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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

ALASKA POWER ADMINISTRATION FEDERAL POWER PROGRAM
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 1993 AND SEPTEMBER 30, 1992
WITH AUDITORS' REPORTS THEREON

Report Number: WR-F-94-01
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Western Regional Audit Office
Albuquerque, New Mexico 87185

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SEPTEMBER 30, 1993 AND SEPTEMBER 30, 1992
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Overview

MISSION

Alaska Power Administration's mission is to operate and maintain Alaska's Federal hydroelectric generation and transmission facilities, the Snettisham and Ekiluna Projects, in an efficient, reliable, safe, and environmentally-sensitive manner. The power from the facilities is marketed in a manner so as to repay their Federal debt and provide widespread use of the power resources at the lowest cost to consumers consistent with sound business principles.

Food for Thought: If you saw 1,000 square miles a day, every day for a whole year, you would have only seen 62% of the State of Alaska.

FISCAL YEAR 1993 ACCOMPLISHMENTS

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

- Awarded Snettisham joint operations and line maintenance contract for three years at a cost of \$1,023,000.
- A contract in the amount of \$364,000 was awarded for the replacement of one of the 39-year-old transformers at Eklutna.
- The Bureau of Reclamation did a study of the units at the Eklutna powerplant. The study analyzed the condition of the existing generating units and offered recommendations on how to restore the units to like new condition.
- The liner for the fuel farm containment area at the Snettisham Project was replaced. This replacement restores the integrity of the fuel farm's secondary containment system.
- Flooding of the Matanuska River collapsed a transmission line structure and weakened two other structures on the Eklutna-Palmer 115 kV Line. Project and contract personnel removed and rebuilt the collapsed structure and strengthened the two others.
- The Snettisham Project experienced seven unexplained line outages in four months on the Snettisham-Thane 138 kV Line. The last outage occurred on September 26, 1993. Engineers and technicians from Western Area Power Administration are assisting APA in determining the cause of these outages. Extensive monitoring equipment has been installed to help determine the cause of these "mystery" outages.
- Maintained 99.5% availability of both generation and transmission capacity.
- Over 70,000 hours worked without a reportable accident.

All APA staff received introductory training on Total Quality Management (TQM) to increase our awareness of the TQM process. The following was completed:

-
- APA continues its review of existing policies and guidance memorandums for ones that can be rewritten or eliminated to reduce unnecessary administrative burdens.
 - Several areas of authority and/or decision making responsibilities were decentralized from our Headquarters Office and placed at the appropriate operating project offices.
 - By empowering our people and implementing the Improvement Suggestion Program, we have eliminated several unnecessary work processes, providing increased efficiency, resulting in some overhead cost reduction.
 - A 20-year firm Power Sales Contract for the Snettisham Project was established. This contract provides assurance the government will market the firm electrical energy produced at Snettisham through the year 2013. The Eklutna Power Sales Contracts will be extended for a year to facilitate new contract development with the Eklutna customers.
 - Encouraged the use of surplus, clean, renewable hydroelectric energy with special dual fuel rates that accounted for 10,855 mwh of incentive sales that returned an additional \$138,000 in revenue to the U.S. Treasury. The fuel oil saved through the "dual fuel" program was 340,000 gallons that was replaced with 9,847 mwh of clean hydro generated electricity. The wood smoke replacement program accounted for the balance of surplus energy marketed at 1,008 mwh. This program reduced air pollution in problem areas due to wood smoke.
 - APA had a banner year by succeeding in reaching 98% of its procurements awarded to small businesses.
 - In coordination with GSA and local contractors, APA saved the ratepayers approximately \$100,000 and returned to the taxpayer over \$12,000. This was accomplished by encouraging the recycling versus the disposal of over 400 tons of scrap materials.

FUTURE

Eklutna Replacements

The Eklutna powerplant has provided reliable power deliveries for 39 years. However, the plant equipment is showing signs of ageing that are decreasing the reliability of this facility. We replaced the main power cables, that were showing signs of imminent failure, in FY 1992. Due to increasing indications of deterioration of the main power

transformers at the Eklutna Project, we re-prioritized current year funds to initiate a \$678,000 manufacturing and installation contract for replacement of the mission-essential transformers. The transformers are expected to be placed in service by FY 1995, about a year earlier than that which could have been achieved through the normal budget cycle.

This year's generator study by the Bureau of Reclamation (USBR) confirmed the deteriorating condition of the generating units at Eklutna. The generating units are at the end of their useful service lives and may fail at any time. Replacement of both units are estimated at \$3,200,000 and scheduled to take place in 1996, pending funding in FY 1995 and 1996. These replacements will ensure another 40 years of reliable electrical energy deliveries from the Eklutna Project.

Rate Action and Power Sales Contracts

The current rates for the Eklutna Project expire October 1, 1994, and the Power Sales Contract expires January 1, 1995. Work on establishing new rates and Power Sales Contracts for the Eklutna Project has started. The allocations will be made, Power Sales Contracts established, and new rates developed in FY 1994. The public information and comment forums will be held in FY 1994.

Divestiture

A Bill to authorize sale of Alaska Power Administration assets will most likely be introduced to Congress in 1994.

RESULTS OF OPERATIONS

In FY 1993, APA had combined project sales and revenues totalling 409 million kWh and \$10,250,000 respectively. This was APA's highest revenue year on record. Revenues exceeded annual expenses requiring repayment by \$1,718,000; and receipts exceeded outlays for a net return of \$6,534,000 to the U.S. Treasury.

