KPMG

ALASKA ENERGY AUTHORITY

(A Component Unit of the State of Alaska)

Basic Financial Statements and Schedules

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

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(A Component Unit of the State of Alaska)
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Overview of the Financial Statements

The Alaska Energy Authority (AEA or Authority) manages the following programs – owned hydroelectric and intertie projects, rural energy programs, and energy development programs. AEA's programs are funded primarily by the State, federal grants, and utility companies for use of AEA owned assets. AEA has no for-profit operating business activities. 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. AEA's operations are business type activities and are accounted for as an enterprise fund. The Authority is a component unit of the State of Alaska (State) and is discretely presented in the State's financial statements. 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 and inflows, and resulting net position. The net position is reported as invested in capital assets, net of related debt; 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 income, 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, 2014 and 2013. 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.

Financial Highlights

AEA's assets exceeded its liabilities by $1.4 billion and $1.2 billion at June 30, 2014 and 2013, respectively. Of the total net position at June 30, 2014, $262.1 million was invested in capital assets net of related debt, $29.5 million was restricted, and $1.1 billion was unrestricted. Of the total net position at June 30, 2013, $182.9 million was invested in capital assets net of related debt, $31.3 million was restricted, and $966.6 million was unrestricted.

Financial Analysis

Total assets, total liabilities, deferred inflows and outflows and total net position at June 30, 2014, 2013, and 2012 follow (stated in thousands):

		2014	2013	2012
Current assets	$	147,941	149,998	137,815
Capital assets, net		341,002	270,563	229,310
Other noncurrent and restricted assets		1,072,371	931,599	861,624
Deferred outflows		131	178	235
Total assets and deferred outflows	$	1,561,445	1,352,338	1,228,984
Current liabilities	$	81,626	89,717	68,966
Noncurrent liabilities		72,272	80,061	87,726
Deferred inflows		1,354	1,647	1,955
Total liabilities and deferred inflows		155,252	171,425	158,647
Total net position		1,406,193	1,180,913	1,070,337
Total liabilities, deferred inflows and outflows and net position	$	1,561,445	1,352,338	1,228,984

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 subrecipient grantees for grant advances. Current assets were $12.2 million higher at June 30, 2013 compared to June 30, 2012 primarily due to an $18.1 million increase of cash offset by a $3.1 million decrease of loans receivable because of transfer of loans to the State Department of Commerce, Community and Economic Development (DCCED) and a $2.8 million reduction of federal grants receivable.

Capital assets, net increased $70.4 million and $41.2 million during the years ended June 30, 2014 and June 30, 2013, 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.

A summary of major activity during the years ended June 30, 2014 and 2013, relating to capital assets, follows (stated in thousands):

		2014	2013
Susitna-Watana Hydroelectric Project development	$	75,347	46,097
Bradley Lake Hydroelectric Project improvements		2,127	3,979
Alaska Intertie Project improvements		3,429	2,963
Depreciation		(10,464)	(11,786)
Change in capital assets, net	$	70,439	41,253

(Continued)

Other noncurrent and restricted assets were $140.8 million higher at June 30, 2014 compared to June 30, 2013 and $70 million higher at June 30, 2013 compared to the prior year due to increase market value of PCE Endowment Fund investments.

Deferred outflows decreased by $47,000 and $57,000 at June 30, 2014 and June 30 2013, respectively, due to the amortization of charges on bond refundings.

Current liabilities were $8.1 million lower at June 30, 2014 compared to June 30, 2013 and $20.8 million higher at June 30, 2013 compared to June 30, 2012. The changes related primarily to amounts due to the State relating to Susitna-Watana accrued expenses.

Noncurrent liabilities decreased by $7.8 million at June 30, 2014 and June 30, 2013. The bonds payable decreases were due to scheduled debt service payments.

Deferred inflows decreased by $293,000 and $308,000 at June 30, 2014 and June 30, 2013, respectively, due to the amortization of the premium of bond refundings.

Total net position was $225.3 million higher at June 30, 2014 compared to June 30, 2013 and $110.6 million higher at June 30, 2013 compared to June 30, 2012 due to operating and nonoperating activities.

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

		2014	2013	2012
Operating revenues	$	92,783	102,443	98,660
Operating expenses		156,499	165,921	160,513
Operating loss		(63,716)	(63,478)	(61,853)
Nonoperating:				
Investment income, net		173,093	113,415	14,050
State of Alaska contributions for capital assets		78,875	50,605	13,481
State of Alaska contributions to AEA Funds		37,000	25,871	29,020
Decrease in contingent liability from loan sale		28	36	84
Transfer of Bulk Fuel Loans to State of Alaska		—	(15,873)	—
Increase (decrease) in net position	$	225,280	110,576	(5,218)

Operating revenues decreased $9.6 million during the year ended June 30, 2014 compared to June 30, 2013 and increased $3.8 million during the year ended June 30, 2013 compared to June 30, 2012. Components of changes were as follows (stated in thousands):

