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DATE: December 9, 1997

REPLY TO:  
ATTN OF: IG-30

SUBJECT: Southeastern Federal Power Program Fiscal Year 1996 Financial Statement Audit (ER-FC-98-01)

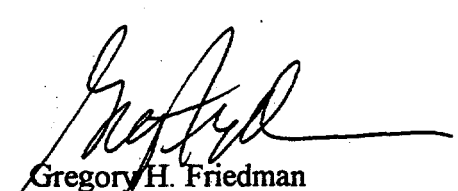
TO: Administrator, Southeastern Power Administration

The attached report presents the results of the independent certified public accountants' audit of the Southeastern Federal Power Program's (SEFPP) combined financial statements of assets, Federal investment and liabilities, and the related combined statements of revenues, expenses and accumulated net revenues, and cash flows.

The 1996 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' report on SEFPP's internal control structure disclosed no new reportable conditions directed to the Southeastern Power Administration. However, the report did disclose a reportable condition considered to be a material weakness directed to the Army Corps of Engineers (Corps). The material weakness was regarding the conversion of the Corps' financial management system to a system that was not designed to properly account for the allocation of plant investment to multi-purpose projects. The Corps concurred with the recommendations. The auditors' report on SEFPP's compliance with laws and regulations disclosed no new 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 the SEFPP for the period under audit.

  
Gregory H. Friedman  
Deputy Inspector General  
for Audit Services

Attachment

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cc: Audit Liaison, Southeastern Power Administration  
Team Leader, Audit Liaison Division (CR-2)  
Manager, Eastern Regional Audit Office

MASTER

KPMG

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**SOUTHEASTERN FEDERAL POWER PROGRAM**

Combined Financial Statements

September 30, 1996 and 1995

With Independent Auditors' Report Thereon  
and  
Financial Overview and Program Performance

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# SOUTHEASTERN FEDERAL POWER PROGRAM

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# **Southeastern Power Administration**

**1996**

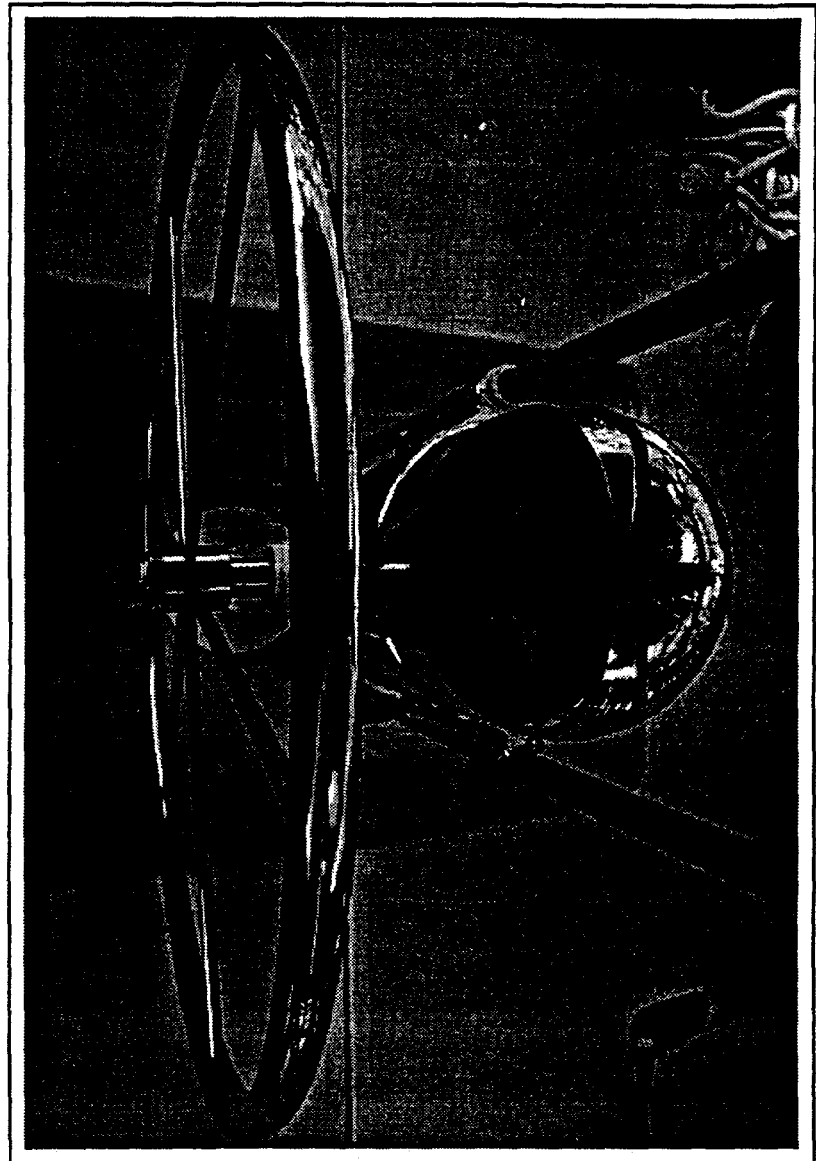
**Financial**

**Overview**

**and**

**Financial**

**Statements**



## Financial Overview and Program Performance

### DESCRIPTION

The Southeastern Federal Power Program (SEFPP) consists of all activities associated with the production, transmission and disposition of Federal power marketed under Section 5 of the Flood Control Act of 1944 from projects in the ten southeastern states. The ten states are: Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, and Kentucky. Power is marketed to customers in 11 states - the above ten plus Illinois. SEFPP includes the accounts of two separate Federal government agencies - the Southeastern Power Administration (Southeastern) of the Department of Energy and the U.S. Army Corps of Engineers (Corps). Southeastern purchases, transmits, and markets power within four separate power systems (each including one or more Corps generating projects for which rates are set). These systems are: Georgia-Alabama-South Carolina, Jim Woodruff, Cumberland, and Kerr-Philpott.

The Corps owns and operates 23 hydroelectric generating projects in commercial service as of September 30, 1996, for which Southeastern is the power marketing agency. The Corps and Southeastern are separately managed and financed; however, the financial statements are combined under the SEFPP title.

Costs of multiple purpose Corps projects are allocated to individual purposes (e.g. power, recreation, navigation, and flood control) through a cost allocation process. Specific and joint-use costs allocated to power are included in the attached statements of assets, Federal investment, and liabilities under utility plant and cash.

The accounts of SEFPP are maintained in conformity with generally accepted accounting principles and the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). SEFPP's accounting policies also reflect requirements of specific legislation and executive directives issued by the applicable government agencies. Southeastern and Corps properties and income are exempt from taxation.

Southeastern and the Corps receive Congressional appropriations through the Department of Energy (DOE) and the Department of Defense to finance their operations. The Corps also receives Congressional appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act of 1944, Southeastern is responsible for repayment with interest of its appropriations as well as Corps construction and operation appropriations allocated to power.

### PROGRAM PERFORMANCE

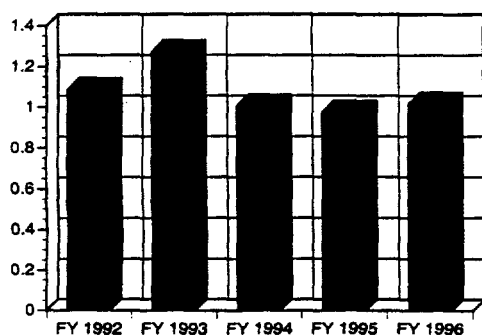
During FY 1996, Southeastern marketed 8.6 billion kilowatt-hours of energy to 294 wholesale customers. Southeastern's revenues totaled \$169 million, which was \$10 million more than FY 1995.

### FINANCIAL PERFORMANCE — DEBT SERVICE COVERAGE RATIO

The debt service coverage ratio measures the adequacy of a utility's cash flow to cover debt service costs, both principal and interest.

Specifically, the debt service coverage ratio measures revenues in excess of operating expenses requiring cash, or cash flow from operations available to make debt service payments of principal and interest. A ratio of 1.0 would generally indicate just enough cash flow to make principal and interest payments on outstanding debt, in addition to meeting all other cash expenses. A ratio of 1.5 would indicate sufficient cash flow to pay 1.5 times the amount of debt service actually due. Debt service coverage is an important measure of financial health, particularly for public power systems with no significant surplus or equity as a cushion. Since the revenues of a power marketing administration are applied to operating expenses and debt service requirements with typically no return built into rates, the level of debt service coverage is viewed as an important means of determining the revenue shortfalls that could be sustained before debt service payments were adversely affected. A delicate balance exists between maintaining a sound financial condition and maintaining the lowest rates consistent with the not-for-profit orientation of power marketing agencies.

