Office of Inspector General

OFFICE OF TECHNOLOGY, FINANCIAL, AND ANALYTICS

AUDIT REPORT -

WESTERN FEDERAL POWER SYSTEM'S FISCAL YEAR 2020 FINANCIAL STATEMENT AUDIT

DOE-OIG-21-15

FEBRUARY 2021

Department of Energy
Washington, DC 20585

February 19, 2021

MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER ADMINISTRATION

FROM: Sarah B. Nelson
Assistant Inspector General
for Technology, Financial, and Analytics
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on the "Western Federal Power System's Fiscal Year 2020 Financial Statement Audit"

The attached report presents the results of the independent certified public accountants' audit of the Western Federal Power System's combined balance sheets, as of September 30, 2020, and 2019, and the related statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended.

To fulfill the Office of Inspector General's audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG is responsible for expressing an opinion on the Western Federal Power System's financial statements and reporting on applicable internal controls, and compliance with laws and regulations. The Office of Inspector General monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The Office of Inspector General did not express an independent opinion on the Western Federal Power System's financial statements.

KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Western Federal Power System as of September 30, 2020, and 2019, and the results of its operations and its cash flow for the years then ended, in accordance with United States generally accepted accounting principles.

As part of this review, the auditors also considered the Western Federal Power System's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit did not identify any deficiencies in internal control over financial reporting that is considered a material weakness.

The results of the auditors' review of the Western Federal Power System's compliance with provisions of laws and regulations disclosed no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

We appreciated the cooperation of your staff during the audit.

Attachment

cc: Senior Vice President and Chief Financial Officer, Western Area Power Administration
Acting Vice President of Financial Management, Western Area Power Administration
Vice President of Governance and Policy, Western Area Power Administration

Audit Report: DOE-OIG-21-15

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INDEPENDENT AUDITORS' REPORT

WESTERN FEDERAL POWER SYSTEM

Combined Financial Statements

September 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

WESTERN FEDERAL POWER SYSTEM

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KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

The Administrator of Western Area Power Administration and the
U.S. Department of Energy Inspector General:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Western Federal Power System (the System), which comprise the combined balance sheets as of September 30, 2020 and 2019, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the financial statements. The combined financial statements include the Western Area Power Administration (WAPA), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of the Interior, Bureau of Reclamation; the U.S. Department of Defense, Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which WAPA markets and transmits power.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Western Federal Power System as of September 30, 2020 and 2019, and

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the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(c) to the combined financial statements, the Bureau of Reclamation released a final cost study for the Central Valley power system impacting the overall hydroelectric repayment responsibility for completed utility plant costs and related interest payable to the U.S. Treasury. The interest effect of the cost study is pending approval from the System's regulators and, therefore, has not been reflected in the accompanying combined financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the System's basic combined financial statements as a whole. The supplementary information in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The supplementary information in schedules 1 through 4 is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in schedules 1 through 4 is fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
February 10, 2021

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Administrator of Western Area Power Administration and the
U.S. Department of Energy Inspector General:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of the Western Federal Power System (the System), which comprise the combined balance sheets as of September 30, 2020 and 2019, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated February 10, 2021. As described in note 1(a) to the combined financial statements, the combined financial statements include the Western Area Power Administration (WAPA), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of the Interior, Bureau of Reclamation; the U.S. Department of Defense, Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which WAPA markets and transmits power.

As discussed in note 1(c) to the combined financial statements, the Bureau of Reclamation released a final cost study for the Central Valley power system impacting the overall hydroelectric repayment responsibility for completed utility plant costs and related interest payable to the U.S. Treasury. The interest effect of the cost study is pending approval from the System's regulators and, therefore, has not been reflected in the accompanying combined financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
February 10, 2021

WESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets

September 30, 2020 and 2019

(In thousands)

Assets		2020	2019
Completed utility plant	$	8,589,489	8,472,872
Accumulated depreciation		(4,710,578)	(4,580,788)
Net completed plant		3,878,911	3,892,084
Construction work in progress		279,541	288,141
Net utility plant		4,158,452	4,180,225
Cash		1,865,671	1,725,946
Restricted cash (note 1(f))		1,702,144	1,648,818
Accounts receivable, net		172,473	183,971
Regulatory assets		157,694	159,830
Other assets		135,683	130,312
Total assets	$	8,192,117	8,029,102
Total Liabilities and Capitalization			
Liabilities:			
Long-term liabilities	$	146,143	141,442
Customer advances and other liabilities		231,499	239,666
Deferred revenue		95,503	99,570
Accounts payable		77,295	61,876
Environmental cleanup liabilities		26,045	22,799
Total liabilities		576,485	565,353
Capitalization (note 11):			
Payable to U.S. Treasury		1,915,198	1,831,973
Accumulated net revenues		5,700,434	5,631,776
Total capitalization		7,615,632	7,463,749
Commitments and contingencies (notes 11(c), 12, and 13)			
Commitments Total liabilities and capitalization	$	8,192,117	8,029,102

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues and Expenses

Years ended September 30, 2020 and 2019

(In thousands)

		2020	2019
Operating revenues:			
Sales of electric power	$	791,599	864,880
Transmission and other operating revenues		540,105	577,817
Total operating revenues		1,331,704	1,442,697
Operating expenses:			
Operation and maintenance		604,050	579,481
Purchased power		131,819	155,106
Purchased transmission services		183,957	173,665
Depreciation		143,539	151,964
Administration and general		83,770	82,701
Total operating expenses		1,147,135	1,142,917
Net operating revenues		184,569	299,780
Interest expenses:			
Interest on payable to U.S. Treasury (note 1(j))		45,832	46,585
Allowance for funds used during construction		(16,733)	(9,447)
Net interest on payable to U.S. Treasury		29,099	37,138
Interest on long-term liabilities		5,014	5,794
Net interest expense		34,113	42,932
Net revenues	$	150,456	256,848

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Changes in Capitalization

Years ended September 30, 2020 and 2019

(In thousands)

		Payable to U.S. Treasury	Accumulated net revenues	Total capitalization
Total capitalization as of September 30, 2018	$	1,738,810	5,346,022	7,084,832
Additions:				
Congressional appropriations		38,733	13,727	52,460
Changes in allocation of generating agency balances		(7,397)	46,293	38,896
Interest		46,585	—	46,585
Transfers of property and services, net		1,214	—	1,214
Total additions to capitalization		79,135	60,020	139,155
Deductions:				
Payments to U.S. Treasury		(16,081)	—	(16,081)
Irrigation assistance reclassification (note 13(b))		30,109	(31,114)	(1,005)
Total deductions to capitalization		14,028	(31,114)	(17,086)
Net revenues for the year ended September 30, 2019		—	256,848	256,848
Total capitalization as of September 30, 2019		1,831,973	5,631,776	7,463,749
Additions:				
Congressional appropriations		45,313	57,274	102,587
Changes in allocation of generating agency balances		(4,258)	(66,365)	(70,623)
Interest		45,832	—	45,832
Total additions to capitalization		86,887	(9,091)	77,796
Deductions:				
Transfers of property and services, net		(552)	—	(552)
Payments to U.S. Treasury		(19,894)	—	(19,894)
Irrigation assistance reclassification (note 13(b))		16,784	(72,707)	(55,923)
Total deductions to capitalization		(3,662)	(72,707)	(76,369)
Net revenues for the year ended September 30, 2020		—	150,456	150,456
Total capitalization as of September 30, 2020	$	1,915,198	5,700,434	7,615,632

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Cash Flows

Years ended September 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Net revenues	$	150,456	256,848
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Depreciation		143,539	151,964
Net interest on payable to U.S. Treasury		29,099	37,138
Loss on disposition of assets		3,602	7,775
Unfunded postretirement benefits		20,802	24,555
Bill credits applied against long-term liabilities		(2,969)	(1,125)
Amortization of regulatory assets		3,010	4,073
Change in unfunded FECA liability		551	1,308
(Increase) decrease in assets:			
Accounts receivable, net		11,498	(754)
Regulatory assets		—	(7)
Other assets		(5,601)	(6,138)
Increase (decrease) in liabilities:			
Customer advances and other liabilities		(6,296)	8,811
Deferred revenue		(4,067)	(4,067)
Accounts payable		15,419	2,441
Environmental cleanup liabilities		(174)	—
Net cash provided by operating activities		358,869	482,822
Cash flows from investing activities:			
Investment in utility plant		(170,279)	(206,476)
Net cash used in investing activities		(170,279)	(206,476)
Cash flows from financing activities:			
Congressional appropriations		81,241	28,779
Payments to U.S. Treasury		(19,894)	(16,081)
Irrigation Assistance		(55,923)	(1,005)
Proceeds from long-term liabilities		169	3,565
Principal payments on long-term liabilities		(1,132)	(22,242)
Net cash used in financing activities		4,461	(6,984)
Net increase in cash and restricted cash		193,051	269,362
Cash and restricted cash, beginning of year		3,374,764	3,105,402
Cash and restricted cash, end of year	$	3,567,815	3,374,764
Cash paid for interest	$	33,639	41,945
Supplemental cash flow information:			
Capitalized interest		16,733	9,447
Plant acquired by long term financing		8,633	—
Transfer of construction work in progress to completed plant		155,387	186,858
Changes in the allocation of generating agency balances affecting net utility plant and capitalization		70,623	(38,896)

