

Alaska Power Association
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Mr. Joe Griffith, CEO
Chugach Electric Association
P.O. Box 196300
Anchorage, Alaska 99519-6300

April 11, 2005

Dear Mr. Griffith,

This letter is to provide you and your Board of Directors an update on the status of the Alaska Power Association, Inc. financial audits for the years ended December 31, 2003 and 2002. I have attended several of your Board's recent Finance Committee and regular meetings since December 2004, at which I've provided updates on our progress in completing those audits and have also provided my less than sterling estimates of when we would complete the process.

Again I must apologize for not having completed this task by the date I had given you. However I have made substantive progress in clearing our auditor's pending items and have but a couple more items to complete. I have attached draft balance sheet and income statements for your information. I'm currently reviewing the classifications of program and other income in 2003 and 2002 and certain inter-company transactions in order to provide the last bit of information requested by our auditors, and at this point expect that if any adjustments are required, they will likely be balance sheet reclassifications, i.e. they should not have any effect on net income.

If I may, I'd like to express my appreciation for your patience in our working through this process. At the commencement of the audit, I recognized that we would have a challenge unraveling the inter-company transactions between APA and AIE, but did not think it would prove as difficult as it did nor take as long. I'd also like to reiterate to you that I recognize my responsibilities to meet deadlines and commitments, and that any deficiency in meeting those commitments is my responsibility.


I've mentioned before the changes in the general ledger accounting system we've implemented as well as some of the efforts at cost reductions we've undertaken. In addition to efforts I've previously described to you to ensure the security of APA and its affiliate organization's assets, I'd like to also mention a couple of additional areas we've

also been working on in parallel with the general ledger system work including an update to the 1991 accounting manual, a disaster recovery plan, a review of existing investment policy statements as well as implementation of a new investment policy statement for ACRE/CARE, review and digital copying of governance documents, functionally enhanced and more secure web site, and updated property insurance coverages. The purpose of pointing these efforts out to you is to try to show that we are taking a serious and systemic approach to our review of operations and addressing matters requiring attention sooner rather than later.

Because of concerns expressed by Chugach's Board regarding the issuance of our financial statements and because Chugach's participation in the activities of APA is so integral and important to the success of the Association, and because I believed at the time that we would be completing the audit in short order, I had held back billing you for 2005 active membership dues, as my intentions were to present you with the audited financial statements at the same time as your dues invoice early in the first quarter of this year. While I didn't meet my goal of presenting the audit report to you with the APA invoice, I believe that we are so close to completion of the audit and so far into the year, that it is appropriate that I present your 2005 invoice. The Association has continued to provide the same quality advocacy, training, and conferencing functions we have in prior years, and in fact 2005 will have even more training opportunities than last year. I hope that we have provided sufficient information to help you understand the processes we've undertaken to strengthen internal controls and address the results of some problems in our accounting system that we've encountered in recent years. We are working hard to ensure the Association not only provides the value the membership expects, but that the system for recording and reporting operations will be more transparent and timely than ever before.

Thank you for your support and thank you for the opportunity to address your Finance Committee today. I will be happy to answer any questions you may have. Also, please feel free to contact me at 563-2556 at any time to discuss any questions or concerns you may have regarding this or any matter. Thank you.

Respectfully,



Keith Day
CFO

Cc: Mr. Eric Yould, APA Executive Director
Mr. Brad Reeve, APA President
Ms. Meera Kohler, APA Treasurer

Alaska Power Association, Inc.
 Statements of Financial Position
 December 31, 2003 and 2002
 (Unaudited)

Assets	2003	2002
Current assets:		
Unrestricted cash, primarily interest-bearing deposits	66,440	41,133
Restricted Cash ACRE/CARE	13,236	9,706
Restricted Investments ACRE/CARE	414,499	385,037
Restricted Investments Deferred Comp Program	433,584	378,243
Accounts receivable	88,536	11,046
Employee receivable	5,813	7,161
Due from ARECA Educational Foundation (note 2)	36,506	31,202
Due from affiliate (note 2)	17,546	17,234
Accounts Receivable Allowance	(19,655)	(19,655)
Contributions Receivable	60,060	69,420
Prepaid expenses and other	17,729	38,767
Total current assets	<u>1,200,674</u>	<u>1,056,574</u>
 Property and equipment, net (note 3)	 <u>66,380</u>	 <u>87,280</u>
	<u>1,200,674</u>	<u>1,056,574</u>
 Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	138,956	40,756
Due to ARECA Insurance Exchange (note 2)	82,625	84,739
Accrued taxes payable	80,616	71,518
Other	-	825
Total current liabilities	<u>-</u>	<u>825</u>
 LT Liability - deferred compensation liability	 433,584	 378,243
Net assets - restricted	347,119	323,225
Net assets - unrestricted	117,774	157,268
	<u>1,200,674</u>	<u>1,056,574</u>
	<u>1,200,674</u>	<u>1,056,574</u>

Alaska Power Association, Inc
 Statements of Activity
 Years Ended December 31, 2003 and 2002
 (Unaudited)

	<u>2003</u>		<u>2002</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
Revenues:				
Membership dues	499,624		469,254	
Program service fees and revenues (note 2)	517,831		415,775	
Interest income	118		5,932	
Other	(22)		126,987	
CARE investment income (loss)	-	29,463	-	3,710
CARE donations received	-	8,080	-	4,268
Total revenues	<u>1,017,551</u>		<u>1,017,947</u>	
Expenses (note 2):				
General and administrative	344,105	-	438,511	
Government relations	170,272	-	146,204	
Communications	201,620	-	189,469	
Safety program	341,048	-	338,621	
CARE distributions and expense	-	13,648	-	34,310
Total expenses	<u>1,057,045</u>	<u>13,648</u>	<u>-</u>	<u>34,310</u>
Prior Period Adjustments				349,557
Change in net assets	(39,495)	23,895	(94,858)	323,225
Net assets at beginning of year	<u>157,268</u>	<u>323,225</u>	<u>252,126</u>	
Net assets at end of year	<u>117,774</u>	<u>347,119</u>	<u>157,268</u>	<u>323,225</u>