KPMG

ER-FC--98-02

# ALASKA POWER ADMINISTRATION

Combined Financial Statements,
Schedules, and Supplemental Reports

September 30, 1997 and 1996

With Independent Auditors' Report Thereon

MASTER

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# memorandum

DATE: MAR 2 5 1998

REPLY TO
ATTN OF: IG-30

SUBJECT: Alaska Power Administration's Fiscal Year 1997 Financial Statement Audit (ER-FC-98-02)

TO: Administrator, Alaska Power Administration

The attached report presents the results of the independent certified public accountants' audit of the Alaska Power Administration's (APA) combined power system statements of assets; Federal investment and liabilities; and the related combined statements of revenues, expenses and accumulated net revenues, and cash flows. The auditors have expressed an unqualified opinion on the 1997 statements.

The 1997 financial statement audit was made under the provisions of the Inspector General Act of 1978 as amended, (5 U.S.C. App. 3), the Government Management Reform Act (31 U.S. C. 3515), and Office of Management and Budget implementing guidance. The auditors' work was conducted in accordance with generally accepted Government auditing standards. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG Peat Marwick LLP (KPMG) to conduct the audit for us, subject to our review.

The auditors' reports on APA's internal control structure and compliance with laws and regulations disclosed no reportable conditions or instances of noncompliance.

Based on KPMG's unqualified opinion and our review of their audit work, we believe the financial statements fairly present the financial condition and results of operations of APA for the period under audit.

Phillip L. Holbrook
Phillip L. Holbrook
Acting Deputy Inspector General
for Audit Services

Attachment

cc: Audit Liaison, Alaska Power Administration
Team Leader, Audit Liaison Team, CR-2
Manager, Eastern Regional Audit Office, IG-36

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ALASKA POWER ADMINISTRATION

## Table of Contents



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# Letter to the Secretary

The Honorable Federico F. Peña
Secretary of Energy
Washington, DC 20585

Dear Mr. Peña:

It is my pleasure to submit the Alaska Power Administration's (APA) 1997 Annual Report.

In fiscal year 1997, APA generated 353 million kWh of electrical energy. The Snettisham Project produced 249 million kWh and the Eklutna Project produced 104 million kWh. Sales from our two hydroelectric projects resulted in revenues of nearly $10 million, of which the Snettisham Project provided $8.66 million and the Eklutna Project brought in nearly $1.34 million.

APA's operations, maintenance, and power marketing efforts continue to ensure that our facilities provide reliable electrical energy to our customers, even as we increasingly focus on transition and termination efforts. At each project, operations and maintenance (O&M) activities have been contracted to the purchasers/current customers until the final transaction date, with direction and oversight provided by APA. Innovative financing arrangements (using "net billing" at the Snettisham Project and direct purchaser/customer financing, with a corresponding reduced power rate, at the Eklutna Project) have accompanied the innovative O&M contracts.

The Alaska Power Administration Asset Sale and Termination Act (Title I of Public Law 104-58), signed by the President on November 28, 1995, authorizes and directs the sale of all Alaska Power Administration assets and the subsequent termination of APA. The Eklutna Project was sold to the three former customers of the project on October 2, 1997, for a cash payment of $5,953,000. The Snettisham Project will be sold to an agency of the State of Alaska (Alaska Energy Authority/Alaska Industrial Development and Export Authority). Continued operations and maintenance of the Snettisham Project while under Federal ownership will remain a priority.

The major task facing the Snettisham Project purchaser is meeting the "due diligence" requirements necessary to secure bond financing for the purchase. All documentation is scheduled for completion by May 15, 1998, with a final transaction date scheduled for July 15, 1998. Under the terms of the Snettisham Purchase Agreement and the APA Asset Sale and Termination Act, the final sale of the Snettisham Project must occur no later than August 20, 1998. APA will then have not more than one year to complete the legislatively-mandated Report to Congress on the asset sales and terminate the Administration.

# Letter to the Secretary

Another area of significant progress is the continued realignment and reduction of APA staff. Consistent with our transition plans and the contracting of our operations and maintenance activities, APA has only five employees remaining, a reduction of 26 from an onboard strength of 31 in the early summer of 1996. Only one of the 26 former employees remains "unplaced". The current staffing level is the minimum level necessary to continue to meet our obligations (to DOE and others) as a Federal agency, to provide remaining "oversight" of the Snettisham Project, and to complete remaining asset sales and APA termination activities. The current challenge facing APA is to retain these remaining employees until their work is complete. Additional separations will be possible after the sale of the Snettisham Project has been completed. Also, APA has relinquished approximately 66% of the office space leased in Juneau, AK, consistent with the staffing reductions.

All of us remaining at APA appreciate your continued support and the support of our customers and stakeholders. This support allows APA to fulfill its mission and ensure that the people of Alaska continue to benefit from these valuable renewable resources as we continue our transition and termination efforts.