Over the last five years, Southeastern's debt service ratio has ranged from about 1.0 to 1.3, which is normal for other power marketing administrations. Southeastern's debt service coverage ratios for years 1992-1996 are illustrated in Figure O.



Debt Service Coverage Ratio

Figure O

## Overview Continued

### CUMULATIVE PRINCIPAL PAYMENTS AS A PERCENT OF TOTAL FEDERAL INVESTMENT

This indicator is a profitability measure. This indicator measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature system. Thus, a system with little time remaining in its repayment period would be expected to have a ratio of cumulative principal payments relative to total Federal investment that approaches 100%. This indicator provides useful information by showing the relationship between the cumulative amount of principal paid to date by Southeastern as well as the progress made over the period studied. While analysis of this indicator does not necessarily provide conclusive information without further analysis of additional factors, such as the average age of the system, the measure nevertheless provides valuable information on the status of repayment. Southeastern's principal payments have increased over the past five years from 27% to 35% of the total Federal investment. Payments as a percent of total investment are illustrated in Figure P.

### PERCENT VARIANCE OF ACTUAL FROM PLANNED PRINCIPAL PAYMENT

Each of the power marketing administrations show relatively large fluctuations between actual and planned revenues due to the high variability of water over the years analyzed. A negative number means that actual repayments are not as large as expected. A positive number means that actual repayments are larger than expected.

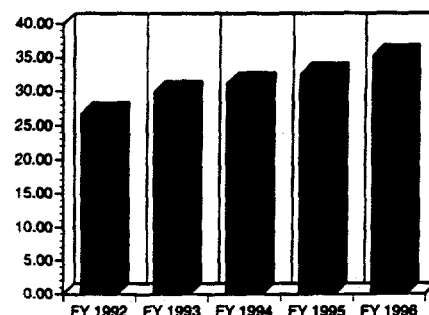
Southeastern's ratio in 1996 was 22%. The ratio was -11% in 1995, which resulted from below average streamflow conditions, as illustrated in Figure Q.

### NET CASH FLOW TO THE TREASURY

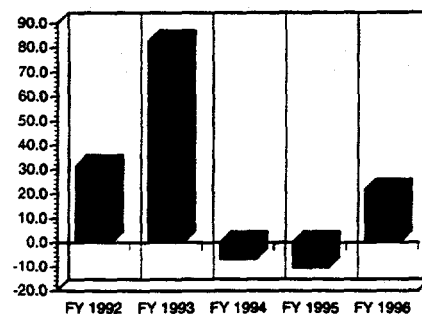
Net cash flow to the Treasury measures the actual net cash flow, both inflows and outflows, to the U.S. Treasury excluding revenue from the Tennessee Valley Authority. This indicator focuses on cash flows as opposed to accrual accounting results.

Because of its cash nature, this indicator is negatively influenced during years of large capital expenditures. Even in years of favorable financial performance, small or negative cash flow to the U.S. Treasury may result. In addition, the variability of water levels explains some of the fluctuation of this measure.

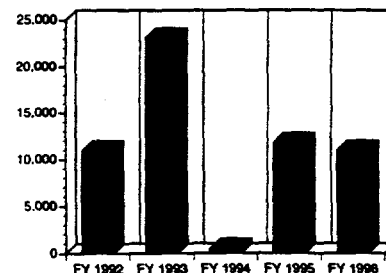
This indicator provides valuable financial information related to the annual effect of the power marketing administrations on the cash position of the U.S. Treasury. The measure should be used only in combination with other financial indicators to assess Southeastern's financial performance. Net cash flow to the Treasury is illustrated in Figure R.



Payments as a Percentage of  
Total Investment  
Figure P



Percent Variance of Actual From Planned  
Principal Payments  
Figure Q



Net Cash Flow To The Treasury  
Figure R

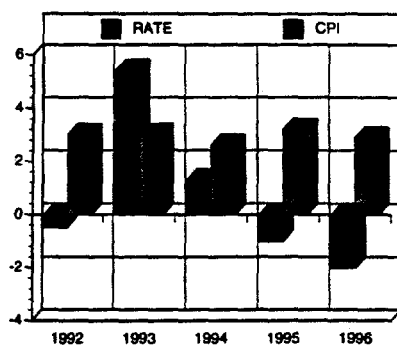
## Overview Continued

### RATE PERFORMANCE

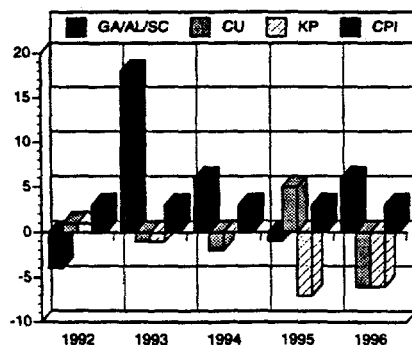
Performance indicators were prepared separately for transmission, capacity, and energy rates. Cumulative year to year percentage increases in rates were compared to cumulative percentage increases in the Consumer Price Index (CPI) starting with 1992 as the base year.

### PERFORMANCE INDICATOR-TRANSMISSION — COMPOSITE TRANSMISSION INDICATOR

Transmission rates decreased in several systems over the period of analysis. Decreasing transmission rates in the Cumberland and Kerr-Philpott systems resulted in the composite performance indicator staying well below the CPI rate of increase in every year except 1993. Southern Company provides some transmission service to Southeastern and changes in the Southern Company rate structure boosted the composite rate above the CPI rate of increase in 1993. Composite transmission indicators are illustrated in Figure S.



Composite Transmission Indicator  
Figure S



System Transmission Indicator  
Figure T

### SYSTEM TRANSMISSION INDICATOR

Significant increases in transmission rates occurred in the Georgia-Alabama-South Carolina System in 1993. The 17.8% increase in 1993 was primarily the result of an increase in the tandem wheeling rate charged to several customers in the Georgia-Alabama-South Carolina System. System transmission indicators are illustrated in Figure T.

### PERFORMANCE INDICATOR — COMPOSITE ENERGY INDICATOR

Energy rate increases in several systems were high enough to push the composite rate performance indicator well above the CPI rate of increase during 1992 and 1994. Drought conditions significantly impacted the individual system indicators and, in turn, the composite index. Following the return of normal water conditions, the performance indicator for energy improved in 1993. Restructuring of the Cumberland rates and planned incremental increases in the Woodruff rates resulted in the composite rate indicator increasing at a slightly higher rate than the CPI in 1994.

As a result of the new contracts for the Cumberland System, 1,500 hours of energy from the Cumberland System accompanies each kilowatt of capacity. Any energy purchases above the set amount are priced at the excess energy rate. Composite energy rate indicators are illustrated in Figure U.

### SYSTEM ENERGY INDICATOR

Significant increases in energy rates occurred in the Woodruff System for 1992-1994. Incremental energy rate increases for the Woodruff System were designed to dampen the rate shock that customers would have felt if the energy rate had been increased in a single year.



