Commissioner of Revenue (Commissioner) formally adopts asset allocation policies for AEA's PCE Fund at the beginning of each fiscal year, which places policy limitations on the amount of international securities the PCE Fund is allowed to hold. The following policy was in place during fiscal years 2015 and 2014, and invested assets included the following holdings at June 30, 2015 and 2014, for the PCE Fund's investment in the International Equity Pool:

	Policy	Actual
FY15	23%±5%	22.71%
FY14	28%±5%	29.12%

At June 30, 2015 and 2014, AEA's PCE Fund had exposure to foreign currency risk as follows (stated in thousands):

Currency	2015	2014
Deposits:		
Japanese Yen	\$ —	22
Pound Sterling	—	188
Canadian Dollar	7	—
	7	210
Investment – international equity:		
Australian Dollar	2,787	1,514
Canadian Dollar	1,734	2,197
Danish Krone	888	799
Euro Currency	19,982	22,582
Japanese Yen	17,237	16,380
Norwegian Krone	1,167	504
Pound Sterling	21,502	22,437
Swedish Krona	3,087	2,793
Swiss Franc	4,910	5,259
	73,294	74,465
Total	\$ 73,301	74,675

Foreign Exchange, Foreign Exchange Contracts, Off-Balance Sheet Risk, and Derivative Exposure

Treasury's policy is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the

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Commissioner have a policy for contingencies. The PCE Fund's share of the International Equity Pool's investment includes the following income from derivative investments at June 30, 2015:

	<u>Changes in fair value</u>		<u>Fair value at June 30, 2015</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
FX Forwards	Investment Revenue	\$ (42,227)	Long Term Instruments	\$ —	—

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds backed by any one company or affiliated group.

At June 30, 2015 and 2014, AEA did not have more than five percent of its investments in any one company or affiliated group.

(4) Capital Assets

Capital asset activity for the years ended June 30, 2015 and 2014 was as follows (stated in thousands):

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Capital assets not being depreciated:				
Land and Right of Ways	\$ 11,212	—	—	11,212
Construction in progress:				
Intangibles	135,764	34,310	—	170,074
Other	7,384	3,081	(1,321)	9,144
Total capital assets not being depreciated	<u>154,360</u>	<u>37,391</u>	<u>(1,321)</u>	<u>190,430</u>
Depreciable capital assets:				
Infrastructure	435,524	1,510	—	437,034
Equipment	5,484	65	—	5,549
Total depreciable capital assets	<u>441,008</u>	<u>1,575</u>	<u>—</u>	<u>442,583</u>
Less accumulated depreciation:				
Infrastructure	(249,021)	(10,461)	—	(259,482)
Equipment	(5,345)	(26)	—	(5,371)
Total accumulated depreciation	<u>(254,366)</u>	<u>(10,487)</u>	<u>—</u>	<u>(264,853)</u>
Capital assets, net	<u>\$ 341,002</u>	<u>28,479</u>	<u>(1,321)</u>	<u>368,160</u>

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June 30, 2015 and 2014

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets not being depreciated:				
Land and Right of Ways	\$ 11,212	—	—	11,212
Construction in progress:				
Intangibles	60,112	75,652	—	135,764
Other	3,980	5,192	(1,788)	7,384
Total capital assets not being depreciated	75,304	80,844	(1,788)	154,360
Depreciable capital assets:				
Infrastructure	433,766	1,758	—	435,524
Equipment	5,395	89	—	5,484
Total depreciable capital assets	439,161	1,847	—	441,008
Less accumulated depreciation:				
Infrastructure	(238,596)	(10,425)	—	(249,021)
Equipment	(5,306)	(39)	—	(5,345)
Total accumulated depreciation	(243,902)	(10,464)	—	(254,366)
Capital assets, net	\$ 270,563	72,227	(1,788)	341,002

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(5) Long-Term Debt

Long-term debt activity for the years ended June 30, 2015 and 2014 was as follows (stated in thousands):

