

REPORT TO  
THE CONGRESS OF THE UNITED STATES



LM087875

AUDIT OF  
SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES  
CORPS OF ENGINEERS (CIVIL FUNCTIONS)  
DEPARTMENT OF THE ARMY  
AND  
SOUTHWESTERN POWER ADMINISTRATION  
DEPARTMENT OF THE INTERIOR  
FISCAL YEARS 1960 AND 1961



BY  
THE COMPTROLLER GENERAL  
OF THE UNITED STATES

MAY 1963

746087/087875



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

MAY 22 1963

B-125031

To the President of the Senate and the  
Speaker of the House of Representatives

Herewith is our report on the audit of the power generating and related activities of the Corps of Engineers (Civil Functions), Department of the Army, in the southwestern area of the United States and the power-marketing activities of the Southwestern Power Administration, Department of the Interior, for the fiscal years 1960 and 1961.

Repayment schedules prepared by the Southwestern Power Administration show that in fiscal year 1961 power revenues did not cover repayment requirements by \$5 million and that to June 30, 1961, the cumulative repayment deficiency was \$36.2 million. Also, the latest projections prepared by the Department of the Interior indicate that repayment of the Federal investment in the Southwestern Power System will not be accomplished until during fiscal year 2058, or 47 years later than was projected in studies made in October 1956.

We are again reporting that the status of repayment of the Government's investment in the power program in the southwestern area of the United States is not adequately shown in repayment schedules prepared by the Southwestern Power Administration.

The financial statements included in this report were prepared, as in past years, by the General Accounting Office. The continued preparation of combined statements is desirable in order to disclose fully on an integrated system basis, for the information of the Congress, the President, and the public, the financial position and the results of operations of the various activities that make up the Southwestern Power System. However, in our opinion the preparation of the combined financial statements is more properly a function of the executive branch of the Federal Government. The Department of the Interior has advised us that the Southwestern Power Administration will be assigned the responsibility for securing the necessary data to prepare the financial report.

B-125031

The report contains our opinion that the financial statements do not present fairly the financial position of the Southwestern Power Administration or of the selected Corps of Engineers projects at June 30, 1961, and the results of operations for the fiscal year then ended because of certain accounting deficiencies relative to depreciation and interest on the Federal investment.

Copies of this report are being sent to the President of the United States, to the Secretary of the Army, and to the Secretary of the Interior.

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General  
of the United States

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REPORT ON AUDIT  
OF  
SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES  
CORPS OF ENGINEERS (CIVIL FUNCTIONS)  
DEPARTMENT OF THE ARMY  
AND  
SOUTHWESTERN POWER ADMINISTRATION  
DEPARTMENT OF THE INTERIOR  
FISCAL YEARS 1960 AND 1961

The General Accounting Office has made an audit of selected activities of the CORPS OF ENGINEERS (Civil Functions), Department of the Army, in the southwestern area of the United States, and the SOUTHWESTERN POWER ADMINISTRATION, Department of the Interior, for the fiscal years 1960 and 1961. This audit was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of the audit work performed is described on page 26 of this report.

GENERAL COMMENTS

Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s) provides for delivery to the Secretary of the Interior of the excess electric power and energy generated at reservoir projects under the control of the Department of the Army. The Secretary of the Interior is directed to transmit and dispose of such power and energy in such a manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with

sound business principles, the rate schedules to become effective upon confirmation and approval by the Federal Power Commission. To carry out these responsibilities, the Secretary of the Interior designated the Southwestern Power Administration (SWPA) as the power-marketing agent in the southwestern area of the United States.

The Corps of Engineers, Department of the Army, has in operation or under construction 14 multiple-purpose projects with hydroelectric facilities in the southwestern area of the United States. These projects when completed will represent a Federal investment totaling almost \$818 million and will have an installed generating capacity of 1,355,000 kilowatts. Installed generating capacity at June 30, 1961, totaled 701,000 kilowatts. These projects provide flood control, navigation, recreation, fish and wildlife, and water supply benefits, in addition to hydroelectric energy.

The power activities of the Corps of Engineers in the southwestern area of the United States are carried out by district offices at Tulsa, Oklahoma; Little Rock, Arkansas; and Fort Worth, Texas, in the Southwestern Division, headquartered at Dallas, Texas, and by the district office at Vicksburg, Mississippi, in the lower Mississippi Valley Division, headquartered at Vicksburg. The district offices of the Corps are operating offices, headed by Army engineer officers (district engineers), and generally carry out both military and civil works activities within defined areas under the general direction of the division engineers. The division engineers are responsible to the Chief of Engineers who, with his staff, is located in Washington, D.C.

To market the power generated by the Corps, SWPA owns transmission facilities representing a Federal investment of \$27.8 million at June 30, 1961. In addition, the SWPA transmission system and the Corps hydroelectric facilities are interconnected with other power systems in the southwestern area.<sup>1</sup> SWPA is headquartered at Tulsa, Oklahoma, and is managed by an Administrator appointed by the Secretary of the Interior.

Financial records are maintained by both the Corps of Engineers and the SWPA; the General Accounting Office has prepared financial statements combining the records and reports of the two agencies. We call this combined financial presentation the Southwestern Power System and Related Activities.

The principal policy-making officials of the respective agencies responsible for the activities discussed in this report are as follows:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF THE ARMY</u>		
Secretary of the Army:		
Wilber M. Brucker	July 1955	Jan. 1961
Elvis J. Stahr, Jr.	Jan. 1961	June 1962
Cyrus Roberts Vance	July 1962	Present
Chief of Engineers:		
Lieutenant General Emerson C. Itschner	Oct. 1956	May 1961
Lieutenant General Walter K. Wilson, Jr.	May 1961	Present
<u>DEPARTMENT OF THE INTERIOR</u>		
Secretary of the Interior:		
Fred A. Seaton	June 1956	Jan. 1961
Stewart L. Udall	Jan. 1961	Present

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<sup>1</sup>See appendix III, p. 49, for a map of the interconnected system of the Southwestern Power Administration.



<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF THE INTERIOR (continued)

Assistant Secretary--Water and Power Development:

Fred G. Aandahl

Feb. 1953

Jan. 1961

Kenneth Holum

Jan. 1961

Present

Administrator, Southwestern Power Administration:

Douglas G. Wright

Oct. 1943

Present

Comments from the Corps of Engineers dated November 23, 1962, and from the Department of the Interior dated January 9, 1963, have been considered in the preparation of this report.

## CURRENT FINDINGS

### RESPONSIBILITY FOR PREPARING COMBINED FINANCIAL STATEMENTS ON SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES SHOULD BE ASSIGNED TO SOUTHWESTERN POWER ADMINISTRATION

The financial statements on the Southwestern Power System and Related Activities included in this report, as in past reports, were prepared by the General Accounting Office. The continued preparation of combined statements is desirable in order to disclose fully on an integrated-system basis, for the information of the Congress, the President, and the public, the financial position and the results of operations of the various activities that make up the Southwestern Power System. However, in our opinion and that of the Director of the Bureau of the Budget, the preparation of combined financial statements is more properly a function of the executive branch of the Federal Government.

We proposed that preparation of these statements by the executive branch be accomplished by assigning responsibility to the Administrator of SWPA for preparing combined statements from reports submitted to him by the district offices of the Corps. Officials of these agencies should cooperate in developing reporting procedures and dates for submission by the Corps of the information required for preparation of the combined financial statements.

The Department of the Interior advised us that it agrees that a combined financial statement of SWPA and the Corps of Engineers is desirable and stated that SWPA would be assigned the responsibility for securing the necessary data to prepare the financial

report. The Corps of Engineers advised us that the Corps would cooperate with SWPA in whatever way necessary in the development of specific procedures for accomplishing the desired result.

EXTENSION OF ESTIMATED TIME FOR REPAYMENT  
OF GOVERNMENT INVESTMENT ALLOCATED TO POWER

Repayment schedules prepared by SWPA show that fiscal year 1961 power revenues were \$5,031,522 less than the repayment requirements of the Southwestern Power System for that year and that the cumulative repayment deficiency to June 30, 1961, was \$36,192,980. In connection with a recent rate submission to the Federal Power Commission, the Department of the Interior commented that adjustments in operating expenses and marketing plans and in other factors since preparation of the Repayment and Average Rate Determination Study of October 1956 have adversely affected the 50-year repayment period projected at that time. SWPA has negotiated power contracts which will provide major modification of certain existing power-marketing arrangements and which are expected to provide a substantial increase in net revenues to the Government.

