

**Audited Financial Statements
and
Other Financial Information**

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

Years ended June 30, 2012 and 2011

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
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Financial Statements and Other Financial Information

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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 (a project management committee) Operating and Revenue Funds as of June 30, 2012 and 2011, and the related special-purpose statements of revenues and expenses, and special-purpose statements 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 accounting requirements specified 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, 2012 and 2011, and its revenue and expenses 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.

Swalling & Associates, P.C.

December 10, 2012

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
BALANCE SHEETS
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Investments (Note B)	\$ 2,086,967	\$ 3,169,225
Due from R & C Fund (Note A)	773,898	-
Other receivable (Note A)	-	190,270
Prepaid expense	<u>5,640</u>	<u>5,640</u>
 Total assets	 <u>\$ 2,866,505</u>	 <u>\$ 3,365,135</u>
 LIABILITIES AND SURPLUS		
Current liabilities:		
Due to AEA (Note D)	\$ 389,806	\$ 710,685
Accounts payable	908,063	743,177
Payable to utilities – O & M (Note E)	794,738	1,373,372
Payable to utilities – R & C refund (Note A)	773,898	-
R & C repayment (Note A)	<u>-</u>	<u>537,901</u>
 Total liabilities	 <u>\$ 2,866,505</u>	 <u>\$ 3,365,135</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, 2012 and 2011

	2012		Variance	2011
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u>
Revenues:				
Utility contributions, net of surplus refund	\$ 16,203,578	\$ 15,408,840	\$ (794,738)	\$ 15,814,310
Interest receipts	1,742,935	1,959,302	216,367	1,905,127
State renewable energy	500,000	22,637	(477,363)	-
Total revenue	18,446,513	17,390,779	(1,055,734)	17,719,437
Expenses, fixed asset replacements, transfers and debt service:				
Operations and maintenance	5,318,263	4,733,201	585,062	4,976,939
Debt service	12,100,750	12,100,750	-	12,105,450
Arbitrage transfer	230,000	196,112	33,888	229,976
Fixed asset replacements	361,000	401,579	(40,579)	309,822
Battle Creek – state	500,000	22,637	477,363	-
Interfund transfer	(63,500)	(63,500)	-	97,250
Total expenses, fixed asset replacements, transfers and debt service	18,446,513	17,390,779	1,055,734	17,719,437
Excess of revenues over expenses, fixed asset replacements, transfers and debt service	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</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:		
Increase in accounts receivable	(583,628)	(190,270)
Increase (decrease) in accounts payable	164,886	(671,743)
(Decrease) increase in amounts due to other funds	(320,879)	710,685
Increase in payable to utilities	195,264	1,092,378
Decrease in R & C repayment	<u>(537,901)</u>	<u>(894,645)</u>
Net cash (used in) provided by operating activities	(1,082,258)	46,405
Available cash and cash equivalents, beginning of year	<u>3,169,225</u>	<u>3,122,820</u>
Available cash and cash equivalents, end of year	<u>\$ 2,086,967</u>	<u>\$ 3,169,225</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 5,415,600</u>	<u>\$ 5,944,722</u>

See accompanying notes to the financial statements.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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.

As of June 30, 2012, AEA had incurred slightly more than \$1.0 million in expenses relating to the Battle Creek diversion project. Funding for this project comes from state appropriations and the Bradley Lake Project Renewal and Contingency Reserve Fund (R & C Fund). The project would divert water from the upper part of Battle Creek into Bradley Lake. Completion of the diversion project is expected to increase the amount of energy the Bradley Lake Hydroelectric Project produces annually by an average of 36,000 MW-hours, or nearly a ten percent increase in energy production. The diversion project's engineering is in final design, and various environmental studies are ongoing. Construction of the diversion project will require that the Federal Energy Regulatory Commission (FERC) first approve and amend the Bradley Lake Hydroelectric Project's FERC license. Amendment of the FERC license is expected in 2013.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

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. At the end of June 2010 an additional transfer of \$131,922 was made to the Debt Service Fund for July 2010 interest on Series 5 Bonds defeased in early August 2010 with proceeds of Series 6 Bonds issued in early July 2010. The transfer was made per a Committee approved budget amendment. 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. In years prior to the year ended June 30, 2012, transfers to the R & C Fund were made annually based on funds withdrawn for capital costs equal to the cumulative total of one-fourth of the amount of expenditure incurred each year. Beginning in the year ended June 30, 2012, 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, 2012, the surplus to be refunded was \$773,898 resulting in a net balance due to the R & C Fund of \$328,496. At June 30, 2011, the balance due to the R & C Fund was \$1,127,757.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE A: SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In fiscal year 2009, the Federal Energy Regulatory Commission (FERC) land use fee increased significantly due to a new methodology for estimating the fee. The increased 2009 fee of \$378,141 was paid to FERC and the Committee participated in litigation to dispute this new methodology. In fiscal year 2010, \$380,000 was accrued for the fee, but was not paid pending an outcome of the litigation. During fiscal year 2011, the dispute was settled and the new land use fee methodology was discontinued. The fees for fiscal years 2009, 2010 and 2011 were estimated to be the same amount billed prior to the new methodology resulting in a refund receivable of \$190,270 at June 30, 2011 that was received in September, 2011. Additional information regarding the refund of FERC fees is contained in footnote E, Surplus Refund.