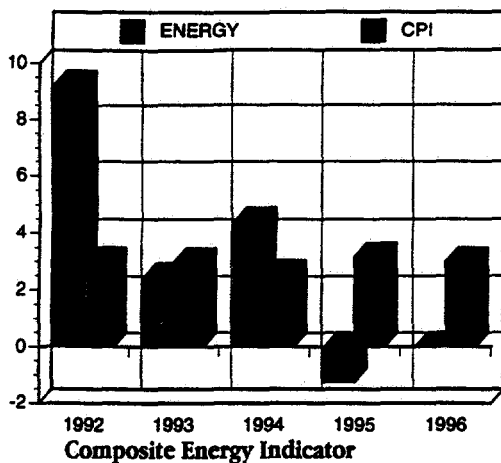


Figure U

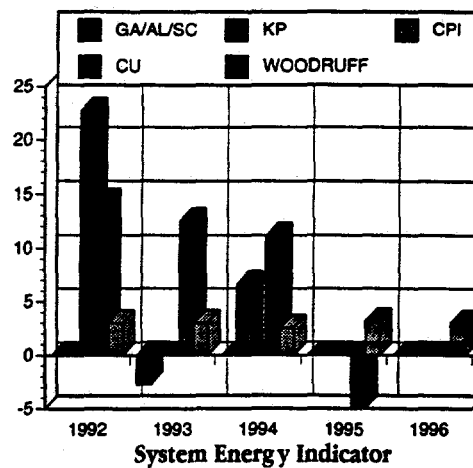


Figure V

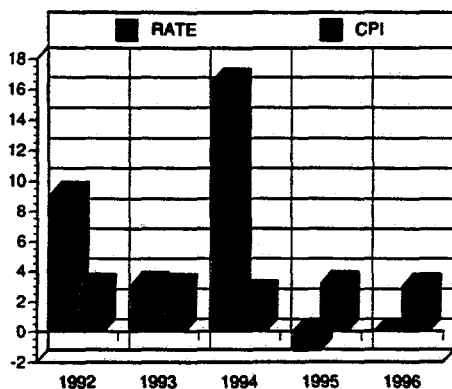


Figure W

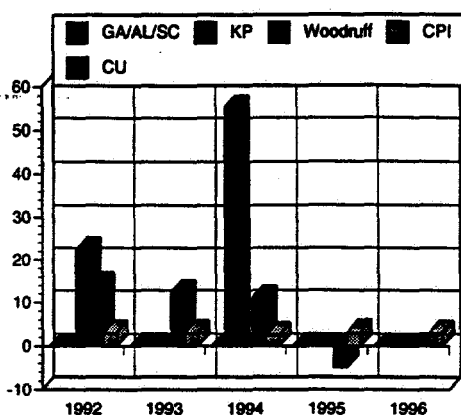


Figure X

## Overview Continued

The 1992 rate increase for the Kerr-Philpott System, 1994 rate increase for the Cumberland System, and 1995 rate decrease for the Jim Woodruff System, were the result of regular rate filings. The increases reflect general inflation and recovery of new capital investment. System energy indicators are illustrated in Figure V.

### PERFORMANCE INDICATOR — COMPOSITE CAPACITY INDICATOR

Capacity rate increases across all systems were high enough to push the composite performance indicator above the consumer price index rate of increase in years 1992 and 1994. With the return of normal water conditions, the performance indicator for capacity improved in 1993. The CPI rate of increase in 1993 was almost equal to the composite capacity rate of increase. The re-negotiated Cumberland rates resulted in a significant increase in the composite capacity rate indicator in 1994. The rate filing for the Jim Woodruff System resulted in a decrease in the composite capacity rate indicator in 1995. Composite capacity indicators are illustrated in Figure W.

### SYSTEM CAPACITY INDICATOR

The 1992 capacity rate increase for the Kerr-Philpott System was the result of a regular rate filing. The increase reflects general inflation and recovery of new capital investment.

Incremental capacity increases for the Woodruff System which began in 1992 were designed to dampen the rate shock that customers would have felt if the capacity rate had been increased in a single year. After 1994, the capacity rate for the Woodruff System will stabilize.

In 1994 the Cumberland rates were re-negotiated to include 1,500 hours of energy to accompany each kilowatt of capacity. This arrangement resulted in a significant increase in the Cumberland capacity rate. The 1995 capacity rate decrease for the Jim Woodruff System was the result of a regular rate filing. System capacity indicators are illustrated in Figure X.

# KPMG Peat Marwick LLP

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

## Independent Auditors' Report on Combined Financial Statements

The Administrator  
Southeastern Power Administration  
United States Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Southeastern Federal Power Program as of September 30, 1996 and 1995, 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 Southeastern Federal Power Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Federal Power Program as of September 30, 1996 and 1995, and the results of its operations and changes in accumulated net revenues 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 reports dated March 28, 1997 on Southeastern Federal Power Program's compliance with laws and regulations and on our consideration of its internal control structure.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental information contained in Exhibits I through VI is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of individual power systems. Such information has been subjected to the auditing procedures applied in the audits of the 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.

KPMG Peat Marwick LLP

March 28, 1997

# SOUTHEASTERN FEDERAL POWER PROGRAM

## Combined Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995  
(in thousands)

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Utility plant (notes 2 (f) and 3):		
Plant in service	\$ 1,500,050	1,486,335
Less accumulated depreciation	<u>(381,241)</u>	<u>(358,013)</u>
Plant in service, net	1,118,809	1,128,322
Construction work in progress (note 3)	<u>528,482</u>	<u>488,431</u>
Net utility plant	<u>1,647,291</u>	<u>1,616,753</u>
Current assets:		
Cash (note 2 (e))	32,755	32,448
Accounts receivable	11,404	11,001
Other	<u>20</u>	<u>229</u>
Total current assets	<u>44,179</u>	<u>43,678</u>
Total assets	\$ <u>1,691,470</u>	<u>1,660,431</u>
<u>Federal Investment and Liabilities</u>		
Federal investment (note 4):		
Congressional appropriations	\$ 2,769,522	2,674,650
U.S. Treasury transfers to continuing fund	7,670	7,670
Transfers from other Federal agencies	17,461	16,889
Accumulated interest on Federal investment	1,288,675	1,221,022
Funds returned to Treasury (note 2 (c))	<u>(2,553,481)</u>	<u>(2,395,778)</u>
Net outstanding Federal investment	1,529,847	1,524,453
Accumulated net revenues (note 2 (c))	<u>147,977</u>	<u>126,143</u>
Total Federal investment	<u>1,677,824</u>	<u>1,650,596</u>
Current liabilities:		
Accounts payable	13,454	9,725
Accrued liabilities	<u>192</u>	<u>110</u>
Total current liabilities	13,646	9,835
Commitments and contingencies (notes 3, 4, 6, and 7)	<u>          </u>	<u>          </u>
Total Federal investment and liabilities	\$ <u>1,691,470</u>	<u>1,660,431</u>

The accompanying notes are an integral part of these statements.

# SOUTHEASTERN FEDERAL POWER PROGRAM

## Combined Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Electric (notes 2 (c) and 5)	\$ 164,456	155,298
Other	<u>4,472</u>	<u>3,699</u>
Total operating revenues	<u>168,928</u>	<u>158,997</u>
Operating expenses:		
Operations	35,666	35,275
Maintenance	21,533	22,049
Transmission	25,888	26,373
Purchased power	<u>3,151</u>	<u>4,541</u>
Total operating expenses, excluding depreciation	<u>86,238</u>	<u>88,238</u>
Depreciation	<u>23,320</u>	<u>17,093</u>
Total operating expenses	<u>109,558</u>	<u>105,331</u>
Net operating revenues	<u>59,370</u>	<u>53,666</u>
Interest expense:		
Interest on Federal investment (note 4)	67,653	65,583
Less interest charged to construction (note 2 (g))	<u>(30,117)</u>	<u>(26,097)</u>
Net interest expense	<u>37,536</u>	<u>39,486</u>
Net revenues	21,834	14,180
Accumulated net revenues (note 2 (c)):		
Beginning of year	<u>126,143</u>	<u>111,963</u>
End of year	\$ <u>147,977</u>	<u>126,143</u>

The accompanying notes are an integral part of these statements.

# SOUTHEASTERN FEDERAL POWER PROGRAM

## Combined Statements of Cash Flows

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 21,834	14,180
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	23,320	17,093
Interest on Federal investment	37,536	39,486
(Increase) decrease in assets:		
Accounts receivable	(403)	1,667
Other assets	209	(11)
Increase (decrease) in liabilities:		
Accounts payable	3,729	(2,451)
Accrued liabilities	82	(62)
Net cash provided by operating activities	<u>86,307</u>	<u>69,902</u>
Cash flows from investing activities - investment in utility plant	<u>(23,741)</u>	<u>(28,535)</u>
Cash flows from financing activities:		
Congressional appropriations	94,872	104,751
Transfers from other Federal agencies	572	1,130
Funds returned to Treasury	(157,703)	(150,699)
Net cash used in financing activities	<u>(62,259)</u>	<u>(44,818)</u>
Net increase (decrease) in cash	307	(3,451)
Cash at beginning of year	<u>32,448</u>	<u>35,899</u>
Cash at end of year	\$ <u>32,755</u>	<u>32,448</u>
Supplemental disclosure of noncash investing and financing activities:		
Interest charged to construction	\$ <u>30,117</u>	<u>26,097</u>

The accompanying notes are an integral part of these statements.