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

(1) Basis of Presentation and Summary of Significant Accounting Policies

(a) Principles of Combination

The Western Federal Power System (the System) combined financial statements include the combined financial position, results of operations and cash flows of the Western Area Power Administration (WAPA), an agency of the U.S. Department of Energy (DOE), and the hydroelectric power generating functions of the U.S. Department of the Interior (DOI), Bureau of Reclamation (Reclamation); the U.S. Department of Defense (DOD), Army Corps of Engineers (Corps); and the U.S. Department of State (State), International Boundary and Water Commission (IBWC) (collectively referred to as the generating agencies). For the generating agencies, only the individual power systems for which WAPA markets and transmits hydroelectric power are included in the combined financial statements. WAPA, a Federal power marketing administration, markets and transmits hydroelectric power generated from these power systems, which are operated and maintained by the generating agencies, throughout 15 western states.

The combined financial statements contain three types of business activities: the hydroelectric power systems of WAPA and the generating agencies; the Transmission Infrastructure Program of WAPA (TIP); and other activities of WAPA. Hydroelectric power systems activity represents power activity of WAPA and the generating agencies that are generally reimbursable for purposes of repayment to the U.S. Treasury.

TIP activity represents WAPA activity related to Section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Public Law No. 111-5, which was signed into law on February 17, 2009. Section 402 of the Recovery Act added Section 301 to the Hoover Power Plant Act of 1984 (Public Law No. 98-381) giving WAPA's Administrator the discretion to borrow up to $3.25 billion from the U.S. Treasury for the purposes of (1) constructing, financing, facilitating, planning, operating, maintaining, or studying construction of new or upgraded electric power transmission lines and related facilities that have at least one terminus within the area served by WAPA and (2) delivering or facilitating the delivery of power generated by renewable energy resources constructed or reasonably expected to be constructed after the Recovery Act was enacted.

Other activities represent those WAPA activities that are not reimbursable through the rate-setting process. This consists of agreements WAPA has with Federal and non-Federal customers to provide services on a fee basis and plant acquired from funds received from the Federal Communications Commission (FCC) to change WAPA's bandwidth (referred to as the Spectrum Relocation Fund). The Spectrum Relocation Fund paid for the cost of WAPA to relocate its bandwidth when the FCC sold the former bandwidth. The majority of the operating revenues and expenses are a result of services provided through specific agreements with customers, and are excluded from the rate-making process.

The hydroelectric power systems activity include project use energy. Project use energy is the amount of hydroelectric energy required to deliver project water to project water customers and other project-specific authorizations such as irrigation and fish and wildlife needs. Project use energy capital costs may be reimbursed through the power rates, through the generating agencies' water rates, depending on the agreement with the generating agency, or may be deemed nonreimbursable (note 11(a)). Project use capital costs represent an allocation of total power capital assets necessary to generate and transmit hydroelectric power sufficient for project use needs. Although some project use capital costs may not be recovered through the power rates, the activity is included in the combined financial statements because it is directly related to hydroelectric power generation and transmission and is necessary to reflect the full financial activity of the System.

The combined financial statements are prepared following accounting principles generally accepted in the United States of America (U.S. GAAP). The combined financial statements also reflect Federal Energy Regulatory Commission (FERC) regulations, FERC's prescribed uniform system of accounts for electric utilities and DOE's accounting practices.

For purposes of financial reporting, the hydroelectric power facilities and related operations of the System are considered one entity. All material intra-entity balances and transactions have been eliminated from the combined financial statements.

(b) Allocation of Costs to Hydroelectric Power

Certain amounts included in the combined financial statements represent reimbursable power activities of the generating agencies for repayment to the U.S. Treasury. The costs of multipurpose generating agency projects are assigned to specific hydroelectric power functions through a cost allocation process. Reclamation hydroelectric power amounts are allocated to the combined financial statements based on power repayment responsibility (note 11(b)). Reclamation has power-only facilities that are fully reimbursable, and has certain multi-purpose water resource projects where the costs are allocated among project activities, which primarily include power, irrigation, recreation, municipal and industrial water, navigation and flood control. Completed utility plant costs are allocated to the hydroelectric power portion of the Statement of Project Construction Cost and Repayment (SPCCR) based on studies prepared by Reclamation economists. The allocation method developed from the SPCCRs is applied to all multi-purpose utility plant and construction work-in-progress balances. Current assets and liabilities are allocated based upon the amounts directly recorded to power accounts. Revenue and expense accounts are also allocated based on the amounts directly recorded to power activities or amounts attributed to power repayment by Reclamation.

Corps and IBWC hydroelectric power amounts are allocated based on legislatively determined rates of power repayment responsibility. The Corps and IBWC have processes in their financial systems to track and allocate costs to be recovered from the System's customers.

To the extent possible, the generating agencies identify costs as direct costs. Direct costs are those that can be specifically identified to a power system, program or activity. In some cases, costs benefit two or more power systems, programs or activities; in these situations, it is not economically feasible to identify these costs as direct costs. Such costs include administrative support costs, space rental, utilities and office equipment. These costs are accumulated in indirect cost pools and allocated to the benefiting activities through a labor surcharge rate, based on direct labor charges.

(c) Confirmation and Approval of Rates

The System is not a public utility within the jurisdiction of FERC under the Federal Power Act. The Secretary of Energy (Secretary) has delegated authority to WAPA's Administrator to develop hydroelectric power and transmission rates for the individual power systems included in the combined financial statements. The Assistant Secretary for Electricity has the authority to confirm, approve and place such rates in effect on an interim basis. FERC has the exclusive authority to confirm, approve and place into effect on a final basis, and to remand or to disapprove rates developed by WAPA's

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

Administrator. FERC's review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates. FERC shall reject decisions of WAPA's Administrator only if it finds them to be arbitrary, capricious or in violation of the law. Refunds with interest, as determined by FERC, are authorized if final rates approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No such refunds have been required or made in 2020 and 2019. As of September 30, 2020, the System's following rate orders were awaiting final FERC approval:

Rate order no.	Project	Type of rate action	Date submitted to FERC
WAPA-190	Salt Lake City Area Integrated Projects (SLCA/IP) and Colorado River Storage Project (CRSP)	Fixed rate for the Salt Lake City Area Integrated Projects (SLCA/IP) firm power rate, formula rates for the Colorado River Storage Project (CRSP) transmission and ancillary services, and new formula rate for CRSP sales of surplus products.	08/25/20
WAPA-192	Intertie	Extension of Pacific Northwest-Pacific Southwest Intertie Project Transmission Service Rates	09/01/20

Certain balances within the combined financial statements are accounted for under the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. The provisions of the ASC Topic 980 require, among other things, that regulated enterprises reflect the regulator's rate actions in its financial statements, when appropriate. The rate actions of WAPA's Administrator, subject to the limited authority of FERC, can provide reasonable assurance of the existence of an asset; reduce, eliminate or amortize the value of an asset; or impose a liability on a regulated enterprise.

The final cost allocation for the Central Valley power system was released by Reclamation in January 2020, reducing the project cost allocation to hydroelectric power generation by approximately $32 million as of September 30, 2013. The impact of the final cost study to capital additions between fiscal years 2014 and 2020 resulted in an increase to the costs allocated to hydroelectric power generation of approximately $10 million. While the cumulative cost reduction has been approved by the Administrator and, therefore, adjusted in the combined financial statements, the related interest on the payable to the U.S. Treasury (note 1(j)) is subject to regulator approval, including the related methodology, and is not reflected in the accompanying combined financial statements.

(d) Payable to U.S. Treasury

Under the requirements of the power system's authorizing legislation and related Federal statues, the System is required to repay the U.S. Treasury all reimbursable costs, including capital investment, allocated to hydroelectric power system activity. Obligations to the U.S. Treasury include activity within the Reclamation Fund and the U.S. Treasury's General Fund. WAPA's payable to the U.S. Treasury includes congressional appropriations, related interest, transfers of property and services, less payments to the U.S. Treasury (note 11). As discussed in note 11(c), effective September 30, 2014, WAPA was transferred program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund. Accordingly, the associated payable to U.S. Treasury and the corresponding receivable have been eliminated from the combined financial statements.

