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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548



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DEC 30 1971

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Dear Mr. Secretary:

The General Accounting Office has examined the Statement of Assets and Liabilities of the Commercial Power Program of the Federal Columbia River Power System (see note 1 to the financial statements) as of June 30, 1971, and the related Statements of Commercial Power Revenues and Expenses and Source and Application of Funds for fiscal year 1971. Our examination was made in accordance with generally accepted auditing standards and included tests of the accounting records of the Corps of Engineers, the Bureau of Reclamation, and the Bonneville Power Administration and such other auditing procedures as we considered necessary in the circumstances.

On February 9, 1971, the Los Angeles earthquake severely damaged the Sylmar Converter Station owned by several public and private agencies in Los Angeles, California. The damaged Sylmar facility has temporarily made inoperable Bonneville's Celilo Converter Station and 800-kilovolt direct-current line which runs to the southern Oregon border. Bonneville anticipates that its facilities, which cost \$74,000,000, will resume 40-percent operation in April 1972 and 100-percent operation in September 1972.

The accompanying financial statements for the System were prepared on a cost-accounting basis which included depreciation. They do not present the financial results on a basis designed to show whether power rates are adequate to repay the Federal investment in the System, either for the fiscal year or cumulatively. (See note 2 to the financial statements.)

The accounts and financial statements are subject to retroactive adjustment, because firm allocations of the cost of joint-use facilities to power and other purposes have not been made for three projects recently placed in service and for five projects under construction as of June 30, 1971. (See note 3 to the financial statements.) At these eight projects, total joint-use costs are \$934,000,000, of which \$731,000,000 tentatively is allocated to power. Changes in allocations sometimes have resulted in significant adjustments

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to plant investment allocated to power and to accumulated net revenues.

The Bonneville Power Administration, in computing interest expense on the Government's investment in the System, reduces the amount by an interest credit on System revenues collected and deposited in the U.S. Treasury. In our opinion, Bonneville's method of computing the interest credit was inappropriate and resulted in an understatement of about \$2,000,000 in the interest expense for fiscal year 1971 because the interest credit was computed (1) at the rate of 4-7/8 percent applicable to new investments rather than at the lower rates--some as low as 2-1/2 percent--at which the interest expense was computed and (2) on the full amount of the revenues deposited rather than on the amount applied to reduce the Government's investment in the System.

Subject to the financial effects of future adjustments related to adoption of firm cost allocations and the resolution of the interest credit matter described above, the accompanying financial statements, in our opinion, present fairly the assets and liabilities of the Federal Columbia River Power System at June 30, 1971, the financial results of its power operations, and the source and application of its funds for the year then ended, in conformity with accounting principles and standards prescribed for executive agencies of the Federal Government by the Comptroller General of the United States. These accounting principles and standards were applied on a basis consistent with that of the preceding year.

Copies of this report are being sent to the Director, Office of Management and Budget; the Chairman, Federal Power

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Commission; the Administrator, Bonneville Power Administration;
the Commissioner of Reclamation; the Secretary of the Army;
and the Chief of Engineers.

Sincerely yours,

(Signed) E.H. Morse Jr.

Acting Comptroller General
of the United States

Enclosures

The Honorable
The Secretary of the Interior

UNITED STATES OF AMERICA
FEDERAL COLUMBIA RIVER POWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Composition of the Federal Columbia River Power System

The Federal Columbia River Power System (FCRPS) consists of the facilities and operations of the Bonneville Power Administration (BPA) and the hydroelectric generating plants constructed and operated by the Corps of Engineers (Corps) or the Bureau of Reclamation (Bureau) for which BPA transmits and markets the power.

Although each entity is separately managed and financed, the facilities are operated as an integrated power system with the financial results consolidated under the name Federal Columbia River Power System.

Projects in service and under construction at June 30, 1971, are listed in Schedule A.

Note 2. Basis of Financial Reporting

These financial statements are prepared on the cost accounting basis and include compound interest depreciation. They do not purport to show financial results on a repayment basis either for the fiscal year or cumulatively. Wholesale power rates are based upon the repayment analysis rather than these cost based statements.

