

**Audited Financial Statements  
and  
Other Financial Information**

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

**Years ended June 30, 2009 and 2008**

**SWALLING & ASSOCIATES**  
**Certified Public Accountants & Business Advisers**

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

**Financial Statements and Other Financial Information**

**Years ended June 30, 2009 and 2008**

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**REPORT OF INDEPENDENT AUDITOR**

Bradley Lake Project Management Committee  
Anchorage, Alaska

We have audited the accompanying special-purpose balance sheet of the Bradley Lake Project Management Committee (a project management committee) Operating and Revenue Funds as of June 30, 2009, and the related special-purpose statements of revenues and expenses, and of cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2009, and its revenue and expenses and its cash flows for the year 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 14, 2009

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**BALANCE SHEETS**  
**June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets:		
Investments (Note B)	\$ 2,412,592	\$ 2,299,171
Other receivable	68,204	15,074
Prepaid expense	<u>6,200</u>	<u>9,132</u>
Total assets	<u>\$ 2,486,996</u>	<u>\$ 2,323,377</u>
 <b>LIABILITIES AND SURPLUS</b>		
Current liabilities:		
Due to other funds (Note D)	\$ 79,892	\$ 4,645
Accounts payable	820,899	256,108
Payable to utilities (Note E)	284,745	740,267
R & C repayment (Note A)	<u>1,301,460</u>	<u>1,322,357</u>
Total liabilities	<u>\$ 2,486,996</u>	<u>\$ 2,323,377</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, 2009 and 2008**

	<b>2009</b>		<b>Variance</b>	
	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Favorable</u></b>	<b>2008</b>
			<b><u>(Unfavorable)</u></b>	<b><u>Actual</u></b>
Revenues:				
Utility contributions, net of surplus refund	\$ 16,881,542	\$ 16,596,797	\$ (284,745)	\$ 15,649,321
Interest receipts	1,559,024	1,717,305	158,281	1,776,915
Other miscellaneous	-	1,000	1,000	-
Total revenue	18,440,566	18,315,102	(125,464)	17,426,236
Expenses, fixed asset replacements, transfers and debt service:				
Operations and maintenance	5,671,616	5,549,003	122,613	4,716,639
Debt service	12,268,950	12,268,950	-	12,269,850
Arbitrage transfer	275,000	325,576	(50,576)	274,959
Fixed asset replacements	220,000	166,573	53,427	116,788
Interfund transfer	5,000	5,000	-	48,000
Total expenses, fixed asset replacements, transfers and debt service	18,440,566	18,315,102	125,464	17,426,236
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, 2009 and 2008**

	<u>2009</u>	<u>2008</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	(53,130)	(15,074)
Decrease in prepaid expense	2,932	8,797
Increase (decrease) in accounts payable	564,791	(387,400)
Increase in amounts due to other funds	75,247	4,645
(Decrease) increase in payable to utilities	(455,522)	459,977
Decrease in R & C repayment	<u>(20,897)</u>	<u>(125,015)</u>
Net cash provided by (used in) operating activities	113,421	(54,070)
Available cash and cash equivalents, beginning of year	<u>2,299,171</u>	<u>2,353,241</u>
Available cash and cash equivalents, end of year	<u>\$ 2,412,592</u>	<u>\$ 2,299,171</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 6,344,400</u>	<u>\$ 6,456,900</u>

*See accompanying notes to the financial statements.*

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**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.

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, 2009 and 2008**

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

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 are equal to the cumulative total of one-fourth of the amount of expenditure incurred each year. The balance due to the R & C Fund at June 30, 2009 and 2008 is \$2,668,930 and \$3,918,194, respectively

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.



**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Operating Fund	\$ 445,820	\$ 447,323
Revenue Fund	<u>1,966,772</u>	<u>1,851,848</u>
Total investments	<u>\$ 2,412,592</u>	<u>\$ 2,299,171</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.

**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.

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

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

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.