		FY 2014-2013 Net change	FY 2013-2012 Net change
Increased (decreased) Federal grant revenue	$	1,377	(8,794)
Increased in revenue from operating plants		605	580
(Decreased) increased revenue from State for PCE grant program		(9,948)	1,784
(Decreased) increased revenue from State energy projects for Alaska Railbelt utilities		(17,208)	6,915
Decreased revenue from State for Eva Creek wind farm		—	(10,000)
Increased revenue from other State general fund operating and capital appropriations		20,325	15,279
(Decreased) revenue from other State agencies		(4,811)	(1,707)
(Decreased) revenue from loan interest and other miscellaneous revenues		—	(274)
	$	(9,660)	3,783

Operating expenses decreased $9.4 million during the year ended June 30, 2014 compared to June 30, 2013 and increased $5.4 million during the year ended June 30, 2013 compared to June 30, 2012. Components of the changes were as follows (stated in thousands):

		FY 2014-2013 Net change	FY 2013-2012 Net change
Increased (decreased) federally funded grant and project expenses in active rural energy construction projects	$	836	(8,677)
(Decreased) increased State funded grant and project expenses		(5,955)	14,709
(Decreased) State agency and component unit funded expenses for interagency contracts		(3,083)	(3,445)
Increased PCE grant expenditures		205	1,201
(Decreased) increased other expenses		(1,425)	1,614
	$	(9,422)	5,402

Net operating losses were caused by the following activity during the years ended June 30, 2014 and 2013 (stated in thousands):

		2014	2013
PCE grants funded by prior period nonoperating investment earnings from the PCE Endowment Fund	$	(33,091)	(22,876)
Depreciation		(11,500)	(11,800)
Renewable Energy grant expenses funded by nonoperating State fund capitalizations received in prior periods		(22,500)	(30,944)
Other operating income received to fund capital purchases		3,375	2,142
Operating losses	$	(63,716)	(63,478)

The Authority has no for-profit operating business activities and has operating losses because many of its operating activities are funded by nonoperating revenues (fund capitalizations and investment earnings). In addition, 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 increased $114.9 million in fiscal year 2014 compared to fiscal year 2013 and $117.4 million in fiscal year 2013 compared to fiscal year 2012.

The components of the increases are as follows:

		FY 2014-2013 Net change	FY 2013-2012 Net change
Investment income	$	59,678	99,365
Non operating State contributions		39,391	33,927
One time transfer of Bulk Fuel Loan program to DCCED		15,873	(15,873)
	$	114,942	117,419

Investment income increased in fiscal year 2014 and 2013 due to market conditions relating to the PCE Endowment Fund.

Nonoperating State contributions increased in both fiscal years 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, 2014 and 2013 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in note 2 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, retroactive to July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1–5 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 24, 2014 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 24, 2014

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

Statements of Net Position

June 30, 2014 and 2013

(Stated in thousands)

Assets and Deferred Outflows of Resources		2014	2013
Current assets:			
Cash and cash equivalents designated for specific purposes (note 3)	$	105,563	116,552
Restricted cash and cash equivalents (note 3)		16,662	17,717
Grants receivable		2,587	2,465
Loans receivable (note 6)		167	92
Operating revenue receivable		3,712	1,673
Due from State of Alaska		18,209	10,455
Accrued interest receivable		1,041	1,044
Total current assets		147,941	149,998
Noncurrent assets:			
Restricted investments (note 3)		19,532	20,624
Investments designated for specific purposes (note 3)		1,046,857	905,814
Loans receivable, net of allowance (note 6)		5,977	5,153
Capital assets, net of accumulated depreciation (note 4)		341,002	270,563
Other long term assets		5	8
Total noncurrent assets		1,413,373	1,202,162
Deferred outflows of resources:			
Deferred charge on bond refundings		131	178
Total assets and deferred outflows of resources	$	1,561,445	1,352,338
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities:			
Due to State of Alaska	$	18,925	37,823
Accounts payable		52,430	41,533
Bonds payable – current portion (note 5)		7,735	7,300
Arbitrage interest payable – current portion (note 5)		351	657
Accrued interest payable		2,185	2,404
Total current liabilities		81,626	89,717
Noncurrent liabilities:			
Bonds payable – noncurrent portion, net (note 5)		71,155	78,890
Arbitrage interest payable – noncurrent portion (note 5)		459	484
Other liabilities		658	687
Total noncurrent liabilities		72,272	80,061
Deferred inflows of resources:			
Original issue premium on bond refundings		1,354	1,647
Total liabilities and deferred inflows of resources		155,252	171,425
Net position:			
Invested in capital assets, net of related debt		262,112	182,912
Restricted for debt service		21,007	20,908
Restricted by agreements with external parties		8,526	10,463
Unrestricted		1,114,548	966,630
Total net position		1,406,193	1,180,913
Total liabilities, deferred inflows of resources and net position	$	1,561,445	1,352,338

Commitments and contingencies (notes 7 and 9)

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(Stated in thousands)