The depreciation life for fixed assets allocated to power averages about 71 years. However, in the separate FCRPS repayment analysis the repayment period is 50 years for the generating projects and 45 years for the transmission system. Since the depreciation period is longer than the repayment

period, depreciation charges accumulated during the repayment periods will be much less than the plant repayment requirements, and rates set to cover repayment will be higher on the average than if rates were set to cover depreciation.

Note 3. Cost Allocations

"Cost allocation" describes the process of assigning the costs of a multi-purpose project to the individual purposes served. In this process, joint-use costs of plant and operations are allocated among the purposes served such as power, irrigation, navigation, and flood control. The portion of total project costs allocated to power is included in the FCRPS financial statements.

Cost allocations may be tentative or firm. A tentative cost allocation may be adjusted retroactively when replaced with a firm allocation, while a firm allocation may only be adjusted on a prospective basis. During fiscal year 1971 the Corps adopted a firm allocation for the Green Peter-Foster project. The firm allocation increased plant costs allocated to power about \$2,026,000 and decreased Accumulated Net Revenues by about \$198,000. Cost allocations at three projects recently placed in service and five projects now under construction are designated as tentative as shown on Schedule A. At the eight projects, total joint-use costs are \$934,000,000 of which \$731,000,000 are tentatively allocated to power.

Note 4. Interest Rates

An interest rate of $2\frac{1}{2}\%$ is applied to the unpaid Federal investment for the projects listed in Schedule A, except for the following which use a higher rate. Bureau projects in service, all using a 3% rate, are: Boise, Columbia Basin, Hungry Horse, Minidoka, Palisades, and Yakima-Roza Division.

For Bureau projects under construction, a rate of $3-1/8\%$ is applied to the Grand Coulee Third Powerplant and 3.342% is applied to the Teton project. Corps projects and portions thereof which are under construction and which use rates higher than $2\frac{1}{2}\%$ are:

Bonneville Second Power House and Peaking Modifications	$3\frac{1}{4}\%$
Chief Joseph Additional Units	$3-1/8\%$
Dworshak	$2-5/8\%$
Libby	$3-1/8\%$
Lost Creek	$3-1/8\%$
The Dalles Additional Units	$3-1/8\%$

BPA used the $2\frac{1}{2}\%$ rate through fiscal year 1963. Subsequently, the following rates were used for each year's new investment:

Fiscal Year 1964	$2-7/8\%$
Fiscal Year 1965	3%
Fiscal Years 1966 through 1968	$3-1/8\%$
Fiscal Years 1969 and 1970	$3-1/4\%$
Fiscal Year 1971	$4-7/8\%$

Interest rates for repayment of new Federal investment in power projects started after January 29, 1970 are to be set in accordance with Secretarial Order 2929. This Order directs that rates will be adjusted by not more than one-half of one percent each year until the rate equals the then current average yield rate on long-term U.S. Treasury obligations. The rate is $6-1/8\%$ at June 30, 1971.

Based upon the Order, BPA used a rate of $4-7/8\%$ for new investment in fiscal year 1971, and will use rates on new investment of $5-3/8\%$ in fiscal year 1972 and $5-7/8\%$ in fiscal year 1973. At June 30, 1971, the Corps and the Bureau were in the process of resolving implementing details.

Note 5. Variations in Practices Among Reporting Entities

The entities of FCRPS each maintain a separate accounting system designed to meet its particular requirements, and variations in reporting practices exist among the entities. However, cooperation among the entities in prior years has led to the adoption of standard practices such as use of the compound interest method of depreciation. The unresolved variations existing during fiscal year 1971 are as follows:

- a. The Bureau includes in the costs of its projects, general investigation and development costs which are incurred prior to project authorization. It is the policy of the Corps not to include for FCRPS purposes such costs which are incurred prior to project authorization. The Corps has excluded about \$2,123,000 of such costs at June 30, 1971.
- b. The accounts of the Corps and BPA reflect the liability for accrued but unused annual leave. However, the accounts of the Bureau projects do not include an amount for annual leave, estimated to be \$754,000 as of June 30, 1971.

Note 6. Repayment Responsibility for Irrigation Costs

Pursuant to legislation, revenues of the FCRPS must repay to the United States Treasury that portion of the cost of irrigation facilities in the Pacific Northwest which the Bureau has determined that benefiting water users are unable to repay. At June 30, 1971, this amount is \$401,440,000.