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015	Due within one year
Bradley Lake Power					
Revenue Bonds:					
First Series (a)	\$ 100	—	—	100	—
Refunding, Third Series (a)	21,050	—	(4,815)	16,235	5,100
Refunding, Fourth Series (a)	28,940	—	(2,920)	26,020	3,100
Refunding, Sixth Series (a) (b)	28,800	—	—	28,800	370
Total bonds payable	78,890	—	(7,735)	71,155	8,570
Arbitrage interest payable (c)	810	317	(351)	776	475
Bond original issue premium	1,354	—	(281)	1,073	—
Total other bond liabilities	2,164	317	(632)	1,849	475
	<u>\$ 81,054</u>	<u>317</u>	<u>(8,367)</u>	<u>73,004</u>	<u>9,045</u>
	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due within one year
Bradley Lake Power					
Revenue Bonds:					
First Series (a)	\$ 100	—	—	100	—
Refunding, Third Series (a)	25,590	—	(4,540)	21,050	4,815
Refunding, Fourth Series (a)	31,700	—	(2,760)	28,940	2,920
Refunding, Sixth Series (a) (b)	28,800	—	—	28,800	—
Total bonds payable	86,190	—	(7,300)	78,890	7,735
Arbitrage interest payable (c)	1,141	326	(657)	810	351
Bond original issue premium	1,647	—	(293)	1,354	—
Total other bond liabilities	2,788	326	(950)	2,164	351
	<u>\$ 88,978</u>	<u>326</u>	<u>(8,250)</u>	<u>81,054</u>	<u>8,086</u>

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

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June 30, 2015 and 2014

The minimum payments related to all bonds for the years subsequent to June 30, 2015 are as follows (stated in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2016	8,570	3,655	12,225
2017	9,090	3,138	12,228
2018	9,555	2,590	12,145
2019	10,470	2,031	12,501
2020	11,025	1,479	12,504
2021-2022	22,445	1,185	23,630
	<u>\$ 71,155</u>	<u>14,078</u>	<u>85,233</u>

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

- *Other Debt* – In 1982, AEA assumed \$44,859,000 of 5% mortgage notes payable, which requires quarterly principal and interest payments to the Rural Utilities Service (RUS) in connection with the Solomon Gulch Hydroelectric Project. Concurrent with the assumption, AEA deposited with a trustee Treasury notes sufficient to satisfy and provide for timely repayment of all principal and interest due on the assumed RUS loans. Accordingly, the loans and related trust assets are not included in the financial statements of AEA. At June 30, 2015, the unpaid principal balance of the notes was \$857,000 and the trust assets had a fair value of \$914,000.
- *Conduit Financing – City and Borough of Sitka – Utility Revenue Refunding Bonds, Series 1997 and Utility Revenue Bonds, Series 1992* – In May 1992, AEA issued \$56,890,000 of tax-exempt bonds that allowed the City and Borough of Sitka (Sitka) to refinance its 1979 municipal bonds, resulting in significant debt service savings to Sitka. In November 1997, AEA issued \$22,080,000 of tax-exempt bonds to advance refund and defease \$20,145,000 of the Series 1992 bonds (collectively with the Series 1992 bonds, the Sitka Bonds). The Sitka Bonds are not included in these financial statements.

In December 2010, the Alaska Municipal Bond Bank issued bonds, the proceeds of which were used to refund and defease the Sitka Bonds. The Series 1992 bonds were defeased and \$2,900,000 of the defeased bonds remain outstanding at June 30, 2015. The Series 1997 bonds were called and redeemed in January 2011.

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June 30, 2015 and 2014

(6) Loans Receivable

The Authority administers the Power Project Fund Loan Program and the Rural Electrification Revolving Loan Program. Loans outstanding at June 30, 2015 and 2014 are classified as follows (dollar amounts stated in thousands):

	2015		2014	
	<u>No. of loans</u>	<u>Amount</u>	<u>No. of loans</u>	<u>Amount</u>
Power Project Fund Loan Program	9	\$ 6,232	6	\$ 5,964
Rural Electrification Revolving Loan Program	<u>2</u>	<u>311</u>	<u>2</u>	<u>370</u>
	<u>11</u>	<u>6,543</u>	<u>8</u>	<u>6,334</u>
Less allowance for loan losses		<u>(196)</u>		<u>(190)</u>
Balance at end of year		<u>\$ 6,347</u>		<u>\$ 6,144</u>

Loans more than 90 days past due are not included in the accrual of interest. At June 30, 2015 and 2014, 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, 2015 and 2014 follows (stated in thousands):

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 190	162
Provision for loan loss	<u>6</u>	<u>28</u>
Balance at end of year	<u>\$ 196</u>	<u>190</u>

On September 30, 2010, the Authority sold to AIDEA its Power Project Fund loans. Under the agreement, upon AIDEA's request, AEA is required to repurchase any loan upon a payment default. On June 30, 2015, the outstanding principal balance of the loans sold was \$17,487,000, for which AEA has recognized an estimated liability for potential repurchase of \$524,600.