Notwithstanding the projected increase in net revenues, an abbreviated repayment study in support of the rate submission shows that the Federal investment in projects now in operation will not be repaid until during fiscal year 2058, or 47 years later than was projected in October 1956. (See pp. 19 through 21.)

STATUS OF PRINCIPAL FINDINGS  
AND RECOMMENDATIONS IN PRIOR REPORTS

Our report to the Congress dated October 21, 1960 (B-125031), on the audit of the Southwestern Power System and Related Activities, for the fiscal years 1958 and 1959, contained comments on a number of significant matters on which corrective action was needed. These findings and recommendations and their current status are summarized below.

DEFICIENCIES IN ACCOUNTING FOR  
DEPRECIATION OF FACILITIES

Our prior report included comments on (1) the need for the Southwestern Power Administration to amortize the costs of land and land rights (except land acquired in fee simple), clearing land and rights-of-way, and roads and trails, and (2) the need for the Corps of Engineers to issue instructions that (a) will provide for amortization of costs of land and land rights (except land acquired in fee simple), relocations, and land clearing, (b) will require district offices to be consistent in making provisions for depreciation, and (c) will provide that retroactive adjustments for prior years' depreciation be made when depreciation policies are changed and the amounts involved are significant.

Need for Corps and SWPA to amortize the costs  
of land and land rights, relocations, and clearing

We believe that, to more fairly disclose the financial results from operations, SWPA and the Corps should amortize the costs of land and land rights (except land acquired in fee simple) relocations, and clearing over the economic life of the project.

Unlike the cost of land owned in fee simple, other costs associated with land, such as for easements, rights-of-way, submersion rights, relocations, and clearing, are ordinarily for requirements that, in themselves, retain no value upon expiration of the economic life of a project. For example, the costs of relocating a highway from land to be inundated would not enhance the value of the land and therefore would be for a requirement with no retained value at the expiration of the economic life of the project. Furthermore, the amounts involved are often very significant--relocation costs alone were about \$12,900,000, or about 20 percent of total construction costs, at the Denison Project. The Department of the Interior and the Corps of Engineers previously advised us that they do not agree that there is a need to amortize such costs.

However, because these requirements represent a substantial portion of total construction costs in many instances, and because their recorded costs cannot normally be recouped at the expiration of a project, we believe that operating expenses are significantly understated and recorded asset values are equally overstated because of the failure to amortize these costs.

The Corps of Engineers advised us that instructions would be issued to have the Corps district offices maintain their records so as to consider costs of land and land rights and relocations as a cost of operations. The Department of the Interior advised us that the application of depreciation, including amortization of land, land rights, and relocations, was under consideration by the Department.

Need for Corps to issue additional instructions relative to depreciation accounting

We have suggested that the Corps issue instructions for the guidance of its district offices that will (1) eliminate the inconsistencies in depreciation practices between district offices and (2) provide that retroactive adjustments for prior years' depreciation be made when depreciation policies are changed and the amounts involved are significant.

Inconsistencies in depreciation practices relative to establishment of in-service dates and service lives still exist between district offices in the southwestern area. The Corps of Engineers has advised us that, while the desirability of consistent practices in recording depreciation is recognized, any action taken at this time is at best an interim solution pending establishment of inter-agency understandings. However, we were further advised that the Division Engineers would be requested to review the depreciation practices being followed in the respective district offices to the end that substantial consistency can be achieved for projects in the southwestern area.

The Corps has not issued instructions providing for retroactive adjustment of prior years' depreciation; however, since the district offices in the southwestern area generally are adjusting prior years' depreciation where significant amounts are involved, we are not repeating our suggestion in this report.

DEFICIENCIES IN ACCOUNTING FOR  
INTEREST ON THE FEDERAL INVESTMENT

In our prior report we pointed out that interest on the Federal investment in the power program was significantly overstated because in making the interest computations neither the Corps nor the SWPA had considered power revenues as a reduction of the Federal investment.

SWPA and the Corps have not reached agreement on the allocation of SWPA power revenues to the Corps generating projects. As a result, interest in the Corps accounts is significantly overstated because the Corps continued to record interest at the rate of 2.5 percent a year on the net unrepaid Federal investment in multiple-purpose projects, including power, without any reduction for an appropriate share of SWPA power revenues.

In fiscal year 1961 SWPA reduced interest on the Federal investment recorded to June 30, 1960, by \$4.8 million in consideration of power revenues of about \$34 million which had been returned to the United States Treasury.

In addition, for fiscal year 1961 SWPA computed interest at a rate of 2.5 percent a year on the sum of accumulated net appropriations, net transfers of property to or from other Federal agencies, accumulated interest on the Federal investment, and accumulated net income from power operations, less accumulated power revenues returned to the United States Treasury. In prior years SWPA computed interest at the rate of 2.5 percent a year on the total expenditures for plant in service and construction work in progress

without giving recognition to power revenues returned to the United States Treasury.

The sum used for the fiscal year 1961 interest computation is excessive by the amount of the accumulated net income from power operations, which amounted to \$25.8 million for SWPA at June 30, 1961. Interest should not be computed on the net income from power operations because such income does not represent financing from the United States Treasury. The Department of the Interior advised us that it agrees that net income from power operations should not be included as a part of the investment of the Government for interest computation purposes. We were further advised that an appropriate adjustment in the interest computation would be made.

The computation of interest, after elimination of the accumulated net income from power operations as an increment of the unpaid Federal investment in the power program, would result in a reasonably accurate statement of total interest in the combined financial statements. However, without a proper allocation of power revenues between the Corps and SWPA, the amounts for interest shown in the individual statements and accounts of the Corps and SWPA are not appropriate.

The Department of the Interior advised that (1) a plan for the distribution of power revenues, developed between the Corps and SWPA at the field level, had been approved by the Department, (2) the distribution of revenues from inception of power operations through fiscal year 1961 at the isolated Whitney and Narrows



Projects had been effected at the field level, (3) the distribution for the Whitney Project had received departmental approval, (4) the distribution for the Narrows Project was under review by the Department, and (5) distribution of revenues for fiscal year 1962 for the Whitney Project was being accomplished. We were further advised that in the near future SWPA would provide the Corps with data on all revenues, costs, and transmission investments associated with the seven integrated projects and that the Corps would provide SWPA similar data for its hydropower facilities after which the actual mechanics of distributing revenues according to the approved plan could be accomplished through fiscal year 1962.

STATUS OF REPAYMENT OF GOVERNMENT INVESTMENT  
ALLOCATED TO POWER NOT ADEQUATELY SHOWN

In our prior report we commented that SWPA's repayment schedules for the Southwestern Power System did not clearly show the actual status of and proposed plans for repayment of the Government's investment because the schedules incorrectly included as revenues available to meet repayment requirements amounts that had not been and would not be received. These amounts represented the difference between rates contained in SWPA's power contract with the Arkansas Power and Light Company-Reynolds Metals Company and rates that apply to other power customers receiving similar service.

In our current audit, we noted that SWPA continued to show these amounts as revenues available for repayment of the Government's investment and that for fiscal year 1961 the amount was \$1,155,600; the cumulative total at June 30, 1961, was \$4,140,184.

The Department of the Interior advised us that future repayment studies would be adjusted to exclude amounts that have not been realized under the contract between SWPA and the Arkansas Power and Light Company-Reynolds Metals Company.

ELECTRIC PLANT CONSTRUCTION AND OPERATION

GENERATING PLANTS IN OPERATION  
AND UNDER CONSTRUCTION

At June 30, 1961, the Corps of Engineers (1) was operating nine power plants which have a rated capacity of 701,000 kilowatts, (2) was adding generating units which will have a rated capacity of 180,000 kilowatts at one of the plants in operation, and (3) was constructing five new projects which will have a rated capacity of 474,000 kilowatts. The Corps projects and the total estimated construction costs, including interest during construction and the allocation to power, follow.

