

**Financial Statements
and
Other Financial Information**

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

**Years ended June 30, 2014 and 2013
(With Independent Auditor's Report)**

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

Financial Statements and Other Financial Information

Years ended June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Bradley Lake Project Management Committee
Anchorage, Alaska

We have audited the accompanying special-purpose financial statements of the Bradley Lake Project Management Committee (a project management committee) Operating and Revenue Funds, which comprise the special-purpose statements of assets and liabilities as of June 30, 2014 and 2013, and the related special-purpose statements of revenues and expenses and special-purpose statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Bradley Lake Project Management Committee is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the accounting requirements of the Operating and Revenue Funds established under the Alaska Energy Authority Power Revenue Bond Resolution as described in Note A. The Bradley Lake Project Management Committee is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these special-purpose 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 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 auditor's 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 special-purpose financial statements referred to above present fairly, in all material respects, the assets and liabilities of the Bradley Lake Project Management Committee Operating and Revenue Funds as of June 30, 2014 and 2013, and the revenues and expenses, and cash flows for the years then ended, on the basis of accounting described in Note A.

Basis of Accounting.

We draw attention to Note A of the special-purpose financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the accounting requirements of the Operating and Revenue Funds established under the Alaska Energy Authority Power Revenue Bond resolution, as discussed in Note A, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with accounting requirements of the bond resolution referred to above. Our opinion is not modified with respect to that matter.

Restriction on Use

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.

Swalling & Associates, P.C.

Anchorage, Alaska
December 11, 2014

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Investments (Note B)	\$ 2,277,717	\$ 1,466,992
Due from R & C Fund (Note A)	279,247	767,078
Other receivable (Note A)	25,865	2,150
Prepaid expense	<u>6,205</u>	<u>5,640</u>
Total assets	<u>\$ 2,589,034</u>	<u>\$ 2,241,860</u>
 LIABILITIES		
Current liabilities:		
Due to AEA (Note D)	\$ 91,502	\$ 305,117
Accounts payable	1,083,899	905,331
Payable to utilities – O & M (Note E)	1,134,386	264,334
Payable to utilities – R & C refund (Note A)	<u>279,247</u>	<u>767,078</u>
Total liabilities	<u>\$ 2,589,034</u>	<u>\$ 2,241,860</u>

See accompanying notes to the financial statements.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
STATEMENTS OF REVENUES AND EXPENSES
Years ended June 30, 2014 and 2013

	2014			
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>2013 Actual</u>
Revenues:				
Utility contributions, net of surplus refund	\$ 16,855,124	\$ 16,260,994	\$ (594,130)	\$ 16,176,157
Interest receipts	2,217,900	1,879,404	(338,496)	1,936,516
State Renewable Energy	<u> -</u>	<u> -</u>	<u> -</u>	<u> 477,363</u>
Total revenue	19,073,024	18,140,398	(932,626)	18,590,036
Expenses, fixed asset replacements, transfers and debt service:				
Operations and maintenance	6,156,744	5,505,175	651,569	5,070,732
Debt service	12,104,950	12,104,950	-	12,107,950
Arbitrage transfer	290,000	292,694	(2,694)	296,812
Fixed asset replacements	475,500	193,549	281,951	554,627
Battle Creek – State	-	-	-	477,363
Interfund transfer	<u> 45,830</u>	<u> 44,030</u>	<u> 1,800</u>	<u> 82,552</u>
Total expenses, fixed asset replacements, transfers and debt service	<u>19,073,024</u>	<u>18,140,398</u>	<u> 932,626</u>	<u>18,590,036</u>
Excess of revenues over expenses, fixed asset replacements, transfers and debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Excess of revenues over expenses, fixed asset replacements, transfers and debt service	\$ -	\$ -
Adjustments to reconcile excess of revenues over expenses, fixed asset replacements, transfers and debt service to net cash provided by (used in) operating activities:		
Decrease in receivables	464,116	4,670
Increase in prepaid expense	(565)	-
Decrease in amounts due to AEA	(213,615)	(84,689)
Increase (decrease) in accounts payable	178,568	(2,732)
Increase (decrease) in payable to utilities	870,052	(530,404)
Decrease in R & C refund	<u>(487,831)</u>	<u>(6,820)</u>
Net cash provided by (used in) operating activities	810,725	(619,975)
Available cash and cash equivalents, beginning of year	<u>1,466,992</u>	<u>2,086,967</u>
Available cash and cash equivalents, end of year	<u>\$ 2,277,717</u>	<u>\$ 1,466,992</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 4,588,950</u>	<u>\$ 5,014,350</u>