SALES AND REVENUES BY PROJECT

The Eklutna Project provides roughly 5% of the Anchorage and Matanuska-Susitna Valley area electrical load requirement. Firm power is sold at wholesale for 1.7 cents/kWh, among the lowest cost energy available. As such, our customers generally take all the energy that can be produced from water flowing into the Eklutna reservoir. As in FY 1992, the reservoir began the year significantly below (about 8 feet) its normal operating level. We were anticipating sales of only 153 million kWh, about 7% less than the plant's average generation. However, inflows in the second half of the year were strong, leading to sales of 173 million kWh; approximately 5% above the average generation. The reservoir ended the year a foot above normal ensuring a high likelihood of average generation in FY 1994. Revenues from the sales amounted to \$2,906,000 in FY 1993; an increase over the prior year of 8.6%.

The Snettisham Project, fed by the Long Lake and Crater Lake reservoirs, currently provides about 80% of the Juneau area electrical load requirement. Our customer provides the remaining 20% with their 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 1993 were 236 million kWh, providing record revenues of \$7,344,000. Although revenues were up 9% from the previous year, sales were down from that planned by 5%. Sales were less than anticipated, as in the FY 1992, because of warmer than normal weather. The warm weather reduced the local area heating load which comprises a significant portion of the total area load.

EXPENSES

Combined project operation and maintenance expenses were \$3,715,000; up only 1% from 1992, which was down 6% from 1991. The expenses include costs for an engineering study of the condition of the 39-year-old generators and turbines at Eklutna.

The study, performed by the USBR, provided

strong technical data and analysis of several options for replacement or upgrade of the units. Overall, operation and maintenance expenses were low, averaging just 0.9 cents/kWh; a 10% improvement over the previous year's average of 1.0 cents/kWh.

Interest expense on the unpaid Federal investment of \$4,817,000 was down slightly in FY 1993 after taking a 66% jump in FY 1992. The jump followed the transfer of \$65,174,000 in Crater Lake unit assets from the U.S. Army Corps of Engineers (COE). In FY 1993, we capitalized another \$5,760,000 for additional COE Crater Lake construction activity and interest during construction through the end of FY 1993. This additional investment will raise the total interest expense again in FY 1994. Interest on the unpaid investment at the Snettisham Project now accounts for over 95% of the total agency interest expense; the remaining 5% is for unpaid Eklutna Project investment.

DEBT SERVICE

Annual revenues were sufficient to pay annual operation maintenance expenses, interest expenses, and provide principal payments of \$1,718,000 to apply against the unpaid Federal investment. The principal payment was up 84% over that paid the previous year. The increase was due largely to increased sales at both Projects. Although up significantly, the principal paid was about \$79,000 less than that planned resulting in a debt service coverage ratio for FY 1993 of 99%. The average debt service coverage ratio for the last five years was an even 100%.

CUMULATIVE FEDERAL INVESTMENT PAID AND UNPAID

REPAYMENT

The total Federal investment for repayment through the end of FY 1993 is \$205.4 million. The investment is up \$5.8 million from the previous year primarily for additional interest and costs transferred from the COE for their work in constructing the Crater Lake addition

to the Snettisham Project. Over the life of the Projects, the ratepayers have repaid \$39.2 million in principal, in addition to \$52.6 million in interest and \$51.8 million for operation and maintenance. The unpaid balance remaining due to the U.S. Treasury is \$166.2 million. On a Project basis, the 39-year-old Eklutna facility has repaid 78% of its investment, and the younger Snettisham facility has repaid 8% of its investment.

NET CASH FLOW

The net cash flow to the Treasury Department measures APA's receipts less actual cash outlays for operation and maintenance of the facilities. In FY 1993, APA revenues received exceeded cash outlays by \$6.6 million.

APA COMBINED PROJECTS NET CASH FLOW TO TREASURY

SYSTEM RELIABILITY

The availability rate measures the total number of hours the systems were in service over the total number of hours they were needed for operation. This measure excludes system downtime for regularly-scheduled maintenance.

In FY 1993, the generation and transmission systems maintained an average 99.9% and 99.7% availability rate, respectively; a slight improvement over the previous year. Restrictions placed on the units at Eklutna did prevent excessive downtime due to overheating, resulting in good generation system availability. The transmission system availability rate was also good in spite of the several unexplained outages on the Snettisham line and the lost tower on the Eklutna-to-Palmer line caused by the shifting of the Matanuska River.

Historically, the systems are averaging over 99% availability. In FY 1989, the transmission availability rate dropped to 96% due to downed towers caused by avalanches at each facility. In FY 1990, the generation availability dropped to 98% due to initial problems during the start-up of the Crater Lake unit at Snettisham.

ALASKA POWER ADMINISTRATION FEDERAL POWER PROGRAM
JUNEAU, ALASKA

For the Year Ended September 30, 1993

PART I
Opinion on Financial Statements
and Supplemental Information

Administrator
Alaska Power Administration
United States Department of Energy:

We have audited the combined statements and notes contained in the annual financial statements of the Alaska Power Administration (APA) as on September 30, 1993 and 1992, and for the years then ended. These statements are the responsibility of APA management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audit in accordance with generally accepted *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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined statement presentation. We believe our audit provides a reasonable basis for our opinion.