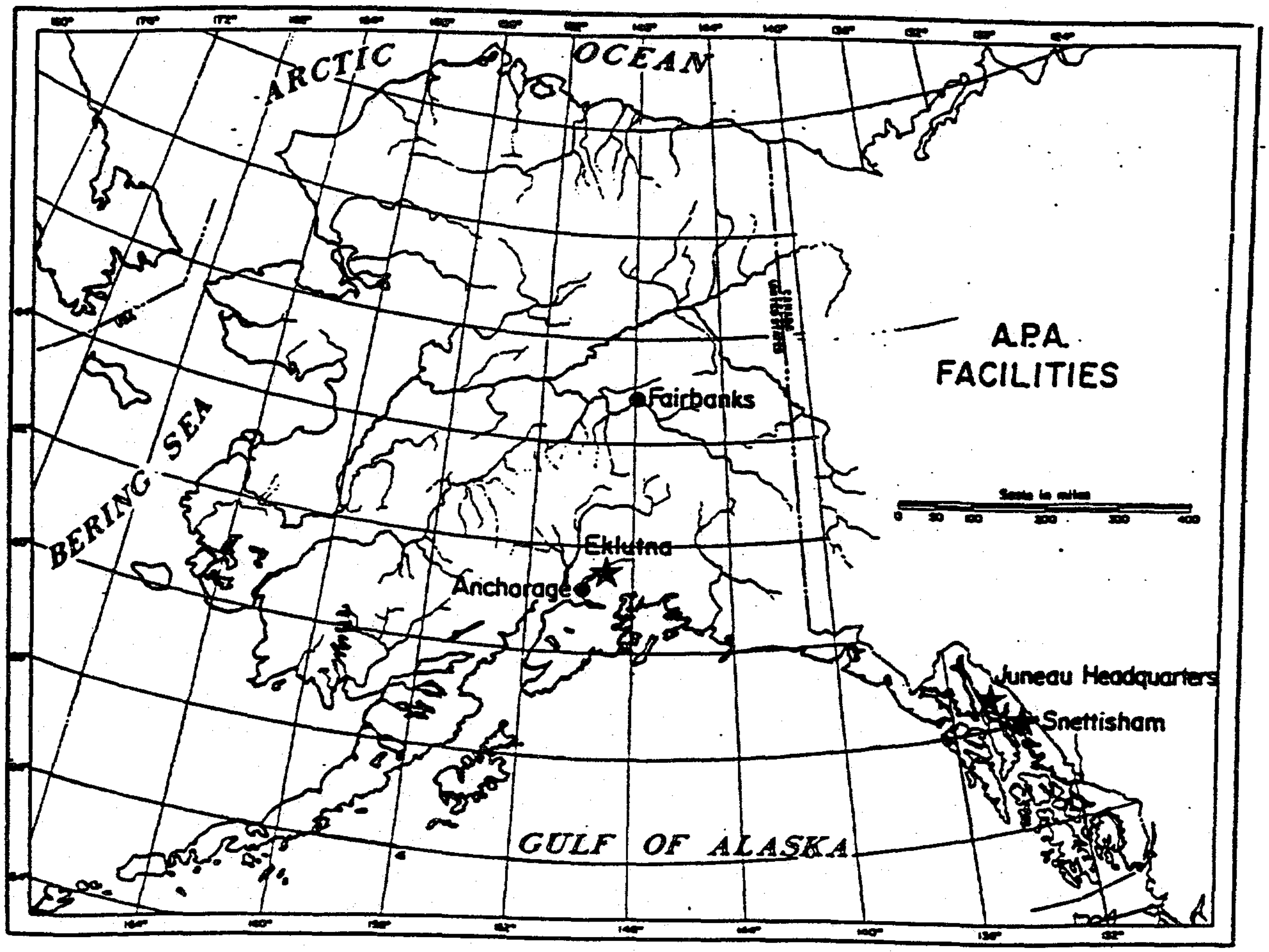
Sincerely,

Rodney L. Adelman

Rodney L. Adelman
Administrator

## Mission

The Alaska Power Administration (APA) will continue to encourage economic and industrial development in Alaska through implementing the sale of APA assets in a manner consistent with the authorizing legislation while balancing all the stakeholders' interests. Alaska Power Administration will provide our employees opportunities for successful career transitions and conduct an efficient transfer of assets and closeout of APA, while continuing to provide our customers reliable, low-cost hydroelectric energy during the transition. (Revised March, 1996)



## Fiscal Year 1997 Accomplishments

- APA operated, maintained, and marketed the power produced from two hydroelectric projects that include five generator units, three power tunnels and penstocks, over 88 miles of transmission line through remote Alaska terrain, four substations, dormitory, airstrip, a boat and barge basin, and other supporting maintenance facilities. Highlights include:

  - The largest contract ever awarded by APA to date was for the generator rewind and upgrade at the Eklutna Project, in the amount of $3,419,621.34. Site work began in October of 1996, with completion expected in February 1998. Project capacity is expected to be increased by nearly 50%.

  - A comprehensive Eklutna Transition Plan, required by the Eklutna Purchase Agreement, was signed by the three purchasers and APA on May 28, 1996. Surveys of project lands and transmission rights-of-way have been completed and "real estate" issues have been successfully resolved to the satisfaction of the purchasers. A final "punch list" of maintenance and environmental compliance items and a major generator rewind were successfully completed at the Eklutna Project. Final sale of the Eklutna Project was transacted on October 2, 1997.

  - A Snettisham Transition Plan, based on the one negotiated for the Eklutna Project, was signed by the Snettisham purchaser and APA on March 7, 1997. Progress continues on a similar "punch list" for the Snettisham Project, with one major issue, APA participation in the replacement of a damaged submarine cable, still under discussion. A contract with the current single power customer for all operations and maintenance activities at the Snettisham Project was implemented on February 1, 1997, and extended on January 1, 1998, through a net billing arrangement. Federal land management agencies (Bureau of Land Management and Forest Service) continue their progress towards settlement of remaining lands issues at the Snettisham Project.

- Eklutna rate activities: On January 14, 1997, APA received final Federal Energy Regulatory Commission (FERC) approval for new rates (of 8.8 mills) at the Eklutna Project through September 30, 2001 (or until sale of the project) . The Deputy Secretary of Energy approved the rates on an interim basis in FY 1996.

- Snettisham rate activities: In May 1995, APA received interim approval from the Deputy Secretary of Energy for an 8.1% rate increase for energy sold from the Snettisham Project. Final FERC approval for these rates was received in August of 1995. The rates are approved through April of 2000.

- Consistent with the transition of operations and maintenance activities to the purchasers/customers, actions continue to be taken to "right size" APA staffing. Federal staffing has been reduced from a level of 31 in the early summer of 1996 to a current level of 6 on board. The current staffing level is the minimum necessary to achieve remaining asset sales and APA termination. The current challenge facing APA is to retain these remaining employees until their work is complete. Additional separations will be possible after the sale of the Snettisham Project has been completed. Also, APA has relinquished approximately 66% of the office space leased in Juneau, consistent with the staffing reductions.