See accompanying notes to the financial statements.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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). AEG&T assigned its rights pertaining to Homer Electric Association, Inc. (HEA) under the Power Sales Agreement to Alaska Electric and Energy Cooperative, Inc. (AE&EC) in 2003. 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 and AE&EC have 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.

During the years ended June 30, 2014 and 2013, approximately \$570,000 and \$2,500,000, respectively, of capital additions occurred relating to the Battle Creek Diversion project to enhance the Bradley Lake Hydroelectric Project. The funding for this project comes from State appropriations and the Bradley Lake R & C Fund. This project will divert the upper part of Battle Creek into Bradley Lake and the increase in water will enable the Project to produce an additional annual average of 37,000 MW-hrs. (nearly a 10% increase in Bradley Lake's annual energy). Diversion engineering is in final design and various environmental studies are ongoing. An amendment to the Bradley Lake Hydroelectric Project Federal Energy Regulatory Commission license is expected in 2015 with construction completed in the fall of 2017.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE A: SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

All deposits, including utility contributions and interest transferred from other funds, 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 when the fund balance is \$5,000,000 or greater.

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 transfers to Debt Service Fund and Excess Earnings Funds are recognized when the transfer is made. Purchases of fixed asset replacements are expensed when purchased. The Operating Fund reimburses the Renewal and Contingency Reserve Fund (R & C Fund) for capital costs over a four year period. Transfers to the R & C Fund for repayment of funds withdrawn for capital costs occur monthly based on the budgeted R & C expenditures. At year end the actual Operating Fund and R & C Fund expenses are compared to the actual revenue and a refund is given to the utilities when a surplus of revenues occurs or invoices are issued to the utilities if expenses exceed revenues. At June 30, 2014, the R & C Fund surplus to be refunded was \$279,247, resulting in a net balance due to the R & C Fund of \$1,984,283. The net balance due to the R & C Fund at June 30, 2013 was \$372,249.

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.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013**

NOTE A: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Bradley Lake Project Management Committee is exempt from income taxation under Section 501 (a) of the Internal Revenue Code. Therefore, the Committee had no deferred tax liabilities or assets or tax carryforwards as of June 30, 2014 and 2013 and no current or deferred tax expense for the years then ended.

NOTE B: INVESTMENTS

Substantially all of the balances in the following funds are invested in collateralized investment agreements with JP Morgan Chase Bank 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Operating Fund	\$ 1,599,575	\$ 1,310,642
Revenue Fund	<u>678,142</u>	<u>156,350</u>
Total investments	<u>\$ 2,277,717</u>	<u>\$ 1,466,992</u>

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.

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

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

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 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.

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, as amended effective July 1, 2008, is through June 30, 2013 and automatically continues in successive five year terms thereafter unless terminated by either party as set forth in the amended agreement. Generally, to avoid an automatic, successive five year term extension, notice of termination by either party must be given two years 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 transmission agreement was again amended to require HEA to provide communication services in addition to the other services.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013**

NOTE D: RELATED PARTY TRANSACTIONS

During the years ended June 30, 2014 and 2013, costs incurred under the various contracts with related parties described in Note C were as follows:

	<u>2014</u>	<u>2013</u>
Homer Electric Association, Inc. – operation, maintenance, communications and fixed asset replacements	\$ 2,719,792	\$ 2,627,680
Chugach Electric Association, Inc. – substation service maintenance	\$ 344,042	\$ 316,805
Alaska Energy Authority – administrative fees	\$ 200,000	\$ 200,000

For the years ended June 30, 2014 and 2013, Chugach Electric Association, Inc. provided dispatch services to the Committee at the agreed upon amount which is zero.