		2014	2013 (as adjusted)
Operating revenues:			
State of Alaska appropriations	$	67,429	74,260
Revenue from operating plants		17,542	16,937
Federal grants		7,454	6,077
Revenue from state agencies and component units		81	4,892
Interest on loans		277	277
Total operating revenues		92,783	102,443
Operating expenses:			
Grants and projects		91,431	99,634
Power cost equalization grants		40,305	40,100
Depreciation		10,464	11,786
General and administrative		5,424	5,291
Interest expense		4,127	4,561
Plant operating		4,720	4,363
Provision for loan loss (note 6)		28	186
Total operating expenses		156,499	165,921
Operating loss		(63,716)	(63,478)
Nonoperating activities:			
Investment income, net		173,093	113,415
State of Alaska appropriations for capital assets		78,875	50,605
State of Alaska contribution to the Renewable Energy Fund		25,000	25,871
State of Alaska contribution 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		28	36
Transfer of Bulk Fuel Loan Fund to State DCCED		—	(15,873)
Total nonoperating activities		288,996	174,054
Increase in net position		225,280	110,576
Net position – beginning (as adjusted)		1,180,913	1,070,337
Net position – ending	$	1,406,193	1,180,913

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Stated in thousands)

		2014	2013
Cash flows from operating activities:			
Receipts from federal grants	$	7,331	6,864
Receipts from customers and users		17,811	17,164
Receipts from State of Alaska appropriations		70,208	59,186
Receipts from state agencies and component units		340	6,048
Payments to suppliers		(16,747)	(18,266)
Payments to grantees		(111,561)	(130,976)
Net cash used for operating activities		(32,618)	(59,980)
Cash flows from noncapital and related financing activities:			
Net unremitted interest returned on State appropriation advances		11	—
Net State appropriations to communities managed by AEA for the communities		576	—
Emerging Energy Technology contribution from State		—	2,000
Renewable Energy Fund contribution from State		25,000	25,871
Power Project Fund contribution from State		10,000	—
Bulk Fuel Loan Fund transfer to State DCCED		—	(9,158)
Net (increase) decrease in subrecipient grant advances		(2,541)	7,034
Net decrease in short term borrowings from AIDEA for working capital		(157)	(2,668)
Net cash provided by noncapital and related financing activities		32,889	23,079
Cash flows from capital and related financing activities:			
Principal paid on bonds		(7,300)	(6,880)
Interest paid on bonds		(4,589)	(5,014)
State of Alaska appropriation for capital assets		50,488	72,215
Purchase of capital assets		(83,080)	(45,544)
Net cash (used for) provided by capital and related financing activities		(44,481)	14,777
Cash flows from investing activities:			
Purchase of investments		(143,768)	(234,092)
Proceeds from sales and maturities of investments		160,361	270,951
Interest received from investments		16,243	9,266
Principal collected on loans		490	6,408
Interest collected on loans		256	237
Loans originated		(1,416)	(12,621)
Net cash provided by investing activities		32,166	40,149
Net (decrease) increase in cash and cash equivalents		(12,044)	18,025
Cash and cash equivalents at beginning of year		134,269	116,244
Cash and cash equivalents at end of year	$	122,225	134,269
Reconciliation of operating loss to net cash used for operating activities:			
Operating loss	$	(63,716)	(63,478)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation		10,464	11,786
Provision for loan loss and bad debt expense		28	186
Bond interest expense		4,127	4,561
Interest on loans		(277)	(277)
Changes in assets and liabilities that provided (used) cash:			
Increase (decrease) in due to State of Alaska		1,045	(7,360)
Decrease (increase) in due from the State of Alaska		2,051	(7,294)
(Increase) decrease in grants receivable		(122)	787
Decrease in operating revenue receivable		492	797
Increase in operating accounts payable		13,290	312
Net cash used for operating activities	$	(32,618)	(59,980)
Noncash capital and related financing and investing activities:			
Net (decrease) increase in capital asset accounts payable	$	(2,178)	7,496
Net decrease in contingent liability on sold loans		28	36
Transfer of Bulk Fuel Loan Fund loan and interest receivable, net of allowance to State DCCED		—	(6,715)
Net increase in fair value of investments		124,172	107,317

See accompanying notes to basic financial statements.

(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 and a component unit of the State. AEA's mission is to reduce the cost of energy in Alaska through various energy infrastructure projects and energy programs funded by State, federal grants and utility companies for use of AEA owned assets. AEA has no for-profit operating business activities.

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.

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 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 2015 with construction completed the fall of 2017.

(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.

(c) Susitna-Watana Hydroelectric Project

The Alaska Legislature appropriated $190 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. AEA expects to file for the FERC license in 2016.

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, 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.

Pursuant to legislation, effective January 1, 2013, the Bulk Fuel program (all outstanding Bulk Fuel loans, and the Bulk Fuel Revolving Loan Fund that provided the program's funding) was transferred from AEA to the State's Department of Commerce, Community and Economic Development (DCCED). The Bulk Fuel program had a carrying amount of $15,873,000 at the time of the transfer.

(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, the Authority 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.

Operating Revenue and Expense

The Authority considers all 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. 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:

Utility plant	Life in years
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.