(e) Operating Revenues and Accumulated Net Revenues

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provided new guidance for the recognition of revenue. The core principle of the guidance is for the entity to recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration which an entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also revises the disclosure requirements regarding revenue and requires that revenue from contracts with customers be reported separately from other revenues (note 3). ASU 2014-09 provides that it could be applied retrospectively to each prior period presented or on a modified retrospective basis with a cumulative effect adjustment to retained earnings on the date of adoption.

The System adopted ASU 2014-09 effective October 1, 2019 using the modified retrospective method of adoption. The adoption of ASU 2014-09 did not result in changes to the nature, amount, and timing of the System's existing revenue recognition processes or information technology infrastructure. Therefore, the adoption of ASU 2014-09 had no effect on the amount of revenue recorded in 2020 compared to the amount that would have been recorded under prior GAAP, no effect on total operating revenues or any other caption within the System's combined financial statements, and no cumulative effect adjustment was recorded.

Upon the adoption of ASU 2014-09, management elected the following practical expedients:

- Recognize revenue in the amount the System has the right to invoice a customer.
- Apply the standard to a portfolio of contracts with similar characteristics, as the effects of applying the guidance to the portfolio would not differ materially from applying this guidance to the individual contracts.
- Consideration does not need to be adjusted for the effects of a significant financing component as the System expects, at contract inception, that the period between transfer of a promised good or service from the System to a customer and customer payment for that good or service will be one year or less.

Approved hydroelectric power and transmission rates are established under requirements of the power systems' authorizing legislation and related Federal statutes and are intended to provide sufficient revenue to recover all costs allocated to power and, in some power systems, a portion of irrigation-related costs (note 11(b)). Costs allocated to power include repayment to the U.S. Treasury in power facilities and associated interest. Rates are structured to provide for repayment of the payable in power facilities, generally over 50 years, while operating expenses and interest on the payable are recovered annually. Replacements of utility plant are generally to be repaid over their expected service lives.

The System may use a third party to provide supplemental power, transmission services, selling, scheduling, billing, and other ancillary services on behalf of other Federal and non-Federal entities. These transactions are evaluated under the provisions of FASB ASC Subtopic 606-10-55-36, *Revenue from Contracts with Customers – Principal versus Agent Considerations*, to determine whether the transactions should be reported at the “gross” or “net” value. Generally, the System’s policy is to record at “gross” when the product or service is controlled by the System before that good or service is transferred to the customer. In the event the System does not meet the indicators of “gross” reporting, the System records the activity at net value within the combined statements of revenues and expenses.

Cash received from sales whose funding is derived from the U.S. Treasury’s General Fund is deposited directly with the U.S. Treasury and is reflected as repayments to the U.S. Treasury, which is included in the payable to U.S. Treasury in the combined balance sheets. Cash received from sales whose funding is derived from the Reclamation Fund is reflected as restricted cash (note 1(g)) in the combined balance sheets and represents both a repayment to the U.S. Treasury and reduction to the corresponding Reclamation Fund receivable. For power systems using revolving funds and customer advances, cash received is deposited in the U.S. Treasury and remains available to the power system; cash collected into revolving funds in excess of operating requirements is used for repayment of the payable to U.S. Treasury (note 6(a)). WAPA and the generating agencies are nonprofit Federal agencies; therefore, accumulated net revenues of the hydroelectric power systems, to the extent that they are available, are committed to repayment.

(f) Cash and Restricted Cash

Cash held by the System and the generating agencies represents the undisbursed balance of funds authorized by Congress, customer advances, revolving fund balances at the U.S. Treasury, and allocations of the amount of funds required to satisfy current hydroelectric power obligations.

Restricted cash represents the Reclamation Fund balance within Treasury Account Symbol 5000.27. These restricted funds represent cash received from sales of electric power whose funding is derived from the Reclamation Fund and deposited directly with the U.S. Treasury and are unavailable for power system operating needs without congressional action.

(g) Accounts Receivable, Net

Accounts receivable, net represents amounts earned but not collected, net of the related allowance of $2.8 million as of September 30, 2020 and 2019. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. Interest is charged on the principal portion of delinquent receivables based on rates published by the U.S. Treasury for the period in which the debt became delinquent. Delinquent receivables are charged off against the allowance once they are deemed uncollectible. Generally, all delinquent receivables are charged off once the delinquency exceeds two years or the debtor has filed for bankruptcy.

Billing methods used by the System include net billing and bill crediting. Net billing is a two-way agreement between WAPA and a customer, whereby both parties buy and sell power to each other. Monthly sales and purchases, including any customer advances received, are netted between the two parties and the customer is provided either an invoice or a credit. Bill crediting involves a three-way net billing arrangement among WAPA, a customer and a third party whereby all three parties are involved in purchase and sales transactions. Under both billing methods, purchase and sales transactions are reported “gross” in the combined financial statements.

(h) Construction Financing Receivable

Pursuant to the Recovery Act, WAPA may enter into public-private agreements to finance capital investments in transmission facilities that will assist in delivering renewable energy. Interest is accrued based on the terms of the financing agreement. As of September 30, 2020 and 2019, there were no construction financing receivables outstanding.

(i) Utility Plant, Moveable Equipment and Internal Use Software

Utility plant includes items such as dams, spillways, generators, turbines, substations and related components, and transmission lines and related components. Under FERC guidelines, utility plant is stated at original cost, net of contributions from external entities. Costs include direct labor and materials; payments to contractors; indirect charges for engineering, supervision, and overhead; and interest during construction. The costs of additions, major replacements and betterments are capitalized; whereas, repairs and maintenance are charged to operation and maintenance expense as incurred.

Plant assets of the combined power systems are currently depreciated using the straight-line method over the estimated service lives ranging from 8 to 50 years for transmission assets and 10 to 100 years for generation assets. Power rights are amortized over 40 years. The service lives of utility plant may be different between financial reporting and repayment measures. With the exception of Reclamation, the cost of retired utility plant, net of accumulated depreciation, is charged to operation and maintenance expense as a gain (loss), net of cash proceeds, if any; Reclamation’s assets are divided into two categories: (1) assets in existence prior to October 1, 2013 and (2) assets acquired subsequent to September 30, 2013. For assets in existence prior to October 1, 2013, Reclamation utilizes the composite method of depreciation and, accordingly, the cost of retired utility plant is charged against accumulated depreciation. Beginning October 1, 2013, Reclamation implemented a new accounting system allowing for individual assets to be separately tracked rather than accounted for at the group level. Accordingly, assets acquired subsequent to September 30, 2013 are recorded as individual assets and the cost of retired utility plant, net of accumulated depreciation, is charged to operation and maintenance expense as a gain (loss), net of cash proceeds, if any.

Moveable equipment includes computers, copiers, cranes, energy testing equipment, helicopters, trucks and wood chippers. Moveable equipment is currently depreciated using the straight-line method over the estimated service lives ranging from 3 to 20 years. Moveable equipment is classified as other assets on the combined balance sheets (note 6).

Internal use software includes software purchased from commercial vendors “off the shelf” and internally developed software. The System’s internal use software is depreciated over five years, using the straight-line method. Internal use software is classified as other assets on the combined balance sheets (note 6).

Most completed utility plant, as required by law, is recovered through the rates regardless of whether an asset is abandoned, loses value, is disposed of significantly before the end of its estimated useful life or is destroyed. Consequently, the cash flow is not impaired regardless of the condition of the asset.

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The System's policy is to move capitalized costs into completed utility plant at the time a project or feature of a project is deemed to be substantially complete. A project is substantially complete when it is providing benefits and services for the intended purpose, and is generating project purpose revenue, where applicable.

(j) Interest on the Payable to U.S. Treasury

Interest, a component of total capitalization, is accrued annually on the payable to U.S. Treasury based on Federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. The System calculates interest annually based on the unpaid balances owed to the U.S. Treasury using rates set by law, administrative orders following law or administrative policies (note 1(c)). Interest rates on unpaid balances ranged from 2.38% to 12.38% for the years ended September 30, 2020 and 2019.

As discussed in note 11(c), effective September 30, 2014, WAPA was transferred program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund. Accordingly, the associated interest on the payable to U.S. Treasury of $132.5 million and $130.3 million, has been eliminated within WAPA for combination purposes for the years ended September 30, 2020 and 2019, respectively.

As provided by Federal law, interest is not assessed on unpaid balances in irrigation facilities anticipated to be repaid through power sales (note 13(b)).

(k) Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC or interest during construction) represents interest on funds borrowed from the U.S. Treasury during the construction of all generation and transmission facilities including assets allocated to project use energy. The System calculates AFUDC based on the average annual outstanding balance of construction work in progress and is calculated through the date in which assets are placed in service. AFUDC is capitalized and recovered over the repayment period of the related plant asset (note 1(c)). Applicable interest rates ranged from 2.88% to 8.21% for the years ended September 30, 2020 and 2019, depending on the year in which construction of the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(l) Transfers of Property and Services, Net

Transfers of property and services, net is a component of total capitalization that represents the receipt of unfunded transfers of assets or costs offset by the unfunded transfers of revenues. Transfers are recognized upon physical delivery of the asset or performance of the service. Transfers occur between projects, project types and other Federal entities. Transfers between WAPA and the generating agencies eliminate upon combination.