The summary of significant accounting policies included in the note (1) to the combined statements describes the accounting standards used to prepare APA's combined statements.

In our opinion, the combined statements, including the notes to the combined statements, referred to above present fairly, in all material respects, the assets, Federal investment and liabilities of the Alaska Power Administration as of September 30, 1993 and 1992, and the results of its operations, cash flows, and reconciliation from budget to actual expenses for the years then ended on the basis of accounting as described in note 1 to the combined statements.

Our audit was conducted for the purpose of forming an opinion on the combined statements taken as a whole. The information presented in the Overview and Supplemental Financial and Management Information is not a required part of the combined statements, but is supplementary information

required by OMB Bulletin 94-01. 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 audit of the combined financial statements and, accordingly, we do not express an opinion on it. Performance information is provided in our auditors' report on internal control in accordance with OMB Bulletin 93-06.

The combining information is presented for purposes of additional analysis and is not a required part of the combined statements. Such information has been subjected to the auditing procedures applied in the audit of the combined statements and, in our opinion, such information is fairly stated in all material respects in relation to the combined statements taken as a whole.

December 9, 1993

Office of Inspector General
Office of Inspector General

cc: Director, Audit Liaison Division

ALASKA POWER ADMINISTRATION
Combined Statement of Assets, Federal Investment and Liabilities
September 30, 1993 and 1992

<u>Assets</u>	<u>1993</u>	<u>1992</u>
Utility plant (notes 3 and 4):		
Plant in service	\$ 186,324,025	180,997,232
Accumulated depreciation	<u>(33,695,246)</u>	<u>(31,453,407)</u>
Net utility plant	<u>152,628,779</u>	<u>149,543,825</u>
Current assets:		
Unexpended appropriations	1,210,844	899,800
Accounts receivable	841,111	1,330,781
Imprest Fund	<u>7,000</u>	<u>-</u>
Total current assets	2,058,955	2,230,581
Deferred interest on Federal investment, net of accumulated amortization	<u>17,988,826</u>	<u>18,417,131</u>
Total assets	<u>\$ 172,676,560</u>	<u>170,191,537</u>
 <u>Federal Investment and Liabilities</u>		
Federal investment:		
Investment of U.S. Government (note 4)		
Accumulated Congressional appropriations	\$ 82,523,388	78,833,877
Interest during construction	11,051,497	11,051,497
Transfers from other Federal agencies	140,942,183	135,182,965
Interest on Federal investment	<u>71,887,329</u>	<u>67,070,621</u>
Gross investment of U.S. Government	<u>306,404,397</u>	<u>292,138,960</u>
Funds returned to U.S. Treasury	(138,730,764)	(128,435,765)
Less funds related to CSRS (note 6)	<u>395,527</u>	<u>283,679</u>
	<u>(138,335,237)</u>	<u>(128,152,086)</u>
Net investment of U.S. Government	168,069,160	163,986,874
Accumulated net revenues	<u>4,410,765</u>	<u>5,789,641</u>
Total Federal investment	172,479,925	169,776,515
Current liabilities-accounts payable and accrued liabilities	<u>196,635</u>	<u>415,022</u>
Total Federal investment and liabilities	<u>\$ 172,676,560</u>	<u>170,191,537</u>

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION
Combined Statement of Operations and Changes in Net Position
Years Ended September 30, 1993 and 1992

	<u>1993</u>	<u>1992</u>
Revenues (note 2):		
Sales of electric power:		
Cooperatives	\$ 1,313,881	1,249,693
Municipalities	1,500,307	1,333,249
Privately owned utilities	7,265,065	6,693,978
Other	58,413	55,255
Wheeling	88,782	82,117
Other operating revenues	<u>23,030</u>	<u>23,123</u>
Total revenues	<u>10,249,478</u>	<u>9,437,415</u>
Expenses (note 4)		
Operation and maintenance	3,715,024	3,666,405
Depreciation and amortization	2,873,407	2,868,790
Other, net	<u>(54,210)</u>	<u>13,304</u>
Total expenses before loss and interest	<u>6,534,221</u>	<u>6,548,499</u>
Loss on sale of fixed asset	<u>277,426</u>	<u>-</u>
Net revenues before interest expense	3,437,831	2,888,916
Interest expense (note 4)		
Interest of Federal investment	<u>4,816,707</u>	<u>4,825,823</u>
Net revenues (expenses)	<u>\$ (1,378,876)</u>	<u>(1,936,907)</u>
Net position, beginning balance	\$ 5,789,641	7,726,548
Excess (shortage) of revenues over total expenses	<u>(1,378,876)</u>	<u>(1,936,907)</u>
Net position, ending balance	<u>\$ 4,410,765</u>	<u>5,789,641</u>

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION
Combined Statement of Cash Flows
Years Ended September 30, 1993 and 1992

