

**AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**BRADLEY LAKE  
PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS**

**JUNE 30, 2002 AND 2001**

*Parisena, Stromberg & Company*  
A Professional Corporation

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OPERATING AND REVENUE FUNDS**

**Anchorage, Alaska**

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A Professional Corporation

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**Independent Auditor's Report**

Bradley Lake Project Management Committee  
Anchorage, Alaska

We have audited the accompanying special-purpose balance sheets of the Bradley Lake Project Management Committee Operating and Revenue Funds (a project management committee) as of June 30, 2002 and 2001, and the related special-purpose statements of revenues, expenses and changes in surplus, and of cash flows for the years then ended. These financial statements are the responsibility of the Bradley Lake Project Management Committee. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of complying with, and in conformity with the trust fund accounting requirements specified in, the Alaska Energy Authority's Power Revenue Bond Resolution, as discussed in Note A, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities and surplus of the Bradley Lake Project Management Committee Operating and Revenue Funds as of June 30, 2002 and 2001 and its revenue, expenses and changes in surplus and its cash flows for the years then ended, on the basis of accounting described in Note A.

This report is intended solely for the information and use of the Bradley Lake Project Management Committee and is not intended to be and should not be used by anyone other than this specified party.

*Parisena, Stromberg & Company, APC*

Parisena, Stromberg & Company, APC  
Anchorage, Alaska  
December 11, 2002

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
 OPERATING AND REVENUE FUNDS  
 BALANCE SHEETS  
 June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>ASSETS</b>		
Current assets:		
Investments (Note B)	\$ 1,359,659	\$ 484,233
Accounts receivable	<u>                  -</u>	<u>                  650</u>
Total assets	<u>\$ 1,359,659</u>	<u>\$ 484,883</u>
 <b>LIABILITIES AND SURPLUS</b>		
Current liabilities:		
Due to other funds	\$ 32,267	\$ 19,460
Accounts payable	<u>468,329</u>	<u>445,249</u>
Total liabilities	<u>500,596</u>	<u>464,709</u>
Surplus	<u>859,063</u>	<u>20,174</u>
Total liabilities and surplus	<u>\$ 1,359,659</u>	<u>\$ 484,883</u>

See accompanying notes to the financial statements.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN SURPLUS  
Years ended June 30, 2002 and 2001**

	<u>2002</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2001 Actual</u>
Revenue:				
Utility contributions	\$ 13,765,782	\$ 13,765,790	\$       8	\$ 12,488,023
Interest receipts	1,696,000	1,772,285	76,285	1,759,898
Excess from bond proceeds	-	-	-	130,207
Other miscellaneous	-	-	-	2,139
	<u>15,461,782</u>	<u>15,538,075</u>	<u>76,293</u>	<u>14,380,267</u>
Expenses, fixed asset replacements and debt service:				
Operations and maintenance	3,207,134	2,425,736	781,398	1,957,262
Debt service	<u>12,273,450</u>	<u>12,273,450</u>	<u>-</u>	<u>12,639,716</u>
	<u>15,480,584</u>	<u>14,699,186</u>	<u>781,398</u>	<u>14,596,978</u>
Excess (deficiency) of revenue over expenses, fixed asset replacements and debt service	<u>(18,802)</u>	<u>838,889</u>	<u>857,691</u>	<u>(216,711)</u>
Surplus, beginning of year	<u>18,802</u>	<u>20,174</u>		<u>236,885</u>
Surplus, end of year	<u>\$ -</u>	<u>\$ 859,063</u>		<u>\$ 20,174</u>

See accompanying notes to the financial statements.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses, fixed asset replacements and debt service	\$ 838,889	\$ (216,711)
Adjustments to reconcile excess (deficiency) of revenue over expenses, fixed asset replacements and debt service to net cash provided by (used in) operating activities:		
Decrease (increase) in accounts receivable	650	(650)
Increase in accounts payable	23,080	19,058
Increase (decrease) in amounts due to other funds	<u>12,807</u>	<u>(472,959)</u>
Net cash provided by (used in) operating activities	875,426	(671,262)
Available cash and cash equivalents, beginning of year	<u>484,233</u>	<u>1,155,495</u>
Available cash and cash equivalents, end of year	<u>\$ 1,359,659</u>	<u>\$ 484,233</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 7,448,440</u>	<u>\$ 8,044,716</u>

See accompanying notes to the financial statements.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002 and 2001**