(m) Pension and Other Postretirement Benefits

WAPA and generating agency employees participate in one of the following contributory defined-benefit plans: the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and total 7.0% for CSRS and up to 16.0% for FERS. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). The System's contributions for the two plans amounted to $53.4 million and $44.0 million for the years ended September 30, 2020 and 2019, respectively. The contribution levels, as legislatively mandated, do not reflect the full-cost requirements to fund the CSRS or FERS pension plans. The additional cost of providing CSRS and FERS benefits is approximately 38.5% and 16.7% of base salary, respectively, and is funded by OPM.

In addition to the amounts contributed to the CSRS and FERS as stated above, the System recorded an expense for the pension and other postretirement benefits in the combined financial statements of $20.9 million and $24.5 million for the years ended September 30, 2020 and 2019, respectively. This amount reflects the contribution made on behalf of WAPA and the generating agencies by OPM to the benefit program trust funds. This expense will be recovered from power customers through the future sale of power.

Other postretirement benefits administered and partially funded by OPM are the Federal Employees Health and Benefits Program (FEHB) and the Federal Employee Group Life Insurance Program (FEGLI). FEHB is calculated at $8,038 and $7,268 per employee in fiscal years 2020 and 2019, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

As a Federal agency, all postretirement activity is managed by OPM; therefore, neither the assets of the plans nor the actuarial data with respect to the accumulated plan benefits relative to WAPA and generating agency employees are included in this report.

(n) Use of Estimates

System management utilizes estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of completed utility plant; allowances for doubtful accounts; employee benefit obligations; environmental cleanup liabilities; and other contingencies.

(o) Derivative and Hedging Activities

The System analyzes derivative financial instruments under FASB ASC Topic 815, *Derivatives and Hedging*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be recorded on the combined balance sheets at fair value, unless exempted. Changes in a derivative instrument's fair value must be recognized currently in the combined statements of revenues and expenses, unless the derivative has been designated in a qualifying hedging relationship. The application of hedge accounting allows a derivative instrument's gains and losses to offset related results of the hedged item in the combined statements of revenues and expenses to the extent effective. ASC Topic 815 requires that the hedging relationship be highly effective and that an organization formally designate a hedging relationship at the inception of the contract to apply hedge accounting.

WAPA enters into contracts for the purchase and sale of electricity for use in its business operations. ASC Topic 815 requires the System to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from

ASC Topic 815 as normal purchases or normal sales. Normal purchases and sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented and exempted from the accounting and reporting requirements of ASC Topic 815.

The System's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. The System's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond WAPA's estimated capacity to deliver or receive power. Accordingly, the System evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under U.S. GAAP. As of September 30, 2020 and 2019, the System has no contracts accounted for as derivatives.

(p) Concentrations of Credit Risk

Financial instruments, which potentially subject the System to credit risk, include accounts receivable for customer purchases of power, transmission or other products and services. These receivables are primarily held with a group of diverse customers that are generally large, stable and established organizations, which do not represent a significant credit risk. Although the System is affected by the business environment of the utility industry, System management does not believe a significant risk of loss from a concentration of credit exists.

For TIP financed projects, risk exists at the individual project level and includes, but is not limited to: construction delays, cost overruns, contractor disputes, land acquisition and land right of way negotiations, weather-related delays and limitations, and regulatory review and approvals. Risk is mitigated through the application of due diligence efforts focused on the project developer. At the project level, this includes securitization of assets (first lien), parental guarantees, letters of credit and continuous monitoring of construction, financial and other material risks.

(q) Regulatory Assets (note 5)

Regulatory assets are assets that result from rate actions of WAPA's Administrator and other regulatory agencies. These assets arise from specific costs that would have been included in the determination of net revenue or deficit in one period, but are deferred until a different period for purposes of developing rates to charge for services, per the requirements of ASC Topic 980. The System defers costs as regulatory assets so that the costs will be recovered through the rates during the periods when the costs are scheduled to be paid. This ensures the matching of revenues and expenses. The System does not earn a rate of return on its regulatory assets. The assets listed below are regulatory in nature:

(i) Workers' Compensation Actuarial Cost

The U.S. Department of Labor (DOL) determines an actuarial liability associated with cases incurred for which additional future claims may be made on an annual basis. DOL determines the actuarial liability associated with future claims using historical benefit payment patterns discounted

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to present value (37 years) using economic assumptions for 10-year U.S. Treasury notes and bonds.

The recovery of future claims is deferred for rate-making purposes until such time as the claims are submitted to and paid by DOL. Therefore, the recognition of the actuarial expense associated with hydroelectric power operations has been deferred as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process. The actuarial cost associated with TIP and other activities is expensed as incurred.

(ii) Recovery Implementation Program (RIP)

Section 8 of the Colorado River Storage Project (CRSP) Act of 1956, as amended, mandates that DOI establish and implement programs to conserve fish and wildlife. Under this Act and other legislation, Reclamation has established programs to preserve the habitat and otherwise aid endangered fish and wildlife. The RIP is an example of such a program and is managed by the U.S. Fish and Wildlife Service. On October 30, 2000, Congress passed Public Law 106-392 that authorized additional funding to Reclamation to continue the RIP. The legislation specifies that a total of $17.0 million is to be collected by the System from its power customers and provided to Reclamation to finance capital costs. Repayment of amounts borrowed from the State of Colorado for the RIP and accrued interest were deferred until October 1, 2012. All interest accrued during the deferral period of $4.0 million was accreted into the outstanding principal balance. Commencing October 1, 2012, all costs are amortized to expense over the repayment period of 30 years. Total expense amortized was $0.4 million for the years ended September 30, 2020 and 2019.

(iii) Accrued Annual Leave

Accrued annual leave represents benefits that will be paid out to employees upon retirement or separation from employment with the government. The amount not funded by revolving funds has been deferred as a regulatory asset to reflect the effects of the rate-making process. Deferred annual leave costs are expensed as used.

(iv) Extraordinary Maintenance

Extraordinary maintenance represents costs that occur infrequently, involve relatively large amounts of funds, and ensure the future economic usefulness of the asset. Criteria used to determine if a cost is extraordinary and should be treated as a regulatory asset include the total cost of the program, the rate impact the cost would have if recovered as a normal maintenance expense in one year, the current water conditions for the project, and whether significant rate increases had taken place over the previous 10 years. Extraordinary maintenance is amortized over a period of 20 to 30 years.

(v) Environmental Cleanup Liabilities (note 10)

Environmental liabilities represent the amount recorded for the estimated liability for projected future cleanup costs associated with removing, containing, and/or disposing of hazardous waste, including asbestos. A liability, as well as a regulatory asset, is recorded for the estimated environmental cleanup costs. The costs are recorded when the future remediation costs are known and estimable. The cost is deferred until incurred and recovered through the rate-making process.

(Continued)

(r) Customer Advances

Customer advances represent the balance of advance payments received from power customers under co-sponsoring agreements with entities for construction, operation and maintenance or other furnished items. Subsidiary accounts are maintained by the customer to reflect the status of each advance. Also included are revenue financing contracts that provide advanced customer funds for construction, maintenance or purchase power expenses. For these contracts, the customer is provided revenue credits on future power bills up to the amount of the advanced funds and, if applicable, any interest or fees (note 3).

(s) Taxes

As agencies of the U.S. Government, the System is exempt from all income taxes imposed by any governing body, whether it is a Federal, state or commonwealth of the United States or a local government.

(t) Fair Value of Financial Instruments

FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial instruments. Fair value estimation methods for individual classes of financial instruments are described below.

(i) Short-Term Financial Instruments

The carrying (recorded) value of short-term financial instruments, including cash, restricted cash, accounts receivable, other assets (excluding moveable equipment and internal use software) accounts payable, and certain customer advances and other liabilities, approximates the fair value of these instruments because of the short maturity of these instruments. The fair value of certain unfunded, actuarially based liabilities, and environmental cleanup liabilities cannot be determined as the future payout dates have yet to be determined.

(ii) Long-Term Liabilities

Fair value is estimated by computing the present value of future payments discounted at prevailing U.S. Treasury interest rates at year end. The fair value of long-term liabilities was $188.3 million and $166.7 million as of September 30, 2020 and 2019, respectively.

(u) Related Parties

As components of DOE, DOI, DOD, and State, these departments are considered related parties to the System. WAPA has certain agreements with DOE, DOI, and DOD to provide electric power, transmission services, and other services. As of September 30, 2020 and 2019, amounts outstanding in accounts receivable relating to related parties totaled $39.9 million and $29.2 million, respectively; for the years ended September 30, 2020 and 2019, total operating revenues earned from related party sources totaled $206.4 million and $202.8 million, respectively.