	<u>1993</u>	<u>1992</u>
Funds provided by operating activities		
Funds received from customers	\$ 10,739,147	8,700,161
Funds paid for operations and maintenance	<u>(4,156,628)</u>	<u>(3,681,615)</u>
Net funds provided by operating activities	<u>6,582,519</u>	<u>5,018,546</u>
Funds used in investing activities		
Additions to utility plant	(5,807,482)	(302,448)
Retirements from utility plant	<u>277,426</u>	<u>-</u>
Net funds used in investing activities	<u>(5,530,056)</u>	<u>(302,448)</u>
Funds provided by (used in) financing activities:		
Funds returned to the U.S. Treasury	(10,294,999)	(8,417,286)
Congressional appropriations:	3,689,514	3,261,840
Imprest Fund	(7,000)	-
Transfers to other Federal agencies	<u>5,871,066</u>	<u>171,347</u>
Net funds used in financing activities	<u>(741,419)</u>	<u>(4,984,099)</u>
Net increase/(decrease) in funds	311,044	(268,001)
Fund balance, beginning of year	<u>899,800</u>	<u>1,167,801</u>
Fund balance, end of year	<u><u>\$1,210,844</u></u>	<u><u>899,800</u></u>
Reconciliation of net revenues to funds provided by operating activities:		
Net revenues	\$ (1,378,876)	(1,936,907)
Interest on Federal investment	4,816,707	4,825,823
Depreciation and amortization	2,873,407	2,868,790
(Increase) decrease in:		
Accounts receivable	489,669	(737,254)
Advances to employees	-	348
Materials and supplies		
Increase (decrease) in:	<u>(218,388)</u>	<u>(2,254)</u>
Accounts payable and accrued liabilities		
Net funds provided by operating activities	<u><u>\$6,582,519</u></u>	<u><u>5,018,546</u></u>

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION
Combined Statement from Budget to Actual Expenses
September 30, 1993 and 1992

	<u>Budget</u>	<u>Actual</u>	
	<u>Resources</u>	<u>Direct Obligations</u>	<u>Expenses</u>
<u>Fiscal 1993</u>			
CF 01-01 Operations and Maintenance	\$ 3,843,394	3,687,618	6,811,647
CR 01-04 Emergency Fund	<u>200,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,043,394</u>	<u>3,687,618</u>	<u>6,811,647</u>
<u>Fiscal 1992</u>			
CF 01-01 Operations and Maintenance	\$ 3,528,194	3,261,800	6,548,499
CF 01-04 Emergency Fund	<u>200,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,728,194</u>	<u>3,261,800</u>	<u>6,548,499</u>
<u>Budget Reconciliation</u>			
		<u>1993</u>	<u>1992</u>
A. Total expenses		\$ 6,811,647	6,548,499
B. Add:			
Capital acquisitions		48,262	302,448
C. Less:			
O&M expenses from revenue billing adjustments		442,866	282,876
Depreciation and amortization		2,873,407	2,868,790
Loss on sale of fixed asset		277,426	-
Unfunded annual leave expense		(54,210)	13,304
Accrued expenses not requiring outlays		111,848	171,347
Other		<u>(27,211)</u>	<u>88,774</u>
D. Accrued expenditures, direct		\$ 3,235,783	3,425,856

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION

Notes to Combined Statements

September 30, 1993 and 1992

(1) Summary of Significant Accounting Policies

Reporting Entity

The Alaska Power Administration (APA) was established in 1967 by the Secretary of Interior to assume the power functions of the Bureau of Reclamation in Alaska. In 1977, the Department of Energy Organization Act transferred the APA from the Department of the Interior to the Department of Energy. Electric power and energy generated by the Projects is required to be disposed of in such a manner as to encourage the most widespread use thereof at the lowest possible rates to customers.

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). Interest on the unpaid portion of these costs shall be 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 Period for Long Lake and Crater Lake extends for a period of 60 years and 50 years, respectively, and interest is charged on the unpaid portion at the rate of 3% annually. After the initial ten-year period of operation, the Long Lake phase of Snettisham requires annual payments throughout the remaining period in an amount that approximates a 50-year mortgage.

Basis of Presentation

These combined statements have been prepared to report the financial position and results of operations of the APA as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of APA in accordance with generally accepted accounting principles. These statements are therefore different from the financial reports, also prepared by APA pursuant to OMB directives that are used to monitor and control APA's use of budgetary resources.

ALASKA POWER ADMINISTRATION

Notes to combined statements, continued

(1) Continued

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, the Department of Energy of the United States, and the requirements of specific legislation and executive directives issued by various government agencies.

Utility Plant and Depreciation

Plant in service consists principally of generating and transmission facilities as follows:

	September 30, <u>1993</u>	September 30, <u>1992</u>
Generating facilities	\$ 154,065,869	148,651,408
Transmission facilities	<u>32,258,156</u>	<u>32,345,824</u>
	\$ 186,324,025	180,997,232
	=====	=====

Plant in service is stated at original cost for property transferred from other government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and maintenance are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when it is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

APA's method of computing depreciation of utility plant is the straight-line method based on the estimated service lives of the various classes of property. In accordance with DOE regulations, assets are not considered to be placed into service until the end of the fiscal period in which they become operational. Service lives currently average approximately 87 years for the Eklutna Project and 75 years for the Snettisham Project.

ALASKA POWER ADMINISTRATION

Notes to combined statements, continued

(1) Continued

Unexpended Appropriations

Unexpended appropriations consist of cash balances with the U.S. Treasury which represent the unexpended balance of funds appropriated by Congress for construction, operation and maintenance purposes.

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 the Federal Energy Regulatory Commission. 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 of the U.S. Government. Differences exist between the length of the repayment period and the estimated service lives over which the assets are being depreciated; thus, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of these projects, continue beyond the period within which such costs will have been recovered through revenues.