Project	Generating units		Rated capacity of generating units (kilowatts)		Total	Estimated construction cost, including interest during construction	
	In operation	Under construction	In operation	Under construction		Allocated to power	Percent
Norfolk	2	-	70,000	-	\$ 30,972,200 <sup>a</sup>	\$ 13,762,200	44.4
Denison	2	-	70,000	-	62,127,550 <sup>a</sup>	19,873,250	32.0
Bull Shoals	4	4	160,000	180,000	93,952,300 <sup>a</sup>	63,268,800	67.3
Fort Gibson	4	-	45,000	-	43,791,605 <sup>a</sup>	16,959,191	38.7
Tenkiller Ferry	2	-	34,000	-	23,424,680 <sup>a</sup>	11,800,700	50.4
Blakely Mountain	2	-	75,000	-	33,152,000 <sup>a</sup>	25,034,000	75.5
Table Rock	4	-	200,000	-	70,619,500 <sup>b</sup>	53,462,300	75.7
Narrows	2	-	17,000	-	13,104,000 <sup>a</sup>	5,496,000	41.9
Whitney	2	-	30,000	-	43,713,100 <sup>b</sup>	8,060,300	18.4
Beaver	-	2	-	112,000	53,541,000 <sup>b</sup>	40,930,100	76.4
Dardanelle	-	4	-	124,000	99,188,000 <sup>b</sup>	54,841,300	55.3
Eufaula	-	3	-	90,000	134,666,800 <sup>b</sup>	34,021,000	25.3
Greers Ferry	-	2	-	96,000	52,438,000 <sup>b</sup>	35,102,100	66.9
McGee Bend	-	2	-	52,000	63,027,400 <sup>b</sup>	24,540,000	38.9
Total	<u>24</u>	<u>17</u>	<u>701,000</u>	<u>654,000</u>	<u>\$817,718,135</u>	<u>\$407,151,241</u>	<u>49.3</u>

<sup>a</sup>Firm allocation.

<sup>b</sup>Tentative allocation.

The Short Mountain and DeGray Projects are authorized for construction and are programmed to add 140,000 kilowatts to the Federal power system in the southwestern area. Construction of these two projects has not been started.

TRANSMISSION NETWORK OF  
SOUTHWESTERN POWER ADMINISTRATION

SWPA, as marketing agent, constructs, operates, and maintains transmission lines and substations for transmitting the energy from the Corps projects. All projects in operation at June 30, 1961, with the exception of the Narrows and Whitney Projects were interconnected by SWPA's transmission network. Energy generated at the Narrows Project is sold directly to the Tex-La Electric Cooperative, Inc., at the project site. Energy generated at the Whitney Project is sold to the Brazos Electric Power Cooperative, Inc., at the project site.

The electric facilities at Blakely Mountain are not directly connected to the integrated system. SWPA considers the project as part of the interconnected system because the output of the project is delivered into the system of the Arkansas Power and Light Company and related quantities of electric power and energy are delivered by that company to the interconnected system of SWPA for disposal to customers of SWPA.

At June 30, 1961, SWPA was operating 1,061 circuit miles of electric transmission lines, 14 substations, and 7 transmission switching stations. SWPA's investment in electric plant totaled \$27.8 million at June 30, 1961.

INTEGRATION WITH PRIVATE UTILITIES AND  
GENERATING AND TRANSMISSION COOPERATIVES

SWPA has integrated its electric system with certain utility systems in the area owned by private companies, to obtain better utilization of the Government's hydroelectric facilities by

increasing peaking capacity and to secure the maximum benefits from the system. To accomplish this purpose, SWPA has entered into agreements with the companies owning the systems for the purchase, sale, and delivery of electric power. Under the terms of the contracts, the companies provide the service necessary to supply designated preferred customers of SWPA--cooperatives, municipalities, and Government agencies.<sup>1</sup>

SWPA also has a number of lease contracts with several generating and transmission cooperatives. These contracts provide for the sale and exchange of energy and the lease of the cooperatives' transmission systems by SWPA for a period of 40 years.

Reimbursements for the use of transmission facilities are made to Central Electric Power Cooperative; KAMO Electric Cooperative, Incorporated; N.W. Electric Power Cooperative, Inc.; Western Farmers Electric Cooperative; and Sho-Me Power Corporation.

SWPA also had contracts in force during fiscal year 1961 for the purchase of the output from steam generating plants of the Central Electric Power Cooperative, the N.W. Electric Power Cooperative, Inc., and the Western Farmers Electric Cooperative.

Included in the payments to most of the cooperatives are amounts sufficient to amortize the costs of the cooperatives' Rural Electrification Administration loans covering the cost of the facilities. These loans are to be repaid in about 28 years, compared

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<sup>1</sup>Summaries of contracts covering most of these arrangements were included as appendixes D and E on pages 57 through 64 of our prior report to the Congress dated October 21, 1960.

with 40-year terms for the SWPA contracts. The payments for purchased power and rental of the transmission facilities will be reduced by the amount of the amortization payments, in most instances, upon repayment of the REA loans by the cooperatives.

#### ENERGY PRODUCTION AND DELIVERIES

The electric energy made available to SWPA by Corps generating projects, the power purchased or exchanged, and the disposition of such power, for fiscal years 1961 and 1960, are summarized below.

	<u>Fiscal year 1961</u>		<u>Fiscal year 1960</u>	
	<u>Thousand kilowatt- hours</u>	<u>Per- cent</u>	<u>Thousand kilowatt- hours</u>	<u>Per- cent</u>
Source of energy:				
Corps projects:				
Norfolk	196,499	8.4	174,366	8.0
Denison	223,803	9.6	266,943	12.2
Bull Shoals	546,086	23.5	418,567	19.2
Fort Gibson	209,738	9.0	271,842	12.5
Tenkiller Ferry	104,281	4.5	126,653	5.8
Blakely Mountain	198,914	8.5	155,571	7.1
Table Rock	385,073	16.6	212,802	9.7
Narrows	39,774	1.7	30,447	1.4
Whitney	<u>82,982</u>	<u>3.6</u>	<u>69,433</u>	<u>3.2</u>
	1,987,150	85.4	1,726,624	79.1
Power purchased or exchanged	<u>340,819</u>	<u>14.6</u>	<u>456,969</u>	<u>20.9</u>
Total	<u>2,327,969</u>	<u>100.0</u>	<u>2,183,593</u>	<u>100.0</u>
Disposition of energy:				
Sales:				
REA cooperatives	1,310,645	56.3	1,299,583	59.5
Private utilities	630,456	27.1	532,610	24.4
Municipalities	191,983	8.2	175,695	8.1
Federal agencies	<u>63,284</u>	<u>2.7</u>	<u>52,978</u>	<u>2.4</u>
	2,196,368	94.3	2,060,866	94.4
Line losses, meter discrepancies, and inadvertent flows	<u>131,601</u>	<u>5.7</u>	<u>122,727</u>	<u>5.6</u>
Total	<u>2,327,969</u>	<u>100.0</u>	<u>2,183,593</u>	<u>100.0</u>

In fiscal year 1961 generation of energy increased by 260.5 million kilowatt-hours, or 15 percent over that of the preceding year, due principally to improved water conditions on the White River on which the Bull Shoals, Table Rock, and Norfolk Projects are located.

#### FINANCIAL RESULTS OF POWER OPERATIONS

The financial results of power operations for fiscal year 1961, based on the accounts of SWPA and the Corps, are set forth in schedule 2, page 32, and are compared with those for the prior fiscal year in the following summary.

	<u>Fiscal year</u>		<u>Increase or decrease (-)</u>
	<u>1961</u>	<u>1960</u>	
Operating revenues:			
Sales of electric energy (note a):			
REA cooperatives (19-19)	\$ 8,450,779	\$ 8,559,810	\$ -109,031
Private utilities (6-6)	4,632,208	4,728,488	-96,280
Municipalities (24-23)	1,385,966	1,357,517	28,449
Federal agencies (5-4)	<u>484,059</u>	<u>371,645</u>	<u>112,414</u>
Total	14,953,012	15,017,460	-64,448
Other revenues	<u>1,900</u>	<u>320</u>	<u>1,580</u>
Total	<u>14,954,912</u>	<u>15,017,780</u>	<u>-62,868</u>
Operating expenses:			
Purchased power	6,118,794	6,200,832	-82,038
Transmission	4,700,923	4,790,139	-89,216
Generation	1,642,089	1,610,671	31,418
Depreciation	3,161,451	3,005,579	155,872
Other	<u>720,383</u>	<u>671,585</u>	<u>48,798</u>
Total	<u>16,343,640</u>	<u>16,278,806</u>	<u>64,834</u>
Net operating loss	1,388,728	1,261,026	127,702
Interest and other deductions	<u>6,344,187</u>	<u>5,283,069</u>	<u>1,061,118</u>
Net loss for the year	<u>\$ 7,732,915</u>	<u>\$ 6,544,095</u>	<u>\$ 1,188,820</u>

<sup>a</sup>The number of customers in fiscal years 1961 and 1960, respectively, is shown in parenthesis.