Joint project costs of \$20,431,000 for the Cougar, Detroit-Big Cliff, Hills Creek, Lookout Point-Dexter, Green Peter-Foster and Lost Creek Projects have been allocated to irrigation pursuant to project authorizations. A

determination of water users' repayment ability will be made at the time the irrigation facilities are proposed for authorization and development. If water users' repayment ability is insufficient to meet the repayment requirements, irrigation assistance may be required from power revenues, if authorized by Congress. These costs are not included in the accompanying statements because a final determination as to potential repayment from power revenues has not been made.

Note 7. Commitments to Exchange Power and Acquire Project Capability

a. Hanford Plant No. 1

BPA, the Washington Public Power Supply System (WPPSS), and 76 utilities have made agreements under which BPA receives the capability of this 860 megawatt plant constructed and operated by WPPSS. The agreements call for payments to WPPSS by each utility for its portion of project costs based on the Annual Operating Budget. All output from the project is delivered to BPA who in turn furnishes the utilities an amount of power equal in value, at BPA rates, to the annual costs of operating the project and retiring the bonds issued in 1963 to construct the plant. For the year ending June 30, 1971, the Annual Operating Budget was \$9,395,000. At June 30, 1971, \$78,145,000 of bonds were outstanding and due to be fully retired by 1996. Until 1996, BPA is required to provide power to retire the bonds even if the project becomes inoperable.

During fiscal year 1971, the Atomic Energy Commission (AEC) nuclear reactor which supplied steam to the WPPSS project was

shut down. Since then, agreements were reached with ABC restoring the reactor to service for fiscal years 1972, 1973, and 1974 with increased payments for steam. For the year ending June 30, 1972, it is estimated that the agreements to restore the reactor to service will increase the Annual Operating Budget by \$15,000,000 over the 1971 amount. According to the new agreements, BPA and WPPSS must decide, during fiscal year 1972, whether or not to continue operating the project after June 30, 1974. Under the original agreements BPA may acquire ownership of the project, subject to Congressional approval.

b. Columbia Storage Power Exchange (CSPE)

BPA has entered into agreements with 41 utilities to exchange an agreed amount of power for their rights to the Canadian Entitlement, which is one-half of the additional power benefits realized at U.S. generating plants as a result of construction of three Canadian Treaty storage dams. The Canadian Entitlement was purchased by the utilities from CSPE, a nonprofit corporation, for a period of thirty years following scheduled completion of each dam. The transaction was handled through a \$324.1 million bond issue which the utilities are repaying through CSPE.

BPA's commitment to the 41 utilities is unconditional and not contingent upon the actual extra generation realized. Two of the Canadian dams were completed ahead of schedule, and the third is on schedule for completion in 1973.

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c. Centralia Coal-Fired Steam Plant

BPA has entered into an agreement with eight utilities to acquire varying portions of project capability ranging from 273 megawatts to 973 megawatts from the in-service dates scheduled for January 1, 1972, for Unit I and September 1, 1972, for Unit II to April 1, 1974. BPA's portion of total project costs for the total period is estimated at \$58,110,000. After each unit is commercially operable, BPA's commitment will remain whether or not full capability can be achieved.

d. Trojan Nuclear Plant

BPA has entered into agreements to acquire, beginning approximately September 1, 1974, a share of this 1,163 megawatt project, under construction by Portland General Electric Company. BPA will acquire Eugene Water and Electric Board's 30% ownership share until at least July 1, 1984. Effective on that date, Eugene has the option to withdraw its share. For the ten year period this share of project capability will cost BPA about \$103,310,000 based on estimated annual project costs. Until July 1, 1984, BPA is committed to 30% of annual costs whether or not the plant is completed, operable, or operating.

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e. Hanford Plant No. 2

BPA has entered into agreements with WPPSS and 94 public agency customers to acquire the capability of this 1,100 megawatt nuclear facility, which will be constructed and operated by WPPSS. The plant is scheduled for commercial operation in 1977.