The Projects (Eklutna and Snettisham) have net billing arrangements with power purchasers which are offset against operation and maintenance expense and revenue. The net revenues received are returned to the U.S. Treasury.

The revenue recognition policy followed by the Projects is in conformity with the accounting principles and standards established by the United States Department of Energy and the requirements of specific legislation and executive directives issued by government agencies.

Interest on Federal Investment

Interest on Federal Investment is an imputed cost mandated by authorizing legislation for each project. APA computes interest in accordance with DOE Order 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 Federal investment, bearing the highest interest rate first (see note 4).

ALASKA POWER ADMINISTRATION

Notes to combined statements, continued

(1) Continued

Allowance for Funds Used During Construction

The practice of capitalizing allowance for funds used during construction (AFUDC) is followed for both generating and transmission facilities. Rates are set by law, administrative order or administrative policy. Rates used for replacements are based upon the rates established for the fiscal year during which the construction commenced. The current replacement rates are 7.875% and 8.5% in 1993 and 1992, respectively.

Deferred Interest on Federal Investment

The initial ten-year repayment period for the Snettisham project began in 1976 during which time all unpaid interest on the Federal investment was deferred. In 1986, these costs were included in the total unpaid Federal investment for rate-making purposes and will be recovered through rates over a 50-year repayment period in accordance with the Water Resources Development Act of 1976 (WRDA). APA is amortizing the deferred interest ratably over a 45-year period using the straight-line method.

Reclassifications

Certain 1992 balances have been reclassified to conform with the 1993 presentation.

(2) Confirmation and Approval of New Rates

The rate schedules for Eklutna Project were confirmed with FERC on January 25, 1991, for the period October 1, 1990 through September 30, 1994.

The rate schedules for the Snettisham Project were confirmed by FERC on December 23, 1991, for the period of October 1, 1991 through September 30, 1996.

ALASKA POWER ADMINISTRATION

Notes to combined statements, continued

(3) Transfer of Crater Lake

The Crater Lake phase of the Snettisham Project was designed by the U.S. Army Corps of Engineers (Corps). The initial production testing of Crater Lake began in the fall of 1989; however, full production and project certification was not achieved until June 1991. Upon certification in fiscal 1991, the Corps transferred the assets, at cost, to APA. Total construction costs transferred to utility plant in service were \$ 65,173,713 including capitalized AFUDC of approximately \$8,385,000. In FY 1993, the Corps transferred an additional \$5,571,354 in construction costs as well as \$20,406 of capitalized AFUDC through the end of FY 1992. APA then added \$167,753 of capitalized AFUDC for FY 1993. APA anticipates that the Corps will transfer an additional \$500,000 in fiscal 1994. Upon ultimate completion of project administration, the Corps will formalize the transfer of all costs to APA through a transfer of title between government agencies as required under the enacting legislation and various governmental regulations.

The primary contractor brought various claims for relief against the Corps which related to costs incurred by the contractor as a result of delays in government-furnished materials. Both parties reached a settlement in which approximately \$4,467,000 was paid by the Corps to the contractor in fiscal 1992. The Corps has brought claims for relief against the secondary contractor related to delays caused by the contractor which, to some extent, resulted in the preceding settlement. The probability of obtaining favorable outcome and amount of such settlement cannot be estimated at this time. Upon final settlement of claims against the secondary contractor, the Corps will transfer the net costs of the settlement to APA, resulting in a decrease in utility plant in service.

In accordance with DOE regulations, assets are not considered to be placed into service until the end of the fiscal period in which they become operational. As such, depreciation of the Crater Lake phase began in fiscal 1992. The repayment period for the Crater Lake phase will be 50 years.

ALASKA POWER ADMINISTRATION

Notes to combined statements, continued

(4) Investment of U.S. Government

Construction and operation of the Projects' transmission system, generating plants and operations are financed, in whole or in part, through Congressional appropriations. The U.S. Government's investment in each project, including the original construction costs and annual operating expenses, is required to be repaid to the U.S. Treasury within the repayment period. 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 1993 and 1992, except the required principal payments for the Snettisham Project. Remaining revenues are to be first applied to repayment of prior operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayment of the highest interest-bearing investment first.

(5) 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 divisions are transferred to the appropriate project 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.

(6) Retirement Plan

The majority of APA employees participate in the Civil Service Retirement System (CSRS) to which the DOE makes matching contributions equal to 7% of pay. 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 Office of Personnel Management.

ALASKA POWER ADMINISTRATION

Notes to combined statements, continued

(6) Continued

On January 1, 1987, the Federal Employees Retirement System (FERS) 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 to APA employees which automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For most employees hired since December 31, 1983, APA also contributes the employer's matching share for Social Security.

In fiscal 1991, APA began recognizing retirement benefit expense of approximately 14% of eligible employee compensation for the estimated costs of employee participation in the CSRS not paid by DOE, APA, or employees. These costs are being recovered through rates and returned to the U.S. Treasury. As a result, a portion of funds returned to U.S. Treasury represents funding of this CSRS liability. APA has not accounted for the prior unfunded costs of CSRS. Total expense for this cost was approximately \$111,848 and \$144,347 in 1993 and 1992, respectively.