## Future

### Snettisham Bonding

A provision in the Small Business Job Protection Act of 1996 (Section 1804 of P.L. 104-188) authorizes the State of Alaska to use private activity "tax-exempt" bonds to finance the purchase of the Snettisham Project. The major task facing the Snettisham Purchaser is meeting the "due diligence" requirements necessary to secure bond financing for the purchase. All documentation is scheduled for completion by May 15, 1998, with a final transaction date scheduled for July 15, 1998. Under the terms of the Snettisham Purchase Agreement and the Alaska Power Administration Asset Sale and Termination Act, the final sale of the Snettisham Project will occur no later than August 20, 1998.

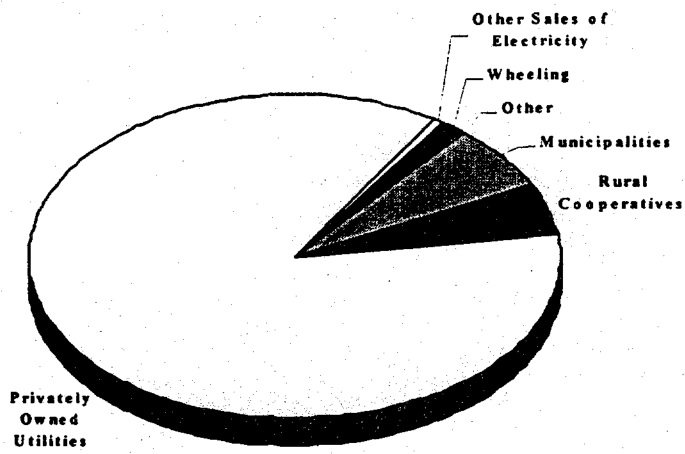
### APA Strategic Plan and Divestiture Transition Plan

APA's Strategic Plan was revised in March of 1996, to reflect our new mission as a result of the enactment of the APA Asset Sale and Termination Act. As a result, the APA Divestiture Transition Plan was revised in FY 1997 and will be continuously updated until final termination of APA.

## APA Asset Sale and Termination Act Implementation

Implementation of the Alaska Power Administration Asset Sale and Termination Act will be the primary mission of APA until final termination. Actual transfer of the Eklutna Project took place on October 2, 1997, and the transfer of the Snettisham Project is targeted for July 15, 1998, but no later than August 20, 1998. The Alaska Power Administration will then have not more than one year to complete the legislatively-mandated Report to Congress on the asset sales and terminate the Administration.

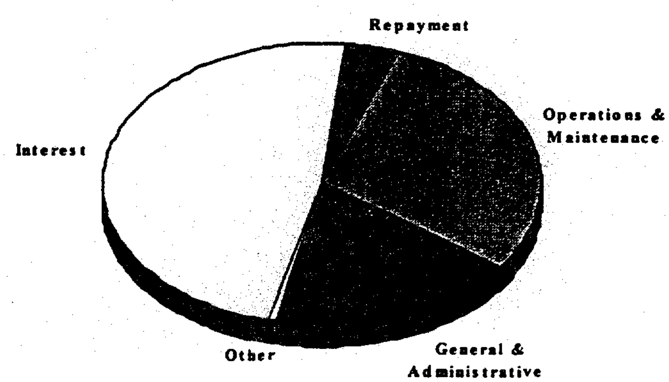
**Revenue By Source**
**Figure A**




## Results of Operations

In FY 1997, APA had combined project sales and gross revenues totaling 352,925 MWH and $9,996,691 respectively. Combined project expenses from the Financial Statements were $4,832,184. Interest Expense on unpaid project principal of $4,775,902 was slightly down in FY 1997. Receipts exceeded cash outlays before repayment to the U.S. Treasury by $388,605. Figure A shows the revenue by source. Figure B shows the application of revenues.

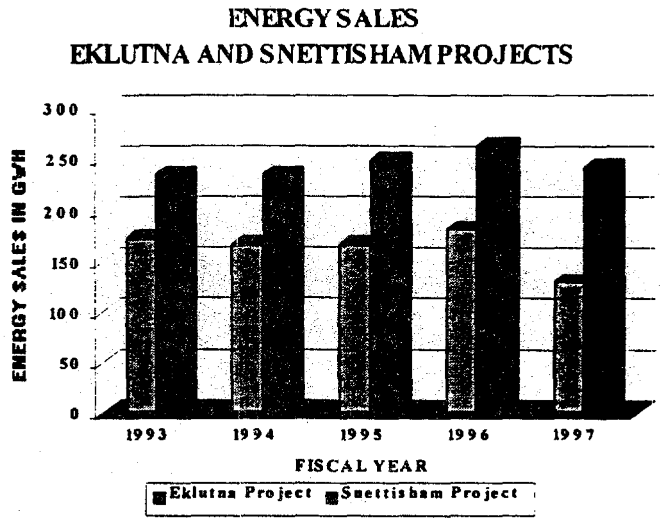
**Application of Revenue**
**Figure B**




## Sales and Revenues by Project

The Eklutna Project provides roughly 5% of the Anchorage and Matanuska-Susitna Valley area electrical load requirements. The most recent power sales contract establishes wholesale power costs to the utilities by forecasting out-year revenue requirements for repayment of the project. Yearly wholesale cost is calculated by multiplying the FERC approved energy rates by the projected energy sales shown in the APA Power Repayment Study (PRS). Any additional generation is available at no charge. As a result, our customers generally take all the energy that can be produced from water flowing into the Eklutna reservoir.

Actual sales of 103,525 MWH were realized in FY 1997. Gross Revenues in FY 1997 amounted to $1,335,091, which is an decrease over the prior year of 57%. This significant reduction was the result of the October 1, 1996, rate adjustment from 18.7 mills/kwh to 8.8 mills/kwh and the extensive outage time during the rewind of the two generators. As a result of the decreased power production, the reservoir ended the year full.




The Snettisham Project, fed by the Long Lake and Crater Lake reservoirs, currently provides about 85% of the Juneau area electrical load requirements. The local Juneau utility provides the remaining 15% with its own hydro and backup diesel generators. With the addition of the Crater Lake unit in FY 1991, the Snettisham Project has the capacity to meet an increase in the area load of 30%. As such, change in the local area load has a greater impact on sales than a change in the reservoir inflows. Annual sales in FY 1997 were 249,400 MWH, which generated revenues of $8,661,600. Gross revenues were down (6.2%) from the previous year.