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, 2012 and 2011 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Operating Fund	\$ 1,176,629	\$ 944,100
Revenue Fund	<u>910,338</u>	<u>2,225,125</u>
Total investments	<u>\$ 2,086,967</u>	<u>\$ 3,169,225</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.

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE B: INVESTMENTS (Continued)

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 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.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE C: MAJOR CONTRACTS AND AGREEMENTS (Continued)

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.

NOTE D: RELATED PARTY TRANSACTIONS

During the years ended June 30, 2012 and 2011, costs incurred under the various contracts with related parties described in Note C were as follows:

	<u>2012</u>	<u>2011</u>
Homer Electric Association, Inc. – operation, maintenance, communications and fixed asset replacements	\$ 2,480,366	\$ 2,406,762
Chugach Electric Association, Inc. – substation service maintenance	\$ 126,578	\$ 361,591
Alaska Energy Authority – administrative fees	\$ 200,000	\$ 200,000

For the years ended June 30, 2012 and 2011, 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, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Included in accounts payable:		
Homer Electric Association, Inc.	\$ 589,952	\$ 375,194
Chugach Electric Association, Inc.	\$ 1,586	\$ 5,514
Due to others:		
Alaska Energy Authority – short-term borrowings for vendor payments	\$ 389,806	\$ 710,685

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE E: SURPLUS REFUND AND UTILITY CONTRIBUTIONS RECEIVABLE

The \$1,183,102 surplus at June 30, 2011 was refunded to member utilities in fiscal year 2012 pursuant to the Power Sales Agreement and direction of the Committee.

During fiscal year 2011, the Committee approved a fiscal year 2011 budget amendment and refund to the utilities of \$360,000 as a result of increased interest earnings, reduction of the FERC land use fee, and net of an increase of expenses to the Daves Creek SVC Cooling System repair. An additional refund of \$442,623 was paid during fiscal year 2011 and a refund of \$190,270 was payable at June 30, 2011 for overcharges of FERC land use fees in prior years.

The \$794,738 surplus at June 30, 2012 will be refunded to member utilities in fiscal year 2013 pursuant to the Power Sales Agreement and direction of the Committee.

NOTE F: SUBSEQUENT EVENTS

The Committee has evaluated subsequent events through December 10, 2012, 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, 2012 and 2011 and our report thereon dated December 10, 2012, which expressed an unqualified opinion on those special-purpose financial statements, 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 special-purpose financial statements. Such information is the responsibility of management 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 taken 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.

December 10, 2012

BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE
OPERATING AND REVENUE FUNDS
STATEMENTS OF EXPENSES
Years ended June 30, 2012 and 2011

	<u>2012</u>		Variance Favorable (Unfavorable)	2011 Actual
	<u>Budget</u>	<u>Actual</u>		
Expenses:				
Generation expense:				
Operation supervision and engineering	\$ 262,888	\$ 260,557	\$ 2,331	\$ 226,863
Hydraulic operation	111,118	76,032	35,086	88,703
Electric plant operation	208,194	199,474	8,720	180,216
Hydraulic power generation operation	576,395	328,990	247,405	434,727
FERC land use fees	62,623	62,623	-	62,623
Structure maintenance	291,307	345,862	(54,555)	266,257
Reservoir, dam, and waterway maintenance	114,688	38,193	76,495	198,343
Electric plant maintenance	398,205	309,307	88,898	242,543
Hydraulic plant maintenance	158,761	154,124	4,637	104,058
System control and load dispatching	387,112	341,247	45,865	501,615
Substation operation and maintenance	120,000	126,578	(6,578)	361,591
Overhead line maintenance	<u>317,708</u>	<u>233,130</u>	<u>84,578</u>	<u>289,202</u>
Total generation expense	<u>3,008,999</u>	<u>2,476,117</u>	<u>532,882</u>	<u>2,956,741</u>
Administrative, general and regulatory expense:				
Insurance	617,090	535,825	81,265	563,516
AEA administrative fee	200,000	200,000	-	200,000
PMC costs	65,600	49,262	16,338	79,157
Regulatory commission:				
FERC administrative fees	232,500	208,552	23,948	291,640
FERC licensing and study	<u>71,000</u>	<u>70,540</u>	<u>460</u>	<u>82,960</u>
Total administrative, general and regulatory expense	<u>1,186,190</u>	<u>1,064,179</u>	<u>122,011</u>	<u>1,217,273</u>
Total operations and maintenance expenses, before capital project reimbursement	4,195,189	3,540,296	654,893	4,174,014
R & C Fund repayment	<u>1,123,074</u>	<u>1,192,905</u>	<u>(69,831)</u>	<u>802,925</u>
Total operations and maintenance expenses	<u>\$ 5,318,263</u>	<u>\$ 4,733,201</u>	<u>\$ 585,062</u>	<u>\$ 4,976,939</u>