ALASKA POWER ADMINISTRATION
Combining Information - Assets, Federal Investment and Liabilities
September 30, 1993 and 1992

	<u>Combined Totals</u>		<u>1993</u>		<u>1992</u>	
<u>Assets</u>	<u>1993</u>	<u>1992</u>	<u>Eklutna</u>	<u>Snettisham</u>	<u>Eklutna</u>	<u>Snettisham</u>
Utility plant:						
Plant in service	\$ 186,324,025	180,997,232	34,394,107	151,929,918	34,842,334	146,154,898
Accumulated depreciation	(33,695,246)	(31,453,407)	(13,070,599)	(20,624,647)	(12,880,764)	(18,572,643)
Net utility plant	<u>152,628,779</u>	<u>149,543,825</u>	<u>21,323,508</u>	<u>131,305,271</u>	<u>21,961,570</u>	<u>127,582,255</u>
Current assets:						
Unexpended appropriations	1,210,844	899,800	690,181	520,663	480,333	419,467
Accounts receivable	841,111	1,330,781	318,160	522,951	418,440	912,341
Imprest fund	<u>7,000</u>	<u>-</u>	<u>3,500</u>	<u>3,500</u>	<u>-</u>	<u>-</u>
Total current assets	<u>2,058,955</u>	<u>2,230,581</u>	<u>1,011,841</u>	<u>1,047,114</u>	<u>898,773</u>	<u>1,331,808</u>
Deferred interest on Federal investment	<u>17,988,826</u>	<u>18,417,131</u>	<u>-</u>	<u>17,988,826</u>	<u>-</u>	<u>18,417,131</u>
Total assets	<u>\$ 172,676,560</u>	<u>170,191,537</u>	<u>22,335,349</u>	<u>150,341,211</u>	<u>22,860,343</u>	<u>147,331,194</u>
<u>Federal Investment and Liabilities</u>						
Federal investment:						
Investment of U.S. Government:						
Congressional appropriations	\$ 82,523,388	78,833,877	59,862,760	22,660,628	58,092,295	20,741,582
Interest during construction	11,051,497	11,051,497	1,909,047	9,142,450	1,909,047	9,142,450
Transfers from other Federal agencies	140,942,183	135,182,965	(1,497,650)	142,439,833	(1,497,649)	136,680,614
Interest on Federal investment	<u>71,887,329</u>	<u>67,070,621</u>	<u>20,206,317</u>	<u>51,681,012</u>	<u>19,989,493</u>	<u>47,081,128</u>
Gross investment of U.S. Government	<u>306,404,397</u>	<u>292,138,960</u>	<u>80,480,474</u>	<u>225,923,923</u>	<u>78,493,186</u>	<u>213,645,774</u>
Funds returned to U.S. Treasury	(138,730,764)	(128,435,765)	(72,328,980)	(66,401,784)	(69,322,920)	(59,112,845)
Less funds related to CSRS	<u>395,527</u>	<u>283,679</u>	<u>203,630</u>	<u>191,897</u>	<u>138,847</u>	<u>144,832</u>
	<u>(138,335,237)</u>	<u>(128,152,086)</u>	<u>(72,125,350)</u>	<u>(66,209,887)</u>	<u>(69,184,073)</u>	<u>(58,968,013)</u>
Net investment of U.S. Government	168,069,160	163,986,874	8,355,124	159,714,036	9,309,113	154,677,761
Accumulated net revenues	<u>4,410,765</u>	<u>5,789,641</u>	<u>13,873,516</u>	<u>(9,462,751)</u>	<u>13,357,715</u>	<u>(7,568,074)</u>
Total Federal investment	172,479,925	169,776,515	22,228,640	150,251,285	22,666,828	147,109,687
Current liabilities--accounts payable and accrued liabilities	<u>196,635</u>	<u>415,022</u>	<u>106,709</u>	<u>89,926</u>	<u>193,515</u>	<u>221,507</u>
Total Federal investment and liabilities	<u>\$ 172,676,560</u>	<u>170,191,537</u>	<u>22,335,349</u>	<u>150,341,211</u>	<u>22,860,343</u>	<u>147,331,194</u>

The accompanying notes to the combined statements are an integral part of these combining statements.

ALASKA POWER ADMINISTRATION

Statement of Operations and Changes in Net Position

ALASKA POWER ADMINISTRATION
Combining Information - Statement of Operations and Changes in Net Position
Years Ended September 30, 1993 and 1992

