

**KPMG**

The Global Leader

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**VINTON PUBLIC POWER AUTHORITY**

Financial Statements

September 30, 1998 and 1997

(With Independent Auditors'  
Report Thereon)

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date ~~12/19/98~~



The Global Leader

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**VINTON PUBLIC POWER AUTHORITY**

*Financial Statements*

September 30, 1998 and 1997

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Release Date \_\_\_\_\_



700 Louisiana  
Houston, TX 77002

Telephone 713 319 2000  
Fax 713 319 2041

## Independent Auditors' Report

The Board of Directors  
Vinton Public Power Authority:

We have audited the accompanying balance sheets of Vinton Public Power Authority (the Authority) as of September 30, 1998 and 1997, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vinton Public Power Authority, as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*KPMG LLP*

January 15, 1999



VINTON PUBLIC POWER AUTHORITY

Balance Sheets

September 30, 1998 and 1997

Assets	<u>1998</u>	<u>1997</u>
Cash	\$ 134,407	118,698
Net interest in electric plant in service transferred by SRMPA	66,090,868	69,093,178
Prepaid entitlement assignment/unit power sale agreement with SRMPA	<u>(66,090,868)</u>	<u>(69,093,178)</u>
	<u>\$ 134,407</u>	<u>118,698</u>
<b>Retained Earnings</b>		
Retained earnings	<u>134,407</u>	<u>118,698</u>
	<u>\$ 134,407</u>	<u>118,698</u>

See accompanying notes to financial statements.

**VINTON PUBLIC POWER AUTHORITY**  
**Statements of Operations and Retained Earnings**  
**Years ended September 30, 1998 and 1997**

	<u>1998</u>	<u>1997</u>
Administrative expenses	\$ (44,291)	(45,004)
Reimbursement of administrative expenses by SRMPA	<u>60,000</u>	<u>36,000</u>
Net income (loss)	15,709	(9,004)
Retained earnings:		
At beginning of year	<u>118,698</u>	<u>127,702</u>
At end of year	<u>\$ 134,407</u>	<u>118,698</u>

See accompanying notes to financial statements.

**VINTON PUBLIC POWER AUTHORITY**

Statements of Cash Flows

Years ended September 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Net income (loss)	\$ 15,709	(9,004)
Net cash (used in ) provided by operating activities	<u>15,709</u>	<u>(9,004)</u>
Cash at beginning of year	<u>118,698</u>	<u>127,702</u>
Cash at end of year	<u>\$ 134,407</u>	<u>118,698</u>

See accompanying notes to financial statements.

# VINTON PUBLIC POWER AUTHORITY

Notes to Financial Statements

September 30, 1998 and 1997

## (1) Organization and Summary of Significant Accounting Policies

### (a) *Organization and Operation*

The Vinton Public Power Authority (VPPA) is a public power authority created pursuant to Article VI, Section 19 of the Louisiana Constitution of 1974, Louisiana Revised Statutes of 1950, as amended, Title 33, Section 4172 and by Ordinance No. 295, adopted by the Mayor and the Board of Aldermen of the Town of Vinton on September 2, 1980. Louisiana Revised Statutes 33:4172 authorizes public power authorities to contract with the municipality creating it or any other public power authority for the sale of electric power for a term not exceeding 40 years on such terms and conditions as may be specified in a written contract which the power authority may negotiate and execute and provides authority for all other contractual arrangements incidental to the sale of such power. Ordinance No. 295 specifically authorizes the Power Sales Contract with Sam Rayburn Municipal Power Agency (SRMPA) and the Power Sales Contract with the Town of Vinton. Resolutions were approved by the Mayor and Board of Aldermen of the Town of Vinton, acting ex officio as the Board of Directors of VPPA, on November 11, 1992, and December 8, 1992, authorizing VPPA to acquire the Nelson 6 Project and to enter into the Unit Power Sale (UPS) Agreement with SRMPA.

Under its Power Sales Contract with SRMPA, VPPA has agreed to maintain and collect rates which will produce revenues at least sufficient to enable it to pay the amounts owed to SRMPA under the Power Sales Contract. Similarly, the Power Sales Contract between VPPA and the Town of Vinton provides that the Town of Vinton will maintain and collect rates for the electric service provided to its customers which will produce revenues sufficient, together with other revenues available to its electric system and available electric system reserves, to satisfy its obligations under such power sales contract which are sufficient to satisfy VPPA's obligation under the Power Sales Contract with SRMPA. The power sales transactions discussed in this paragraph do not result in cash receipts or cash payments by VPPA and due to the nature of the transactions, the related revenue and expense are not reflected in the accompanying statements of operations.

### (b) *Betterments and Amortization*

Betterments to the net interest in electric plant transferred by SRMPA are accounted for as increases to such account, with an offsetting increase to the prepaid entitlement assignment/unit power sale agreement with SRMPA. The net interest in electric plant in service transferred by SRMPA, and the prepaid entitlement assignment/unit power sale agreement with SRMPA are generally being amortized in tandem over the remaining life of the Nelson 6 Project, which is approximately 27 years. Such amortization is presented net on the Statement of Operations. The transactions discussed in this paragraph do not result in cash receipts or cash payments by VPPA.

### (c) *Income Taxes*

As a political subdivision of the State of Louisiana, VPPA is exempt from federal and state income tax under the appropriate laws and regulations.



# VINTON PUBLIC POWER AUTHORITY

Notes to Financial Statements

September 30, 1998 and 1997

**(d) Year 2000**

In fiscal 1998, VPPA completed a study of the Year 2000 issue and related risks. As a result of the study, VPPA received assurances from the manufacturer of software used that such software is Year 2000 compliant.