KPMG Peat Marwick LLP

303 Peachtree Street, N.E.
Suite 2000
Atlanta, GA 30308

## Independent Auditors' Report

The Administrator
Alaska Power Administration
U.S. Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment and liabilities of Alaska Power Administration (APA) as of September 30, 1997 and 1996, and the related combined statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended. These combined financial statements are the responsibility of APA's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements,* as amended on January 16, 1998. 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.

As disclosed in note 1 to the combined financial statements, the Department of Energy is divesting itself of the assets of APA.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of APA as of September 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 12, 1997, on our consideration of APA's internal control and a report dated December 12, 1997, on APA's compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information as of and for the years ended September 30, 1997 and 1996, is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in accumulated net revenues and cash flows of the individual projects. The combining information has been subjected to the auditing procedures applied in the audits of APA's combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The information presented in management's Overview and management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01 and 97-01, *Form and Content of Agency Financial Statements.* We have considered whether this information is materially inconsistent with the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the combined financial statements and, accordingly, we do not express an opinion on it.

This report is intended for the information of the management of APA and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 12, 1997

ALASKA POWER ADMINISTRATION

Combined Statements of Assets, Federal Investment, and Liabilities

September 30, 1997 and 1996

| Assets | | 1997 | 1996 |
|---|---|---|---|
| Assets held for sale, net (note 2) | $ | 83,166,000 | 83,166,000 |
| Current assets: | | | |
| Unexpended appropriations (note 6) | | 11,609,260 | 10,427,370 |
| Accounts receivable | | 420,167 | 792,193 |
| Imprest fund | | 7,000 | 7,000 |
| | | 12,036,427 | 11,226,563 |
| Total assets | $ | 95,202,427 | 94,392,563 |

Federal Investment and Liabilities

| | | 1997 | 1996 |
|---|---|---|---|
| Federal investment: | | | |
| Investment of U.S. Government (note 5): | | | |
| Congressional appropriations | $ | 106,717,384 | 102,770,389 |
| Interest during construction | | 11,091,219 | 11,091,219 |
| Transfers from other federal agencies | | 141,803,245 | 141,803,245 |
| Interest on federal investment | | 91,217,691 | 86,441,789 |
| Gross investment of U.S. Government | | 350,829,539 | 342,106,642 |
| Funds returned to U.S. Treasury | | (177,932,960) | (169,345,603) |
| Less funds related to the Civil Service Retirement System (note 7) | | 715,941 | 658,128 |
| | | (177,217,019) | (168,687,475) |
| Net investment of U.S. Government | | 173,612,520 | 173,419,167 |
| Accumulated net deficit | | (79,115,448) | (79,504,053) |
| Total federal investment | | 94,497,072 | 93,915,114 |
| Accounts payable and accrued liabilities | | 705,355 | 477,449 |
| Total federal investment and liabilities | $ | 95,202,427 | 94,392,563 |

The accompanying notes are an integral part of these combined financial statements.

ALASKA POWER ADMINISTRATION

Combined Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1997 and 1996

| | | 1997 | 1996 |
|---|---|---|---|
| Revenues (notes 1 and 3): | | | |
| Sales of electric power: | | | |
| Municipalities | $ | 628,907 | 1,584,586 |
| Rural cooperatives | | 550,293 | 1,386,513 |
| Privately owned utilities | | 8,584,089 | 9,100,869 |
| Other | | 68,340 | 109,576 |
| Wheeling | | 155,891 | 101,527 |
| Other operating revenues | | 9,171 | 56,966 |
| Total revenues | | 9,996,691 | 12,340,037 |
| Expenses (notes 1 and 5): | | | |
| Operations and maintenance | | 2,932,615 | 1,732,612 |
| General and administrative | | 1,832,569 | 2,291,995 |
| Loss on assets held for sale (note 2) | | – | 3,834,000 |
| Other, net | | 67,000 | 368,837 |
| Total expenses before interest expense | | 4,832,184 | 8,227,444 |
| Net revenues before interest expense | | 5,164,507 | 4,112,593 |
| Interest expense on federal investment (note 5) | | (4,775,902) | (4,819,140) |
| Net revenues (deficit) | | 388,605 | (706,547) |
| Accumulated net deficit at beginning of year | | (79,504,053) | (78,797,506) |
| Accumulated net deficit at end of year | $ | (79,115,448) | (79,504,053) |

The accompanying notes are an integral part of these combined financial statements.

ALASKA POWER ADMINISTRATION

Combined Statements of Cash Flows

Years ended September 30, 1997 and 1996

| | | 1997 | 1996 |
|---|---|---|---|
| Cash provided (used) by operating activities: | | | |
| Net revenues (deficit) | $ | 388,605 | (706,547) |
| Items not requiring cash: | | | |
| Decrease in assets held for sale | | – | 3,834,000 |
| Interest expense on federal investment | | 4,775,902 | 4,819,140 |
| Decrease in accounts receivable | | 372,026 | 265,391 |
| Increase in accounts payable and accrued liabilities | | 227,906 | 73,563 |
| Net cash provided by operating activities | | 5,764,439 | 8,285,547 |
| Cash provided (used) by investing activities - interest during construction | | – | 1,717 |
| Cash provided by financing activities: | | | |
| Funds returned to U.S. Treasury | | (8,587,357) | (12,016,461) |
| Congressional appropriations | | 3,946,995 | 9,745,000 |
| Transfers from other agencies | | – | 37,302 |
| Increase in Civil Service Retirement System liability | | 57,813 | 73,080 |
| Net cash used in financing activities | | (4,582,549) | (2,161,079) |
| Net increase in cash | | 1,181,890 | 6,126,185 |
| Cash at beginning of year | | 10,434,370 | 4,308,185 |
| Cash at end of year | $ | 11,616,260 | 10,434,370 |

The accompanying notes are an integral part of these combined financial statements.