(7) Risk Management

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

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June 30, 2015 and 2014

(8) Related Parties

(a) Alaska Industrial Development and Export Authority

Pursuant to understandings and agreements between AIDEA and AEA, AIDEA provides administrative, treasury, personnel, data processing, communications, and other services to AEA. During 2015 and 2014, AEA incurred the following for services (stated in thousands):

	2015	2014
Expensed services	\$ 6,716	6,179
Capitalized services	<u>2,130</u>	<u>2,428</u>
	<u>\$ 8,846</u>	<u>8,607</u>

AEA has a Board approved borrowing agreement with AIDEA to provide short-term working capital funds up to a maximum of \$7.5 million. At June 30, 2015 and 2014, AEA had \$2,400,000 and \$5,900,000, respectively, payable to AIDEA for services and borrowings.

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

(b) Alaska Intertie Management Committee

AEA is party to agreement with utilities (GVEA, MEA, CEA, and ML&P) using the Alaska Intertie for wheeling of electrical power. Pursuant to the Intertie Agreement, the IMC was established to manage the system. The IMC is comprised of a representative from AEA and each of the utilities. AEA is reimbursed for operation and maintenance costs on a monthly basis with an annual settlement to adjust the payments to actual costs. AEA received \$25,000 and \$33,000 during fiscal year 2015 and 2014, respectively, for administrative services.

(c) Bradley Lake Project Management Committee

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

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Notes to Basic Financial Statements

June 30, 2015 and 2014

(9) 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, 2015 and 2014, AEA had open Power Project Fund loan commitments of \$20,262,000 and \$8,968,000, respectively.

At June 30, 2015 and 2014, AEA had cumulative prior year commitments for grants awarded to communities that are funded by State appropriations and federal awards; the amounts committed were \$73,521,000 and \$93,991,000, respectively.

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, 2015

(Stated in thousands)

	<u>Debt service fund</u>	<u>Capital reserve fund</u>	<u>Renewal and contingency reserve fund</u>	<u>Excess investment earnings fund</u>	<u>Revenue fund</u>	<u>Operating fund</u>	<u>Operating reserve account</u>	<u>Total</u>
Balance at July 1, 2014	\$ 9,920	12,779	3,016	493	678	1,600	966	29,452
Interest received	208	958	245	36	232	137	76	1,892
Bond principal paid	(7,735)	—	—	—	—	—	—	(7,735)
Bond interest paid	(4,138)	—	—	—	—	—	—	(4,138)
Arbitrage paid	—	—	—	(351)	—	—	—	(351)
Operating budget surplus paid	—	—	(180)	—	—	(1,134)	—	(1,314)
Construction expenditures	—	—	(944)	—	(223)	—	—	(1,167)
Operating revenue received	—	—	—	—	18,006	—	—	18,006
Operating expenses paid	—	—	—	—	—	(4,244)	—	(4,244)
Transfers between funds	12,268	(958)	1,076	298	(18,261)	5,493	84	—
Balance at June 30, 2015	<u>\$ 10,523</u>	<u>12,779</u>	<u>3,213</u>	<u>476</u>	<u>432</u>	<u>1,852</u>	<u>1,126</u>	<u>30,401</u>

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
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Schedule of Projects and Programs – Statement of Net Position

June 30, 2015

(Stated in thousands)