**NOTE A: SIGNIFICANT ACCOUNTING POLICIES**

Description of Business: The Bradley Lake Project Management Committee (the Committee) was established pursuant to Section 13 of the Agreement for the Sale and Purchase of Electric Power (Power Sales Agreement) dated December 8, 1987. The purpose of the Committee is to arrange for the operation and maintenance of the Bradley Lake Hydroelectric Project (the Project), which became operational in September 1991, and the scheduling, production and dispatch of power. The members of the Committee include the Alaska Energy Authority (AEA) and the five purchasers under the Power Sales Agreement - Chugach Electric Association, Inc.; Golden Valley Electric Association, Inc.; the Municipality of Anchorage (Municipal Light & Power); the City of Seward (Seward Electric System); and the Alaska Electric Generation & Transmission Cooperative, Inc. (AEG&T). The Homer Electric Association, Inc. (HEA) and the Matanuska Electric Association, Inc. (MEA) are additional parties to the Power Sales Agreement but are included as power purchasers for purposes of representation while AEG&T has no direct vote as a consequence of the individual representation of HEA and MEA.

Section 13 of the Power Sales Agreement delineates other Committee responsibilities, including: establishing procedures for each party's water allocation, budgeting for annual Project costs and calculating each party's required contribution to fund annual Project costs. Committee approval of operations and maintenance arrangements for the Project, sufficiency of the annual budgets and wholesale power rates and the undertaking of optional Project work requires a majority affirmative vote and the affirmative vote of AEA.

The Power Sales Agreement extends until the later of: 1) 50 years after commencement of commercial operation or 2) the complete retirement of bonds outstanding under the AEA Power Revenue Bond Resolution along with the satisfaction of all other payment obligations under the Power Sales Agreement. Renewal options for additional terms exist.

Establishment of Trust Funds: Article V, Section 502 of the Alaska Energy Authority's Power Revenue Bond Resolution established a Revenue Fund and an Operating Fund, including an Operating Reserve account, to be held by AEA. In actuality these funds, along with the Debt Service, Excess Investment Earnings (arbitrage), and various construction funds related to the Bradley Lake Hydroelectric Project are all held by the Corporate Trust Department of US Bank in Seattle, Washington.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
 OPERATING AND REVENUE FUNDS  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 June 30, 2002 and 2001**

**NOTE A: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All deposits, including utility contributions and interest earnings, are made into the Revenue Fund, which transfers amounts approximately equal to one-twelfth of the annual operating and maintenance budget into the Operating Fund on a monthly basis. Additional transfers are made from the Revenue Fund to the Debt Service Fund in order to satisfy semiannual interest payments and annual principal payments on the Project's outstanding bonds payable.

Interest earnings available for operations and maintenance are derived from the following funds: Debt Service Fund; Operating Reserve Fund; Operating Fund; Revenue Fund; Capital Reserve Fund; and the Renewal & Contingency Fund.

Revenue and Expense Recognition: Utility contributions are recognized as revenue when due to be received under the terms of the Power Sales Agreement. Transfers from other funds are recognized when the transfer is made and interest earnings are recognized when received. Operating and maintenance expenses are recognized when incurred, while interest and principal transfers to Debt Service Fund are recognized when paid. Purchases of fixed asset replacements are expensed when purchased.

Estimates: The preparation of the special-purpose financial statements of the Operating and Revenue Funds requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The Bradley Lake Project Management Committee is exempt from income taxation under Section 501 (a) of the Internal Revenue Code.

**NOTE B: INVESTMENTS**

Substantially all of the balances in the following funds are invested in collateralized investment agreements through the trust department of US Bank. The specified interest rate for monies from the Operating and Revenue Funds invested in the agreements is 7.38% per annum. Balances at June 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Operating Fund	\$ 698,890	\$ 326,073
Revenue Fund	<u>660,769</u>	<u>158,160</u>
Total investments	<u>\$ 1,359,659</u>	<u>\$ 484,233</u>

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2002 and 2001**

**NOTE B: INVESTMENTS (Continued)**

Investments are sold as needed to cover operating requisitions submitted to the trustee and are therefore considered to be short-term and available for sale. Investments are presented at aggregate cost, which approximates market value.

For purposes of the cash flow statements, management considers the full amount of the investment balance to be cash available for operations.

**NOTE C: MAJOR CONTRACTS AND AGREEMENTS**

During May 1994, the Alaska Energy Authority entered into the Master Maintenance and Operating agreement with the Committee. The purpose of the agreement is to establish contract administration and budgeting procedures for maintenance and operation contracts of the Bradley Lake Hydroelectric Project and to provide for the lease or other use of facilities and equipment in a manner consistent with the requirements of the Power Sales Agreement. The term of the Master Agreement is indefinite, remaining in effect until termination of the Power Sales Agreement or until AEA no longer legally exists. This agreement authorizes AEA to enter into any contracts necessary to perform operating or maintenance-type services to the Project, subject to the approval of the Committee.