The opinion of the General Accounting Office on the financial statements appears on page 27.

EXTENSION OF ESTIMATED TIME FOR REPAYMENT  
OF GOVERNMENT INVESTMENT ALLOCATED TO POWER

Repayment schedules prepared by SWPA show that fiscal year 1961 power revenues were \$5,031,522 less than the repayment requirements of the Southwestern Power System for that year and that the cumulative repayment deficiency to June 30, 1961, was \$36,192,980. This data is presented in the following summary and is shown in more detail in appendix II of this report.

	<u>Cumulative at June 30, 1961</u>	<u>Fiscal year 1961</u>
Gross SWPA power revenues (note a)	<u>\$104,822,716</u>	<u>\$16,032,659</u>
Less:		
Operation and maintenance expenses (excluding depreciation):		
Southwestern Power Administra- tion	67,677,296	11,373,762
Corps of Engineers, including provision for replacements	14,111,245	1,757,136
Interest on unrepaid investment	40,983,495	5,457,616
Scheduled repayment of Federal in- vestment	<u>18,243,660</u>	<u>2,475,667</u>
Total	<u>141,015,696</u>	<u>21,064,181</u>
Total deficiency in repay- ment	<u>\$ 36,192,980</u>	<u>\$ 5,031,522</u>

<sup>a</sup>As pointed out on pages 12 and 13, gross power revenues are overstated by \$1,155,600 for fiscal year 1961 and by \$4,140,184 to June 30, 1961.

The principal reasons for differences between the amounts of revenues and expenses shown in the repayment studies and the amounts shown in the financial statements are discussed in note 1 to appendix II of this report. (See p. 46.)



Appendix II of this report was prepared by SWPA basically from information contained in an average rate and repayment study prepared in October 1956 in support of various rate schedules which had been submitted to the Federal Power Commission (FPC) for confirmation and approval. The October 1956 study indicated that repayment of the Federal investment in the Southwestern Power System with interest at 2.5 percent--excluding the investment in the Whitney and Narrows Projects--would be accomplished during fiscal year 2011. In the absence of specific legislative requirements as to the repayment period, the Secretary of the Interior established a general administrative policy calling for repayment of the Government's investment in power within 50 years from the date each power facility is placed in service. The October 1956 study showed that the various additions to the system would be repaid within the administratively determined period of 50 years.

In a November 1961 rate submission to the Federal Power Commission, the Department of the Interior stated that:

"Subsequent to the preparation of the Repayment and Average Rate Determination Study of October 1956 \*\*\* several adjustments have been made in the operating expenses and marketing plans of SPA. Certain of these and other factors have adversely affected the repayment projected in October 1956." (Underscoring supplied.)

The Department stated that, in order to meet the ever-increasing demand for power, to obtain the most widespread use of and provide the maximum benefits from hydroelectric power generated at multiple-purpose projects with high installed capacities and limited hours of usage, and to give the customers of the Government the lowest rates consistent with sound business principles, major

modification of certain existing power-marketing arrangements which had adversely affected repayment ability was desirable. The Department stated that power contracts had been negotiated that would result in a more complete integration and exchange of benefits among the public bodies, the private utilities, and the Government power systems in the Missouri area and that were expected to provide a substantial increase in net revenue to the Government as compared with recent operating results.

Notwithstanding the projected increase in net revenues, an abbreviated repayment study, which SWPA submitted in support of the rate schedule applicable to sales under the new contracts, shows that the Federal investment in the integrated system--excluding the Narrows and Whitney Projects and projects currently under construction--will not be repaid until during fiscal year 2058, or 47 years later than was projected in October 1956.

The proposed rate schedule was confirmed and approved by the Federal Power Commission by an order dated April 30, 1962.

APPROVAL OF RATE SCHEDULES  
BY FEDERAL POWER COMMISSION

Section 5 of the Flood Control Act of 1944 provides that rate schedules for the sale of power shall become effective upon confirmation and approval by the Federal Power Commission. The act requires that rate schedules shall be drawn having regard to the recovery of the Corps operation and maintenance expenses, the marketing agent's expenses, and the Government's investment in power facilities including interest on the unrepaid investment, within a reasonable period of years.

From time to time FPC has confirmed and approved SWPA's rate schedules for the sale of power.

OTHER OPERATIONS AT MULTIPLE-PURPOSE PROJECTS  
OF THE CORPS OF ENGINEERS IN THE SOUTHWESTERN AREA

Multiple-purpose projects in the southwestern area, in operation or under construction, are designed for optimum development of water resources for power, flood control, navigation, recreation, municipal water, and other purposes. The costs of these purposes, except for power and municipal water, are not reimbursable to the Federal Government. Flood control is provided at multiple-purpose projects through the reservation of potential storage for anticipated flood control requirements. Navigation development is accomplished through the construction of locks and the regulation of project water releases to maintain required channel depths. To promote public use of reservoir areas, the Corps, among other activities, constructs access roads, establishes camp and housing sites, permits establishment of privately developed concessions, and leases lands for agricultural and grazing purposes.

The estimated construction costs, including interest during construction, currently allocated to the various project purposes by the Corps for the 14 southwestern multiple-purpose projects in operation or under construction are shown in appendix I, pages 43 and 44.

The net cost of nonpower programs for fiscal year 1961 and cumulative to June 30, 1961, by project, is set forth in schedule 3, page 33.

## ACCOUNTING POLICIES

The accounts for power operations of the Corps of Engineers (Civil Functions) and the Southwestern Power Administration are maintained, to the extent practicable, in accordance with the uniform system of accounts prescribed for public utilities by the Federal Power Commission under the Federal Power Act (16 U.S.C. 825-b). However, before the financial statements of assets and liabilities and of results of operations can show meaningful financial data, the deficiencies in accounting for depreciation and interest on the Federal investment, as stated on pages 7 to 12, must be resolved.

## COST-ACCOUNTING PRACTICES

The Corps of Engineers does not bear the costs applicable to its activities of administrative and other services rendered by other Federal agencies and not assignable to projects pursuant to law or administrative policy. These costs include amounts for rentals and other services furnished without charge by the General Services Administration and other Federal agencies and for death and disability claims on account of Corps employees paid by the Bureau of Employees' Compensation, Department of Labor. Similarly, it is not the policy of the Southwestern Power Administration to include in its accounts amounts for administrative and other services rendered by other Federal agencies without charge, except for the inclusion of amounts for space furnished without charge by the General Services Administration.

The costs of the Office of the Chief of Engineers and of division offices are paid from appropriations to the Corps for general expenses and are not allocated to the individual projects.

Provisions for accrued annual leave of employees are included in property costs and operating expenses by the Corps of Engineers and the Southwestern Power Administration.

## SCOPE OF AUDIT

Our audit at the district offices of the Corps of Engineers having responsibility for water resources development programs in the southwestern area and at the headquarters office of the Southwestern Power Administration included a review of applicable legislation, a review of the policies and procedures adopted by the Corps and the SWPA, and an examination of the financial statements for the fiscal years 1960 and 1961. This examination was made in accordance with generally accepted auditing standards and included tests of the accounting records and financial transactions and such other auditing procedures as we considered necessary in the circumstances.

The examination of accounts and financial transactions was conducted at Corps district offices in Little Rock, Arkansas; Tulsa, Oklahoma; Fort Worth, Texas; and Vicksburg, Mississippi, and at the office of the Southwestern Power Administration in Tulsa, Oklahoma.

## OPINION OF FINANCIAL STATEMENTS

The accompanying financial statements (schedules 1 through 4) were prepared by us from the accounts and records of the Southwestern Power Administration and from the accounts and records of the Corps of Engineers that pertain to multiple-purpose projects with hydroelectric facilities located in the southwestern United States.

In our opinion, the accompanying financial statements do not present fairly the financial position of the Southwestern Power Administration or of the Corps of Engineers projects at June 30, 1961, and the financial results of operations for the fiscal year then ended, mainly for the reasons set forth below, the full effect of which cannot now be determined.

1. Power revenues returned to the United States Treasury by SWPA have not been allocated between Corps accounts and SWPA accounts. As a result, the amounts for interest on the Federal investment shown in the statements and accounts of the Corps and SWPA are not appropriate. (See pp. 10 to 12.)
2. SWPA erroneously included the accumulated net income from power operations in the computations of interest on the Federal investment for fiscal year 1961 (See pp. 10 to 12.)
3. The district offices of the Corps have not been consistent in making provisions for depreciation. (See p. 9.)
4. The Southwestern Power Administration has made no provision for amortizing costs of land and land rights, clearing land and rights-of-way, and roads and trails. Also, the Corps of Engineers has made no provision for amortizing costs of land and land rights, relocations, and clearing. (See pp. 7 and 8.)