## (1) Summary of Significant Accounting Policies

### Reporting Entity

Alaska Power Administration (APA) was established in 1967 by the Secretary of the Department of the Interior (DOI) to assume the power functions of the Bureau of Reclamation in Alaska. In 1977, the Department of Energy (DOE) Organization Act transferred APA from the DOI to the DOE. Electric power and energy generated and transmitted by the APA projects represent 100% of the operations of APA. The electric power is required to be utilized in such a manner as to encourage the most widespread use thereof at the lowest possible rates to customers. APA is exempt from taxation.

The Eklutna Project, created under the Eklutna Project Act of 1950, as amended, is located near Anchorage, Alaska. Repayment of the original construction costs for the transmission and generating facilities extends for a period of 50 years from the date placed in service (the repayment period). It was placed in service in 1955. Interest on the unpaid portion of these costs is charged at 2.5% annually.

The Snettisham Project, created under the 1962 Flood Control Act, as amended, is located near Juneau, Alaska. Snettisham is a staged project whereby the first stage on Long Lake was placed in service in 1975 and the second phase on Crater Lake was placed in service in 1991. The repayment periods for Long Lake and Crater Lake are 60 and 50 years, respectively, and interest is charged on the unpaid portion at 3% annually. After the initial ten-year period of operation, the Long Lake phase of Snettisham requires annual payments throughout the remaining repayment period in an amount that approximates a 50-year mortgage.

The Divestiture of the APA projects and termination of APA as a Federal Agency was first formally proposed in 1986. Purchase Agreements were signed in 1989 with the purchasers (an Agency of the State of Alaska purchasing the Snettisham Project, and the three current power customers, Municipal Light and Power, Chugach Electric Association, Inc., and Matanuska Electric Association, Inc., purchasing the Eklutna Project). The Alaska Power Administration Asset Sale and Termination Act became Public Law 104-58 on November 28, 1995. That Act started a two-year clock for transfer of the Eklutna Project. The clock for the Snettisham Project did not begin until the State of Alaska passed a law authorizing its purchase and the Federal government passed a law that allowed the State of Alaska to use private activity tax-exempt bonds for the purchase. The State of Alaska's purchase authorization bill was signed on June 27, 1996 and the Federal tax exemption was signed into law as Section 1804 of the Small Business Job Protection Act of 1996, Public Law 104-188, on August 20, 1996.

### Basis of Presentation

These financial statements combine the financial information for the Eklutna and Snettisham projects. They have been prepared from the books and records of APA in accordance with generally accepted accounting principles.

(Continued)

These statements are therefore different from the financial reports prepared by APA pursuant to the Office of Management and Budget (OMB) directives that are used to monitor and control APA's use of budgetary resources.

Accounts are maintained in accordance with accounting principles and standards established by the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC), the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by various government agencies. APA's financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation.* The provisions of SFAS No. 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Accounting Estimates and Assumptions

In preparing the combined financial statements in accordance with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of assets, federal investment and liabilities and revenues and expenses for the period. Actual results could differ from those estimates and assumptions. The more significant estimates and assumptions applied in the preparation of the combined financial statements are discussed below.

Utility Plant and Depreciation

Prior to 1996, APA's method of computing depreciation of utility plant was the straight-line method based on the estimated service lives of the various classes of property. In accordance with DOE regulations, assets were not considered to be placed into service until the end of the fiscal period in which they became operational. Service lives averaged approximately 87 years for the Eklutna Project and 75 years for the Snettisham Project. No depreciation was recorded in 1996 and 1997 because the Eklutna and Snettisham projects were written down to their net realizable values at the end of 1995. The assets are considered held for sale due to the pending divestiture.

Unexpended Appropriations

Unexpended appropriations consist of cash balances with the U.S. Treasury which represent the unexpended balance of the funds appropriated by the U.S. Congress (Congress) for construction, operation and maintenance purposes. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

(Continued)

Revenues

Operating revenues are recorded on the basis of service rendered and the applicable authorized rates. Rate schedules become effective upon confirmation and approval by FERC. Interim rates may be approved by the DOE Deputy Secretary. The rates are intended to provide sufficient revenues during the repayment period from which payments can be made to the U.S. Treasury in an amount equal to the gross investment for the U.S. Government.

The projects (Eklutna and Snettisham) have net billing arrangements with power purchasers whereby operations and maintenance expenses are offset against revenues. The net revenues received are returned to the U.S. Treasury.

PL 104-58 authorized APA the use of contributed funds under Section 103(f). APA is authorized to receive, administer, and expend such funds as may be provided by the purchasers or their customers for the purposes of upgrading, improving, maintaining, or administering either of the projects.

The revenue recognition policy followed by the projects is in conformity with the accounting principles and standards established by DOE and the requirements of specific legislation and executive directives issued by government agencies.

Interest Expense on Federal Investment

Interest expense on federal investment is an imputed cost mandated by authorizing legislation for each project. APA computes interest in accordance with RA 6120.2 which provides that interest be computed on the unamortized investment of the U.S. Government after revenues have been applied to recovery of costs during the year, any prior year unpaid costs and then to the Federal investment bearing the highest interest rate first.

(2) Assets Held for Sale

Purchase agreements were signed in 1989 with the State of Alaska (State) to purchase the Snettisham Project and with the three current power customers, Municipal Light and Power, Chugach Electric Association, Inc., and Matanuska Electric Association, Inc., to purchase the Eklutna Project. Senate Bill S.395 was introduced in the 104th Congress. Title I of this bill authorizes and directs the sale of APA assets in accordance with the purchase agreements. The bill was signed by the President of the United States on November 28, 1995 as Public Law 104-58, Alaska Power Administration Asset Sale and Termination Act. The State passed Bill BN526 authorizing the purchase of the Snettisham Project, which was signed into law by the Governor on June 27, 1996. The Small Business Job Protection Act of 1996, Public Law 104-188, was signed by the President on August 20, 1996. Section 1804 of the Act allowed the State to use private activity tax exempt bonds to purchase Snettisham. The purchase agreements state the terms and conditions under which the transfer of assets is required to be carried out. Actual transfer of the Eklutna Project occurred on October 2, 1997 and the transfer of the Snettisham Project is expected no later than August 20, 1998.