During the estimated 35 year life of the project, BPA's total costs are estimated to be \$1,497,770,000. BPA is obligated under the agreements whether or not the project is completed, operable, or operating.

Note 8. Contingent Liabilities

Contingent liabilities applicable to commercial power at June 30, 1971, total approximately \$19,196,000 of which \$16,072,000 represent various contractor claims and \$3,124,000 represent claims under the Federal Tort Claims Act.

Note 9. Adjustments to Accumulated Net Revenues

The following table explains the adjustments which have caused the net decrease in Accumulated Net Revenues of \$9,423,000 shown on Exhibits 1 and 2:

	<u>In Thousands</u>
1. Extraordinary retirements caused by construction of Third Power Plant at Columbia Basin Project	\$(5852)
2. Extraordinary retirement of special repair equipment at Columbia Basin Project	(3345)
3. Correction of Lower Monumental Project prior years interest expense	(1301)
4. Prior year revenues recognized as part of exchange account settlement	890
5. Decrease in prior years expenses for Chief Joseph Project due to adoption of sub-allocation to irrigation pumping power	366
6. Increase in prior years expenses for Green Peter-Foster Project due to adoption of same cost allocation	(198)
7. Miscellaneous minor adjustments	17
	<u>\$(9423)</u>

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UNITED STATES OF AMERICA

FEDERAL COLUMBIA RIVER POWER SYSTEM

STATEMENT OF COMMERCIAL POWER REVENUES AND EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 1971 AND JUNE 30, 1970

(NOTES I AND 2)

(In Thousands)

	Fiscal Year <u>1971</u>	Fiscal Year <u>1970</u>
OPERATING REVENUES:		
Sales of electric energy by Bonneville Power Administration:		
Publicly owned utilities	\$ 64,078	\$ 58,420
Privately owned utilities	25,121	20,319
Federal agencies	5,403	4,090
Aluminum industry	40,058	44,614
Other industry	5,361	5,449
Total	<u>140,021</u>	<u>132,892</u>
Other operating revenues:		
Wheeling revenues	10,386	9,507
Other revenues	5,271	5,281
Total	<u>15,657</u>	<u>14,788</u>
Total operating revenues	<u>155,678</u>	<u>147,680</u>
OPERATING EXPENSES:		
Purchase and exchange power	12,813	11,468
Operation	29,680	26,022
Maintenance	14,802	13,373
Depreciation	24,512	21,645
Total operating expenses	<u>81,807</u>	<u>72,508</u>
Net operating revenues	<u>73,871</u>	<u>75,172</u>
INTEREST AND OTHER DEDUCTIONS: (Note 4)		
Interest on Federal investment (projects in service)	67,742	57,258
Related interest charged to construction	8,603*	6,896*
Miscellaneous income deductions, net	105	98
Net interest and other deductions	<u>59,244</u>	<u>50,460</u>
NET REVENUES	<u>\$ 14,627</u>	<u>\$ 24,712</u>
ACCUMULATED NET REVENUES:		
Balance at beginning of year	\$346,388	\$322,584
Net revenues--current year	14,627	24,712
Prior years adjustments (Note 9)	9,423*	908*
Balance at end of year	<u>\$351,592</u>	<u>\$346,388</u>

*Denotes deduction

"Notes to the financial statements"
are an integral part of this statement.

UNITED STATES OF AMERICA

FEDERAL COLUMBIA RIVER POWER SYSTEM

STATEMENT OF ASSETS AND LIABILITIES OF THE COMMERCIAL
POWER PROGRAM AS OF JUNE 30, 1971 AND JUNE 30, 1970 (NOTES 1 and 2)

EXHIBIT 2

(In thousands)