FINANCIAL STATEMENTS

CORPS OF ENGINEERS (CIVIL FUNCTIONS) AND SOUTHWESTERN POWER ADMINISTRATION  
SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES (note 1)

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1961

A S S E T S				L I A B I L I T I E S			
	<u>Combined</u>	<u>Corps of Engineers</u>	<u>Southwestern Power Administration</u>		<u>Combined</u>	<u>Corps of Engineers</u>	<u>Southwestern Power Administration</u>
<b>FIXED ASSETS (notes 2 and 3):</b>				<b>INVESTMENT OF U.S. GOVERNMENT AND ACCUMULATED EXCESS OF EXPENSES OVER REVENUES:</b>			
Power	\$216,914,352	\$190,571,148	\$26,343,204	Congressional appropri- ations, net (note 5):			
Nonpower	195,909,784	195,909,784	-	From general fund of the U.S. Treasury	\$564,968,576	\$522,469,854	\$42,498,722
Under construction	<u>137,644,486</u>	<u>136,155,473</u>	<u>1,489,013</u>	From receipts from the sale of power	26,339,247	-	26,339,247
Total (schedule 4)	<u>550,468,622</u>	<u>522,636,405</u>	<u>27,832,217</u>	Transfers of cost or property, net	5,290,955	4,548,918	742,037
<b>Less accumulated deprecia- tion (note 4):</b>				Interest on the Federal investment (note 3)	<u>123,996,810</u>	<u>122,644,927</u>	<u>1,351,883</u>
Power	25,128,569	19,019,484	6,109,085	Total investment of U.S. Government	<u>720,595,588</u>	<u>649,663,699</u>	<u>70,931,989</u>
Nonpower	<u>11,295,991</u>	<u>11,295,991</u>	-	Less:			
Total (schedule 4)	<u>36,424,560</u>	<u>30,315,475</u>	<u>6,109,085</u>	Funds returned to U.S. Treasury (note 6)	70,982,854	5,525,498	65,457,356
Fixed assets, net	<u>514,044,062</u>	<u>492,320,930</u>	<u>21,723,132</u>	Cumulative net costs of nonpower programs (schedule 3)	73,960,057	73,960,057	-
				Profit on sale of lands	<u>-237,681</u>	<u>-237,681</u>	-
<b>ADVANCED PLANNING ON AUTHOR- IZED MULTIPLE-PURPOSE PROJ- ECTS WHICH INCLUDE POWER</b>	<u>844,536</u>	<u>844,536</u>	<u>-</u>	Total	<u>144,705,230</u>	<u>79,247,874</u>	<u>65,457,356</u>
				Net investment of U.S. Government	575,890,358	570,415,825	5,474,533
				Less cumulative net loss from power operations (schedule 2)	<u>50,105,532</u>	<u>75,870,034</u>	<u>-25,764,502</u>
<b>CURRENT ASSETS:</b>				Total	<u>525,784,826</u>	<u>494,545,791</u>	<u>31,239,035</u>
Unexpended funds in U.S. Treasury	10,285,945	7,250,403	3,035,542	<b>CURRENT AND ACCRUED LIABIL- ITIES:</b>			
Special and trust funds on deposit	5,568,442	6,498	5,561,944	Accounts payable	4,803,445	4,189,580	613,865
Accounts receivable	1,217,767	2,958	1,214,809	Employees' accrued leave (note 7)	117,863	-	117,863
Materials and supplies	581,783	-	581,783	Other liabilities	<u>149,713</u>	<u>62,179</u>	<u>87,534</u>
Prepayments, advances, and other debits	<u>5,999</u>	<u>2,443</u>	<u>3,556</u>	Total	<u>5,071,021</u>	<u>4,251,759</u>	<u>819,262</u>
Total	<u>17,659,936</u>	<u>7,262,302</u>	<u>10,397,634</u>	<b>CONTRIBUTIONS IN AID OF CON- STRUCTION</b>	<u>1,692,687</u>	<u>1,630,218</u>	<u>62,469</u>
Total assets	<u>\$532,548,534</u>	<u>\$500,427,768</u>	<u>\$32,120,766</u>	Total liabilities and investment of U.S. Government	<u>\$532,548,534</u>	<u>\$500,427,768</u>	<u>\$32,120,766</u>

The notes on pages 35 to 40 are an integral part of this statement.

The opinion of the General Accounting Office on the financial statements appears on page 27.

CORPS OF ENGINEERS (CIVIL FUNCTIONS) AND SOUTHWESTERN POWER ADMINISTRATION  
SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES (note 1)

STATEMENT OF RESULTS OF POWER OPERATIONS  
FOR FISCAL YEAR 1961  
AND CUMULATIVE NET LOSS TO JUNE 30, 1961

	Combined	Corps of Engineers										
		Southwestern Power Administration	Fort Gibson	Tenkiller Ferry	Bull Shoals	Norfolk	Table Rock	Blakely Mountain	Denison	Narrows	Whitney	
<b>OPERATING REVENUES:</b>												
Sales of electric energy (note 8)	\$14,953,012	\$14,953,012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other revenues	1,900	1,900	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>14,954,912</b>	<b>14,954,912</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OPERATING EXPENSES:</b>												
Purchased power	6,118,794	6,118,794	-	-	-	-	-	-	-	-	-	-
Generation expenses:												
Specific power facilities	1,164,091	-	1,164,091	111,717	78,123	164,190	128,084	141,362	139,220	160,316	122,196	118,883
Joint facilities (note 9)	477,998	-	477,998	80,089	26,046	70,881	37,657	56,738	51,084	125,262	19,405	10,835
Transmission expenses	4,700,923	4,700,923	-	-	-	-	-	-	-	-	-	-
Supervision and administration (note 9)	688,332	546,355	141,977	21,496	10,484	21,291	12,526	27,099	(a)	38,326	(a)	10,755
Provision for depreciation (note 4)	3,161,451	744,376	2,417,075	225,938	160,209	621,065	202,226	363,621	335,762	275,240	86,277	146,737
Other expenses	32,051	32,051	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>16,343,640</b>	<b>12,142,499</b>	<b>4,201,141</b>	<b>439,240</b>	<b>274,862</b>	<b>877,427</b>	<b>380,493</b>	<b>588,820</b>	<b>526,066</b>	<b>599,144</b>	<b>227,878</b>	<b>287,211</b>
Net operating loss or profit(-)	1,388,728	-2,812,413	4,201,141	439,240	274,862	877,427	380,493	588,820	526,066	599,144	227,878	287,211
<b>INTEREST ON THE FEDERAL INVESTMENT (note 3)</b>	<b>6,547,382</b>	<b>807,118</b>	<b>5,740,264</b>	<b>548,769</b>	<b>371,960</b>	<b>1,489,847</b>	<b>552,702</b>	<b>751,792</b>	<b>726,543</b>	<b>825,962</b>	<b>207,384</b>	<b>265,305</b>
<b>MISCELLANEOUS CREDITS, NET</b>	<b>-203,195</b>	<b>-41</b>	<b>-203,154</b>	<b>-49,571</b>	<b>-10,502</b>	<b>-41,575</b>	<b>-9,204</b>	<b>-9,766</b>	<b>-5,334</b>	<b>-70,346</b>	<b>-523</b>	<b>-6,333</b>
<b>NET LOSS OR PROFIT(-) FOR THE FISCAL YEAR</b>	<b>\$ 7,732,915</b>	<b>\$ -2,005,336</b>	<b>\$ 9,738,251</b>	<b>\$ 938,438</b>	<b>\$ 636,320</b>	<b>\$ 2,325,699</b>	<b>\$ 923,991</b>	<b>\$ 1,330,846</b>	<b>\$ 1,247,275</b>	<b>\$ 1,354,760</b>	<b>\$ 434,739</b>	<b>\$ 546,183</b>
<b>NET LOSS OR PROFIT(-) FROM POWER OPERATIONS TO JUNE 30, 1960</b>	<b>\$46,764,522</b>	<b>-\$15,965,496</b>	<b>\$65,730,018</b>	<b>\$7,142,723</b>	<b>\$4,206,468</b>	<b>\$14,828,086</b>	<b>\$10,342,279</b>	<b>\$ 954,168</b>	<b>\$5,567,082</b>	<b>\$15,648,396</b>	<b>\$3,600,396</b>	<b>\$3,440,420</b>
<b>NET LOSS OR PROFIT(-) FOR FISCAL YEAR 1961</b>	<b>7,732,915</b>	<b>-2,005,336</b>	<b>9,738,251</b>	<b>938,438</b>	<b>636,320</b>	<b>2,325,699</b>	<b>923,991</b>	<b>1,330,846</b>	<b>1,247,275</b>	<b>1,354,760</b>	<b>434,739</b>	<b>546,183</b>
<b>PRIOR YEARS' ADJUSTMENTS</b>	<b>-4,391,905</b>	<b>-4,793,670</b>	<b>401,765</b>	<b>-</b>	<b>-</b>	<b>4,582</b>	<b>4,275</b>	<b>400,089</b>	<b>-4,982</b>	<b>-</b>	<b>-2,199</b>	<b>-</b>
<b>CUMULATIVE NET LOSS OR PROFIT(-) FROM POWER OPERATIONS TO JUNE 30, 1961 (schedule 1)</b>	<b>\$50,105,532</b>	<b>-\$25,764,502</b>	<b>\$75,870,034</b>	<b>\$8,081,161</b>	<b>\$4,842,788</b>	<b>\$17,158,367</b>	<b>\$11,270,545</b>	<b>\$2,585,103</b>	<b>\$6,809,375</b>	<b>\$17,003,156</b>	<b>\$4,032,936</b>	<b>\$3,986,603</b>