	Combined Totals		1993		1992	
	1993	1992	Eklutna	Snettisham	Eklutna	Snettisham
Revenues:						
Sales of electric power:						
Cooperatives	\$ 1,313,881	1,249,693	1,313,881	-	1,249,693	-
Municipalities	1,500,307	1,333,249	1,500,307	-	1,333,249	-
Privately owned utilities	7,265,065	6,693,978	-	7,265,065	-	6,693,978
Other	58,413	55,255	1,518	56,895	1,522	53,733
Wheeling	88,782	82,117	88,782	-	82,117	-
Other operating revenues	23,030	23,123	1,328	21,702	4,200	18,923
Total revenues	<u>10,249,478</u>	<u>9,437,415</u>	<u>2,905,816</u>	<u>7,343,662</u>	<u>2,670,781</u>	<u>6,766,634</u>
Expenses:						
Operation and maintenance	3,715,024	3,666,405	1,534,304	2,180,720	1,546,148	2,120,257
Depreciation and amortization	2,873,407	2,868,790	393,098	2,480,309	392,996	2,475,794
Other, net (Annual leave adj.)	(54,210)	13,304	(31,637)	(22,573)	15,804	(2,500)
Total expenses for operations	<u>6,534,221</u>	<u>6,548,499</u>	<u>1,895,765</u>	<u>4,638,456</u>	<u>1,954,948</u>	<u>4,593,551</u>
Loss on sale of fixed asset	<u>277,426</u>	-	<u>277,426</u>	-	-	-
Net revenues before interest expense	<u>3,437,831</u>	<u>2,888,916</u>	<u>732,625</u>	<u>2,705,206</u>	<u>715,833</u>	<u>2,173,083</u>
Interest expense-						
Interest on Federal investment	<u>4,816,707</u>	<u>4,825,823</u>	<u>216,824</u>	<u>4,599,883</u>	<u>220,447</u>	<u>4,605,376</u>
Net revenues (expenses)	<u>\$(1,378,876)</u>	<u>\$(1,936,907)</u>	<u>\$ 515,801</u>	<u>\$(1,894,677)</u>	<u>\$495,386</u>	<u>\$(2,432,293)</u>
Net position, beginning balance	\$ 5,789,641	7,726,548	13,357,715	(7,568,074)	12,862,329	(5,135,781)
Excess (shortage) of revenues over total expenses	<u>(1,378,876)</u>	<u>(1,936,907)</u>	<u>515,801</u>	<u>(1,894,677)</u>	<u>495,386</u>	<u>(2,432,293)</u>
Net position, ending balance	<u>\$ 4,410,765</u>	<u>5,789,641</u>	<u>13,873,516</u>	<u>(9,462,751)</u>	<u>13,357,715</u>	<u>(7,568,074)</u>

The accompanying notes to the combined statements are an integral part of these combining statements.

ALASKA POWER ADMINISTRATION
Combining Information - Statement of Cash Flows
Years Ended September 30, 1993 and 1992

	<u>Combined Totals</u>		<u>1993</u>		<u>1992</u>	
	<u>1993</u>	<u>1992</u>	<u>Eklutna</u>	<u>Nettisham</u>	<u>Eklutna</u>	<u>Nettisham</u>
Funds provided by operating activities:						
Funds received from customers	\$10,739,147	8,700,161	3,006,096	7,733,051	2,432,573	6,267,588
Funds paid for operations and maintenance	<u>(4,156,628)</u>	<u>(3,681,615)</u>	<u>(1,866,899)</u>	<u>(2,289,729)</u>	<u>(1,523,767)</u>	<u>(2,157,848)</u>
Net funds provided by operating activities	<u>6,582,519</u>	<u>5,018,546</u>	<u>1,139,197</u>	<u>5,443,322</u>	<u>908,806</u>	<u>4,109,740</u>
Funds used in investing activities						
Plant additions	(5,807,482)	(302,448)	(32,462)	(5,775,020)	(249,401)	(53,047)
Plant retirement	<u>277,426</u>	<u>-</u>	<u>277,426</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net funds provided by (used in) investing activities	<u>(5,530,056)</u>	<u>(302,448)</u>	<u>244,964</u>	<u>(5,775,020)</u>	<u>(249,401)</u>	<u>(53,047)</u>
Funds provided by (used in) financing activities:						
Funds returned to the U.S. Treasury	(10,294,999)	(8,417,286)	(3,006,060)	(7,288,939)	(2,392,105)	(6,025,181)
Congressional appropriations	3,689,514	3,261,840	1,770,465	1,919,049	1,427,653	1,834,187
Imprest fund	(7,000)	-	(3,500)	(3,500)	-	-
Transfers to other Federal agencies	<u>5,871,066</u>	<u>171,347</u>	<u>64,782</u>	<u>5,806,284</u>	<u>87,002</u>	<u>84,345</u>
Net funds provided by (used in) financing activities	<u>(741,419)</u>	<u>(4,984,099)</u>	<u>(1,174,313)</u>	<u>432,894</u>	<u>(877,450)</u>	<u>(4,106,649)</u>
Net increase (decrease) in funds	311,044	(268,001)	209,848	101,196	(218,045)	(49,956)
Fund balance, beginning of year	<u>899,800</u>	<u>1,167,801</u>	<u>480,333</u>	<u>419,467</u>	<u>698,378</u>	<u>469,423</u>
Fund balance, end of year	<u>\$ 1,210,844</u>	<u>899,800</u>	<u>690,181</u>	<u>520,663</u>	<u>480,333</u>	<u>419,467</u>
Reconciliation of net revenues (expenses) to funds provided by operating activities:						
Net revenues (loss)	\$(1,378,876)	(1,936,907)	515,801	(1,894,677)	495,386	(2,432,293)
Interest on Federal investment	4,816,707	4,825,823	216,824	4,599,883	220,447	4,605,376
Depreciation and amortization	2,873,407	2,868,790	393,098	2,480,309	392,996	2,475,794
(Increase) decrease in:						
Accounts receivable	489,669	(737,254)	100,280	389,389	(238,208)	(499,046)
Advances to employees	-	348	-	-	-	348
Increase (decrease) in accounts payable and accrued liabilities	<u>(218,388)</u>	<u>(2,254)</u>	<u>(86,806)</u>	<u>(131,582)</u>	<u>38,185</u>	<u>(40,439)</u>
Net funds provided by operating activities	<u>\$ 6,582,519</u>	<u>5,018,546</u>	<u>1,139,197</u>	<u>5,443,322</u>	<u>908,806</u>	<u>4,109,740</u>

The accompanying notes to the combined statements are an integral part of these combining statements.