In connection with the study, VPPA also made formal inquiries to outside parties who contractually provide VPPA with its power supply. The results of those inquiries indicated that VPPA's contractual counterparties had established Year 2000 teams, identified mission critical systems and had approved the necessary resources and management support necessary to achieve Year 2000 compliance. Although VPPA received satisfactory responses, there can be no assurance that such contractual counterparties will actually be Year 2000 compliant.

Consultants, hired to review the potential impact of Year 2000 on VPPA's substations reported that assurance has been received from the manufacturer that the date function of protective relays at the substations are Year 2000 compliant.

No material expenditures have been incurred to date as a result of Year 2000 issues and management does not anticipate incurring significant cost to become Year 2000 compliant and VPPA expects to make any necessary contingency plans in fiscal 1999 in the event of any noncompliance. However, there can be no assurance that all Year 2000 issues have been identified or will be adequately remediated to ensure Year 2000 compliance. Further, VPPA has not received any notification from any regulatory agency, which has overnight responsibility for VPPA, indicating that VPPA must achieve compliance by a specified date.

**(2) Power Supply Arrangements**

Under a joint ownership agreement, SRMPA contracted in 1980 to acquire a 20 percent undivided ownership interest in the Nelson Unit No. 6 Project. From its commercial operation date in May 1982 through December 18, 1992, SRMPA, as a co-owner of the Nelson 6 Project, was entitled to a share (approximately 110 MW) of the power and energy generated by the Nelson 6 Project. On December 18, 1992, SRMPA transferred the Nelson 6 Project to VPPA and made a simultaneous bulk purchase of the output thereof pursuant to the UPS Agreement.

As consideration for the transfer of SRMPA's 20 percent ownership interest, VPPA paid SRMPA \$77,766,784 pursuant to the Sales Agreement. In a parallel transaction, VPPA agreed to sell its share of the output from the Nelson 6 Project to SRMPA pursuant to the UPS Agreement. The UPS Agreement includes certain items of consideration, including a "power charge" representing the value of the power over the life of the Nelson 6 Project. Under Texas law, if SRMPA transfers or otherwise disposes of assets such as the Nelson 6 Project, the disposition must be subject to appraisal and at fair value, which by definition is the capacity charge under a unit power sale agreement. The power charge paid to VPPA by SRMPA on December 18, 1992, simultaneously with the transfer of title was \$77,766,784, which was based upon an independent assessment of the fair value of the 20 percent interest in Nelson 6 Project. The power charge is subject to a refund of the "termination value," which is the unamortized amount of the prepaid power charge in the event of a termination of the UPS Agreement. The UPS Agreement also provides SRMPA with an option to purchase VPPA's



## VINTON PUBLIC POWER AUTHORITY

Notes to Financial Statements

September 30, 1998 and 1997

ownership interest in the Nelson 6 Project at any time for an amount equal to the termination value of the UPS Agreement, and provides a right of first refusal exercisable by SRMPA at termination value before any sale of VPPA's ownership interest can be made. The option to purchase and the right of first refusal were given to SRMPA in exchange for its assumption of the responsibility for retirement (decommissioning) of VPPA's ownership interest to the Nelson 6 Project. Pursuant to the UPS Agreement, SRMPA will also pay an on-going energy charge on the behalf of VPPA for the costs of operation of the Nelson 6 Project. The UPS Agreement provides that in exchange for an entitlement assignment charge for the use and operation of the Nelson 6 Project (which is designed to reimburse VPPA for its costs associated with the UPS Agreement, and is a minimum of \$2,000 per month) SRMPA shall be the irrevocable agent of VPPA in all matters pertaining to the Nelson 6 Project, including the scheduling of energy for delivery to SRMPA's system. The sale of VPPA's energy to SRMPA under the UPS Agreement expressly does not constitute the sale, lease or other transfer of an ownership interest in the Nelson 6 Project from VPPA to SRMPA.

The net interest in electric plant in service transferred by SRMPA includes VPPA's interest in the Nelson 6 Project, including the Excepted Facilities described below and two substations located in Vinton, Louisiana. The substations were transferred to VPPA for the consideration of \$2,247,387, the fair value of such facilities. The prepaid entitlement assignment/unit power sale agreement with SRMPA includes a corresponding amount under the terms of such title transfer. The Nelson Unit No. 6 is a 550 MW coal-fired, steam and electric generating facility, operated by Gulf States Utilities Company. The Excepted Facilities are certain common facilities located at the Roy S. Nelson Station, including the stack, coal handling, maintenance and control buildings, fly ash and bottom ash disposal facilities, and other equipment and facilities.

### (3) Subsequent Events

Subsequent to September 30, 1998, VPPA, SRMPA, Entergy Power Marketing Corp. (EPMC), and Entergy Power, Inc. (EPI) have entered into agreements whereby:

- (i) SRMPA sells its excess system capacity to EPMC and assigns to EPI SRMPA's Right of First Refusal and Option to purchase VPPA's 20 percent undivided ownership interest in the Nelson Coal Unit No. 6.
- (ii) VPPA will sell its 20 percent undivided ownership interest in the Nelson Coal Unit No. 6 to EPI on or before October 1, 2003, subject to Securities and Exchange Commission approval.
- (iii) SRMPA will enter into a Requirements Power Supply Agreement with EPMC which allows SRMPA to purchase its delivered power and energy supply, at a fixed price, sufficient to service the retail loads and normal load growth of the cities it currently serves through the term of its existing contracts through 2021.

The Agency expects that the rate stabilization effect of these new arrangements will avoid the annual rate increases to the cities previously scheduled to occur through 2002. Further, this transaction has been reviewed by the Internal Revenue Service receiving a favorable ruling.