<sup>a</sup>Included under "Joint facilities."

The notes on pages 35 to 40 are an integral part of this statement.

The opinion of the General Accounting Office on the financial statements appears on page 27.

CORPS OF ENGINEERS (CIVIL FUNCTIONS) AND SOUTHWESTERN POWER ADMINISTRATION

SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES (note 1)

STATEMENT OF NET COST OF NONPOWER PROGRAMS

FOR FISCAL YEAR 1961

AND CUMULATIVE NET COST TO JUNE 30, 1961

Project	Cumulative to June 30, 1961	Net expense	Joint facilities (note 9)	Specific costs	Fiscal year 1961			
					Supervision and adminis- tration (note 9)	Provision for depre- ciation (note 4)	Interest on the Federal investment (note 3)	Less credits to operations and nonoperat- ing income
FORT GIBSON	\$ 8,949,814	\$ 972,448	\$ 91,820	\$ 96,630	\$ 23,241	\$ 161,170	\$ 653,177	\$ 53,590
TENKILLER FERRY	3,967,833	493,974	53,524	65,811	19,824	99,145	275,529	19,859
BULL SHOALS	10,454,080	1,086,230	72,936	70,030	22,073	238,076	726,202	43,087
NORFORK	9,092,476	636,642	69,130	55,446	22,269	135,446	370,691	16,340
TABLE ROCK	1,364,551	543,899	21,070	57,109	10,064	94,094	365,189	3,627
BLAKELY MOUNTAIN	2,785,000	362,613	49,136	62,590	(a)	63,185	193,569	5,867
DENISON	24,351,161	1,533,790	165,765	148,043	39,572	268,058	997,954	85,602
NARROWS	3,485,855	339,512	68,260	36,066	(a)	61,253	175,800	1,867
WHITNEY	9,509,362	1,172,492	14,950	61,403	37,667	228,226	852,425	22,179
GREERS FERRY	-40	-40	-	-	-	-	-	40
BEAVER	-35	-35	-	-	-	-	-	35
Total	<u>\$73,960,057</u>	<u>\$7,141,525</u>	<u>\$606,591</u>	<u>\$653,128</u>	<u>\$174,710</u>	<u>\$1,348,653</u>	<u>\$4,610,536</u>	<u>\$252,093</u>

<sup>a</sup>Included under "Joint facilities."

The notes on pages 35 to 40 are an integral part of this statement.

The opinion of the General Accounting Office on the financial statements appears on page 27.

SCHEDULE 4

CORPS OF ENGINEERS (CIVIL FUNCTIONS) AND SOUTHWESTERN POWER ADMINISTRATION  
SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES (note 1)

STATEMENT OF FIXED ASSETS AND ACCUMULATED DEPRECIATION  
JUNE 30, 1961

	Fixed assets (notes 2 and 3)					Accumulated depreciation (note 4)
	Total	Plant in service	Construction work in progress	Retirement work in progress	Undistributed interest during construction	
<b>CORPS OF ENGINEERS:</b>						
Projects in operation:						
Fort Gibson - Power	\$ 16,801,831	\$ 16,800,036	\$ -	\$ 1,795	\$ -	\$ 2,233,620
do. - Nonpower	27,648,141	27,640,560	-	7,581	-	1,220,332
Total	44,449,972	44,440,596	-	9,376	-	3,453,952
Tenkiller Ferry - Power	12,014,333	11,848,342	162,993	1,476	1,522	1,380,521
do. - Nonpower	12,313,820	11,832,673	472,458	4,279	4,410	759,630
Total	24,328,153	23,681,015	635,451	5,755	5,932	2,140,151
Bull Shoals - Power	54,076,189	48,809,586	5,146,497	-	120,106	4,775,421
do. - Nonpower	30,716,094	30,716,094	-	-	-	1,768,254
Total	84,792,283	79,525,680	5,146,497	-	120,106	6,543,675
Norfork - Power	13,744,215	13,733,305	10,910	-	-	2,241,138
do. - Nonpower	16,351,936	16,325,278	26,658	-	-	1,519,818
Total	30,096,151	30,058,583	37,568	-	-	3,760,956
Table Rock - Power	54,052,782	40,125,700	12,821,315	-	1,105,767	733,589
do. - Nonpower	15,788,822	14,803,577	908,526	-	76,719	243,068
Total	69,841,604	54,929,277	13,729,841	-	1,182,486	976,657
Blakely Mountain - Power	25,013,246	25,013,250	-4	-	-	1,941,886
do. - Nonpower	8,265,817	8,265,822	-5	-	-	519,474
Total	33,279,063	33,279,072	-9	-	-	2,461,360
Denison - Power	20,569,563	20,567,246	909	1,402	6	3,541,491
do. - Nonpower	43,037,639	43,029,325	-	8,303	11	2,917,912
Total	63,607,202	63,596,571	909	9,705	17	6,459,403
Narrows - Power	5,488,252	5,496,130	-	-7,878	-	949,055
do. - Nonpower	7,687,301	7,715,437	-	-28,136	-	657,585
Total	13,175,553	13,211,567	-	-36,014	-	1,606,640
Whitney - Power	8,177,553	8,177,553	-	-	-	1,222,763
do. - Nonpower	35,581,018	35,581,018	-	-	-	1,689,918
Total	43,758,571	43,758,571	-	-	-	2,912,681
<b>Total, projects in operation:</b>						
Power	209,940,824	190,571,148	18,145,480	-3,205	1,227,401	19,019,484
Nonpower	197,387,728	195,909,784	1,404,767	-7,973	81,140	11,295,991
Total	407,328,552	386,480,932	19,550,247	-11,178	1,308,541	30,315,475
<b>Projects under construction:</b>						
Eufaula	40,888,722	-	39,617,325	-	1,271,397	-
McGee Bend	22,800,569	-	21,656,539	-	1,144,030	-
Greers Ferry	30,184,022	-	29,276,632	-	907,390	-
Dardanelle	15,240,098	-	14,658,590	-	581,508	-
Beaver	6,194,442	-	6,023,075	-	171,367	-
Total, projects under construction	115,307,853	-	111,232,161	-	4,075,692	-
Total, Corps of Engineers	522,636,405	386,480,932	130,782,418	-11,178	5,384,233	30,315,475
<b>SOUTHWESTERN POWER ADMINISTRATION</b>						
Total	27,832,217	26,343,204	1,482,059	6,954	-	6,109,085
Total	\$550,468,622	\$412,824,136	\$132,264,477	\$-4,224	\$5,384,233	\$36,424,560

The notes on pages 35 to 40 are an integral part of this statement.

The opinion of the General Accounting Office on the financial statements appears on page 27.

EXPLANATORY NOTES AND COMMENTS  
ON THE FINANCIAL STATEMENTS

1. Basis for preparation

The financial statements include transactions recorded by the Corps of Engineers (Civil Functions) for the construction and operation of multiple-purpose projects with hydroelectric facilities located in the southwestern United States and all transactions recorded by Southwestern Power Administration, the power-marketing agent. Excluded from these statements are costs of single-purpose flood control and navigation projects which, though integral components of river basin development plans, do not affect the financial presentation of power operations.