# SOUTHEASTERN FEDERAL POWER PROGRAM

## Notes to Combined Financial Statements

Years ended September 30, 1996 and 1995

### (1) Organization and Basis of Presentation

The Southeastern Federal Power Program (Program) consists of all activities associated with the production, transmission and disposition of all Federal power marketed under Section 5 of the Flood Control Act of 1944 (Flood Control Act) in the ten states of Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, and Kentucky. The Program includes certain accounts of two separate Federal Government agencies — the Southeastern Power Administration (Southeastern) of the United States Department of Energy and the United States Army Corps of Engineers (Corp of Engineers, or Corps). Southeastern and the Corps are separately managed and financed, and each maintains its own accounting records.

Southeastern purchases, transmits, and markets power within four separate power systems: Georgia-Alabama-South Carolina; Jim Woodruff; Cumberland Basin; and Kerr-Philpott. As of September 30, 1996, the four power systems include twenty-three hydroelectric generating projects owned and operated by the Corps of Engineers. The projects serve multiple purposes, including power, recreation, navigation, and flood control. However, these combined financial statements include only those expenses and net assets that are expected to be recovered through sales of power and other related income.

Costs of multipurpose Corps projects are allocated to individual purposes through a cost allocation process. The portion of total project costs allocated to power is included in the accompanying combined statements of assets, Federal investment, and liabilities as utility plant and Federal investment. An amount covering Corps employees' salaries, pensions, and other benefits allocated to power is included in operations and maintenance expenses.

### (2) Summary of Significant Accounting Policies

#### (a) General

The accompanying combined financial statements are prepared in accordance with accounting practices prescribed by the Department of Energy, including the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). These practices integrate generally accepted accounting principles with the accounting practices prescribed by the Federal Accounting Standards Advisory Board and the Office of Management and Budget, except where deviations therefrom are specifically authorized by Federal statute or allowed by Federal regulation. The Program's combined financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of Statement 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.

## SOUTHEASTERN FEDERAL POWER PROGRAM

### Notes to Combined Financial Statements

#### (b) Financing

Southeastern and the Corps of Engineers receive Congressional appropriations through the Department of Energy and the Department of Defense, respectively, to finance their operations. The Corps also receives appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act, Southeastern is responsible for repayment to the Federal Government, with interest, of its appropriations and the portion of Corps appropriations allocated for construction and operation of the power projects.

#### (c) Operating Revenues

Operating revenues are recorded on an accrual basis. Rates established under the requirements of the Flood Control Act are intended to provide sufficient revenues to repay specific system costs. Such costs include operating expenses; wheeling fees to connecting utilities for transmission of power to customers; and repayment to the Federal Government for its investment in power facilities and interest thereon. The rates are also required to be low enough to encourage widespread use of electricity at the lowest possible cost to preference customers, primarily public bodies and cooperatives, consistent with sound business principles.

The rates required under present Department of Energy policy make provision for recovery of the Government's capital investment within 50 years for power facilities. As discussed below, these assets are being depreciated on the straight-line method over their estimated useful lives, which currently average approximately 85 years. Thus, annual depreciation charges will continue beyond the period such costs have been recovered through revenues. The Program matches these costs and revenues by deferring the unmatched portion of the revenues as accumulated net revenues. Because the Program is a nonprofit Federal power marketing agency, accumulated net revenues are committed to repayment of the Federal investment.

Cash received is directly deposited with the United States Treasury and is reflected as "Funds returned to Treasury" in the accompanying statements of assets, Federal investment, and liabilities.

#### (d) Confirmation and Approval of Rates

Southeastern has established rate schedules for each of the four power systems. These rates generally may be adjusted at five-year intervals under the terms of Southeastern's current power sales contracts and Department of Energy Order RA 6120.2.

The Secretary of Energy (Secretary) has delegated authority to the Administrator of Southeastern to develop power and transmission rates for the power projects. The Deputy Secretary has the authority to confirm, approve, and place such rates in effect on an interim basis.

## SOUTHEASTERN FEDERAL POWER PROGRAM

### Notes to Combined Financial Statements

The Secretary has delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis; to remand; or to disapprove such rates. Refunds with interest, as determined by FERC, are authorized if rates finally approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No significant refunds are anticipated in connection with rates approved on an interim basis as of September 30, 1996.

(e) Cash

Cash consists of the unexpended balance of funds with the Treasury which have been appropriated by Congress for the Program-related activities of the Corps of Engineers and Southeastern.

(f) Utility Plant

Utility plant consists principally of generating facilities and is stated at cost, excluding contributions in aid of construction by entities outside the Program. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and interest on Federal funds used during construction. The cost of additions, replacements, and betterments is capitalized. Repairs and minor replacement costs are charged to operating expenses. The cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when removed from service.

(g) Interest Charged to Construction

Interest on Federal funds used during utility plant construction is included in the cost of completed projects.

(h) Depreciation

Pursuant to executive directives of the Corps of Engineers, depreciation of utility plant is computed based on the estimated service lives of the various classes of property using the straight-line method. Service lives currently being used for depreciation purposes average approximately 85 years for utility plant. Depreciation expense amounted to 1.5% and 1.1% of the original cost of generating plant in service during each of the years ended September 30, 1996 and 1995, respectively.

(i) Retirement Benefits

Substantially all employees engaged in Program activities participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Both are contributory pension plans and are not covered under the Employee Retirement Income Security Act of 1974. Pension benefit expense under CSRS is equivalent to 7% of eligible employee compensation and under FERS is variable based upon options chosen by the participant. Contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM).



## SOUTHEASTERN FEDERAL POWER PROGRAM

### Notes to Combined Financial Statements

The contribution levels as legislatively mandated do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations to OPM, not the Corps or Southeastern. The costs of health and life insurance benefit programs are similarly administered and paid through OPM.

#### (j) Use of Estimates

Management of Southeastern and the Corps has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

#### (3) Construction Work in Progress

Construction work in progress at September 30, 1996 primarily represents construction on the Richard B. Russell hydroelectric project located on the Savannah River. The total cost of the construction is expected to be \$929 million, of which \$894 million has been tentatively allocated to power. In addition, nearly 93% of operations and maintenance expenses associated with the construction have been tentatively allocated to power. A final determination of the construction costs, and operations and maintenance expenses to be allocated to power, will not be made until the entire project is put into service. The construction consists of eight new hydroelectric units, four of which were in service at September 30, 1996.

Construction appropriations for power generating facilities have been authorized by Congress through fiscal year 1997; however, no appropriations subsequent to fiscal year 1997 have been authorized. Delays or cancellation of these projects could result from Congressional suspension or termination of appropriations.

#### (4) Federal Investment

The Federal investment in each of the generating projects is to be repaid to the Treasury within 50 years from the time the facility is placed in service. There is not a requirement for repayment of a specific amount on an annual basis.

Southeastern follows the provisions of Department of Energy Order RA 6120.2 in setting priorities for repayment. Order RA 6120.2 requires that revenues be applied to pay operating expenses, excluding depreciation, and the interest on the net outstanding Federal investment, less interest charged to construction and interest credited on operating revenues deposited with the Treasury. Annual net revenues available for repayment are generally applied first against investments in projects bearing the highest interest rates. To the extent that funds are not available for payment of such operating expenses and interest, such amounts become payable from the subsequent year's revenue prior to any repayment of the Federal investment. At September 30, 1996, all such amounts were paid.

## SOUTHEASTERN FEDERAL POWER PROGRAM

### Notes to Combined Financial Statements

Interest is accrued annually on the unpaid balance of the Federal investment. Such interest is reflected as an expense in the accompanying statements of revenues, expenses, and accumulated net revenues, with a corresponding increase in the Federal investment. Interest rates applied to the net outstanding Federal investment range from 2 1/2% to 9 1/2%. The average rate was approximately 4.4% in 1996 and 4.0% in 1995. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies and have not necessarily been established to recover the interest costs to the Treasury to finance the investment.

(5) Major Customers

Revenues from one customer were approximately 14% and 12%, respectively, of total operating revenues during fiscal years 1996 and 1995.

(6) Workers' Compensation Benefits

The United States Department of Labor has notified other Federal agencies of their estimated actuarial liabilities for future workers' compensation benefits under the Federal Employees' Compensation Act. The Corps of Engineers has not allocated any of its workers' compensation liability for civilian operations to its district offices and, therefore, has not determined the liability that should be allocated to the power projects. The Corps also does not allocate the cost of current workers' compensation benefit payments to the power projects. The accompanying financial statements, therefore, do not include the current or estimated future costs of workers' compensation benefits for Corps employees.