(Continued)

(c) Cash and Investments

All of AEA's cash and investments are restricted or designated as to use. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash, short term commercial paper, and money market funds.

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) 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, 2014 and June 30, 2013, 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.

(g) 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.

(Continued)

(h) Appropriations and Grants

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

(i) 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.

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial 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 statement 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 statement 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 only has one item that qualifies for reporting in this category. It is the premium on debt refunding reported in the statement of net position. A premium on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and recognized over the shorter of the life of the refunded or refunding debt.

(k) Change in Accounting Principle

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement 65). Statement 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority adopted the provisions of Statement 65 during 2014, retroactive to July 1, 2011. The adoption of Statement 65 resulted in the write-off of certain debt issuance costs. It also resulted in the reclassification of the liability related to bond refundings. Original issuance premium was reclassified as a deferred inflow, and losses from bond refundings were reclassified as deferred outflows.

(Continued)

The effects of adopting Statement 65 in the Authority's financial statements for the year ended June 30, 2013 were as follows:

	Year ended June 30, 2013		
	As previously reported	**Effect of adoption of Statement No. 65**	**As adjusted**
		(In thousands)	
Statement of net position:			
Total assets	$ 1,352,152	8	1,352,160
Deferred outflows	—	178	178
Total assets and deferred outflows	1,352,152	186	1,352,338
Total liabilities	(171,005)	1,227	(169,778)
Deferred inflows	—	(1,647)	(1,647)
Total liabilities and deferred inflows	(171,005)	(420)	(171,425)
Total net position	$ 1,181,147	(234)	1,180,913
Statement of revenues, expenses and changes in net position:			
Operating revenues	$ 102,443	—	102,443
Operating expenses	(165,978)	57	(165,921)
Nonoperating revenues	174,054	—	174,054
Changes in net position	110,519	57	110,576
Net position, beginning of year	1,070,628	(291)	1,070,337
Net position, end of year	$ 1,181,147	(234)	1,180,913

(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 U.S. generally accepted accounting principles.

At June 30, 2014 and 2013, the Authority's carrying amount of cash and cash equivalents (all of which were restricted or designated for specific purposes) was $122,225,000 and $134,269,000, respectively. The total of all bank balances on the same dates was $123,542,000 and $139,755,000, respectively.

The restricted cash and cash equivalents and investments were held in trust accounts for the following activities as of June 30, 2014 and 2013 (stated in thousands):

		2014	2013
Bradley Lake Hydroelectric Project	$	9,920	9,704
Trans-Alaska Pipeline (TAPL) Appropriation		5,913	6,855
Alaska Intertie Project		829	1,158
Total restricted cash and cash equivalents	$	16,662	17,717
Bradley Lake Hydroelectric Project	$	19,532	20,624
Total restricted investments	$	19,532	20,624

The designated cash and cash equivalents and investments were held in trust accounts for the following activities as of June 30, 2014 and 2013 (stated in thousands):

		2014	2013
Renewable Energy Grant Program	$	21,832	29,733
Funds advanced from State and federal agencies		34,437	57,401
Rural Energy and Energy Development Programs		158	73
Emerging Energy Technology Fund		2,467	782
Rural Energy Loan Funds		44,778	26,911
Power Development Fund		1,866	1,650
Power Cost Equalization Endowment Fund		25	2
Total designated cash and cash equivalents	$	105,563	116,552
Emerging Energy Technology Fund	$	2,953	4,800
Renewable Energy Grant Fund		66,061	50,795
Rural Energy Loan Funds		—	10,006
Power Cost Equalization Endowment Fund		977,843	840,213
Total designated investments	$	1,046,857	905,814

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 externally 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. Securities are valued each business day using prices obtained from a pricing service.

Fixed income and equity securities are valued each business day using prices obtained from a pricing 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 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, 2014, AEA had the following cash and investments in the PCE, RE, and EET Funds (stated in thousands):

		Cash	Investments at fair value			
		PCE Fund	RE and EET Funds	PCE Fund		
Investment type		Short-term fixed income pool	Short and intermediate-terms and liquidity fixed income pools	Broad market and U.S. Treasuries fixed income pools	Other	Total
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

At June 30, 2013, AEA had the following cash and investments in the PCE, RE, and EET Funds (stated in thousands):

	Cash	Investments at fair value			
	PCE Fund	RE and EET Funds	PCE Fund		
Investment type	**Short-term fixed income pool**	**Short and intermediate-terms and liquidity fixed income pools**	**Broad market and U.S. Treasuries fixed income pools**	**Equity**	**Total**
Commercial paper	$ 386	1,132	—	—	—
U.S. Treasury bonds	—	—	4,283	—	4,283
U.S. Treasury bills	3,894	18,590	—	—	—
U.S. Treasury notes	—	17,990	60,130	—	60,130
U.S. Treasury strip	—	148	895	—	895
U.S. government discount notes	1	2	—	—	—
U.S. government agency	—	804	5,982	—	5,982
Mortgage-backed	20	594	66,426	—	66,426
Deposit	198	580	(2)	—	(2)
Other asset-backed	3,946	12,255	6,921	—	6,921
Municipal bonds	5	19	—	—	—
Corporate bonds	472	3,420	41,507	—	41,507
Yankee:					
Government	—	97	1,987	—	1,987
Corporate	124	726	8,930	—	8,930
Domestic equity	—	—	—	428,020	428,020
International equity	—	—	—	211,837	211,837
Total invested assets	9,046	56,357	197,059	639,857	836,916
Pool related net liabilities	(159)	(762)	(5,796)	208	(5,588)
Other pool ownership	(8,885)	—	8,885	—	8,885
Net invested assets	$ 2	55,595	200,148	640,065	840,213