Multiple-purpose projects included in the financial statements and their status at June 30, 1961, are as follows.

<u>Project</u>	<u>Status</u>
Fort Gibson	In operation
Tenkiller Ferry	do.
Bull Shoals	do.
Norfolk	do.
Table Rock	do.
Blakely Mountain	do.
Denison	do.
Narrows	do.
Whitney	do.
Eufaula	Under construction
McGee Bend	do.
Greers Ferry	do.
Dardanelle	do.
Beaver	do.
DeGray	Advance planning
Short Mountain	do.

## 2. Fixed assets

Fixed assets are stated at cost to the Corps and SWPA or at appraised value for property transferred. Fixed assets of the Corps include cost assigned directly to a single purpose of a multiple-purpose project and joint costs which serve more than one purpose--joint costs are allocated to the various purposes based on cost allocation studies.

The Corps includes interest during construction as a part of its fixed asset cost, whereas SWPA does not. (See note 3.)

## 3. Interest on the Federal investment

Amounts recorded by the Corps of Engineers as interest on the Federal investment at June 30, 1961, are classified as follows:

Interest during construction:	
Capitalized	\$ 21,884,088
Undistributed	5,384,233
Interest charged to operations	
Power program	43,934,133
Nonpower programs	<u>51,442,473</u>
Total	<u>\$122,644,927</u>

The computations by the Corps of Engineers of interest during construction are based on 2.5 percent of accrued costs charged to construction accounts, compounded annually at the Fort Gibson, Tenkiller Ferry, Bull Shoals (units 1 through 4), Norfolk, Denison, and Whitney Projects. Simple interest was computed for the Greers Ferry, Dardanelle, Table Rock, Eufaula, Narrows, Blakely Mountain, Beaver, McGee Bend, and Bull Shoals (units 5 and 6) Projects at a rate of 2.5 percent.

Interest charged to operations by the Corps was computed at 2.5 percent of the total unrepaid Federal investment. Power revenues received by SWPA have not been considered by the Corps in determining the unrepaid balance of the Federal investment.

SWPA procedures do not provide for capitalizing interest during construction. Prior to fiscal year 1961, SWPA computed interest at a rate of 2.5 percent a year on the total expenditures for plant in service and under construction and power revenues were not considered. For fiscal year 1961 SWPA computed interest at a rate of 2.5 percent a year on the unrepaid investment of the United States Government (after deducting power revenues returned to the United States Treasury) and on accumulated net income from power operations.

Also, in fiscal year 1961 SWPA, in recognition of power revenues of about \$34 million returned to the United States Treasury through June 30, 1960, reduced recorded interest by \$4.8 million. However, since power revenues are to be allocated between SWPA and the Corps the interest amounts shown for the Corps and SWPA are subject to revision. (See pp. 10 to 12.)

#### 4. Accumulated depreciation

Depreciation of projects in operation by the Corps of Engineers has been computed by the straight-line method, with service lives based on engineering studies, except that no item has been assigned a service life in excess of 100 years. Cost of land, land rights, relocations, and clearing are not amortized or included in the base for computing depreciation.



The initial date for commencing depreciation of facilities has not been determined on the same basis in all cases. At the Denison, Bull Shoals, and Norfolk Projects, depreciation commenced on the date that the final generator came into service. For the other projects, depreciation commenced at a date between the dates that the first and the last generator came into service, representing about the average in-service date for the individual projects. In addition the Corps district offices have not been consistent in establishing service lives for the purpose of computing depreciation on certain identical features.

Depreciation recorded by SWPA has been computed by the straight-line method from the in-service date of the facilities. SWPA has made no provision for amortization of the costs of land and land rights, clearing land and rights-of-way, and roads and trails.

5. Congressional appropriations, net

The cumulative allotments (net) by the Corps of Engineers of congressional appropriations for construction and operation and maintenance of multiple-purpose projects in the Southwest and the net appropriations to the Southwestern Power Administration for the marketing of the excess energy from these projects to June 30, 1961, have been as follows:

	<u>Total</u>	<u>Construction</u>	<u>Operation and maintenance</u>
Corps of Engineers	\$522,469,854	\$497,603,281	\$24,866,573
Southwestern Power Administration	<u>42,498,722</u>	<u>28,563,170</u>	<u>13,935,552</u>
Combined	<u>\$564,968,576</u>	<u>\$526,166,451</u>	<u>\$38,802,125</u>

In addition to the above amounts appropriated to SWPA, a continuing fund of \$300,000 in the United States Treasury for Southwestern Power Administration was authorized by the Interior Department Appropriation Act, 1950 (16 U.S.C. 825s-1), to be maintained from receipts from the sale of electric energy. This fund was established to defray emergency expenses necessary to insure continuous operations and for the purchase of power and rentals of transmission facilities. The Interior Department Appropriation Act, 1952 (16 U.S.C. 825s-1), provides that expenditures from the fund for the purchase of power and rental of transmission facilities are to be made only in such amounts as may be approved annually in appropriation acts.

To June 30, 1961, receipts from sale of electric power and energy transferred to the continuing fund amounted to \$26,339,247.

#### 6. Funds returned to the United States Treasury

Funds returned to the United States Treasury for the account of the Corps of Engineers totaled \$5,525,498 at June 30, 1961, and were derived principally from the leasing of reservoir lands.

Amounts representing 75 percent of receipts derived from the leasing of reservoir lands are to be paid to the States under the provisions of the Flood Control Act of 1941, as amended (33 U.S.C. 701c-3). At June 30, 1961, \$3,261,888 had been paid to the States.

SWPA receipts from the sale of power, net of charges by customers of SWPA for energy purchased and transmission facilities rented from them, are deposited into the United States Treasury.

These deposits are required by section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s), and at June 30, 1961, they consisted of:

Funds covered into the United States Treasury as miscellaneous receipts	\$39,118,109
Receipts transferred to the continuing fund	<u>26,339,247</u>
	<u>\$65,457,356</u>

At June 30, 1961, SWPA had \$5,561,944 in special and trust funds on deposit for transfer to the continuing fund or to miscellaneous receipts in fiscal year 1962.

7. Employees' accrued leave

The Corps of Engineers and the SWPA include in property costs and operating expenses provision for accrued annual leave of employees. For the Corps of Engineers, payments for accrued leave are made to a revolving fund and the liability to employees is shown in the records of that fund.

8. Allocation of revenue from power operations

An allocation of revenue from power operations to the Corps generating projects has not been made because agreement between the Corps of Engineers and Southwestern Power Administration for such allocation has not been reached.

9. Allocation of joint expenses

Expenses of the Corps of Engineers for operating and maintaining joint facilities and for supervision and administrative expenses have been allocated to power and nonpower purposes based on the separable costs--remaining benefits method except at the Denison and Norfolk Projects, where the allocations to purposes were made on the basis of the incremental cost method.

APPENDICES

ALLOCATION BY CORPS OF ENGINEERS  
OF ESTIMATED TOTAL CONSTRUCTION COSTS  
OF MULTIPLE-PURPOSE PROJECTS INCLUDING POWER  
IN OPERATION OR UNDER CONSTRUCTION AT JUNE 30, 1961

The allocation of construction costs of multiple-purpose projects is the division of costs into amounts considered equitable to charge to each of the project purposes. These allocations are significant because the charges for power and certain other services are determined on the basis of the costs incurred.

Financial records on the reimbursable Federal investment are based on ratios established by project cost allocations. These ratios are needed in financial accounting for dividing the construction costs, interest on the Federal investment, depreciation, and joint operation and maintenance costs between the several project purposes.

The Corps of Engineers and the Southwestern Power Administration have agreed on cost allocations which were prepared by the Corps. For projects in operation, the allocations are considered firm, except for the Table Rock Project which went into operation in June 1959. The Corps generally has used the separable costs--remaining benefits method of cost allocation for all southwestern projects except Norfolk and Denison, where the incremental cost method was used.

Summarized on the following page are the current Corps cost allocations for the southwestern area multiple-purpose projects, including power, in operation or under construction at June 30, 1961.