(7) Contingencies

The Corps of Engineers and Southeastern are presently defendants in various claims in connection with Program activities. However, in the opinion of management and counsel, such claims will not result in a material liability to the Program.

In connection with a suit filed by the South Carolina Department of Wildlife and Marine Resources and other parties against the Secretary of the Army, an injunction has been issued against the operation of the four reversible pump turbines at the Richard B. Russell Dam pending the completion of environmental testing. In the opinion of Southeastern's management, the injunction will ultimately be dismissed and the Richard B. Russell Dam will become operational.

SOUTHEASTERN FEDERAL POWER PROGRAM  
GEORGIA-ALABAMA-SOUTH CAROLINA SYSTEM

Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995  
(in thousands)

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Utility plant:		
Plant in service	\$ 1,005,677	997,358
Less accumulated depreciation	<u>(237,144)</u>	<u>(220,619)</u>
Plant in service, net	768,533	776,739
Construction work in progress	<u>528,482</u>	<u>488,431</u>
Net utility plant	<u>1,297,015</u>	<u>1,265,170</u>
Current assets:		
Cash	22,491	21,758
Accounts receivable	8,038	8,069
Other	-	197
Total current assets	<u>30,529</u>	<u>30,024</u>
Total assets	\$ <u>1,327,544</u>	<u>1,295,194</u>
<u>Federal Investment and Liabilities</u>		
Federal investment:		
Congressional appropriations	\$ 1,834,390	1,771,589
U.S. Treasury transfers to continuing fund	5,815	5,815
Transfers from other Federal agencies	10,554	10,289
Accumulated interest on Federal investment	971,222	908,888
Funds returned to Treasury	<u>(1,486,529)</u>	<u>(1,381,078)</u>
Net outstanding Federal investment	1,335,452	1,315,503
Accumulated net revenues (deficit)	<u>(18,580)</u>	<u>(27,870)</u>
Total Federal investment	<u>1,316,872</u>	<u>1,287,633</u>
Current liabilities:		
Accounts payable	10,553	7,493
Accrued liabilities	119	68
Total current liabilities	<u>10,672</u>	<u>7,561</u>
Total Federal investment and liabilities	\$ <u>1,327,544</u>	<u>1,295,194</u>

SOUTHEASTERN FEDERAL POWER PROGRAM  
GEORGIA-ALABAMA-SOUTH CAROLINA SYSTEM

Statements of Revenues, Expenses, and Accumulated Net Revenues (Deficit)

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Electric	\$ 106,429	102,960
Other	<u>3,592</u>	<u>3,511</u>
Total operating revenues	<u>110,021</u>	<u>106,471</u>
Operating expenses:		
Operations	19,397	20,470
Maintenance	13,292	12,683
Transmission	15,555	15,600
Purchased power	<u>2,741</u>	<u>4,118</u>
Total operating expenses, excluding depreciation	<u>50,985</u>	<u>52,871</u>
Depreciation	<u>16,313</u>	<u>11,352</u>
Total operating expenses	<u>67,298</u>	<u>64,223</u>
Net operating revenues	<u>42,723</u>	<u>42,248</u>
Interest expense:		
Interest on Federal investment	62,334	60,484
Less interest charged to construction	<u>(28,901)</u>	<u>(25,607)</u>
Net interest expense	<u>33,433</u>	<u>34,877</u>
Net revenues	9,290	7,371
Accumulated net revenues (deficit):		
Beginning of year	<u>(27,870)</u>	<u>(35,241)</u>
End of year	\$ <u>(18,580)</u>	<u>(27,870)</u>

SOUTHEASTERN FEDERAL POWER PROGRAM  
GEORGIA-ALABAMA-SOUTH CAROLINA SYSTEM

Statements of Cash Flows

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 9,290	7,371
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	16,313	11,352
Interest on Federal investment	33,433	34,877
(Increase) decrease in assets:		
Accounts receivable	31	1,057
Other assets	197	(3)
Increase (decrease) in liabilities:		
Accounts payable	3,060	(2,450)
Accrued liabilities	51	(39)
Net cash provided by operating activities	<u>62,375</u>	<u>52,165</u>
Cash flows from investing activities - investment in utility plant	<u>(19,257)</u>	<u>(20,565)</u>
Cash flows from financing activities:		
Congressional appropriations	62,801	68,000
Transfers from other Federal agencies	265	412
Funds returned to Treasury	(105,451)	(103,525)
Net cash used in financing activities	<u>(42,385)</u>	<u>(35,113)</u>
Net increase (decrease) in cash	733	(3,513)
Cash at beginning of year	<u>21,758</u>	<u>25,271</u>
Cash at end of year	\$ <u>22,491</u>	<u>21,758</u>
Supplemental disclosure of noncash investing and financing activities:		
Interest charged to construction	\$ <u>28,901</u>	<u>25,607</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

JIM WOODRUFF SYSTEM

Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995  
(in thousands)

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Utility plant:		
Plant in service	\$ 31,020	30,184
Less accumulated depreciation	(11,603)	(11,263)
Net utility plant	<u>19,417</u>	<u>18,921</u>
Current assets:		
Cash	844	760
Accounts receivable	434	634
Other	-	17
Total current assets	<u>1,278</u>	<u>1,411</u>
Total assets	\$ <u>20,695</u>	<u>20,332</u>
<u>Federal Investment and Liabilities</u>		
Federal investment:		
Congressional appropriations	\$ 77,760	74,820
U.S. Treasury transfers to continuing fund	914	914
Transfers from other Federal agencies	2,103	2,077
Accumulated interest on Federal investment	17,610	17,474
Funds returned to Treasury	(89,433)	(84,226)
Net outstanding Federal investment	<u>8,954</u>	<u>11,059</u>
Accumulated net revenues	<u>11,343</u>	<u>9,093</u>
Total Federal investment	<u>20,297</u>	<u>20,152</u>
Current liabilities:		
Accounts payable	394	178
Accrued liabilities	4	2
Total current liabilities	<u>398</u>	<u>180</u>
Total Federal investment and liabilities	\$ <u>20,695</u>	<u>20,332</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

JIM WOODRUFF SYSTEM

Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Electric	\$ 5,297	5,631
Other	<u>11</u>	<u>12</u>
Total operating revenues	<u>5,308</u>	<u>5,643</u>
Operating expenses:		
Operations	1,125	1,237
Maintenance	784	1,405
Transmission	254	259
Purchased power	<u>410</u>	<u>423</u>
Total operating expenses, excluding depreciation	<u>2,573</u>	<u>3,324</u>
Depreciation	<u>343</u>	<u>375</u>
Total operating expenses	<u>2,916</u>	<u>3,699</u>
Net operating revenues	<u>2,392</u>	<u>1,944</u>
Interest expense:		
Interest on Federal investment	136	226
Less interest charged to construction	<u>6</u>	<u>(6)</u>
Net interest expense	<u>142</u>	<u>220</u>
Net revenues	2,250	1,724
Accumulated net revenues:		
Beginning of year	<u>9,093</u>	<u>7,369</u>
End of year	\$ <u>11,343</u>	<u>9,093</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

JIM WOODRUFF SYSTEM

Statements of Cash Flows

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 2,250	1,724
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	343	375
Interest on Federal investment	142	220
(Increase) decrease in assets:		
Accounts receivable	200	(130)
Other assets	17	-
Increase (decrease) in liabilities:		
Accounts payable	216	(249)
Accrued liabilities	<u>2</u>	<u>(1)</u>
Net cash provided by operating activities	<u>3,170</u>	<u>1,939</u>
Cash flows from investing activities - investment in utility plant	<u>(845)</u>	<u>140</u>
Cash flows from financing activities:		
Congressional appropriations	2,940	2,960
Transfers from other Federal agencies	26	5
Funds returned to Treasury	<u>(5,207)</u>	<u>(5,177)</u>
Net cash used in financing activities	<u>(2,241)</u>	<u>(2,212)</u>
Net increase (decrease) in cash	84	(133)
Cash at beginning of year	<u>760</u>	<u>893</u>
Cash at end of year	\$ <u>844</u>	<u>760</u>
Supplemental disclosure of noncash investing and financing activities		
Interest charged to construction	\$ <u>(6)</u>	<u>6</u>