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, 2009 and 2008**

**NOTE D: RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2009 and 2008, costs incurred under the various contracts with related parties described in Note C were as follows:

	<u>2009</u>	<u>2008</u>
Homer Electric Association, Inc. – operation, maintenance and communications	\$ 2,163,079	\$ 1,860,241
Chugach Electric Association, Inc. – substation service maintenance	\$ 229,627	\$ 74,517
Alaska Energy Authority – administrative fees	\$ 200,000	\$ 200,000

For the years ended June 30, 2009 and 2008, 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, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Included in accounts payable:		
Homer Electric Association, Inc.	\$ 445,032	\$ 137,106
Chugach Electric Association, Inc.	\$ 25,649	\$ 4,361
Due to other funds:		
Alaska Energy Authority – short-term borrowings for vendor payments	\$ 79,892	\$ 4,645

**NOTE E: SURPLUS REFUND AND UTILITY CONTRIBUTIONS RECEIVABLE**

The \$740,267 surplus at June 30, 2008 was refunded to the member utilities in fiscal year 2009 pursuant to the Power Sales Agreement and direction of the Committee.

The \$284,745 surplus at June 30, 2009 will be refunded to member utilities in fiscal year 2010 pursuant to the Power Sales Agreement and direction of the Committee.

**REPORT OF INDEPENDENT AUDITOR ON ADDITIONAL INFORMATION**

Bradley Lake Project Management Committee  
Anchorage, Alaska

Our report on our audit of the special-purpose financial statements of the Bradley Lake Project Management Committee Operating and Revenue Funds for the year ended June 30, 2009 appears on the page preceding the balance sheets. That audit was 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 audit 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.

*Swalling & Associates, P.C.*

December 14, 2009

**BRADLEY LAKE PROJECT MANAGEMENT COMMITTEE**  
**OPERATING AND REVENUE FUNDS**  
**STATEMENTS OF EXPENSES**  
**Years ended June 30, 2009 and 2008**

	<u>2009</u>		<b>Variance</b>	
	<u>Budget</u>	<u>Actual</u>	<b>Favorable</b>	<b>2008</b>
			<b>(Unfavorable)</b>	<b>Actual</b>
Expenses:				
Generation expense:				
Operation supervision and engineering	\$ 226,274	\$ 187,036	\$ 39,238	\$ 196,966
Hydraulic operation	71,159	47,347	23,812	73,827
Electric plant operation	191,122	247,189	(56,067)	184,265
Hydraulic power generation operation	382,016	445,827	(63,811)	458,692
FERC land use fees	65,000	378,141	(313,141)	62,623
Structure maintenance	201,092	194,087	7,005	158,625
Reservoir, dam, and waterway maintenance	59,023	160,743	(101,720)	6,773
Electric plant maintenance	325,004	450,647	(125,643)	349,854
Hydraulic plant maintenance	178,019	73,196	104,823	104,343
System control and load dispatching	321,735	331,892	(10,157)	304,038
Substation operation and maintenance	70,500	229,627	(159,127)	74,517
Overhead line maintenance	<u>349,435</u>	<u>253,162</u>	<u>96,273</u>	<u>241,177</u>
Total generation expense	<u>2,440,379</u>	<u>2,998,894</u>	<u>(558,515)</u>	<u>2,215,700</u>
Administrative, general and regulatory expense:				
Insurance	642,269	596,196	46,073	545,266
AEA administrative fee	200,000	200,000	-	200,000
PMC costs	59,500	61,197	(1,697)	55,299
Regulatory commission:				
FERC administrative fees	200,000	184,249	15,751	208,732
FERC licensing and study	<u>155,000</u>	<u>82,574</u>	<u>72,426</u>	<u>35,269</u>
Total administrative, general and regulatory expense	<u>1,256,769</u>	<u>1,124,216</u>	<u>132,553</u>	<u>1,044,566</u>
Total operations and maintenance expenses, before capital project reimbursement	3,697,148	4,123,110	(425,962)	3,260,266
R & C Fund repayment	<u>1,974,468</u>	<u>1,425,893</u>	<u>548,575</u>	<u>1,456,373</u>
Total operations and maintenance expenses	<u>\$ 5,671,616</u>	<u>\$ 5,549,003</u>	<u>\$ 122,613</u>	<u>\$ 4,716,639</u>