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ASSETS	June 30		LIABILITIES	June 30	
	1971	1970		1971	1970
FIXED ASSETS:			INVESTMENT OF U.S. GOVERNMENT:		
Completed plant (Schedule A)	\$2,927,285	\$2,749,012	Congressional appropriations	\$4,181,368	\$3,846,213
Retirement work in progress	<u>20,049</u>	<u>28,235</u>	Revenues transferred to continuing fund	4,033	4,033
	2,947,332	2,777,247	Transfers from other Federal agencies, net	27,983	27,764
Less accumulated depreciation	<u>253,375</u>	<u>235,997</u>	Interest on Federal investment (Note 4)	<u>857,647</u>	<u>776,287</u>
	2,693,957	2,541,250	Gross Federal investment	5,071,031	4,654,297
Construction work in progress (Schedule A)	<u>826,497</u>	<u>673,421</u>	Less funds returned to U.S. Treasury	<u>1,822,167</u>	<u>1,690,018</u>
Total fixed assets	<u>3,520,454</u>	<u>3,214,671</u>	Net investment of U.S. Government	<u>3,248,864</u>	<u>2,964,279</u>
			ACCUMULATED NET REVENUES:		
CURRENT ASSETS:			Balance at beginning of year	346,388	322,584
Unexpended funds	89,094	112,242	Net revenues current--year (Exhibit I)	14,627	24,712
Special funds	6,500	2,202	Prior years adjustments (Note 9)	<u>9,423*</u>	<u>908*</u>
Accounts receivable	29,182	23,897	Balance at end of year	<u>351,592</u>	<u>346,388</u>
Materials and supplies	<u>17,056</u>	<u>17,582</u>	COMMITMENTS (Note 7)		
Total current assets	<u>141,832</u>	<u>155,923</u>	CURRENT LIABILITIES:		
DEFERRED CHARGE FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A) (Note 6)	<u>401,440</u>	<u>390,466</u>	Accounts payable	57,153	55,832
			Employees accrued leave (Note 5)	<u>4,890</u>	<u>4,336</u>
OTHER ASSETS AND DEFERRED CHARGES:			Total current liabilities	<u>62,043</u>	<u>60,168</u>
Trust funds	6,218	6,099	LIABILITY OF U.S. GOVERNMENT FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A) (Note 6)	<u>401,440</u>	<u>390,466</u>
Other assets and deferred charges	<u>4,663</u>	<u>4,303</u>	OTHER LIABILITIES AND DEFERRED CREDITS:		
Total other assets and deferred charges	<u>10,881</u>	<u>10,402</u>	Trust fund advances	6,218	6,099
TOTAL ASSETS	<u>\$4,074,607</u>	<u>\$3,771,462</u>	Other deferred credits	<u>4,450</u>	<u>4,062</u>
			Total other liabilities and deferred credits	<u>10,668</u>	<u>10,161</u>
			TOTAL LIABILITIES	<u>\$4,074,607</u>	<u>\$3,771,462</u>

*Denotes deduction

"Notes to the financial statements" are an integral part of this statement.

UNITED STATES OF AMERICA

FEDERAL COLUMBIA RIVER POWER SYSTEM

STATEMENT OF SOURCE AND APPLICATION OF FUNDS OF COMMERCIAL
POWER PROGRAM FOR FISCAL YEAR ENDING JUNE 30, 1971 (NOTES 1 AND 2)

(In thousands)

SOURCE OF FUNDS:

Congressional appropriations	\$335,155	
Transfers from other Federal agencies	<u>219</u>	
Gross investment		\$335,374
Revenue from sale of electric energy, including adjustment for prior year of \$742	140,763	
Other operating revenue, including adjustment for prior year of \$148	<u>15,805</u>	
Total revenues		156,568
Decrease in other assets and deferred charges, net of other liabilities and deferred credits		28
Decrease in current assets and liabilities, net		<u>15,966</u>
Total source of funds		<u>\$507,936</u>

APPLICATION OF FUNDS:

Operation and maintenance expense, purchase and exchange power, miscellaneous income deductions and adjustments for prior years of \$39		\$ 57,361
Investment in electric utility plant (does not include capitalized interest of \$8,603 on projects in service and \$12,433 on projects under construction)		318,426
Return of funds to U.S. Treasury		<u>132,149</u>
Total application of funds		<u>\$507,936</u>

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"Notes to the financial statements"
are an integral part of this statement.