SOUTHEASTERN FEDERAL POWER PROGRAM

CUMBERLAND BASIN SYSTEM

Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995  
(in thousands)

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Utility plant:		
Plant in service	\$ 372,452	368,343
Less accumulated depreciation	(100,084)	(96,249)
Net utility plant	<u>272,368</u>	<u>272,094</u>
Current assets:		
Cash	6,620	6,566
Accounts receivable	1,347	1,479
Other	20	15
Total current assets	<u>7,987</u>	<u>8,060</u>
Total assets	\$ <u>280,355</u>	<u>280,154</u>
<u>Federal Investment and Liabilities</u>		
Federal investment:		
Congressional appropriations	\$ 618,005	598,822
U.S. Treasury transfers to continuing fund	33	33
Transfers from other Federal agencies	4,203	3,925
Accumulated interest on Federal investment	240,539	235,503
Funds returned to Treasury	(689,528)	(655,028)
Net outstanding Federal investment	<u>173,252</u>	<u>183,255</u>
Accumulated net revenues	<u>105,203</u>	<u>95,603</u>
Total Federal investment	<u>278,455</u>	<u>278,858</u>
Current liabilities:		
Accounts payable	1,854	1,269
Accrued liabilities	46	27
Total current liabilities	<u>1,900</u>	<u>1,296</u>
Total Federal investment and liabilities	\$ <u>280,355</u>	<u>280,154</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

CUMBERLAND BASIN SYSTEM

Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Electric	\$ 40,029	35,443
Other	397	(18)
Total operating revenues	<u>40,426</u>	<u>35,425</u>
Operating expenses:		
Operations	10,214	9,639
Maintenance	6,406	6,650
Transmission	6,211	6,471
Total operating expenses, excluding depreciation	<u>22,831</u>	<u>22,760</u>
Depreciation	4,181	4,233
Total operating expenses	<u>27,012</u>	<u>26,993</u>
Net operating revenues	<u>13,414</u>	<u>8,432</u>
Interest expense:		
Interest on Federal investment	5,036	4,638
Less interest charged to construction	(1,222)	(484)
Net interest expense	<u>3,814</u>	<u>4,154</u>
Net revenues	9,600	4,278
Accumulated net revenues:		
Beginning of year	<u>95,603</u>	<u>91,325</u>
End of year	\$ <u>105,203</u>	<u>95,603</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

CUMBERLAND BASIN SYSTEM

Statements of Cash Flows

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 9,600	4,278
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	4,181	4,233
Interest on Federal investment	3,814	4,154
(Increase) decrease in assets:		
Accounts receivable	132	710
Other assets	(5)	5
Increase (decrease) in liabilities:		
Accounts payable	585	65
Accrued liabilities	19	(14)
Net cash provided by operating activities	<u>18,326</u>	<u>13,431</u>
Cash flows from investing activities - investment in utility plant	<u>(3,233)</u>	<u>(8,109)</u>
Cash flows from financing activities:		
Congressional appropriations	19,183	24,324
Transfers from other Federal agencies	278	737
Funds returned to Treasury	(34,500)	(30,208)
Net cash used in financing activities	<u>(15,039)</u>	<u>(5,147)</u>
Net increase in cash	54	175
Cash at beginning of year	<u>6,566</u>	<u>6,391</u>
Cash at end of year	\$ <u>6,620</u>	<u>6,566</u>
Supplemental disclosure of noncash investing and financing activities :		
Interest charged to construction	\$ <u>1,222</u>	<u>484</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

KERR-PHILPOTT SYSTEM

Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995  
(in thousands)

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Utility plant:		
Plant in service	\$ 90,901	90,450
Less accumulated depreciation	(32,410)	(29,882)
Net utility plant	<u>58,491</u>	<u>60,568</u>
Current assets:		
Cash	2,800	3,364
Accounts receivable	<u>1,585</u>	<u>819</u>
Total current assets	<u>4,385</u>	<u>4,183</u>
Total assets	\$ <u>62,876</u>	<u>64,751</u>
<u>Federal Investment and Liabilities</u>		
Federal investment:		
Congressional appropriations	\$ 239,367	229,419
U.S. Treasury transfers to continuing fund	908	908
Transfers from other Federal agencies	601	598
Accumulated interest on Federal investment	59,304	59,157
Funds returned to Treasury	(287,991)	(275,446)
Net outstanding Federal investment	<u>12,189</u>	<u>14,636</u>
Accumulated net revenues	<u>50,011</u>	<u>49,317</u>
Total Federal investment	<u>62,200</u>	<u>63,953</u>
Current liabilities:		
Accounts payable	653	785
Accrued liabilities	<u>23</u>	<u>13</u>
Total current liabilities	<u>676</u>	<u>798</u>
Total Federal investment and liabilities	\$ <u>62,876</u>	<u>64,751</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

KERR-PHILPOTT SYSTEM

Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Electric	\$ 12,701	11,264
Other	<u>472</u>	<u>194</u>
Total operating revenues	<u>13,173</u>	<u>11,458</u>
Operating expenses:		
Operations	4,930	3,929
Maintenance	1,051	1,311
Transmission	<u>3,868</u>	<u>4,043</u>
Total operating expenses, excluding depreciation	9,849	9,283
Depreciation	<u>2,483</u>	<u>1,133</u>
Total operating expenses	<u>12,332</u>	<u>10,416</u>
Net operating revenues	841	1,042
Interest on Federal investment	<u>147</u>	<u>235</u>
Net revenues	694	807
Accumulated net revenues:		
Beginning of year	<u>49,317</u>	<u>48,510</u>
End of year	\$ <u>50,011</u>	<u>49,317</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

KERR-PHILPOTT SYSTEM

Statements of Cash Flows

Years ended September 30, 1996 and 1995  
(in thousands)

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 694	807
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	2,483	1,133
Interest on Federal investment	147	235
(Increase) decrease in assets:		
Accounts receivable	(766)	30
Other assets	-	(13)
Increase (decrease) in liabilities:		
Accounts payable	(132)	183
Accrued liabilities	10	(8)
Net funds provided by operating activities	<u>2,436</u>	<u>2,367</u>
Cash flows from investing activities - investment in utility plant	<u>(406)</u>	<u>(1)</u>
Cash flows from financing activities:		
Congressional appropriations	9,948	9,467
Transfers from other Federal agencies	3	(24)
Funds returned to Treasury	(12,545)	(11,789)
Net funds used in financing activities	<u>(2,594)</u>	<u>(2,346)</u>
Net increase (decrease) in cash	(564)	20
Cash at beginning of year	<u>3,364</u>	<u>3,344</u>
Cash at end of year	\$ <u>2,800</u>	<u>3,364</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995  
(in thousands)

Assets	1996			1995		
	Corps of Engineers	Southeastern Power Administration	Total	Corps of Engineers	Southeastern Power Administration	Total
Utility plant:						
Plant in service	\$ 1,499,234	816	1,500,050	1,485,370	965	1,486,335
Less accumulated depreciation	(380,786)	(455)	(381,241)	(357,491)	(522)	(358,013)
Plant in service, net	<u>1,118,448</u>	<u>361</u>	<u>1,118,809</u>	<u>1,127,879</u>	<u>443</u>	<u>1,128,322</u>
Construction work in progress	528,482	-	528,482	488,431	-	488,431
Net utility plant	<u>1,646,930</u>	<u>361</u>	<u>1,647,291</u>	<u>1,616,310</u>	<u>443</u>	<u>1,616,753</u>
Current assets:						
Cash	16,433	16,322	32,755	12,860	19,588	32,448
Accounts receivable	159	11,245	11,404	129	10,872	11,001
Other	20	-	20	229	-	229
Total current assets	<u>16,612</u>	<u>27,567</u>	<u>44,179</u>	<u>13,218</u>	<u>30,460</u>	<u>43,678</u>
Total assets	<u>\$ 1,663,542</u>	<u>27,928</u>	<u>1,691,470</u>	<u>1,629,528</u>	<u>30,903</u>	<u>1,660,431</u>
<u>Federal Investment and Liabilities</u>						
Federal investment:						
Congressional appropriations	\$ 2,460,592	308,930	2,769,522	2,385,512	289,138	2,674,650
U.S. Treasury transfers to continuing fund	-	7,670	7,670	-	7,670	7,670
Transfers from other Federal agencies	16,438	1,023	17,461	15,866	1,023	16,889
Accumulated interest on Federal investment	1,288,188	487	1,288,675	1,220,562	460	1,221,022
Funds returned to Treasury	(2,261,268)	(292,213)	(2,553,481)	(2,125,991)	(269,787)	(2,395,778)
Net outstanding Federal investment	<u>1,503,950</u>	<u>25,897</u>	<u>1,529,847</u>	<u>1,495,949</u>	<u>28,504</u>	<u>1,524,453</u>
Accumulated net revenues	147,977	-	147,977	126,143	-	126,143
Total Federal investment	<u>1,651,927</u>	<u>25,897</u>	<u>1,677,824</u>	<u>1,622,092</u>	<u>28,504</u>	<u>1,650,596</u>
Current liabilities:						
Accounts payable	11,615	1,839	13,454	7,436	2,289	9,725
Accrued liabilities	-	192	192	-	110	110
Total current liabilities	<u>11,615</u>	<u>2,031</u>	<u>13,646</u>	<u>7,436</u>	<u>2,399</u>	<u>9,835</u>
Total Federal investment and liabilities	<u>\$ 1,663,542</u>	<u>27,928</u>	<u>1,691,470</u>	<u>1,629,528</u>	<u>30,903</u>	<u>1,660,431</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1996 and 1995  
(in thousands)