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

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

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

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

At June 30, 2014 and 2013, the fair values of AEA's cash and investments in its other funds (stated in thousands) were:

Investment type		2014	2013
Deposits	$	71	116
Money market funds		122,129	134,151
U.S. Treasury notes		—	10,006
Investment agreements		19,532	20,624
Total invested assets	$	141,732	164,897

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. 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, 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 8 days to 3.2 years. At June 30, 2013, the expected average life of individual fixed rate securities ranged from three days to 34 years and the expected average life of floating rate securities ranged from 14 days to 22 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, 2014, the expected average life of fixed rate securities ranged from 31 to 179 days.

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 ± 20% of the Barclays 1-3 year Government Bond Index. The effective duration for the Barclays 1-3 year Government Bond Index was 1.94 years at June 30, 2014 and 1.87 years at June 30, 2013.

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: ± 20% of the Barclay's Capital U.S. Aggregate Bond Index. The effective duration of the Index at June 30, 2014 was 5.52 years. The effective duration of the Index at June 30, 2013 was 5.49 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, 2014 and 2013, the effective duration by investment type (not including the investment agreements) was as follows:

Managed by Treasury	**Intermediate-term fixed income pool**	**Broad market fixed income pool**
	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 Treasury	Intermediate-term fixed income pool	Broad market fixed income pool
	2013	
U.S. Treasury notes	2.04	5.10
U.S. Treasury strip	4.43	4.89
U.S. Treasury bills	0.11	—
U.S. Treasury bonds	—	19.69
U.S. government agency	1.70	8.23
Mortgage-backed	1.45	4.13
Other asset-backed	0.59	1.37
Municipal bonds	4.41	—
Corporate bonds	2.42	7.31
Yankees:		
Government	2.06	5.17
Corporate	1.85	3.99
Portfolio effective duration	1.77	5.23

	Managed by AEA	
	2014	**2013**
Money market	0.09	0.11
U.S. Treasury notes	—	1.41
Portfolio effective duration	0.09	0.20

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 Nonagency 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 Nonagency 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.

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 Nonagency 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 Nonagency 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.

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
		100%	100%	100%	100%	100%

(Continued)

At June 30, 2013, 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	—%	—%	—%	—%	81%
Commercial paper	Not Rated	4	—	—	—	—
U.S. Treasury notes	AA	—	—	70	30	6
U.S. Treasury bills	AA	44	100	7	—	—
U.S. Treasury strips	AA	—	—	1	1	—
U.S. Treasury bond	AA	—	—	—	2	—
U.S. government agency	AA	—	—	3	1	—
U.S. government agency	not rated	—	—	—	2	—
Mortgage-backed	AAA	—	—	1	3	—
Mortgage-backed	AA	—	—	1	28	—
Mortgage-backed	Not Rated	—	—	—	2	—
Other asset-backed	AAA	40	—	2	2	—
Other asset-backed	AA	1	—	—	1	—
Other asset-backed	Not Rated	4	—	1	1	—
Other pool ownership	Not Rated	—	—	6	4	—
Corporate bonds	AAA	—	—	—	1	—
Corporate bonds	AA	2	—	2	3	—
Corporate bonds	A	3	—	5	12	—
Corporate bonds	BBB	—	—	1	5	—
Yankees – government	AA	—	—	—	1	—
Yankees – corporate	AAA	—	—	—	1	—
Yankees – corporate	AA	1	—	1	1	—
Yankees – corporate	A	1	—	—	1	—
Yankees – corporate	BBB	—	—	—	1	—
No credit exposure		(2)	—	(1)	(3)	—
Investment agreements	Not Rated	—	—	—	—	13
Deposits		2	—	—	—	—
		100%	100%	100%	100%	100%

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, 2014, AEA's deposits managed by Treasury were uncollateralized and uninsured.

With respect to AEA managed investments, amounts totaling approximately $112,209,000 at June 30, 2014 and $124,447,000 at June 30, 2013, 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.