S O U T H W E S T E R N P O W E R S Y S T E M A N D R E L A T E D A C T I V I T I E S

ALLOCATION BY CORPS OF ENGINEERS  
OF ESTIMATED TOTAL CONSTRUCTION COSTS  
OF MULTIPLE-PURPOSE PROJECTS INCLUDING POWER  
IN OPERATION OR UNDER CONSTRUCTION AT JUNE 30, 1961

Project and authorizing House or Senate document	Estimated cost			Allocation of estimated costs				
	First cost	Interest during construction	Total	Power	Flood control	Navigation	Other	
Fort Gibson (H. Doc. 107, 76th)	\$ 41,063,042	\$ 2,728,563	\$ 43,791,605 <sup>a</sup>	\$ 16,959,191	\$ 26,664,920	\$ -	\$ 167,494	
Tenkiller Ferry (H. Com. (F.C.) Doc. 1, 75th; H. Doc. 758, 79th)	22,115,180	1,309,500	23,424,680 <sup>a</sup>	11,800,700	11,582,400	-	41,580	
Bull Shoals (H. Doc. 917, 76th)	89,452,300	4,500,000	93,952,300 <sup>a</sup>	63,268,800	30,195,400	-	488,100	
Norfolk (H. Doc. 290, 77th)	29,510,200	1,462,000	30,972,200 <sup>a</sup>	13,762,200	16,825,000	-	385,000	
Table Rock (H. Doc. 917, 76th)	66,100,000	4,519,500	70,619,500 <sup>b</sup>	53,462,300	14,179,100	-	2,978,100	
Blakely Mountain (H. Doc. 647, 78th)	30,850,000	2,302,000	33,152,000 <sup>a</sup>	25,034,000	8,118,000	-	-	
Denison (H. Doc. 541, 75th)	59,926,327	2,201,223	62,127,550 <sup>a</sup>	19,873,250	41,236,600	-	1,017,700	
Narrows (H. Doc. 837, 76th)	12,691,000	413,000	13,104,000 <sup>a</sup>	5,496,000	7,608,000	-	-	
Whitney (H. Doc. 390, 76th)	40,515,200	3,197,900	43,713,100 <sup>a</sup>	8,060,300	32,706,100	-	2,946,700	
Eufaula (H. Doc. 758, 79th)	125,000,000	9,666,800	134,666,800 <sup>c</sup>	34,021,000	59,906,300	36,096,300	4,643,200	
McGee Bend (S. Doc. 98, 76th)	57,956,200	5,071,200	63,027,400 <sup>c</sup>	24,540,000	6,817,700	-	31,669,700	
Greers Ferry (H. Com. Doc. 1, 75th; H. Doc. 499, 83d)	49,800,000	2,638,000	52,438,000 <sup>c</sup>	35,102,100	15,095,000	-	2,240,900	
Dardanelle (H. Doc. 758, 79th)	90,000,000	9,188,000	99,188,000 <sup>c</sup>	54,841,300	-	42,960,300	1,336,400	
Beaver (H. Doc. 499, 83d)	51,100,000	2,441,000	53,541,000 <sup>c</sup>	40,930,100	5,843,100	-	6,767,800	
Total	<u>\$766,079,449</u>	<u>\$51,638,686</u>	<u>\$817,718,135</u>	<u>\$407,151,241</u>	<u>\$276,777,620</u>	<u>\$79,056,600</u>	<u>\$54,732,674</u>	
							Specific recreation	\$14,608,274
							Specific water	4,873,100
							Streamflow regulation	17,640,000
							Fish and wildlife	17,611,300
							Total, other	<u>\$54,732,674</u>

<sup>a</sup>Adopted December 13, 1957. Allocations of these amounts are considered firm by Corps and SWPA.

<sup>b</sup>Tentative allocation.

<sup>c</sup>Under construction. Tentative allocation based on current approved estimates.

SOUTHWESTERN POWER SYSTEM AND RELATED ACTIVITIES

DEFICIENCY IN REPAYMENT OF INVESTMENT IN COMMERCIAL POWER PROGRAM  
FOR FISCAL YEAR 1961 AND CUMULATIVE TO JUNE 30, 1961

	Cumulative to June 30, 1961	Fiscal year 1961										
		Total	Isolated projects		Total	Fort Gibson	Tenkiller Ferry	Integrated system			Blakely Mountain	Denison
			Whitney	Narrows				Bull Shoals	Norfolk	Table Rock		
GROSS POWER REVENUES, SWPA	\$104,822,716	\$ 16,032,659	\$ 441,000	\$ 365,692	\$ 15,225,967	\$ 1,729,858	\$ 860,392	\$ 4,504,891	\$ 1,620,969	\$ 3,176,769	\$ 1,022,902	\$ 2,310,136
Deduct:												
Operation and maintenance expenses:												
SWPA	67,677,296	11,373,762	20,085	91,194	11,262,483	1,290,825	642,027	3,361,562	1,209,572	2,370,513	763,292	1,624,692
Corps of Engineers, including provision for replacement	14,111,245	1,757,136	144,241	147,077	1,465,818	194,381	116,365	252,822	186,078	245,433	210,017	260,722
Interest on unrepaid investment:												
SWPA transmission facilities	4,750,764	606,162	-	-	606,162	75,334	37,470	196,187	70,593	138,346	44,547	43,685
Corps of Engineers investment allocated to power	36,232,731	4,851,454	204,316	158,369	4,488,769	512,676	345,885	1,402,234	355,126	681,136	698,925	-92,787
Scheduled repayment of Federal investment:												
SWPA transmission facilities	2,224,152	315,997	-	-	315,997	39,273	19,533	102,272	36,800	72,123	23,223	22,773
Corps of Engineers investment allocated to power	16,019,508	2,159,670	93,547	72,169	1,993,954	206,776	140,384	555,950	198,109	281,267	283,459	288,302
Total deduction	141,015,696	21,064,181	462,189	468,809	20,133,183	2,319,265	1,301,664	5,311,027	2,056,278	3,788,318	2,022,463	2,732,663
REPAYMENT DEFICIENCY	\$ 36,192,980	\$ 5,031,522	\$ 21,189	\$ 103,117	\$ 4,907,216	\$ 589,407	\$ 441,272	\$ 1,406,136	\$ 435,309	\$ 612,049	\$ 1,000,561	\$ 422,132
INVESTMENT BALANCE TO BE REPAYED, AS OF JUNE 30, 1961, EXCLUSIVE OF \$24,585,652 INVESTED IN SWPA TRANSMISSION FACILITIES		\$223,680,522	\$8,100,289	\$6,365,704	\$209,214,529	\$20,889,667	\$14,136,307	\$56,899,562	\$14,442,225	\$54,326,738	\$28,674,084	\$19,545,926

The notes on pages 46 and 47 are an integral part of this appendix.

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## EXPLANATORY NOTES AND COMMENTS

### ON APPENDIX II

1. The revenues and expenses shown in appendix II differ from the amounts shown in the financial records for the following principal reasons.

- a. Depreciation expenses shown in the financial records are not included in the repayment schedules because repayment schedules are prepared on the basis of recovery of the entire cost of capital assets within the administratively determined period of 50 years, whereas depreciation accounting is designed to spread the costs of depreciable assets over the economic life of the capital assets. The economic life of the depreciable assets may differ from the established repayment period. A provision for replacement is included in the repayment schedules as an operating expense of Corps projects. No replacement provision is recorded in the Corps financial records because replacements will be depreciated over their economic lives.
- b. SWPA computes interest for the financial records on the net investment of the United States Government, whereas, for repayment schedule purposes, SWPA computes interest on only the unrepaid balance of its plant in service. The Corps does not consider power revenues in its interest computation, whereas SWPA considered power revenues in computing the interest on the Corps investment shown in the repayment schedule.
- c. SWPA revenues and expenses for the month of June are partially estimated in the financial statements, whereas actual amounts are used in the repayment schedules.
- d. For the reason discussed on pages 12 and 13, gross power revenues shown in the repayment schedule for fiscal year 1961 are overstated by \$1,155,600. The cumulative overstatement of gross revenues amounted to \$4,140,184 at June 30, 1961.

2. Scheduled repayment of the Federal investment is computed by assuming annual payments for amortization of the investment, with interest at a rate of 2.5 percent, in 50 years from the date the last investment was added.



3. The repayment schedules have not been adjusted to consider changes in investments in projects subsequently reported by the Corps of Engineers and other changes.

4. Revenues of the north unit of the Denison Project and revenues of other projects in the integrated system were allocated on the basis of hydroelectric generation at the projects. Revenues of the south unit of the Denison Project and revenues of the isolated Whitney and Narrows Projects were identifiable with these projects.

5. SWPA expenses of the integrated system and general and administrative expenses for all projects were allocated on the basis of project generation.