(v) Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU No. 2016-02 is effective for the System for periods beginning after December 15, 2021 and early adoption is permitted. The System is evaluating the effect that ASU No. 2016-02 will have on the System's combined financial statements and related disclosures.

(2) Hydroelectric Power Systems and Generating Agencies

WAPA markets and transmits hydroelectric power for 15 power systems. The expenses and net assets of the 15 power systems, which are generally expected to be recovered through rates, are included in the accompanying combined financial statements along with activity of the TIP program and other activity disclosed in note 1(a). Reclamation generates power for all power systems with the exception of Falcon-Amistad and Pacific Northwest-Pacific Southwest Intertie, which has only transmission facilities. The Pick-Sloan power system is unique in that both Reclamation and the Corps generate hydroelectric power for the power system. IBWC is WAPA's sole generation partner for the Falcon-Amistad power system. A listing of these power systems by generating agency includes:

Reclamation Power Systems

- Boulder Canyon
- Central Valley
- Collbran
- Colorado River Storage Project
- Dolores
- Fryingpan-Arkansas
- Olmsted
- Parker-Davis
- Pick-Sloan Missouri River Basin
- Provo River
- Rio Grande
- Seedskadee
- Washoe

Corps Power System

- Pick-Sloan Missouri River Basin

IBWC Power System

- Falcon-Amistad

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(3) Operating Revenues

(a) Disaggregated Revenues

Disaggregated revenues as of September 30, 2020 and 2019 consists of the following (in thousands):

		2020	2019
Sales:			
Power	$	791,599	864,880
Transmission		397,699	377,172
Ancillary services		44,421	41,228
Reimbursable services		72,788	74,987
Other revenues		18,023	70,228
Revenues from contracts with customers		1,324,530	1,428,495
Non-contract revenues		7,174	14,202
Total operating revenues	$	1,331,704	1,442,697

(b) Revenue from Contracts with Customers

The System provides wholesale electric energy and capacity to preference power customers under long-term firm and non-firm contracts. The System establishes power rates for these contracts in a formal rate setting process. Excess energy is sold at market-based prices on the spot market. Electric power revenues are recognized over time as the customer receives and consumes the benefits. Electric power revenues are billed monthly based on meter readings, delivery tickets, or contracted allocations and estimated unbilled electric power revenues are accrued at the end of each reporting period. Revenues can vary from period to period due to weather, hydrological conditions, and customer usage requirements.

Transmission service revenues consists primarily of revenue for transmission of power on the System's transmission network. Transmission rates are established through a formal rate setting process and revenues are recognized over time as capacity and electric transmission is made available. Transmission services are billed monthly and estimated unbilled transmission services are accrued at the end of each reporting period.

Ancillary services ensure transmission grid reliability and include items such as scheduling, system control, dispatch, balancing reserves and other services. Ancillary revenue is recognized over time as services are provided. Ancillary services are billed monthly and estimated unbilled ancillary services are accrued at the end of the reporting period.

The System provides reimbursable cost-based operation, maintenance and construction services to existing customers, Federal entities and other entities requesting interconnection with the System's transmission network. Revenues are recognized as expenditures are incurred. Non-Federal customers are billed in advance, Federal customers are generally billed monthly.

Other revenues consist of grazing, recreation, miscellaneous fees and deferred revenues (note 9). Revenues for fees are generally recognized as the right to use is provided to the customer. Deferred revenues are recognized over the period of contractual repayment to which the prepayment relates.

(c) Non-contract Revenues

Non-contract revenues consist primarily of revenue received from the Hoover Dam visitor center which is recognized as services are provided.

(d) Contract Balances

Contract balances as of September 30, 2020 and 2019 consists of the following (in thousands):

		2020	2019
Accounts receivable, net:	$		
Billed		49,261	54,449
Unbilled		123,212	129,522
Contract advances (note 8):			
Customer prepaid power		31,003	17,807
Reimbursable services		89,009	99,432

Contract advances represent the System's unsatisfied performance obligation to transfer goods or services to a customer from which the System has received consideration. The contract advance amounts in the table above show expected future revenues to be recorded as power is delivered or as expenditures are incurred for reimbursable services. These contract advances have no variable consideration and require little or no significant judgment in revenue recognition. The average contract term varies by customer and type and may span several years.

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(4) Utility Plant

Utility plant as of September 30, 2020 and 2019 consists of the following (in thousands):

		2020	2019
Utility plant:			
Structures and facilities	$	7,506,035	7,391,410
Buildings		622,299	609,794
Land		237,999	248,568
Power rights		223,156	223,100
Gross completed plant		8,589,489	8,472,872
Accumulated depreciation		(4,710,578)	(4,580,788)
Net completed plant		3,878,911	3,892,084
Construction work in progress		279,541	288,141
Net utility plant	$	4,158,452	4,180,225

In accordance with FERC guidelines, the System excludes contributed plant within the combined balance sheets to eliminate the impact on power and transmission rates. As of September 30, 2020 and 2019, contributed plant, net used in the System's operations totaled $348.4 million and $342.8 million, respectively.

The balances shown above include project use utility plant amounts used to provide project benefits to water customers (note 11(a)). In addition to water benefits, the projects include other authorized benefits, such as support for fish and wildlife needs.

(5) Regulatory Assets

Regulatory assets (note 1(q)) as of September 30, 2020 and 2019 consist of the following (in thousands):

		2020	2019
Extraordinary maintenance	$	50,768	53,416
Workers' compensation actuarial cost		42,022	47,544
Environmental cleanup liabilities (note 10)		26,033	22,609
Accrued annual leave		25,973	22,997
Recovery implementation program		12,898	13,264
Total regulatory assets	$	157,694	159,830

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(6) Other Assets

Other assets as of September 30, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Moveable equipment, net (note 1(i))	$ 66,731	65,852
Stores inventory	24,500	23,289
Internal use software, net (note 1(i))	22,911	20,125
Collections due from other federal agencies	6,279	6,856
Capital lease (note 12)	5,485	5,602
Other	9,777	8,588
Total other assets	$ 135,683	130,312

(7) Long-Term Liabilities

Long-term liabilities, as of September 30, 2020 and 2019, consist of the following (in thousands):

	2020	2019
Long-term liabilities:		
Customer construction financing	$ 42,390	36,536
State of Wyoming loan	14,662	15,449
State of Colorado loan (note 1(q))	12,898	13,264
Transmission Infrastructure Program	76,193	76,193
Total long-term liabilities	$ 146,143	141,442

Outstanding long-term liabilities, as of September 30, 2020, are scheduled to be credited or repaid as follows (in thousands):

	Principal	Interest	Total
Year ending September 30:			
2021	$ 5,011	4,849	9,860
2022	11,042	4,829	15,871
2023	6,173	4,643	10,816
2024	5,105	4,518	9,623
2025	3,186	4,383	7,569
2026 and thereafter	115,626	63,242	178,868
Total outstanding long-term liabilities	$ 146,143	86,464	232,607

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(a) Customer Construction Financing

WAPA enters into long-term financing arrangements with customers for project improvements and construction of interconnection facilities. These obligations are scheduled to be satisfied through issuing credits against future power bills. Outstanding customer financing obligations, as of September 30, 2020 and 2019, consist of the following (in thousands):

Project	Terms		2020	2019
Grande Prairie Wind		$	11,967	11,967
Power System	Pick-Sloan Missouri River Basin			
Maturity	2042			
Interest Rate	3.0%			
Mohave Electric Cooperative			14,484	7,601
Power System	Parker-Davis			
Maturity	2035			
Interest Rate	0%			
Buffalo Head Switching Station			7,415	7,415
Power System	Pick-Sloan Missouri River Basin			
Maturity	2042			
Interest Rate	3.0% – once project becomes operational			
Mohave County Wind Farm			5,735	5,565
Power System	Intertie			
Maturity	2023			
Interest Rate	3.0%			
Flagstaff Project			2,789	3,988
Power System	Colorado River Storage Project			
Maturity	2035			
Interest Rate	0%			
Total		$	42,390	36,536

(b) State of Wyoming Loan

Reclamation received a loan from the State of Wyoming for providing partial financing for improvements at the Buffalo Bill Dam (Pick-Sloan Missouri Basin power system) and associated hydroelectric power plants. This liability is being repaid over a period of 35 years, which began in 1996, at an approximate interest rate of 11.1%.

(Continued)

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(c) State of Colorado Loan

WAPA received a loan from the State of Colorado for $5.5 million in December 2002 at an interest rate of 4.5% per year. Another $5.9 million was received in December 2004 with an interest rate of 3.25%. The purpose of these loans was to fund Reclamation's endangered fish recovery implementation programs (note 1(q)). Interest began accruing at the time loans were granted and was accreted into the outstanding principal balance until repayment began in 2012. The loan will be repaid through power revenues through 2041.