(Continued)

The divestiture of APA will result in the remaining six employees being terminated. APA accrued $67,000 and $265,000 in termination benefits for the years ended September 30, 1997 and 1996, respectively. These amounts are reflected in the respective fiscal years combined statements of revenues, expenses and accumulated net revenues as a component of other expense. The amount of the accruals are an estimate of costs to be incurred by APA in the future as a result of the termination of the remaining employees. Termination benefits paid in the future will be charged against the liability.

The sales price for each project will be calculated on the transfer date. The calculation of the Snettisham sales price is affected by the interest rate the State will have to pay on revenue bonds that it will issue to purchase Snettisham. Based on current interest rates and an estimated transfer date of November 28, 1997 for the Eklutna Project and August 20, 1998 for the Snettisham Project, the sales prices for the Eklutna and Snettisham projects were estimated to be approximately $5,747,000 and $77,419,000, respectively, totaling $83,166,000. The projects were considered to be held for sale as of September 30, 1996, and were written down to estimated net realizable value as follows:

| | | 1997 | 1996 |
|---|---|---|---|
| Carrying value of assets held for sale at beginning of year | $ | 83,166,000 | 87,000,000 |
| Loss on assets held for sale | | – | (3,834,000) |
| Estimated net realizable value | $ | 83,166,000 | 83,166,000 |

Changes in the net realizable value will be recognized in future revenue or expense. With the transfer of the projects to the new owners, APA will have achieved its mission and will discontinue its operations. Actual transfer for the Eklutna Project was October 2, 1997, with a sales price of $5,953,000.

(3) Confirmation and Approval of New Rates

New interim rate schedules for the Eklutna Project were approved by the Deputy Secretary of the Department of Energy, effective October 1, 1996, and forwarded to FERC for final confirmation. APA received final confirmation from FERC on January 14, 1997. The rate schedules for the Snettisham Project were confirmed by FERC on August 15, 1995 for the period May 1, 1995 through April 30, 2000.

(4) Transfer of Snettisham Power Project

The Snettisham Project was designed by the U.S. Army Corps of Engineers (Corps). Snettisham was a phased project with the Long Lake project coming on line first with commercial service beginning in 1976. The Crater Lake phase began commercial production in June 1991. With the ultimate completion of the project administration, the Corps formalized the transfer of all costs and property to APA through a transfer of title on June 1, 1995.

(Continued)

(5) Investment of U.S. Government

Construction and operation of the project transmission system, generating plants and operations are financed, in whole or in part, through Congressional appropriations. The government's investment in each project, including original construction costs and annual operating expenses, is required to be repaid to the U.S. Treasury within the repayment period. At Eklutna, annual revenues are first applied to the current year operating expenses, less depreciation and interest expense. All annual amounts for such expenses have been paid for fiscal years 1997 and 1996. At Snettisham, annual revenues are first applied to the required Long Lake principal payment to comply with the Water Resources Development Act of 1976. Remaining revenues are applied to current year operating expenses and interest expense. All annual amounts for the required payment and operating expenses have been paid for fiscal years 1997 and 1996.

(6) Congressional Appropriations

Congressional appropriations received by APA are allocated to the individual projects at management's discretion. Certain allocations are made for contingencies which are prorated for the benefit of the two projects. Expended funds from these allocations are transferred to the appropriate projects at year-end. To the extent these costs were incurred for the benefit of both projects, they are allocated equally. It is the intent of APA management to distribute congressional appropriations in amounts approximating estimated current year expenditures and to adjust the distribution as necessary within the limits of the transfer authority residing with APA officials.

(7) Retirement Plan

Several of APA employees participate in the Civil Service Retirement System (CSRS), a contributory defined benefit pension plan. Except as discussed below, APA does not report CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management. In fiscal year 1991, APA began recognizing retirement benefit expense of approximately 14% of eligible employee compensation for the estimated costs of employee participation in CSRS. These costs are being recovered through rates and returned to the U.S. Treasury. As a result, a portion of funds returned to the U.S. Treasury represent funding of this CSRS liability. APA accounted for the prior unfunded costs of CSRS in fiscal year 1994. Total expense for this cost was $57,813 in fiscal year 1997 and $73,080 in fiscal year 1996.

On January 1, 1987, the Federal Employees Retirement System (FERS), a contributory defined benefit pension plan, went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan which automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. APA also contributes the employer's matching share for Social Security.

(Continued)

(8) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments,* requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of assets, federal investment and liabilities, for which it is practicable to estimate that value. The fair value of APA's financial instruments which include unexpended appropriations, accounts receivable, imprest fund, accounts payable, and accrued liabilities approximates their carrying values. APA has no off-balance sheet financial instruments.