UNITED STATES OF AMERICA

FEDERAL COLUMBIA RIVER POWER SYSTEM

AMOUNT AND ALLOCATION OF PLANT INVESTMENT
AS OF JUNE 30, 1971 (NOTES 1 AND 3)
PROJECTS IN SERVICE AND UNDER CONSTRUCTION

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SCHEDULE A

(In thousands)

Project	ALLOCATED TO:											Percent of Total Returnable from Commercial Power Revenues	
	COMMERCIAL POWER				IRRIGATION (NOTE 6)			NONREIMBURSABLE					
	Total	Completed Plant	Construction Work in Progress	Total	Returnable from Commercial Power Revenues	Returnable from Other Sources	Total Irrigation	Navigation	Flood Control	Fish and Wildlife	Recreation		Other
Projects in Service													
Transmission facilities (BPA)	\$1,224,490	\$1,068,807	\$155,683	\$1,224,490									100.0
Albion Falls (CE)	32,882	31,903		31,903									97.0
Bales (BR)	65,613	4,901	3	4,904	\$ 10,722	\$ 35,026	\$ 45,748	\$ 134	\$ 173		\$ 672		23.8
Beansville (CE)	96,028	61,687	6,064	67,751				28,121	14,961			156	70.6
Chief Joseph (CE)	157,639	154,830	1,826	156,656	765		765					218	99.9
Columbia Basin (BR)	762,600	180,357	130,908	311,265	336,158	68,033	404,191	1,000	45,605			\$ 539	84.9
Cougar (CE)	57,227	17,671	5	17,676					514	35,955			30.9
Detroit-Big Cliff (CE)	66,392	40,368	5	40,373					218	20,772			60.8
Green Peter-Foster (CE)	87,062	49,030		49,030					357	29,569		380	56.3
Hills Creek (CE)	48,767	17,302	5	17,307					625	26,251			35.5
Hungry Horse (BR)	102,226	77,477	76	77,553				24,673					75.9
Ice Harbor (CE)	139,638	93,893	1,006	94,899				43,746				993	68.0
John Day (CE) (c)	487,105	333,933	26,991	360,924				81,496	13,980			4,429	74.1
Little Goose (CE) (c)	160,270	111,281	1	111,282				44,869				466	69.4
Lookout Point-Dexter (CE)	94,633	45,574	14.3	45,717		1,412	1,412	706	46,601			197	48.3
Lower Monumental (CE) (c)	188,051	141,150	30	141,180				45,837				1,034	75.1
Malheur (CE)	308,126	256,565	71	256,636				50,721				769	83.3
Minidoka (BR)	37,047	2,583	42	2,625		34,100	34,100					28	7.1
Palisades (BR)	59,930	10,726	2	10,728	10,013	9,345	19,358		29,700			144	34.6
The Dalles (CE)	291,957	222,648	26,730	249,378				41,797				760	85.4
Yakima (BR)	63,675	4,597	12	4,609	10,235	47,679	57,914				\$1,152		23.3
Projects under Construction (c)													
Dworshak (CE)	217,395		196,899	196,899				6,924	12,125			1,447	90.6
Libby (CE)	282,670		213,557	213,557					52,921				75.5
Lost Creek (CE)	14,981		1,447	1,447		268	268		6,537	2,830		2,892	9.7
Lower Granite (CE)	82,615		64,033	64,033				18,406				81	77.5
Teton (BR)	4,082		958	958	2,001	598	2,599		483			42	72.5
Irrigation Assistance at 11 Projects													
Having no Power Generation	30,687				30,687		30,687						100.0
Subtotal plant investment	5,163,788	2,927,283	826,497	3,753,780	400,581	215,212	615,793	390,144	335,613	3,982	14,708	49,768	80.5
Repayment obligation retained by													
Columbia Basin Project (b)	2,211	1,352		1,352	859		859						100.0
Total	\$5,165,999	\$2,928,635	\$826,497	\$3,755,132	\$401,440	\$215,212	\$616,652	\$390,144	\$335,613	\$3,982	\$14,708	\$49,768	80.5

BPA - Beasville Power Administration

CE - Corps of Engineers

BR - Bureau of Reclamation

(a) Nonreimbursable road costs.

(b) Joint facilities transferred to Bureau of Sport

Fisheries and Wildlife. Power portion is included in the Balance Sheet as a Deferred Item.

(c) Projects in service that have tentative cost allocations at June 30, 1971. Projects under construction have tentative cost allocations (Note 3).

Notes to the financial statements are an integral part of this statement.