(d) Transmission Infrastructure Program

WAPA borrowed funds from the U.S. Treasury for the Electrical District No. 5 to Palo Verde Hub (ED5-PVH) project. The ED5-PVH project is a 109-mile transmission project which encompasses the acquisition of 64 miles of capacity rights in the new Southeast Valley Project from the Duke/Test Track Substation to the Palo Verde Hub; and new construction of 45 miles of a WAPA transmission line and upgraded facilities from the ED5 Substation to the Test Track Substation. The OMB authorized use of up to $91 million in borrowing authority to finance the construction and related costs of the ED5-PVH project. As of September 30, 2020 and 2019, the outstanding amount borrowed was $76.2 million. In 2015, the project was completed and the outstanding loan was converted to a 30-year long-term financing agreement with the U.S. Treasury. The principle is due at maturity in 2045 while interest is due semi-annually at a rate of 3.03%.

(8) Customer Advances and Other Liabilities (in thousands)

		2020	2019
Customer advances (note 1(r) and 3)	$	120,012	117,239
Workers' compensation actuarial liability		42,197	47,765
Accrued annual leave		25,973	22,997
Accrued payroll benefits		14,691	9,845
Workers' compensation accrual		8,576	7,537
Due to other federal agencies		5,738	18,047
Capital lease (note 12)		5,658	5,718
Legal claims and settlements (note 13(a))		300	300
Other		8,354	10,218
Total customer advances and other liabilities	$	231,499	239,666

(9) Deferred Revenue

During 2014, certain customers prepaid $124.0 million to satisfy the System's obligation to the U.S. Treasury for appropriations received for construction of the Hoover Dam visitor center and air slots. The prepayments were deposited into the U.S. Treasury and represent a reduction to the payable to U.S. Treasury on the combined balance sheets. Although the prepayments are considered repayments for rate setting purposes, the prepayment has been deferred for revenue recognition purposes until power is delivered. For the years ended September 30, 2020 and 2019, the System recognized $4.1 million of revenue relating to the Hoover Dam prepayment. As of September 30, 2020, the remaining deferred revenue balance of $95.5 million is expected to be fully realized over a period of 17 to 34 years, depending on the underlying repayment contract to which the prepayment relates, and includes the following items (in thousands):

	2014 prepayment	Cumulative earned revenue	2019 deferred revenue	2020 earned revenue	2020 deferred revenue
1995 Visitor facility upgrade	$ 111,941	21,666	90,275	3,611	86,664
1988 Air slots	8,996	2,250	6,746	375	6,371
2005 Visitor facility upgrade	2,346	342	2,004	57	1,947
1993 Air slots	687	142	545	24	521
	$ 123,970	24,400	99,570	4,067	95,503

Deferred revenue from the 1995 and 2005 visitor facility upgrades are expected to be realized over a period of 30 and 40 years, respectively; the 1988 and 1993 air slots are expected to be realized over a period of 23 and 28 years, respectively as the related power is delivered.

(10) Environmental Cleanup Liabilities

The System's environmental liabilities primarily consists of the estimated cleanup costs for asbestos. Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing of (1) asbestos-containing materials from property, or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated property, plant, and equipment. The System has estimated cleanup costs based on an inventory of assets and estimated cleanup costs per square foot, consistent with cost factors prescribed by DOE. The estimated liability for asbestos-related cleanup costs was approximately $23.0 million and $22.6 million as of September 30, 2020 and 2019, respectively. The asbestos-related cleanup costs are deferred as a regulatory asset until actual cleanup expenditures are incurred (note 1(q)).

(11) Capitalization and Cost Allocation

(a) General

Capitalization consists of congressional appropriations and accumulated interest on unpaid balances, less net transfers of property and services from other Federal agencies and repayments to the U.S. Treasury, and accumulated net revenues (deficit). Capitalization also includes the portion of WAPA's Reclamation Fund (note 10(c)) that is not eliminated upon combination. Congressional appropriations are comprised of the cumulative appropriations received. Appropriations are allocated to the payable to U.S. Treasury or net revenues (deficit), based on expected use in reimbursable and nonreimbursable activities. All power systems, except Dolores, Seedskadee, Boulder Canyon and the operations and maintenance and purchased power programs of the Colorado River Storage Project (CRSP), are primarily financed through congressional appropriations including discretionary offsetting collections required to be repaid within the year they are spent. Dolores, Seedskadee, Boulder Canyon and the operations and maintenance programs of CRSP are funded through the use of a revolving fund. Revolving funds allow the System to utilize resources for reinvestment in power operations without congressional appropriations. A portion of construction and rehabilitation, operation and maintenance and purchased power expenditures are financed through other methods, such as advances from non-Federal entities, reimbursements from other Federal agencies, use of receipts authorization and alternative billing methods, such as net billing and bill crediting or any combination of these methods.

Although most of the appropriations received by the System are expected to be repaid through the collection of the power rate, some costs are not recoverable through the power rate. When costs are deemed not recoverable through the power rate, the funding for these amounts is not included in the payable to U.S. Treasury. These costs may be recovered through the water rate charged by Reclamation or may be deemed nonreimbursable by legislation; however, such recovery is not reflected in these combined financial statements. The amount of capital project use assets not recovered through the power rates as of September 30, 2020 and 2019 was $915.4 million and $921.4 million, respectively. Generating agency project use operation and maintenance costs not recovered through power revenues are excluded from the combined financial statements.

Operating expenses (excluding depreciation expense) and interest on the unpaid balances are generally repaid annually. In cases where revenues are not available for repayment, unpaid annual net deficits become payable from the future years' revenues. Interest is accrued on cumulative annual net deficits until paid. Deficits for operating expenses begin to accrue interest in the year they occur, while interest expense deficits begin to accrue interest in the following year. In cases where funds are available, unless otherwise required by legislation, repayment of balances is applied first to the increment bearing the highest interest rate. There is no requirement for repayment of a specific amount on an annual basis. Thus, the individual power systems may at any point in time have an accumulated deficit, but there are no operating or going-concern implications because of the federal government's backing of the DOE, DOI, and DOD and the liquidity and positive cash flows from operations of the System.

(b) Capitalization in Multi-Purpose Facilities

Capitalization in certain multipurpose facilities, primarily dams and structures integral to hydroelectric power generation required to be repaid from the power revenues, has been determined from preliminary cost allocation studies based on project evaluation standards approved by Congress. Allocations between power and nonpower activities may be changed in future years; however, the project evaluation standards cannot be changed unless approved by Congress.

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

Final studies will be performed by the generating agencies and is still pending for Pick Sloan Missouri River Basin power system as of September 30, 2020. The Boulder Canyon and Parker-Davis power systems are not subject to cost allocation studies since the power systems' enacting legislation requires the total costs of the dams and appurtenant structures be repaid through power revenues.

With final cost allocation studies still pending for the Pick Sloan Missouri River Basin system, the potential exists for significant future adjustment in the Payable to U.S. Treasury for the cost of multi-purpose facilities allocated to power and the related accrued interest on the unpaid balance. Such reallocations could affect the future individual power system rates.

(c) Reclamation Fund Appropriations

In October 2014, as a result of discussions with the Office of Management and Budget (OMB) and the U.S. Treasury, DOE signed a memorandum of understanding with DOI transferring program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund to DOE on September 30, 2014. In conjunction with this transfer, WAPA recorded approximately $997.9 million in restricted cash, $3,485.4 million in other long-term receivables, and $4,483.3 million in accumulated net revenues as of September 30, 2014. As discussed in note 1(d), the payable to U.S. Treasury relating to the Reclamation Fund and related interest is eliminated upon combination. Nonetheless, WAPA has a legislative responsibility to set rates sufficient to repay monies appropriated from the Reclamation Fund, as well as related interest.

The following table presents the change in monies appropriated from the Reclamation Fund for the years ended September 30, 2020 and 2019 (in thousands):

		2020	2019
Reclamation Fund appropriations as of October 1	$	3,422,536	3,381,270
Congressional appropriations		147,848	178,971
Interest		132,513	130,323
Transfers of property and services, net		(440)	(2,048)
Payments to U.S. Treasury		(199,329)	(265,980)
Reclamation Fund appropriations as of September 30	$	3,503,128	3,422,536

(12) Lease Commitments

The System has one noncancelable operating lease for WAPA's headquarters office building in Lakewood, Colorado. The lease has a remaining lease term of approximately 9 years as of September 30, 2020 with an annual cost of approximately $1.7 million.