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 2014 and 2013, and invested assets included the following holdings at June 30, 2014 and 2013, for the PCE Fund's investment in the International Equity Pool:

	Policy	Actual
FY14	28%±5%	29.12%
FY13	26%±5%	25.24%

At June 30, 2014 and 2013, AEA's PCE Fund had exposure to foreign currency risk as follows (stated in thousands):

Currency		2014	2013
Deposits:			
Japanese Yen	$	22	42
Pound Sterling		188	—
		210	42
Investment – international equity:			
Australian Dollar		1,514	1,580
Canadian Dollar		2,197	2,344
Danish Krone		799	649
Euro Currency		22,582	18,291
Japanese Yen		16,380	12,996
New Zealand Dollar		—	447
Norwegian Krone		504	733
Pound Sterling		22,437	16,426
Swedish Krona		2,793	3,708
Swiss Franc		5,259	4,082
		74,465	61,256
Total	$	74,675	61,298

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

Commissioner have a policy for contingencies. The Fund's share of the International Equity Pool's investment includes the following income from derivative investments at June 30, 2014:

	Changes in fair value		Fair value at June 30, 2014		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
FX Forwards	Investment Revenue	$ 11,569	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, 2014 and 2013, 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, 2014 and 2013 was as follows (stated in thousands):

	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

		Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets not being depreciated:					
Land and Right of Ways	$	11,212	—	—	11,212
Construction in progress:					
Intangibles		11,532	48,580	—	60,112
Other		2,195	3,518	(1,733)	3,980
Total capital assets not being depreciated		24,939	52,098	(1,733)	75,304
Depreciable capital assets:					
Infrastructure		431,116	2,650	—	433,766
Equipment		5,371	24	—	5,395
Total depreciable capital assets		436,487	2,674	—	439,161
Less accumulated depreciation:					
Infrastructure		(226,874)	(11,722)	—	(238,596)
Equipment		(5,242)	(64)	—	(5,306)
Total accumulated depreciation		(232,116)	(11,786)	—	(243,902)
Capital assets, net	$	229,310	42,986	(1,733)	270,563

(5) Long-Term Debt

Long-term debt activity for the years ended June 30, 2014 and 2013 was as follows (stated in thousands):

		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
	$	87,331	326	(7,957)	79,700	8,086

		Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Due within one year
Bradley Lake Power Revenue Bonds:						
` First Series (a)	$	100	—	—	100	—
Refunding, Third Series (a)		29,870	—	(4,280)	25,590	4,540
Refunding, Fourth Series (a)		34,300	—	(2,600)	31,700	2,760
Refunding, Sixth Series (a) (b)		28,800	—	—	28,800	—
Total bonds payable		93,070	—	(6,880)	86,190	7,300
Arbitrage interest payable (c)		813	328	—	1,141	657
	$	93,883	328	(6,880)	87,331	7,957

(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.

The minimum payments related to all bonds for the years subsequent to June 30, 2014 are as follows (stated in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	7,735	4,138	11,873
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
2020–2021		33,470	2,664	36,134
	$	78,890	18,216	97,106

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, 2014, the unpaid principal balance of the notes was $2,378,000 and the trust assets had a fair value of $2,525,000.
- *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 $5,600,000 of the defeased bonds remain outstanding at June 30, 2014. The Series 1997 bonds were called and redeemed in January 2011.

(6) Loans Receivable

The Authority administers the Power Project Loan Program and the Rural Electrification Revolving Loan Program. The Bulk Fuel Revolving Loan Program was transferred to the State DCCED in FY2013. Loans outstanding at June 30, 2014 and 2013 are classified as follows (dollar amounts stated in thousands):

	2014		2013	
	No. of loans	Amount	No. of loans	Amount
Power Project Loan Program	6	$ 5,964	6	$ 4,980
Rural Electrification Revolving Loan Program	2	370	2	427
	8	6,334	8	5,407
Less allowance for loan losses		(190)		(162)
		$ 6,144		$ 5,245

Loans more than 90 days past due are not included in the accrual of interest. At June 30, 2014, and 2013, 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, 2014 and 2013 follows (stated in thousands):

	2014	2013
Balance at beginning of year	$ 162	181
Loan transfer – Bulk Fuel Loans	—	(205)
Provision for loan loss	28	186
Balance at end of year	$ 190	162

On September 30, 2010, the Authority sold to AIDEA 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, 2014, the outstanding principal balance of the loans sold was $18,501,000, for which AEA has recognized an estimated liability for potential repurchase of $555,000.

(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.

(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 2014 and 2013, AEA paid the following for services (stated in thousands):

		2014	2013
Expensed services	$	5,979	6,295
Capitalized services		2,428	1,498
	$	8,407	7,793

AEA has a board approved borrowing agreement with AIDEA to provide short-term working capital funds. At June 30, 2014 and 2013, AEA had $5,900,000 and $3,538,000, respectively, payable to AIDEA for services and borrowings.

(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 $33,000 and $37,000 for fiscal year 2014 and 2013, 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 power 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.

(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, 2014 and 2013, AEA had open loan commitments of $8,968,000 and $1,374,000, respectively. At June 30, 2014 and 2013, AEA had committed to grant awards to be funded by State appropriations and federal awards; the amounts committed were $93,991,000 and $135,964,000, 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.