	1996			1995		
	Corps of Engineers	Southeastern Power Administration	Total	Corps of Engineers	Southeastern Power Administration	Total
Operating revenues:						
Electric	\$ 131,910	32,546	164,456	121,073	34,225	155,298
Other	<u>4,459</u>	<u>13</u>	<u>4,472</u>	<u>3,685</u>	<u>14</u>	<u>3,699</u>
Total operating revenues	<u>136,369</u>	<u>32,559</u>	<u>168,928</u>	<u>124,758</u>	<u>34,239</u>	<u>158,997</u>
Operating expenses:						
Operations	32,310	3,356	35,666	32,431	2,844	35,275
Maintenance	21,488	45	21,533	22,008	41	22,049
Transmission	-	25,888	25,888	-	26,373	26,373
Purchased power	-	<u>3,151</u>	<u>3,151</u>	-	<u>4,541</u>	<u>4,541</u>
Total operating expenses, excluding depreciation	<u>53,798</u>	<u>32,440</u>	<u>86,238</u>	<u>54,439</u>	<u>33,799</u>	<u>88,238</u>
Depreciation	23,229	91	23,320	16,683	410	17,093
Total operating expenses	<u>77,027</u>	<u>32,531</u>	<u>109,558</u>	<u>71,122</u>	<u>34,209</u>	<u>105,331</u>
Net operating revenues	<u>59,342</u>	<u>28</u>	<u>59,370</u>	<u>53,636</u>	<u>30</u>	<u>53,666</u>
Interest expense:						
Interest on Federal investment	67,625	28	67,653	65,553	30	65,583
Less interest charged to construction	<u>(30,117)</u>	-	<u>(30,117)</u>	<u>(26,097)</u>	-	<u>(26,097)</u>
Net interest expense	<u>37,508</u>	<u>28</u>	<u>37,536</u>	<u>39,456</u>	<u>30</u>	<u>39,486</u>
Net revenues	21,834	-	21,834	14,180	-	14,180
Accumulated net revenues:						
Beginning of year	126,143	-	126,143	111,963	-	111,963
End of year	<u>\$ 147,977</u>	<u>-</u>	<u>147,977</u>	<u>126,143</u>	<u>-</u>	<u>126,143</u>



SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Statements of Cash Flows

Years ended September 30, 1996 and 1995  
(in thousands)

	1996			1995		
	Corps of Engineers	Southeastern Power Administration	Total	Corps of Engineers	Southeastern Power Administration	Total
Cash flows from operating activities:						
Net revenues	\$ 21,834	-	21,834	14,180	-	14,180
Adjustments to reconcile net revenues to net cash provided by operating activities:						
Depreciation	23,229	91	23,320	16,683	410	17,093
Interest on Federal investment	37,508	28	37,536	39,456	30	39,486
(Increase) decrease in assets:						
Accounts receivable	(30)	(373)	(403)	48	1,619	1,667
Other assets	209	-	209	(11)	-	(11)
Increase (decrease) in liabilities:						
Accounts payable	4,179	(450)	3,729	(2,584)	133	(2,451)
Accrued liabilities	-	82	82	-	(62)	(62)
Net cash provided by operating activities	86,929	(622)	86,307	67,772	2,130	69,902
Cash flows from investing activities - investment in utility plant	(23,732)	(9)	(23,741)	(28,368)	(167)	(28,535)
Cash flows from financing activities:						
Congressional appropriations	75,080	19,792	94,872	82,328	22,423	104,751
Transfers from other Federal agencies	572	-	572	1,130	-	1,130
Funds returned to Treasury	(135,276)	(22,427)	(157,703)	(125,275)	(25,424)	(150,699)
Net cash used in financing activities	(59,624)	(2,635)	(62,259)	(41,817)	(3,001)	(44,818)
Net increase (decrease) in cash	3,573	(3,266)	307	(2,413)	(1,038)	(3,451)
Cash at beginning of year	12,860	19,588	32,448	15,273	20,626	35,899
Cash at end of year	16,433	16,322	32,755	12,860	19,588	32,448
Supplemental disclosure of noncash investing and financing activities - interest charged to construction	\$ 30,117	-	30,117	26,097	-	26,097

SOUTHEASTERN FEDERAL POWER PROGRAM

Amount and Allocation of Plant Investment

September 30, 1996  
(in thousands)

Projects in Service and Other	Total (unaudited)	Allocated to				Percent of total plant investment returnable from power revenues (unaudited)
		Reimbursable	Navigation	Flood control	Nonreimbursable (unaudited) Fish and wildlife	
		Power			Recreation	Other
Allatoona	\$ 56,217	38,219	-	8,617	-	232 (a)
Buford	69,067	49,724	2,062	4,667	12,614	-
Carters	137,158	115,739	-	13,426	7,993	-
J. Strom Thurmond	100,073	83,872	4,420	4,061	7,720	-
Walter F. George	135,965	72,944	53,750	-	8,923	-
Hartwell	136,626	121,510	3,522	4,454	7,140	-
Robert F. Henry	94,261	58,726	23,639	-	11,896	-
Millers Ferry	73,481	39,329	30,116	-	4,036	-
West Point	152,362	59,659	2,608	19,871	54,077	-
Richard B. Russell	929,126	893,934	-	3,325	31,867	-
Marketing facilities	506	506	-	-	-	-
Contributions in aid of construction	(3)	(3)	-	-	-	-
Total Georgia-Alabama-South Carolina System	1,884,839	1,534,159	120,117	58,421	16,495	232
Jim Woodruff	68,650	31,004	31,766	-	5,880	-
Marketing facilities	16	16	-	-	-	-
Total Jim Woodruff System	68,666	31,020	31,766	-	5,880	-
Berkley	172,489	47,778	99,219	18,303	-	-
J. Percy Priest	65,584	10,196	-	25,758	-	-
Cheatham	47,867	21,362	22,379	-	-	-
Cordell Hull	89,945	42,284	16,957	-	-	6,363 (c)
Old Hickory	67,740	38,823	24,071	-	-	-
Center Hill	79,697	39,704	-	28,276	-	697 (b)
Dale Hollow	34,510	20,137	-	10,642	-	-
Wolf Creek	210,251	124,307	-	79,539	-	246 (b)
Laurel	50,714	26,914	-	-	17,769	6,031 (c)
Stonewall Jackson	806	806	-	-	-	-
Marketing facilities	196	196	-	-	-	-
Contributions in aid of construction	(55)	(55)	-	-	-	-
Total Cumberland Basin System	819,744	372,452	162,626	162,518	108,811	13,337
John H. Kerr	112,002	82,225	-	21,707	-	318 (a)
Philpott	18,745	8,578	-	8,210	-	-
Marketing facilities	98	98	-	-	-	-
Total Kerr-Philpott System	130,845	90,901	29,917	-	9,709	318
Total	\$ 2,904,094	2,028,532	314,509	250,856	16,495	13,887

(a) Water supply  
(b) World War II suspension costs  
(c) Area redevelopment

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

The Administrator  
Southeastern Power Administration  
United States Department of Energy:

We have audited the combined financial statements of the Southeastern Federal Power Program (Program) as of and for the year ended September 30, 1996, and have issued our report thereon dated March 28, 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*. 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 individual combined financial statements is the responsibility of the management of Southeastern Power Administration, (Southeastern) a unit of the United States Department of Energy (DOE), and of the Army Corps of Engineers (Corps), a unit of the United States Department of Defense. As part of obtaining reasonable assurance about whether the combined financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the combined financial statements and certain other laws and regulations designated by OMB and DOE, including:

- Flood Control Act of 1944, as amended
- DOE Order RA 6120.2, Power Marketing Administration Financial Reporting
- 10 CFR 903 - Power and Transmission Rates
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Chief Financial Officers (CFO) Act of 1990
- 18 CFR Part 300
- DOE Delegation Order 02304-108
- Budget and Accounting Procedures Act
- Corps Engineering Regulation 37-2-10
- Anti-deficiency Act

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 Southeastern's most recent FMFIA reports with the evaluation we conducted of the entity's internal control structure.