# ALASKA POWER ADMINISTRATION

## Combining Information - Assets, Federal Investment, and Liabilities

## September 30, 1997 and 1996

| Assets | | Combined Totals 1997 | Combined Totals 1996 | 1997 Eklutna | 1997 Snettisham | 1996 Eklutna | 1996 Snettisham |
|---|---|---|---|---|---|---|---|
| Assets held for sale | $ | 83,166,000 | 83,166,000 | 5,747,000 | 77,419,000 | 5,747,000 | 77,419,000 |
| Current assets: | | | | | | | |
| Unexpended appropriations | | 11,609,260 | 10,427,370 | 7,546,019 | 4,063,241 | 6,821,132 | 3,606,238 |
| Accounts receivable | | 420,167 | 792,193 | 112,516 | 307,651 | 257,641 | 534,552 |
| Imprest fund | | 7,000 | 7,000 | 3,500 | 3,500 | 3,500 | 3,500 |
| | | 12,036,427 | 11,226,563 | 7,662,035 | 4,374,392 | 7,082,273 | 4,144,290 |
| Total assets | $ | 95,202,427 | 94,392,563 | 13,409,035 | 81,793,392 | 12,829,273 | 81,563,290 |
| **Federal Investment and Liabilities** | | | | | | | |
| Federal investment: | | | | | | | |
| Investment of U.S. Government: | | | | | | | |
| Congressional appropriations | $ | 106,717,384 | 102,770,389 | 73,963,651 | 32,753,733 | 71,480,007 | 31,290,382 |
| Interest during construction | | 11,091,219 | 11,091,219 | 1,909,047 | 9,182,172 | 1,909,047 | 9,182,172 |
| Transfers from other federal agencies | | 141,803,245 | 141,803,245 | (1,497,650) | 143,300,895 | (1,497,650) | 143,300,895 |
| Interest on federal investment | | 91,217,691 | 86,441,789 | 20,813,643 | 70,404,048 | 20,669,211 | 65,772,578 |
| Gross investment of U.S. Government | | 350,829,539 | 342,106,642 | 95,188,691 | 255,640,848 | 92,560,615 | 249,546,027 |
| Funds returned to U.S. Treasury | | (177,932,960) | (169,345,603) | (82,304,445) | (95,628,515) | (80,824,559) | (88,521,044) |
| Less funds related to the Civil Service Retirement System | | 715,941 | 658,128 | 374,878 | 341,063 | 345,971 | 312,157 |
| | | (177,217,019) | (168,687,475) | (81,929,567) | (95,287,452) | (80,478,588) | (88,208,887) |
| Net investment of U.S. Government | | 173,612,520 | 173,419,167 | 13,259,124 | 160,353,396 | 12,082,027 | 161,337,140 |
| Accumulated net revenues (deficit) | | (79,115,448) | (79,504,053) | (99,994) | (79,015,454) | 542,691 | (80,046,744) |
| Total federal investment | | 94,497,072 | 93,915,114 | 13,159,130 | 81,337,942 | 12,624,718 | 81,290,396 |
| Accounts payable and accrued liabilities | | 705,355 | 477,449 | 249,905 | 455,450 | 204,555 | 272,894 |
| Total federal investment and liabilities | $ | 95,202,427 | 94,392,563 | 13,409,035 | 81,793,392 | 12,829,273 | 81,563,290 |

# ALASKA POWER ADMINISTRATION

## Combining Information - Revenues, Expenses, and Accumulated Net Revenues

### Years ended September 30, 1997 and 1996

| | Combined Totals | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|
| | 1997 | 1996 | Eklutna | Snettisham | Eklutna | Snettisham |
| Revenues: | | | | | | |
| Sales of electric power: | | | | | | |
| Municipalities | $ 628,907 | 1,584,586 | 628,907 | - | 1,584,586 | - |
| Rural cooperatives | 550,293 | 1,386,513 | 550,293 | - | 1,386,513 | - |
| Privately owned utilities | 8,584,089 | 9,100,869 | - | 8,584,089 | - | 9,100,869 |
| Other | 68,340 | 109,576 | - | 68,340 | 9,299 | 100,277 |
| Wheeling | 155,891 | 101,527 | 155,891 | - | 101,527 | - |
| Other operating revenues | 9,171 | 56,966 | - | 9,171 | 19,312 | 37,654 |
| Total revenues | 9,996,691 | 12,340,037 | 1,335,091 | 8,661,600 | 3,101,237 | 9,238,800 |
| Expenses: | | | | | | |
| Operations and maintenance | 2,932,615 | 1,732,612 | 908,497 | 2,024,118 | 558,570 | 1,174,042 |
| General and administrative | 1,832,569 | 2,291,995 | 891,347 | 941,222 | 1,400,496 | 891,499 |
| Loss on assets held for sale | - | 3,834,000 | - | - | 1,431,000 | 2,403,000 |
| Other, net | 67,000 | 368,837 | 33,500 | 33,500 | 123,096 | 245,741 |
| Total expenses before interest expense | 4,832,184 | 8,227,444 | 1,833,344 | 2,998,840 | 3,513,162 | 4,714,282 |
| Net revenues (deficit) before interest expense | 5,164,507 | 4,112,593 | (498,253) | 5,662,760 | (411,925) | 4,524,518 |
| Interest expense on federal investment | (4,775,902) | (4,819,140) | (144,432) | (4,631,470) | (137,784) | (4,681,356) |
| Net revenues (deficit) | 388,605 | (706,547) | (642,685) | 1,031,290 | (549,709) | (156,838) |
| Accumulated net revenues (deficit) at beginning of year | (79,504,053) | (78,797,506) | 542,691 | (80,046,744) | 1,092,400 | (79,889,906) |
| Accumulated net revenues (deficit) at end of year | $ (79,115,448) | (79,504,053) | (99,994) | (79,015,454) | 542,691 | (80,046,744) |

# ALASKA POWER ADMINISTRATION

## Combining Information - Cash Flows

## Years ended September 30, 1997 and 1996

| | Combined Totals 1997 | Combined Totals 1996 | 1997 Eklutna | 1997 Snettisham | 1996 Eklutna | 1996 Snettisham |
|---|---|---|---|---|---|---|
| Cash provided (used) by operating activities: | | | | | | |
| Net revenues (deficit) | $ 388,605 | (706,547) | (642,685) | 1,031,290 | (549,709) | (156,838) |
| Items not requiring cash: | | | | | | |
| Decrease in assets held for sale | - | 3,834,000 | - | - | 1,431,000 | 2,403,000 |
| Interest expense on federal investment | 4,775,902 | 4,819,140 | 144,432 | 4,631,470 | 137,784 | 4,681,356 |
| Decrease in accounts receivable | 372,026 | 265,391 | 145,125 | 226,901 | 223,857 | 41,534 |
| Increase in accounts payable and accrued liabilities | 227,906 | 73,563 | 45,350 | 182,556 | 5,209 | 68,354 |
| Net cash provided (used) by operating activities | 5,764,439 | 8,285,547 | (307,778) | 6,072,217 | 1,248,141 | 7,037,406 |
| Cash provided by investing activities - interest during construction | - | 1,717 | - | - | - | 1,717 |
| Cash provided (used) by financing activities: | | | | | | |
| Funds returned to U.S. Treasury | (8,587,357) | (12,016,461) | (1,479,886) | (7,107,471) | (3,223,741) | (8,792,720) |
| Congressional appropriations | 3,946,995 | 9,745,000 | 2,483,644 | 1,463,351 | 5,027,833 | 4,717,167 |
| Transfers from other agencies | - | 37,302 | - | - | - | 37,302 |
| Increase in Civil Service Retirement System Liability | 57,813 | 73,080 | 28,907 | 28,906 | 35,398 | 37,682 |
| Net cash provided (used) by financing activities | (4,582,549) | (2,161,079) | 1,032,665 | (5,615,214) | 1,839,490 | (4,000,569) |
| Net increase in cash | 1,181,890 | 6,126,185 | 724,887 | 457,003 | 3,087,631 | 3,038,554 |
| Cash at beginning of year | 10,434,370 | 4,308,185 | 6,824,632 | 3,609,738 | 3,737,001 | 571,184 |
| Cash at end of year | $ 11,616,260 | 10,434,370 | 7,549,519 | 4,066,741 | 6,824,632 | 3,609,738 |