Schedule 1

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

Schedule of Bradley Lake Hydroelectric Project Trust Account Activities

Year ended June 30, 2014

(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, 2013	$ 9,704	12,779	4,628	829	156	1,310	922	30,328
Interest received	351	816	313	29	205	101	94	1,909
Bond principal paid	(7,300)	—	—	—	—	—	—	(7,300)
Bond interest paid	(4,589)	—	—	—	—	—	—	(4,589)
Arbitrage paid	—	—	—	(659)	—	—	—	(659)
Operating budget surplus paid	—	—	(767)	—	—	(264)	—	(1,031)
Construction expenditures	—	—	(2,486)	—	(120)	—	—	(2,606)
Operating revenue received	—	—	—	—	17,675	—	—	17,675
Operating expenses paid	—	—	—	—	—	(4,275)	—	(4,275)
Transfers between funds	11,754	(816)	1,328	294	(17,238)	4,728	(50)	—
Balance at June 30, 2014	$ 9,920	12,779	3,016	493	678	1,600	966	29,452

See accompanying independent auditors' report.

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

Schedule of Projects and Programs – Statement of Net Position

June 30, 2014

(Stated in thousands)

Assets and Deferred Outflows of Resources		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
Current assets:								
Cash and cash equivalents designated for specific purposes	$	—	—	—	—	36,271	69,292	105,563
Restricted cash and cash equivalents		9,920	829	—	—	—	5,913	16,662
Grants receivable		—	—	—	—	—	2,587	2,587
Loans receivable		—	—	—	—	—	167	167
Operating revenue receivable		26	135	8	—	—	3,543	3,712
Due from State of Alaska		—	153	10,394	—	(5,733)	13,395	18,209
Accrued interest receivable		993	—	—	—	—	48	1,041
Total current assets		10,939	1,117	10,402	—	30,538	94,945	147,941
Noncurrent assets:								
Restricted investments		19,532	—	—	—	—	—	19,532
Investments designated for specific purposes		—	—	—	—	—	1,046,857	1,046,857
Loans receivable, net of allowance		—	—	—	—	—	5,977	5,977
Capital assets, net of accumulated depreciation		173,058	36,345	131,599	—	—	—	341,002
Other long term assets		5	—	—	—	—	—	5
Total noncurrent assets		192,595	36,345	131,599	—	—	1,052,834	1,413,373
Deferred outflows of resources:								
Deferred charge on bond refundings		131	—	—	—	—	—	131
Total assets and deferred outflows of resources	$	203,665	37,462	142,001	—	30,538	1,147,779	1,561,445
Liabilities, Deferred Inflows of Resources and Net Position								
Current liabilities:								
Due to State of Alaska	$	(7)	—	750	—	28,757	(10,575)	18,925
Accounts payable		2,489	1,100	9,652	213	(391)	39,367	52,430
Bonds payable – current portion		7,735	—	—	—	—	—	7,735
Arbitrage interest payable – current portion		351	—	—	—	—	—	351
Accrued interest payable		2,185	—	—	—	—	—	2,185
Total current liabilities		12,753	1,100	10,402	213	28,366	28,792	81,626
Noncurrent liabilities:								
Bonds payable – noncurrent portion, net		71,155	—	—	—	—	—	71,155
Arbitrage interest payable – noncurrent portion		459	—	—	—	—	—	459
Other liabilities		103	—	—	—	—	555	658
Total noncurrent liabilities		71,717	—	—	—	—	555	72,272
Deferred inflows of resources:								
Original issue premium on bond refundings		1,354	—	—	—	—	—	1,354
Total liabilities and deferred outflows of resources		85,824	1,100	10,402	213	28,366	29,347	155,252
Net position:								
Invested in capital assets, net of related debt		94,168	36,345	131,599	—	—	—	262,112
Restricted for debt service		21,007	—	—	—	—	—	21,007
Restricted by agreements with external parties		2,666	17	—	—	—	5,843	8,526
Unrestricted		—	—	—	(213)	2,172	1,112,589	1,114,548
Total net position		117,841	36,362	131,599	(213)	2,172	1,118,432	1,406,193
Total liabilities, deferred outflows of resources and net position	$	203,665	37,462	142,001	—	30,538	1,147,779	1,561,445

Commitments and contingencies

See accompanying independent auditors' report.

Schedule 3

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

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

Year ended June 30, 2014

(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	$ —	—	—	—	—	67,429	67,429
Revenue from operating plants	16,540	990	—	12	—	—	17,542
Federal grants	—	—	—	—	—	7,454	7,454
Revenue from state agencies	—	—	—	—	—	81	81
Interest on loans	—	—	—	—	—	277	277
Total operating revenues	16,540	990	—	12	—	75,241	92,783
Operating expenses:							
Grants and projects	—	13	—	—	—	91,418	91,431
Power cost equalization grants	—	—	—	—	—	40,305	40,305
Depreciation	7,037	3,427	—	—	—	—	10,464
General and administrative	298	100	—	—	—	5,026	5,424
Interest expense	4,127	—	—	—	—	—	4,127
Plant operating	3,845	875	—	—	—	—	4,720
Provision for loan loss	—	—	—	—	—	28	28
Total operating expenses	15,307	4,415	—	—	—	136,777	156,499
Operating income (loss)	1,233	(3,425)	—	12	—	(61,536)	(63,716)
Nonoperating:							
Investment income, net	1,561	—	—	—	—	171,532	173,093
State of Alaska contributions/appropriations, net of transfers out	99	3,429	75,347	—	—	37,000	115,875
Decrease in contingent liability on sold loans	—	—	—	—	—	28	28
Increase in net position	2,893	4	75,347	12	—	147,024	225,280
Net position – beginning	114,948	36,358	56,252	(225)	2,172	971,408	1,180,913
Net position – ending	$ 117,841	36,362	131,599	(213)	2,172	1,118,432	1,406,193