	Bradley Lake Hydroelectric Project	Alaska Intertie Project	Susitna-Watana Hydroelectric Project	Rural Energy Projects	Administration and Power Development Fund	Rural Energy and Energy Development Programs	Combined balance
Assets and Deferred Outflows of Resources							
Current assets:							
Restricted cash and cash equivalents	10,523	1,467	—	—	36,773	79,274	128,037
Grants receivable	—	—	—	—	—	1,384	1,384
Loans receivable	—	—	—	—	—	454	454
Due from State of Alaska	—	—	—	—	(850)	11,466	10,616
Accrued interest receivable	1,026	—	—	—	—	22	1,048
Operating receivable	566	358	—	—	—	1,669	2,593
Total current assets	<u>12,115</u>	<u>1,825</u>	<u>—</u>	<u>—</u>	<u>35,923</u>	<u>94,269</u>	<u>144,132</u>
Noncurrent assets:							
Restricted investments	19,878	—	—	—	—	1,020,038	1,039,916
Loans receivable, net of allowance	—	—	—	—	—	5,893	5,893
Capital assets, net of accumulated depreciation	167,235	35,254	165,671	—	—	—	368,160
Other long term assets	2	—	—	—	—	—	2
Total noncurrent assets	<u>187,115</u>	<u>35,254</u>	<u>165,671</u>	<u>—</u>	<u>—</u>	<u>1,025,931</u>	<u>1,413,971</u>
Deferred outflows of resources:							
Deferred charge on bond refundings	91	—	—	—	—	—	91
Total assets and deferred outflows of resources	<u>\$ 199,321</u>	<u>37,079</u>	<u>165,671</u>	<u>—</u>	<u>35,923</u>	<u>1,120,200</u>	<u>1,558,194</u>
Liabilities and Net Position							
Current liabilities:							
Due to State of Alaska	\$ (7)	(799)	(1,781)	—	33,978	(2,192)	29,199
Accounts payable	2,810	2,608	1,781	201	(227)	19,430	26,603
Bonds payable – current portion	8,570	—	—	—	—	—	8,570
Other bond liabilities – current portion	475	—	—	—	—	—	475
Accrued interest payable	1,953	—	—	—	—	—	1,953
Total current liabilities	<u>13,801</u>	<u>1,809</u>	<u>—</u>	<u>201</u>	<u>33,751</u>	<u>17,238</u>	<u>66,800</u>
Noncurrent liabilities:							
Net investment in capital assets	62,585	—	—	—	—	—	62,585
Other bond liabilities – noncurrent portion	1,374	—	—	—	—	—	1,374
Other liabilities	103	—	—	—	—	525	628
Total noncurrent liabilities	<u>64,062</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>525</u>	<u>64,587</u>
Total liabilities	<u>77,863</u>	<u>1,809</u>	<u>—</u>	<u>201</u>	<u>33,751</u>	<u>17,763</u>	<u>131,387</u>
Net position:							
Net investment in capital assets	96,080	35,254	165,671	—	—	—	297,005
Restricted for debt service	21,825	—	—	—	—	—	21,825
Restricted by agreements with external parties	3,553	16	—	—	—	5,472	9,041
Restricted by legislation	—	—	—	—	2,172	1,096,764	1,098,936
Unrestricted	—	—	—	(201)	—	201	—
Total net position	<u>121,458</u>	<u>35,270</u>	<u>165,671</u>	<u>(201)</u>	<u>2,172</u>	<u>1,102,437</u>	<u>1,426,807</u>
Total liabilities and net position	<u>\$ 199,321</u>	<u>37,079</u>	<u>165,671</u>	<u>—</u>	<u>35,923</u>	<u>1,120,200</u>	<u>1,558,194</u>
Commitments and contingencies							

See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
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Schedule of Projects and Programs – Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

(Stated in thousands)