On behalf of the Committee, the AEA entered into an agreement with Chugach Electric Association, Inc. (CEA) in August, 1996, for the provision of all services necessary to dispatch the Bradley Project's electric power output. The dispatch agreement runs concurrently with the wheeling and related services contract entered into by and among the parties to the Power Sales Agreement in December 1987 and remains in effect for the term of the wheeling agreement unless CEA ceases to be the output dispatcher.

In August 1996, the Alaska Energy Authority entered into an agreement with CEA on behalf of the Committee for the provision of maintenance services for the Daves Creek and Soldotna SVC Substations.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
 OPERATING AND REVENUE FUNDS  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 June 30, 2002 and 2001**

**NOTE C: MAJOR CONTRACTS AND AGREEMENTS (Continued)**

An operation and maintenance agreement dated February 11, 1994, was executed between Homer Electric Association, Inc. and the Alaska Energy Authority. This agreement provides for the operation and maintenance of the Bradley Lake Hydroelectric Project by Homer Electric Association, Inc. The agreement is through June 30, 2004 and continues from year to year thereafter, except upon written notice to terminate by either party. Notice of termination must be given one year in advance of the termination date. HEA is to be reimbursed for costs associated with the operation, maintenance and repair of the Project as determined in advance through the submission of an annual budget based upon prudent estimates and anticipated operation and maintenance costs. In August, 1996, the agreement was amended to separate the maintenance of the transmission facilities from the hydroelectric project. The transmission agreement continues from year to year, except upon written notice to terminate by either party. Notice of termination must be given six months in advance of termination dates. In June, 1999 the agreement was again amended to require HEA to provide communication services in addition to the other services.

**NOTE D: RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2002 and 2001, costs incurred under the various contracts with related parties described in Note C were as follows:

	<u>2002</u>	<u>2001</u>
Homer Electric Association, Inc. – operation, maintenance and communications	\$ 1,193,519	\$ 1,001,155
Chugach Electric Association, Inc. – substation service maintenance	\$ 17,602	\$ 42,987

For the years ended June 30, 2002 and 2001, Chugach Electric Association, Inc. provided dispatch services to the Committee at the budgeted amount which is zero.

**Independent Auditor's Report on Additional Information**

Bradley Lake Project Management Committee  
Anchorage, Alaska

Our report on our audits of the special-purpose financial statements of the Bradley Lake Project Management Committee Operating and Revenue Funds for the years ended June 30, 2002 and 2001 appears on the page preceding the balance sheets. Those audits were conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The supplemental special-purpose Statements of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

*Parisena, Stromberg & Company, APC*

Parisena, Stromberg & Company, APC  
Anchorage, Alaska  
December 11, 2002

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**STATEMENTS OF EXPENSES**  
**Years ended June 30, 2002 and 2001**

	<u>2002</u>		<u>Variance</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>	<u>2001</u>
			<u>(Unfavorable)</u>	<u>Actual</u>
Expenses:				
Generation expense:				
Operation supervision and engineering	\$ 80,300	\$ 139,794	\$ (59,494)	\$ 79,464
Hydraulic operation	10,300	8,909	1,391	3,500
Electric plant operation	433,300	222,431	210,869	196,884
Hydraulic power generation operation	229,584	269,956	(40,372)	218,187
FERC land use fees	73,000	68,078	4,922	69,278
Structure maintenance	54,804	28,160	26,644	33,652
Reservoir, dam, and waterway maintenance	5,500	5,325	175	1,879
Electric plant maintenance	400,900	363,911	36,989	356,432
Hydraulic plant maintenance	90,700	83,225	7,475	64,467
System control and load dispatching	255,946	211,130	44,816	196,426
Substation operation and maintenance	73,000	17,602	55,398	42,987
Overhead line maintenance	20,000	38,752	(18,752)	19,219
Total generation expense	<u>1,727,334</u>	<u>1,457,273</u>	<u>270,061</u>	<u>1,282,375</u>
Administrative, general and regulatory expense:				
Insurance	304,800	360,883	(56,083)	303,956
AEA administrative fee	200,000	200,000	-	200,000
PMC costs	43,000	45,738	(2,738)	42,753
Arbitrage expense	200,000	142,219	57,781	19,327
Regulatory commission:				
FERC administrative fees	93,000	136,369	(43,369)	96,324
FERC licensing	30,000	36,054	(6,054)	12,527
Total administrative, general and regulatory expense	<u>870,800</u>	<u>921,263</u>	<u>(50,463)</u>	<u>674,887</u>
Total operations and maintenance expenses	2,598,134	2,378,536	219,598	1,957,262
Capital project reimbursement	<u>609,000</u>	<u>47,200</u>	<u>561,800</u>	<u>-</u>
Total operations and maintenance expenses	<u>\$ 3,207,134</u>	<u>\$ 2,425,736</u>	<u>\$ 781,398</u>	<u>\$ 1,957,262</u>