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**Independent Auditors' Report on Internal Control**

The Administrator
Alaska Power Administration
United States Department of Energy:

We have audited the combined power system financial statements of the Alaska Power Administration (APA) as of and for the year ended September 30, 1997, and have issued our report thereon dated December 12, 1997.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatement.

Management of APA, a unit of the United States Department of Energy (DOE), is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the combined power system financial statements and any other laws and regulations that OMB, APA's management, or the DOE have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable combined financial reports in accordance generally accepted accounting principles and to maintain accountability over the assets; and that data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Administrator
Alaska Power Administration
United States Department of Energy

In planning and performing our audit of the combined power system financial statements of APA for the year ended September 30, 1997, we obtained an understanding of internal control. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation, assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the combined power system financial statements, and not to provide assurance on internal control. Accordingly, we do not express such an opinion.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of the relevant internal control policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Our consideration of the internal control would not disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the combined power system financial statements being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

We noted other matters involving APA's internal control and its operation that we have reported to the management of APA in a separate letter dated December 12, 1997.

This report is intended for the information and use of APA and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 12, 1997

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**Independent Auditors' Report on Compliance with Laws and Regulations**

The Administrator
Alaska Power Administration
United States Department of Energy:

We have audited the combined power system financial statements of the Alaska Power Administration (APA) as of and for the year ended September 30, 1997, and have issued our report thereon dated December 12, 1997.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance that the combined financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the combined power system financial statements is the responsibility of the management of APA, a unit of the United States Department of Energy (DOE). As part of obtaining reasonable assurance about whether the combined power system financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the combined power system financial statement amounts, and certain other laws and regulations designated by OMB and DOE, including:

- Eklutna Project Act of 1950
- Flood Control Act of 1962
- Water Resources Development Act of 1976
- DOE Order RA 6120.2, Power Marketing Administration Financial Reporting
- 18 CFR Part 300, Confirmation and Approval of Rates of Federal Power Marketing Administrations
- DOE Delegation Order 0204-108, Approval of PMA Power and Transmission Rates
- 10 CFR 903, Power and Transmission Rates
- Prompt Payment Act
- Chief Financial Officers (CFO) Act of 1990
- Buy American Act
- Anti-deficiency Act
- Budget and Accounting Procedures Act
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Federal Financial Management Improvement Act of 1996 (FFMFIA)

However, the objective of our audit of the combined financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

As part of our audit, we obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared APA's most recent FMFIA reports with the evaluation we conducted of the combined power system's internal control structure.

The Administrator
Alaska Power Administration
United States Department of Energy

The results of our tests disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards* or OMB Bulletin 93-06.

* * * * * *

This report is intended for the information and use of APA and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 12, 1997

KPMG Peat Marwick LLP

303 Peachtree Street, N.E.
Suite 2000
Atlanta, GA 30308

**Management Letter**

The Administrator
Alaska Power Administration
United States Department of Energy:

We have audited the combined power system financial statements of the Alaska Power Administration (APA) as of and for the year ended September 30, 1997, and have issued our report thereon dated December 12, 1997. In planning and performing our audit of the combined power system financial statement of APA, we considered the internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide assurance on the internal controls.

Reportable conditions are matters coming to our attention that in our judgment, relate to significant deficiencies in the design or operation of internal controls and could adversely affect APA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal controls would not necessarily disclose all matters including internal controls and its operation that might be reportable conditions.

We noted no matters involving internal controls over financial reporting and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget (OMB) Bulletin 93-06. We have not considered internal controls since the date of our report.

Although not considered to be reportable conditions, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal controls or result in other operating efficiencies:

## 1. PROMPT PAYMENT ACT

Audit Comment

The Prompt Payment Act (Act) requires that government entities pay their bills within 30 days of receipt, or pay interest on the amount due for each day the payment in late. The Act also requires that payments not be made more than eight days early to prevent incurring additional interest on money borrowed by the government. APA's fiscal year 1997 Prompt Payment Report submitted to the Department of Energy (DOE) indicated that 4 payments were made late totaling $6,517 for which interest was not paid to the vendors.

Recommendation

APA should reemphasize to employees the requirement to follow the administrative procedures in place to prevent early or late payment of invoices.

Management's Response

APA concurs with the recommendation. Remaining APA employees have been reminded to carefully follow administrative procedures. The logistics of bill payments between Juneau, Alaska, and Elberton, Georgia (neither of which have true "overnight delivery" available), with the Administrator (often acting as the Certifying Officer) located in Washington, DC, occasionally leads to late payments. APA notes the great improvement from last year, a reduction from 65 payments to just 4 payments being made in non-compliance with the administrative procedures.

******

Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

This report is intended for the information and use of the management of APA and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 12, 1997

IG Report No. ER-FC-98-02

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1. What additional background information about the selection, scheduling, scope, or procedures of the audit would have been helpful to the reader in understanding this report?

2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?

3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?

4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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