	Bradley Lake Hydroelectric Project	Alaska Intertie Project	Susitna-Watana Hydroelectric Project	Rural Energy Projects	Administration and Power Development Fund	Rural Energy and Energy Development Programs	Combined balance
Operating revenues:							
State of Alaska appropriations	\$ —	—	—	—	—	33,985	33,985
Revenue from operating plants	16,520	296	—	12	—	—	16,828
Federal grants	—	—	—	—	—	4,734	4,734
Revenue from state agencies and component units	—	—	—	—	—	131	131
Interest on loans	—	—	—	—	—	282	282
Other revenues	—	—	—	—	—	18	18
Total operating revenues	<u>16,520</u>	<u>296</u>	<u>—</u>	<u>12</u>	<u>—</u>	<u>39,150</u>	<u>55,978</u>
Operating expenses:							
Grants and projects	—	—	—	—	—	75,056	75,056
Power cost equalization grants	—	—	—	—	—	36,663	36,663
Depreciation	7,060	3,427	—	—	—	—	10,487
General and administrative	253	36	—	—	—	5,824	6,113
Interest expense	3,668	—	—	—	—	—	3,668
Plant operations	3,725	260	—	—	—	—	3,985
Provision for loan loss	—	—	—	—	—	6	6
Total operating expenses	<u>14,706</u>	<u>3,723</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>117,549</u>	<u>135,978</u>
Operating income (loss)	1,814	(3,427)	—	12	—	(78,399)	(80,000)
Nonoperating activities:							
Investment income, net	1,609	—	—	—	—	33,486	35,095
State of Alaska appropriations	194	2,335	34,072	—	—	28,888	65,489
Decrease in contingent liability on sold loans	—	—	—	—	—	30	30
Increase (decrease) in net position	3,617	(1,092)	34,072	12	—	(15,995)	20,614
Net position – beginning	<u>117,841</u>	<u>36,362</u>	<u>131,599</u>	<u>(213)</u>	<u>2,172</u>	<u>1,118,432</u>	<u>1,406,193</u>
Net position – ending	<u>\$ 121,458</u>	<u>35,270</u>	<u>165,671</u>	<u>(201)</u>	<u>2,172</u>	<u>1,102,437</u>	<u>1,426,807</u>

See accompanying independent auditors' report.

Schedule 5

ALASKA ENERGY AUTHORITY
(A Component Unit of the State of Alaska)
Bradley Lake Historical Annual Project Cost
Year ended June 30, 2015
(Dollars stated in thousands)

Operating Data	2015
Project costs:	
Operations and maintenance	\$ 2,875
General and administrative	509
Capital purchases	254
Contributions to renewal and contingency fund and operating reserve account	1,551
Insurance	593
Subtotal	<u>5,782</u>
Debt service	12,476
Less investment income	<u>(1,558)</u>
Total cost of power	<u>\$ 16,700</u>
Energy delivered (mWh)	448,090
Total unit cost of power (cents per kWh)	3.73 ¢

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

Unaudited - See accompanying independent auditors' report.

ALASKA ENERGY AUTHORITY
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Supplementary Organization and Project Information

June 30, 2015 and 2014

Organization and Operations

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

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

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

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

Bradley Lake Hydroelectric Project

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

The Authority is in the process of amending the Federal Energy Regulatory Commission (FERC) license by adding a new Battle Creek diversion project. This project will divert the West Fork Upper Battle Creek into Bradley Lake. The annual energy increase to Bradley Lake Hydroelectric Project would be about 37,000 megawatt hours (mWh). The Battle Creek project addition includes construction of three miles of road, a concrete diversion dam, a pipe, and canal to convey the water to Bradley Lake. The estimated cost of construction provided in November 2014

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was approximately \$54 million. The license amendment is anticipated to be received in 2016. Construction is expected to be completed in the fall of 2018.

Alaska Intertie Project

The Alaska Intertie is a 170-mile transmission line, designed for 345 kilovolts and is operating at 138 kilovolts. It runs between Willow and Healy and interconnects the power systems in the Anchorage and Fairbanks areas. The Intertie reduces the number of black/brownouts throughout the system by enabling power to move either north or south when major system disturbances occur. The Alaska Intertie allows Golden Valley Electric Association (GVEA) in Fairbanks to purchase lower cost electricity produced by Chugach Electric Association (CEA), Homer Electric Association (HEA), and Municipal Light and Power (ML&P). It also allows Southcentral Alaska utilities to purchase power from Fairbanks during power shortages. AEA contracts with certain Participating Utilities for operations and maintenance. The Intertie Management Committee (IMC) and AEA oversee the Alaska Intertie under an amended and restated Intertie Agreement (Agreement) executed on November 18, 2011. The Agreement improves the reliability of the interconnected electrical systems, outlines how the transfer over the Intertie of electrical capacity and energy among the participants will occur, and establishes the IMC. The IMC's primary responsibility is to provide governance, control, operation, maintenance, repair, and improvement of 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 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 SVC is substantially complete as of June 15, 2015, with minor punch list items being completed and service warranty being negotiated. AEA will continue to work with the Railbelt utilities to extend the intertie to Lake Lorraine.

Susitna-Watana Hydroelectric Project

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

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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.

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

The Alaska Legislature has appropriated a total of \$192.1 million for AEA to plan, design, and obtain permit of 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.