PART II
Report on Internal Controls

We have audited the combined statements of the Alaska Power Administration (APA) for the year ended September 30, 1993, and have issued our report thereon dated December 9, 1993.

We conducted our audit in accordance with generally accepted *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 statements are free of material misstatements.

In planning and performing our audit of the combined statements of APA for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and to determine whether the internal control structure meets the objectives identified in the following paragraph. Our consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of internal control risk relevant to (1) all significant cycles, classes of transactions, or account balances; and (2) the performance information control objective described in the following paragraph.

Management of APA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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 financial statements; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and transactions are properly recorded and accounted for to permit the preparation of accounts and reliable financial and complete performance information reports in accordance with generally accepted accounting principles to maintain accountability over assets.

Because of inherent limitations in any internal control structure, 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- o Revenue cycle-power billings/receivables
- o Expenditures cycle-purchases/payables
- o Payroll cycle
- o General ledger and external financial reporting cycle
- o Budgetary cycle
- o Administrative controls over compliance with laws and regulations

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, assessed control risk, and performed tests of the control structure.

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 relevant internal control structure 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 structure would not necessarily 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 reportable 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 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 no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. Therefore, we believe there is reasonable assurance that the internal control objectives were achieved.

We also noted a matter involving the internal control structure and its operation that we have reported to the management of APA in a separate letter dated February 1, 1994.

December 9, 1993

Office of Inspector General
Office of Inspector General

PART III
Report on Compliance with Laws and Regulations

We have audited the combined statements of the Alaska Power Administration (APA) as of September 30, 1993, and have issued our report thereon dated December 9, 1993.

We conducted our audit in accordance with generally accepted *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 about whether the combined statements are free of material misstatements.

Compliance with laws and regulations applicable to APA is the responsibility of APA management. As part of obtaining reasonable assurance about whether the combined statements are free of material misstatement, we tested compliance with laws and regulations designated by OMB and APA as listed below:

- o Eklutna Project Act of 1950, as amended
- o 1962 Flood Control Act, as amended
(Section 204)
- o Water Resources Development Act of 1976
(Section 201)
- o DOE Order RA6120.2-Power Marketing
Administration Financial Reporting
- o 10 CFR 903-Power and Transmission Rates
- o Chief Financial Officers Act of 1990

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

As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared APA's most recent FMFIA reports with the evaluation we conducted of the entity's internal control system.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the combined and combining statements or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance disclosed the following instances of noncompliance. The Water Resources Development Act of 1976, Section 201, required annual principal and interest payments for the Long Lake investment. In FY 1993 and 1992, APA's revenues allowed only partial coverage of

the annual principal payments leaving \$466,093 and \$286,209, respectively, in arrears.

We considered the above material instance of noncompliance in forming our opinion on whether the APA's FY 1993 financial statements are presented fairly, in all material respects in conformity with generally accepted accounting principles, during the preparation of the APA's financial statements, and this report does not affect our report on those financial statements dated December 9, 1993.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, APA complied, in all material respects, with the provisions referred to in the third paragraph in this report. With respect to items not tested, nothing came to our attention that caused us to believe that APA had not complied, in all material respects with those provisions.

December 9, 1993

Office of Inspector General
Office of Inspector General

Department of Energy

Office of Inspector General
Western Regional Audit Office
P. O. Box 5400

Albuquerque, New Mexico 87185-5400
(505) 845-5554

Administrator
Alaska Power Administration
United States Department of Energy

Dear Sir:

We have audited the combined statements of the Alaska Power Administration (APA) for the year ended September 30, 1993. In planning and performing our audit of the combined statements of APA, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our opinion.

During our audit we noted a matter involving the internal control structure that is presented for your consideration. This recommendation, which has been discussed with APA management, is intended to improve the internal control structure and result in other operating efficiencies as summarized as follows:

Beginning Balance

Auditor Comment

Audit adjustments for FY 1992 were not included in setting up APA's FY 1993 accounting records on a new automated financial system. APA should reconcile the new accounting system so that the data reflects the proper beginning balance from the prior year's financial statement audit. In FY 1992, APA maintained its accounting records on a manual system, but in FY 1993, APA switched to an automated system. The data between these two systems, however, were never reconciled. As a result, the beginning balances did not reflect the prior year's audited data. This is not in accordance with generally accepted accounting principles.

Following our advice on how to correct the recordkeeping, APA corrected the discrepancies between September 30 and December 1, 1993. Our audit showed that the revised records were in compliance with generally accepted accounting principles, and

thus, the pre-yearend problem did not affect our opinion. However, this situation did substantially delay our audit efforts and impact our staff time, resources and delivery deadlines.

The lessons learned should be applied in FY 1994. This means timely recording of audit adjustments. This generally accepted accounting practice discipline needs to be followed consistently.

Audit Recommendation

APA should reconcile the beginning balances in its accounting system with the prior year's audited financial statements.

Management Response

Concur. APA will work with the Office of Inspector General to confirm the posting of FY 1993 audit adjustments.

If you have any questions on this or related accounting issues, we are available to discuss the situation and provide advice.

Lawrence R. Ackerly, Manager
Western Regional Audit Office
Office of Inspector General

DATE

FILMED

4/29/94

END