The System has several cancelable operating leases, primarily for general purpose motor vehicles, office, and warehouse space that expire during the next 15 years. The right to relinquish space on cancelable leases is available with 120-day notice to terminate. The General Services Administration is generally the leaseholder for all cancelable equipment and building leases. These leases generally contain renewal options for periods ranging from three to five years and require the lessee to pay all costs, such as maintenance and insurance.

Rental expense for operating leases was approximately $6.1 million and $5.8 million for the years ended September 30, 2020 and 2019, respectively.

The System has one capital lease obligation for the lease of two 230-kV transmission lines from the Hoover Power Plant to Mead Substation. The lease originated in 2018 with a term of 50 years and gross asset value and obligation of $5.8 million. The lease net asset value is included in Other Assets and the remaining lease obligation is reported in Customer Advances and Other Liabilities. Amortization expense of $117 thousand dollars is included in Operation and Maintenance expense for the year ended September 30, 2020.

Future minimum capital lease payments as of September 30, 2020 are as follows (in thousands):

		Amount
Year ending September 30:		
2021	$	209
2022		209
2023		209
2024		209
2025		209
2026 and thereafter		8,762
Total minimum lease payments		9,807
Less amount representing interest at 2.6%		(4,149)
Obligations under capital lease	$	5,658

(13) Commitments and Contingencies

(a) General

The System is involved in various claims, suits and complaints routine to the nature of their business as of September 30, 2020 and 2019. Liabilities for these claims, as reported in the combined financial statements, are based on reported pending claims, or estimates of claims incurred but not yet reported. It is System management's opinion that the ultimate disposition of these claims will not have a material adverse effect on the combined financial statements. In some cases, a portion of any loss that may occur may be paid from the U.S. Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government. Power-related claims related to the generating agencies, whose ultimate disposition will be paid by the Judgment Fund and are not subject to reimbursement from power revenues, are excluded from the combined financial statements and related footnote disclosures.

The System has accrued contingent liabilities of $0.3 million as of September 30, 2020 and 2019, where losses are determined to be probable and the amounts can be estimated. It is reasonably possible that a change in estimate will occur. However, any associated losses are expected to be paid by the Judgment Fund.

(b) Irrigation Assistance

Federal statute requires that certain individual power systems repay the U.S. Treasury the portion of Reclamation's project capital costs allocated to irrigation purposes determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to repay. As a result, the System has included these capital costs in each respective power system's power repayment study. The System intends to collect the necessary revenue from power customers in accordance with the required repayment periods based on legislation, which generally does not exceed a maximum period of 50 years. These repayment amounts do not incur or accumulate interest from the date that Reclamation determines the irrigators' inability to pay. Although these repayments will be recovered through power sales, they do not represent an operating cost of the individual power systems and are treated as distributions from accumulated net revenues (deficit) in the combined statements of changes in capitalization at the time of repayment. Legislation provisions require that other costs have priority for recovery through power rates before irrigation capital costs including, but not limited to, higher interest investments and operation and maintenance and purchased power expenses. Anticipated irrigation assistance payments are not recorded as a liability on the combined balance sheets because of the following factors: (1) the System's ability to make anticipated payments is contingent on future rates and revenues, which are driven by highly variable factors such as water levels and the generating agencies' ability to produce hydroelectric power and (2) the System is capable of deferring the period of repayment to unspecified periods in the future. Prior advance payments to U.S. Treasury may be reclassified to irrigation assistance as due.

Power repayment studies are one year in arrears. As of September 30, 2020, anticipated irrigation assistance totaled approximately $1.8 billion, which may be repaid from future power revenues. The 2020 power repayment studies have not been completed as of the date of this report. Actual irrigation assistance payments in 2020 and 2019 totaled $72.7 million and $31.1 million, respectively.

Anticipated irrigation assistance payments are as follows (in thousands):

		Amount
Year ending September 30:		
2021	$	25,585
2022		669
2023		22,369
2024		857
2025		116,727
2026 and thereafter		1,632,569
Total anticipated irrigation assistance payments	$	1,798,776

(c) Upper Colorado River Basin Project Funding

Among the purposes of the Colorado River Storage Project Act (CRSPA) is the comprehensive development of the water resources of the Upper Colorado River Basin (UCRB). A feature of section 5(e) of CRSPA is the use of hydroelectric power revenues to aid in development and

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

repayment of certain irrigation costs of participating projects within the Upper Colorado River Basin. Current and future estimated collection of revenues required under CRSPA for irrigation assistance is beyond what is necessary to repay the irrigation components of the completed and under construction irrigation projects (note 13(b)). Revenues in excess of that required for irrigation assistance are authorized to be expended on projects within the UCRB. The System has entered into a Memorandum of Agreement (MOA) with upper division states of Colorado, New Mexico, Utah and Wyoming to fund projects within UCRB, and project costs are expensed when funded. For the years ended September 30, 2020 and 2019, project costs of $11.5 million and $15.7 million, respectively, are included in the combined statements of revenues and expenses.

Anticipated project funding is as follows (in thousands):

		Amount
Year ending September 30:		
2021	$	14,406
2022		14,406
2023		14,406
2024		14,406
2025		14,406
2026 and thereafter		172,866
Total anticipated project funding	$	244,896

(d) Power Contract Commitments

WAPA has entered into various agreements for power and transmission purchases that vary in length but generally do not exceed 20 years. The current period purchased power and purchased transmission costs are included in the combined statements of revenues and expenses. The System's long-term commitments for these power and transmission contracts, subject to the availability of Federal funds and contingent upon annual appropriations from Congress, are as follows (in thousands):

		Purchased power	Purchased transmission	Total
Year ending September 30:				
2021	$	33,935	7,323	41,258
2022		29,509	7,168	36,677
2023		22,943	6,769	29,712
2024		5,146	6,512	11,658
2025		—	4,203	4,203
2026 and thereafter		—	62,163	62,163
Total	$	91,533	94,138	185,671

In addition to these contracts, WAPA maintains other long-term contracts which provide the ability to purchase unspecified quantities of transmission services within a contractually determined range and rate. To fulfill its contractual obligations to deliver power, the System has historically had to purchase a certain level of transmission services under these agreements.

(14) Subsequent Events

WAPA has evaluated subsequent events through the date the combined financial statements were available to be issued as of February 10, 2021 and identified no subsequent events.

Schedule 1

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2020

(In thousands)

Assets		Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Completed utility plant	$	8,411,675	70,797	107,017	—	—	8,589,489
Accumulated depreciation		(4,656,201)	(12,344)	(42,033)	—	—	(4,710,578)
Net completed plant		3,755,474	58,453	64,984	—	—	3,878,911
Construction work in progress		274,669	—	4,872	—	—	279,541
Net utility plant		4,030,143	58,453	69,856	—	—	4,158,452
Cash		1,752,774	18,992	93,905	—	—	1,865,671
Restricted cash		—	—	—	1,702,144	—	1,702,144
Accounts receivable, net		135,218	345	36,910	—	—	172,473
Regulatory assets		157,593	—	101	—	—	157,694
Other assets		134,016	—	1,667	3,503,128	(3,503,128)	135,683
Total assets	$	6,209,744	77,790	202,439	5,205,272	(3,503,128)	8,192,117
Total Liabilities and Capitalization							
Liabilities:							
Long-term liabilities	$	69,950	76,193	—	—	—	146,143
Customer advances and other liabilities		132,115	658	98,726	—	—	231,499
Deferred revenue		95,503	—	—	—	—	95,503
Accounts payable		62,698	82	14,515	—	—	77,295
Environmental cleanup liabilities		26,036	—	9	—	—	26,045
Total liabilities		386,302	76,933	113,250	—	—	576,485
Capitalization:							
Payable to U.S. Treasury		5,416,332	—	1,994	—	(3,503,128)	1,915,198
Accumulated net revenues		407,110	857	87,195	5,205,272	—	5,700,434
Total capitalization		5,823,442	857	89,189	5,205,272	(3,503,128)	7,615,632
Total liabilities and capitalization	$	6,209,744	77,790	202,439	5,205,272	(3,503,128)	8,192,117

See accompanying independent auditors’ report.