See accompanying independent auditors' report.

Schedule 4

ALASKA ENERGY AUTHORITY

(A Component Unit of the State of Alaska)

Schedule of Capital Assets Presented under Federal Energy Regulatory Commission

June 30, 2014 and 2013

(Stated in thousands)

		Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets:					
Intangible	$	14	—	—	14
Production		317,094	77,453	—	394,547
Transmission		188,690	—	—	188,690
General		8,667	3,450	—	12,117
Total capital assets		514,465	80,903	—	595,368
Less accumulated depreciation:					
Intangible		(5)	(1)	—	(6)
Production		(111,244)	(5,402)	—	(116,646)
Transmission		(127,344)	(5,026)	—	(132,370)
General		(5,309)	(35)	—	(5,344)
Total accumulated depreciation		(243,902)	(10,464)	—	(254,366)
Capital assets, net	$	270,563	70,439	—	341,002

		Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets:					
Intangible	$	14	—	—	14
Production		267,040	50,054	—	317,094
Transmission		188,570	120	—	188,690
General		5,802	2,865	—	8,667
Total capital assets		461,426	53,039	—	514,465
Less accumulated depreciation:					
Intangible		(5)	—	—	(5)
Production		(105,312)	(5,932)	—	(111,244)
Transmission		(121,556)	(5,788)	—	(127,344)
General		(5,243)	(66)	—	(5,309)
Total accumulated depreciation		(232,116)	(11,786)	—	(243,902)
Capital assets, net	$	229,310	41,253	—	270,563

Unaudited - 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, 2014

(Stated in thousands)

Operating Data		**2014**
Project costs:		
Operations and maintenance	$	2,939
General and administrative		685
Insurance		519
Capital purchases		194
Contributions to renewal and contingency fund and operating reserve account		1,686
Total project costs		6,023
Cost of power:		
Debt service		12,105
Less investment income		(1,587)
Total cost of power	$	16,541
Energy delivered (mWh)		376,842
Total unit cost of power (kWh)	$	4.39

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

Unaudited - See accompanying independent auditors' report.

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

Supplementary Organization and Project Information

June 30, 2014 and 2013

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 together with the Alaska Intertie help provide Interior Alaska with cheaper energy available in 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, design, and 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 four miles of road, a concrete diversion dam, and a canal to convey the water to Bradley Lake. The engineering costs provided in

December 2013 were approximately $61 million. The license amendment is anticipated to be received in 2015. Construction is expected to be completed in the fall of 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 Golden Valley Electric Association (GVEA) in Fairbanks to purchase lower cost electricity produced by Chugach Electric Association (CEA) and 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. The Intertie Management Committee (IMC) and AEA oversee an amended and restated Intertie Agreement (Agreement) executed on November 18, 2011. The Agreement improves the reliability of the interconnected electrical systems, outlines how transfer 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. 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:

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

ML&P was contracted to perform the repairs and upgrades. The tower repairs are now complete. Design and construction of the new SVC is estimated to be completed by December 31, 2014. AEA will continue to work with the Railbelt utilities on the logical extension destination of the intertie.

Susitna-Watana Hydroelectric Project

The Alaska Legislature appropriated $10 million to AEA effective July 1, 2010 for the 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.

ALASKA ENERGY AUTHORITY

(A Component Unit of the State of Alaska)

Supplementary Organization and Project Information

June 30, 2014 and 2013

The Alaska Legislature unanimously passed and the Governor signed Senate Bill 42 effective July 14, 2011, which authorized the Authority to acquire a Susitna River power project. Senate Bill 46 appropriated $65.7 million, effective July 1, 2011, to plan, design, and obtain permit of the project. With Senate Bill 18, effective April 14, 2013, an additional $95.2 million was appropriated to the project. An additional $20 million was appropriated for the project effective April 2014. In December 2011, AEA filed Notice of Intent and Pre-Application Document with the FERC to begin the licensing process for the project. AEA is actively engaged in this FERC process and expect to file for licensing in 2016. The FERC approved all 58 environmental study plans in early 2013. Since then, AEA has been 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 7000 page ISR presents information collected from the first year of field studies.

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 2,075 feet mean sea level with a 23,546 acre, 42.5-mile long reservoir with an average width of one to two miles. The final height of the dam construction is being evaluated as part of 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.