Amounts payable to related parties at June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Included in accounts payable:		
Homer Electric Association, Inc.	\$ 609,243	\$ 499,683
Chugach Electric Association, Inc.	\$ 213,204	\$ 16,281
Due to others:		
Alaska Energy Authority – short-term borrowings for vendor payments	\$ 91,502	\$ 305,117

NOTE E: SURPLUS REFUND AND UTILITY CONTRIBUTIONS RECEIVABLE

The \$264,334 surplus at June 30, 2013 was refunded to member utilities in fiscal year 2014 pursuant to the Power Sales Agreement and direction of the Committee.

At June 30, 2014, a surplus of \$1,134,386 will be refunded to member utilities in fiscal year 2015 pursuant to the Power Sales Agreement and direction of the Committee.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE F: RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with presentation in the current year financial statements.

NOTE G: SUBSEQUENT EVENTS

The Committee has evaluated subsequent events through December 11, 2014, the date the financial statements were available to be issued, and did not identify anything requiring additional disclosure.

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Bradley Lake Project Management Committee
Anchorage, Alaska

We have audited the special-purpose financial statements of the Bradley Lake Project Management Committee Operating and Revenue Funds as of and for the years ended June 30, 2014 and 2013, and our report thereon dated December 11, 2014, which expressed an unmodified opinion on those special-purpose financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the special-purpose financial statements 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 special-purpose financial statements. Such information is the responsibility of the Bradley Lake Project Management Committee and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

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.

Swalling & Associates, P.C.

Anchorage, Alaska
December 11, 2014

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
STATEMENTS OF EXPENSES
Years ended June 30, 2014 and 2013

	<u>2014</u>		Variance	2013
	<u>Budget</u>	<u>Actual</u>	Favorable	Actual
			(Unfavorable)	
Expenses:				
Generation expense:				
Operation supervision and engineering	\$ 291,804	\$ 288,827	\$ 2,977	\$ 247,827
Hydraulic operation	113,512	86,691	26,821	82,269
Electric plant operation	324,401	273,191	51,210	283,620
Hydraulic power generation operation	631,124	421,572	209,552	347,507
FERC land use fees	175,000	179,565	(4,565)	132,158
Structure maintenance	354,283	307,418	46,865	345,860
Reservoir, dam, and waterway maintenance	78,409	22,289	56,120	139,872
Electric plant maintenance	426,894	342,659	84,235	330,064
Hydraulic plant maintenance	168,081	134,596	33,485	196,120
System control and load dispatching	439,254	346,819	92,435	355,710
Substation operation and maintenance	161,274	344,042	(182,768)	316,905
Overhead line maintenance	<u>563,697</u>	<u>191,080</u>	<u>372,617</u>	<u>26,562</u>
Total generation expense	<u>3,727,733</u>	<u>2,938,749</u>	<u>788,984</u>	<u>2,804,474</u>
Administrative, general and regulatory expense:				
Insurance	572,237	519,471	52,766	535,894
AEA administrative fee	200,000	200,000	-	200,000
PMC costs	57,700	98,449	(40,749)	50,931
Regulatory commission:				
FERC administrative fees	200,000	204,998	(4,998)	257,840
FERC licensing and study	<u>71,000</u>	<u>181,272</u>	<u>(110,272)</u>	<u>79,438</u>
Total administrative, general and regulatory expense	<u>1,100,937</u>	<u>1,204,190</u>	<u>(103,253)</u>	<u>1,124,103</u>
Total operations and maintenance expenses, before capital project reimbursement	4,828,670	4,142,939	685,731	3,928,577
R & C Fund repayment	<u>1,328,074</u>	<u>1,362,236</u>	<u>(34,162)</u>	<u>1,142,155</u>
Total operations and maintenance expenses	<u>\$ 6,156,744</u>	<u>\$ 5,505,175</u>	<u>\$ 651,569</u>	<u>\$ 5,070,732</u>