The Administrator  
Southeastern Power Administration  
United States Department of Energy

The results of our tests disclosed the following instances of noncompliance, all of which were included in our prior year report which management has considered but are still pending resolution or require further attention, that are required to be reported herein under *Government Auditing Standards*, for which the ultimate resolution cannot presently be determined. Accordingly, the financial statement impact that may result has not been recognized in the combined power system financial statements.

1. **Recovery of Post-Employment Benefit Costs**

**Audit Comment**

Federal statute requires power marketing agencies to establish rates at levels sufficient to allow for repayment of the Federal investment and related interest, plus power project operating costs. In our report on the Internal Control Structure for the year ended September 30, 1994 (1994 report), we reported that Southeastern Power Administration is not including the costs of certain post-employment benefits paid by the Office of Personnel Management in rates charged to utility users, and is therefore not fully recovering the costs of operating power projects. Our report also included a recommendation that Southeastern work with the Office of Personnel Management to obtain the information necessary to include post-employment benefit costs in its rate structure and accrue such costs in the combined financial statements.

The Department's Chief Financial Officer, in a Departmental Position issued September 29, 1995, concurred in principle with our recommendation. The Departmental Position states, "Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* (Statement 4) requires, for cost accounting purposes, that employee benefits incurred by 'responsibility segments' be directly traced or assigned to outputs, regardless of whether they are funded by the reporting entity or by direct appropriation to the trust fund." Agencies are not required to implement this requirement of the standard until implementation guidance is issued by the Office of Management and Budget (OMB). When this guidance is issued by OMB, the Department will implement the requirement accordingly."

Based on the departmental Position, our 1995 report stated that the program cannot take action on our recommendation to recover all power project costs until implementation guidance for Statement 4 is issued by the OMB.

**Audit Recommendation**

No further recommendation is made.

**Management Response**

We concur with the audit comment.

The Administrator  
Southeastern Power Administration  
United States Department of Energy

2. Recovery of Workers' Compensation Costs

**Audit Comment**

Federal statute requires power marketing agencies to establish power rates at levels sufficient to allow for repayment of the Federal investment and related interest, plus power project operating costs. The Corps of Engineers pays workers' compensation benefits related to its civilian operations from its headquarters, and does not allocate the cost of such claims to its district offices. Therefore, the cost of the Corps workers' compensation benefits is presently excluded from Southeastern's rate structure and from the combined financial statements.

On November 22, 1995, the United States Department of Labor notified other Federal agencies of their estimated actuarial liabilities as of September 30, 1995 for future workers' compensation benefits under the Federal Employees' Compensation Act (FECA). The Corps of Engineers has not allocated any of its current or future liability for civilian operations to its district offices and, therefore, has not determined the liability that should be allocated to the power projects in the Southeastern Federal Power Program.

Our 1995 report recommends that the Corps of Engineers allocate an appropriate portion of its liability for future workers' compensation claims to projects operated for the Program. The Corps' South Atlantic Division and Ohio River Division offices responded that they could not implement our recommendation until instructed to do so by Corps of Engineers Headquarters. No such instructions were issued during 1996.

**Audit Recommendations**

1. The Corps of Engineers should allocate an appropriate portion of the costs of current workers' compensation claims and its estimated actuarial liability for future claims to projects operated for the Program.
2. Southeastern Power Administration should include workers compensation costs allocated by the Corps to projects operated by the Program in the Program's financial statements and in its rate structure.

**Management Response**

The Workers' Compensation Costs are paid by headquarters and no breakdown by project is forwarded to this office. Any change in procedure would have to come from headquarters, and not from this office.

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The Administrator  
Southeastern Power Administration  
United States Department of Energy

We considered these instances of noncompliance in forming our opinion on whether the 1996 combined financial statements of the Southeastern Federal Power Program are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 28, 1997, on those combined financial statements.

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 Southeastern Power Administration, the United States Army Corps of Engineers, 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

March 28, 1997

# KPMG Peat Marwick LLP

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

## Independent Auditors' Report on Internal Control

The Administrator  
Southeastern Power Administration  
United States Department of Energy:

We have audited the combined financial statements of Southeastern Federal Power Program (Program) as of and for the year ended September 30, 1996, and have issued our report thereon dated March 28, 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 financial statements are free of material misstatement.

The management of Southeastern Power Administration (Southeastern), a unit of the United States Department of Energy (DOE), and the Army Corps of Engineers, a unit of the United States Department of Defense, are 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 financial statements and any other laws and regulations that OMB, Southeastern'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 with 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  
Southeastern Power Administration  
United States Department of Energy

In planning and performing our audit of the combined financial statements of the Program for the year ended September 30, 1996, 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 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.

Southeastern has responsibility for certain administrative and financial reporting activities of the Program. Accordingly, comments and recommendations contained in this report will be communicated through Southeastern Power Administration to the Army Corps of Engineers.

We noted matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention that, in our judgment relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of the internal control would not necessarily disclose all matters in the internal controls that might be reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the specific 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted the following matter involving internal control and its operation that we consider to be a material weakness:

1. System Conversion

**Audit Comment**

Generally accepted accounting principles require transactions to be recorded in the period in which events underlying the transactions occur. The Corps of Engineers' South Atlantic Division converted its financial management system from the Corps of Engineers Management Information System (COEMIS) to the Corps of Engineers Financial Management System (CEFMS) during the year ended September 30, 1996. CEFMS was not designed to account for the allocation of plant investment to the various purposes (power, navigation, flood control, fish and wildlife, recreation, and other) associated with multi-purpose projects. As a result, Corps personnel were required to calculate the allocations manually.



The Administrator  
Southeastern Power Administration  
United States Department of Energy

The extensive time required to complete the manual allocations and other conversion issues preoccupied the attention of accounting personnel and caused certain errors and omissions from the project financial statements, including the following:

- Interest during construction was not recorded by the Mobile district office as required by Army Corps of Engineering Regulation 37-2-10. The Corps has not determined the amount of interest that should have been recorded.
- No completed construction projects were transferred to plant in service by the Mobile or Savannah district offices. The Corps has not determined the cost of the projects that should have been transferred.
- Water supply revenue for the Allatoona project was not recorded and billed by the Mobile district office. This revenue approximated \$700,000 in the preceding fiscal year.

In addition to these errors and omissions, the Corps did not complete the financial statements for the multi-purpose projects until March 1997, nearly four months after the statements are normally prepared. This delay was due in part to the complexities of CEFMS' report generation capabilities, combined with an inadequate understanding of such capabilities on the part of Corps accounting personnel.

#### **Audit Recommendation**

The Corps of Engineers' South Atlantic Division should:

1. Develop or modify its financial information systems to produce financial statements for multi-purpose projects in a timely manner;
2. Provide CEFMS training to accounting personnel to improve their utilization of the system's capabilities;
3. Compute and record interest during construction as required by Army Corps of Engineering Regulation 37-2-10;
4. Transfer completed projects to plant in service in a timely manner; and
5. Bill and record water supply revenue as earned.

#### **Management Response**

We concur with the audit recommendation.

\*\*\*\*\*

The Administrator  
Southeastern Power Administration  
United States Department of Energy

We considered the material weakness described above in forming our opinion as to whether the 1996 combined financial statements of the Southeastern Federal Power Program are presented fairly in all material respects in accordance with generally accepted accounting principles, and this report does not affect our report on those combined financial statements dated March 28, 1997.

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 Southeastern Power Administration, the United States Army Corps of Engineers, 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

March 28, 1997

IG Report No. ER-FC-98-01

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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?
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