Schedule 1

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2019

(In thousands)

Assets		Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Completed utility plant	$	8,296,863	70,797	105,212	—	—	8,472,872
Accumulated depreciation		(4,532,207)	(10,342)	(38,239)	—	—	(4,580,788)
Net completed plant		3,764,656	60,455	66,973	—	—	3,892,084
Construction work in progress		281,765	—	6,376	—	—	288,141
Net utility plant		4,046,421	60,455	73,349	—	—	4,180,225
Cash		1,594,150	18,397	113,399	—	—	1,725,946
Restricted cash		—	—	—	1,648,818	—	1,648,818
Accounts receivable, net		156,103	322	27,546	—	—	183,971
Regulatory assets		159,453	—	377	—	—	159,830
Other assets		127,743	—	2,569	3,422,536	(3,422,536)	130,312
Total assets	$	6,083,870	79,174	217,240	5,071,354	(3,422,536)	8,029,102
Total Liabilities and Capitalization							
Liabilities:							
Long-term liabilities	$	65,249	76,193	—	—	—	141,442
Customer advances and other liabilities		127,796	677	111,193	—	—	239,666
Deferred revenue		99,570	—	—	—	—	99,570
Accounts payable		49,909	112	11,855	—	—	61,876
Environmental cleanup liabilities		22,614	—	185	—	—	22,799
Total liabilities		365,138	76,982	123,233	—	—	565,353
Capitalization:							
Payable to U.S. Treasury		5,252,280	—	2,229	—	(3,422,536)	1,831,973
Accumulated net revenues		466,452	2,192	91,778	5,071,354	—	5,631,776
Total capitalization		5,718,732	2,192	94,007	5,071,354	(3,422,536)	7,463,749
Total liabilities and capitalization	$	6,083,870	79,174	217,240	5,071,354	(3,422,536)	8,029,102

See accompanying independent auditors’ report.

Schedule 2

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2020

(In thousands)

	Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Operating revenues:						
Sales of electric power	$ 778,339	—	13,260	—	—	791,599
Transmission and other operating revenues	465,161	3,910	71,034	132,513	(132,513)	540,105
Total operating revenues	1,243,500	3,910	84,294	132,513	(132,513)	1,331,704
Operating expenses:						
Operation and maintenance	542,186	788	61,076	—	—	604,050
Purchased power	118,559	—	13,260	—	—	131,819
Purchased transmission services	183,918	—	39	—	—	183,957
Depreciation	136,956	2,002	4,581	—	—	143,539
Administration and general	72,072	94	11,604	—	—	83,770
Total operating expenses	1,053,691	2,884	90,560	—	—	1,147,135
Net operating revenues (expenses)	189,809	1,026	(6,266)	132,513	(132,513)	184,569
Interest expenses:						
Interest on payable to U.S. Treasury	178,327	—	18	—	(132,513)	45,832
Allowance for funds used during construction	(16,733)	—	—	—	—	(16,733)
Net interest on payable to U.S. Treasury	161,594	—	18	—	(132,513)	29,099
Interest on long-term liabilities	2,703	2,311	—	—	—	5,014
Net interest expense	164,297	2,311	18	—	(132,513)	34,113
Net revenues	$ 25,512	(1,285)	(6,284)	132,513	—	150,456

See accompanying independent auditors' report.

Schedule 2

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2019

(In thousands)

	Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Operating revenues:						
Sales of electric power	$ 855,075	—	9,805	—	—	864,880
Transmission and other operating revenues	498,065	4,848	74,904	130,323	(130,323)	577,817
Total operating revenues	1,353,140	4,848	84,709	130,323	(130,323)	1,442,697
Operating expenses:						
Operation and maintenance	544,519	(19,594)	54,556	—	—	579,481
Purchased power	145,301	—	9,805	—	—	155,106
Purchased transmission services	173,563	—	102	—	—	173,665
Depreciation	144,976	2,020	4,968	—	—	151,964
Administration and general	69,350	140	13,211	—	—	82,701
Total operating expenses	1,077,709	(17,434)	82,642	—	—	1,142,917
Net operating revenues (expenses)	275,431	22,282	2,067	130,323	(130,323)	299,780
Interest expenses:						
Interest on payable to U.S. Treasury	176,886	—	22	—	(130,323)	46,585
Allowance for funds used during construction	(9,447)	—	—	—	—	(9,447)
Net interest on payable to U.S. Treasury	167,439	—	22	—	(130,323)	37,138
Interest on long-term liabilities	3,309	2,485	—	—	—	5,794
Net interest expense	170,748	2,485	22	—	(130,323)	42,932
Net revenues	$ 104,683	19,797	2,045	130,323	—	256,848

See accompanying independent auditors’ report.

Schedule 3

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data by Agency

September 30, 2020

(In thousands)

Assets		**WAPA**	**Generating agencies**	**Total**
Completed utility plant	$	4,687,182	3,902,307	8,589,489
Accumulated depreciation		(2,442,562)	(2,268,016)	(4,710,578)
Net completed plant		2,244,620	1,634,291	3,878,911
Construction work in progress		141,607	137,934	279,541
Net utility plant		2,386,227	1,772,225	4,158,452
Cash		1,167,371	698,300	1,865,671
Restricted cash		1,702,144	—	1,702,144
Accounts receivable, net		171,984	489	172,473
Regulatory assets		68,907	88,787	157,694
Other assets		129,626	6,057	135,683
Total assets	$	5,626,259	2,565,858	8,192,117
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	$	131,481	14,662	146,143
Customer advances and other liabilities		184,737	46,762	231,499
Deferred revenue		—	95,503	95,503
Accounts payable		60,576	16,719	77,295
Environmental cleanup liabilities		20,371	5,674	26,045
Total liabilities		397,165	179,320	576,485
Capitalization:				
Payable to U.S. Treasury		817,198	1,098,000	1,915,198
Accumulated net revenues		4,411,896	1,288,538	5,700,434
Total capitalization		5,229,094	2,386,538	7,615,632
Total liabilities and capitalization	$	5,626,259	2,565,858	8,192,117

See accompanying independent auditors’ report.

Schedule 3

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data by Agency

September 30, 2019

(In thousands)

Assets		WAPA	Generating agencies	Total
Completed utility plant	$	4,583,397	3,889,475	8,472,872
Accumulated depreciation		(2,350,007)	(2,230,781)	(4,580,788)
Net completed plant		2,233,390	1,658,694	3,892,084
Construction work in progress		145,720	142,421	288,141
Net utility plant		2,379,110	1,801,115	4,180,225
Cash		1,168,150	557,796	1,725,946
Restricted cash		1,648,818	—	1,648,818
Accounts receivable, net		173,450	10,521	183,971
Regulatory assets		69,523	90,307	159,830
Other assets		123,692	6,620	130,312
Total assets	$	5,562,743	2,466,359	8,029,102
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	$	125,993	15,449	141,442
Customer advances and other liabilities		195,735	43,931	239,666
Deferred revenue		—	99,570	99,570
Accounts payable		47,738	14,138	61,876
Environmental cleanup liabilities		20,243	2,556	22,799
Total liabilities		389,709	175,644	565,353
Capitalization:				
Payable to U.S. Treasury		785,768	1,046,205	1,831,973
Accumulated net revenues		4,387,266	1,244,510	5,631,776
Total capitalization		5,173,034	2,290,715	7,463,749
Total liabilities and capitalization	$	5,562,743	2,466,359	8,029,102

See accompanying independent auditors’ report.

Schedule 4

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data by Agency

Year ended September 30, 2020

(In thousands)

		WAPA	Generating agencies	Total
Operating revenues:				
Sales of electric power	$	459,591	332,008	791,599
Transmission and other operating revenues		536,992	3,113	540,105
Total operating revenues		996,583	335,121	1,331,704
Operating expenses:				
Operation and maintenance		334,026	270,024	604,050
Purchased power		131,819	—	131,819
Purchased transmission services		183,957	—	183,957
Depreciation		105,046	38,493	143,539
Administration and general		83,770	—	83,770
Total operating expenses		838,618	308,517	1,147,135
Net operating revenues		157,965	26,604	184,569
Interest expenses:				
Interest on payable to U.S. Treasury		14,690	31,142	45,832
Allowance for funds used during construction		(4,616)	(12,117)	(16,733)
Net interest on payable to U.S. Treasury		10,074	19,025	29,099
Interest on long-term liabilities		3,304	1,710	5,014
Net interest expense		13,378	20,735	34,113
Net revenues	$	144,587	5,869	150,456

See accompanying independent auditors’ report.

Schedule 4

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data by Agency

Year ended September 30, 2019

(In thousands)

		WAPA	Generating agencies	Total
Operating revenues:				
Sales of electric power	$	545,401	319,479	864,880
Transmission and other operating revenues		518,724	59,093	577,817
Total operating revenues		1,064,125	378,572	1,442,697
Operating expenses:				
Operation and maintenance		297,184	282,297	579,481
Purchased power		155,106	—	155,106
Purchased transmission services		173,665	—	173,665
Depreciation		105,679	46,285	151,964
Administration and general		82,701	—	82,701
Total operating expenses		814,335	328,582	1,142,917
Net operating revenues		249,790	49,990	299,780
Interest expenses:				
Interest on payable to U.S. Treasury		15,233	31,352	46,585
Allowance for funds used during construction		(6,066)	(3,381)	(9,447)
Net interest on payable to U.S. Treasury		9,167	27,971	37,138
Interest on long-term liabilities		4,005	1,789	5,794
Net interest expense		13,172	29,760	42,932
Net revenues	$	236,618	20,230	256,848

See accompanying independent auditors' report.

FEEDBACK

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