

**AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

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

**JUNE 30, 2001 AND 2000**

*Parisena, Stromberg & Company*  
**A Professional Corporation**

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OPERATING AND REVENUE FUNDS**

**Anchorage, Alaska**

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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, 2001 and 2000, 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 audits 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 the, 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, 2001 and 2000 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 12, 2001

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
 OPERATING AND REVENUE FUNDS  
 BALANCE SHEETS  
 June 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
Current assets:		
Investments (Note B)	\$ 484,233	\$ 1,155,495
Accounts receivable	<u>650</u>	<u>-</u>
Total assets	<u>\$ 484,883</u>	<u>\$ 1,155,495</u>
 <b>LIABILITIES AND SURPLUS</b>		
Current liabilities:		
Due to AIDEA	\$ 19,460	\$ 492,419
Accounts payable	<u>445,249</u>	<u>426,191</u>
Total liabilities	<u>464,709</u>	<u>918,610</u>
Surplus	<u>20,174</u>	<u>236,885</u>
Total liabilities and surplus	<u>\$ 484,883</u>	<u>\$ 1,155,495</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, 2001 and 2000**

	2001			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2000 Actual</u>
Revenue:				
Utility contributions	\$ 12,488,023	\$ 12,488,023	\$ -	\$ 11,813,741
Interest receipts	1,744,000	1,759,898	15,898	1,801,425
Excess from bond proceeds	-	130,207	130,207	37,008
Other miscellaneous	-	2,139	2,139	-
Total revenue	14,232,023	14,380,267	148,244	13,652,174
Expenses, fixed asset replacements and debt service:				
Operations and maintenance	1,917,784	1,957,262	(39,478)	1,921,143
Debt service	12,273,200	12,639,716	(366,516)	11,779,859
Bond refunding costs (reimbursement) (Note E)	-	-	-	(10,836)
Nonrecurring items (Note F)	-	-	-	499,375
Total expenses, fixed asset replacements and debt service	14,190,984	14,596,978	(405,994)	14,189,541
Excess (deficiency) of revenue over expenses, fixed asset replacements and debt service	41,039	(216,711)	\$ (257,750)	(537,367)
Surplus, beginning of year	(41,039)	236,885		774,252
Surplus, end of year	\$ -	\$ 20,174		\$ 236,885

**See accompanying notes to the financial statements.**

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses, fixed asset replacements and debt service	\$ (216,711)	\$ (537,367)
Adjustments to reconcile excess of revenue over expenses, fixed asset replacements and debt service to net cash provided by operating activities:		
Increase in accounts receivable	(650)	-
Increase in accounts payable	19,058	91,247
Increase (decrease) in amounts due to AIDEA	<u>(472,959)</u>	<u>366,308</u>
Net cash used in operating activities	(671,262)	(79,812)
Available cash and cash equivalents, beginning of year	<u>1,155,495</u>	<u>1,235,307</u>
Available cash and cash equivalents, end of year	<u>\$ 484,233</u>	<u>\$ 1,155,495</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 8,044,716</u>	<u>\$ 7,639,859</u>

**See accompanying notes to the financial statements.**

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001 and 2000**

**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, 2001 and 2000**

**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, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Operating Fund	\$ 326,073	\$ 997,420
Revenue Fund	<u>158,160</u>	<u>158,075</u>
Total investments	<u>\$ 484,233</u>	<u>\$ 1,155,495</u>

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2001 and 2000**

**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, 2001 and 2000**

**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, 2001 and 2000, costs incurred under the various contracts with related parties described in Note C were as follows:

	<u>2001</u>	<u>2000</u>
Homer Electric Association, Inc. – operation, maintenance and communications	\$ 1,001,155	\$ 1,207,068
Chugach Electric Association, Inc. – substation service maintenance	\$ 42,987	\$ 103,526

For the years ended June 30, 2001 and 2000, Chugach Electric Association, Inc. provided dispatch services to the Committee at the budgeted amount which is zero.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE  
OPERATING AND REVENUE FUNDS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2001 and 2000**

**NOTE E: COMMITMENTS AND CONTINGENCIES**

Forward Delivery Bond Purchase Agreement: In December, 1997, the Bradley Lake Project Management Committee entered into a forward delivery bond purchase agreement providing for the issuance of two series of Power Revenue Refunding Bonds in April of 1999 and 2000. The costs associated with the refunding were expensed in the year ended June 30, 1998 and repaid by funds provided by the bonds during the years ended June 30, 1999 and 2000.

**NOTE F: NONRECURRING ITEMS**

During the year ended June 30, 2000, Bradley Lake required fire repairs at a total cost of \$265,326. There was also storm damage to a dike during the year ended June 30, 2000 that resulted in repair costs totaling \$234,049. The insurance deductible for these events was \$50,000 for equipment and \$2,000,000 for cleanup so there was no recovery of costs.

**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, 2001 and 2000 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 12, 2001

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**STATEMENTS OF EXPENSES**  
**Years ended June 30, 2001 and 2000**

	<u>2001</u>		<b>Variance</b>	<b>2000</b>
	<u>Budget</u>	<u>Actual</u>	<b>Favorable</b>	<b>Actual</b>
			<b>(Unfavorable)</b>	
Expenses:				
Generation expense:				
Operation supervision and engineering	\$ 78,500	\$ 79,464	\$ (964)	\$ 77,372
Hydraulic operation	10,000	3,500	6,500	3,500
Electric plant operation	135,000	196,884	(61,884)	132,711
Hydraulic power generation operation	228,184	218,187	9,997	381,069
FERC land use fees	75,000	69,278	5,722	69,933
Structure maintenance	25,500	33,652	(8,152)	17,209
Reservoir, dam, and waterway maintenance	5,000	1,879	3,121	235,852
Electric plant maintenance	254,000	356,432	(102,432)	472,567
Hydraulic plant maintenance	92,000	64,467	27,533	67,580
System control and load dispatching	209,900	196,426	13,474	189,301
Substation operation and maintenance	47,000	42,987	4,013	103,526
Overhead line maintenance	<u>20,000</u>	<u>19,219</u>	<u>781</u>	<u>14,670</u>
Total generation expense	<u>1,180,084</u>	<u>1,282,375</u>	<u>(102,291)</u>	<u>1,765,290</u>
Administrative, general and regulatory expense:				
Insurance	303,900	303,956	(56)	298,367
AEA administrative fee	200,000	200,000	-	200,000
PMC costs	60,300	42,753	17,547	40,115
Arbitrage expense	30,000	19,327	10,673	20,600
Regulatory commission:				
FERC administrative fees	115,000	96,324	18,676	83,859
FERC licensing	<u>28,500</u>	<u>12,527</u>	<u>15,973</u>	<u>12,287</u>
Total administrative, general and regulatory expense	<u>737,700</u>	<u>674,887</u>	<u>62,813</u>	<u>655,228</u>
Total operations and maintenance expenses	1,917,784	1,957,262	(39,478)	2,420,518
Less nonrecurring expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(499,375)</u>
Total operations and maintenance expenses less nonrecurring expenses	<u>\$ 1,917,784</u>	<u>\$ 1,957,262</u>	<u>\$ (39,478)</u>	<u>\$ 1,921,143</u>