Office of Inspector General

OFFICE OF CYBER ASSESSMENTS AND DATA ANALYTICS

AUDIT REPORT

THE WESTERN AREA POWER ADMINISTRATION'S FISCAL YEAR 2023 FINANCIAL STATEMENTS AUDIT

DOE-OIG-24-20

JUNE 2024

Department of Energy
Washington, DC 20585

June 10, 2024

MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER ADMINISTRATION

FROM: Kshemendra Paul
Assistant Inspector General
for Cyber Assessments and Data Analytics
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on The Western Area Power Administration's Fiscal Year 2023 Financial Statements Audit

The attached report presents the results of the independent certified public accountants' audit of the Western Area Power Administration's (WAPA) balance sheets as of September 30, 2023, and 2022, and the related consolidated statements of net costs, changes in net position, custodial activity, combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

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 WAPA'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 WAPA's financial statements.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of WAPA as of September 30, 2023, and 2022, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

As part of this review, auditors also considered WAPA'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 financial statements. The audit identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency:

- KPMG identified a material weakness with internal controls over the financial reporting process. WAPA's stand-alone statements are designed to conform to Federal Accounting Standards Advisory Board and Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. However, WAPA's existing procedures and controls are not designed to accommodate the dramatic deviations from the Department of Energy reporting package.

- KPMG identified a significant deficiency with internal controls over the manual journal entry process. During walkthroughs and related audit procedures for WAPA's fiscal year 2023 financial statement audit, KPMG identified that manual journal entries recorded by WAPA's various budget offices did not require or enforce segregation of duties.

WAPA management agreed with the findings and recommendations and indicated that corrective actions had been taken or were planned.

The results of the auditors' review disclosed no instances of noncompliance or other matters required to be reported under Government Auditing Standards or applicable Office of Management and Budget guidance.

We appreciated the cooperation of your staff during the audit.

Attachment

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

KPMG

WESTERN AREA POWER ADMINISTRATION

Agency Financial Report

Fiscal Year 2023

WESTERN AREA POWER ADMINISTRATION

Agency Financial Report

Fiscal Year 2023

Table of Contents

Message from the Administrator (Unaudited)

WAPA Customers, Partners, and Stakeholders:

I am pleased to present WAPA's agency financial report for fiscal year 2023. In a year that presented continued challenges and unexpected opportunities, WAPA has demonstrated resilience and steadfast dedication to our core mission. Our foundational values—listening to understand, speaking with purpose, and a continuous commitment to improvement—have powered our journey, reinforcing our pledge to deliver reliable, cost-effective hydropower to the communities we serve.

During fiscal year 2023, better-than-expected hydrology was a positive surprise; however, projections of system-wide drought remain on the horizon. WAPA delivered a $75 million return to the U.S. Department of the Treasury in FY 2023, well above the $0 return projected at the outset of the year when water flows were forecast to be lower. This accomplishment illustrates the durability of our full-cost-recovery financial model across a range of operating conditions and reflects our dedication to sustaining our mission by reliably serving our customers in flush and lean water years alike. Over the last five fiscal years, WAPA has returned $1.5 billion to the Treasury, underscoring our commitment to effective financial management and full-cost recovery.

Despite the positive financial outcomes this year, we faced persistent system-wide drought conditions that continue to test our adaptability and resilience. The forecasts suggest continuing drought and financial challenges over the next five fiscal years (Fiscal Years 2024-2028), indicating a continuing need for careful planning, vigilance, and strategic foresight. Notably, WAPA is $3.7 billion, or 43%, ahead of its statutorily mandated repayments of federal investment to Treasury, with $4.8 billion remaining.

Moreover, our system's aging infrastructure requires significant capital investments, particularly in replacing critical assets such as transmission lines and substations that constitute more than 70% of WAPA's asset base. These necessary upgrades are crucial for sustaining service reliability and operational integrity. Going forward, we expect maintaining WAPA's infrastructure to be increasingly expensive, with inflation and supply chain constraints driving electric industry costs higher.

Following many years of relative price stability, WAPA's rates, along with those of our industry peers, are rising. A key factor among these rising costs is purchased power. We remain grateful for the legislative support received through the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA), which together provided vital resources to WAPA, enabling us to reliably serve our customers despite the negative financial impacts of severe drought. WAPA's timely deployment of $1.02 billion in supplemental funding serves as an example of properly scoped, strictly governed and fully transparent coordination among WAPA and our stakeholders, both in Washington and across 15 western states. At fiscal year-end 2023, approximately $130 million of these supplemental funds remained, all of which are expected to be deployed by fiscal year end 2024.

Due to WAPA's multi-year budget and rate-making processes, we maintain financial reserves to ensure we have sufficient funds on hand to meet our commitments to stakeholders in the face of volatile electricity market conditions. At fiscal year-end 2023, WAPA's reserves—namely Annual, Capital and Purchase Power and Wheeling reserves—approximated 66% of targeted levels. Notably, supplemental funding from the IIJA and IRA enabled WAPA to build reserves to levels calibrated to current market conditions.

Lastly, I would like to announce a change in WAPA's financial reporting. For our first 47 years, WAPA prepared annual financial reports according to the standards set by the Accounting Principles Board (APB), and then more recently, by the Financial Accounting Standards Board (FASB). While WAPA's financial reporting to DOE has for many years been according to the standards established by Federal Accounting Standards Advisory Board (FASAB), this year marks the first time WAPA's financial reporting to follow suit with our FASAB accounting standards. It was time. WAPA's transition to FASAB reporting also aligns with our lineage as a federal agency and will further advance our commitment to enhanced governance, transparency, and administrative efficiencies.

This year, as in every year, we adhere to a clear and unwavering mission: to serve like our lights depend on it. This principle encapsulates our commitment to operational excellence and safety and our dedication to our customers and the environment. We move forward with a renewed commitment to our values and a clear vision for empowering communities and securing a resilient energy future.

Thank you for your continued trust and partnership.

Sincerely,

Tracey A. LeBeau
Administrator and CEO
May 29, 2024

WESTERN AREA POWER ADMINISTRATION

Management's Discussion and Analysis (Unaudited)

Fiscal Year 2023

Overview

Mission

The mission of Western Area Power Administration (WAPA) is to safely provide reliable, cost-based hydropower and transmission to our customers and the communities we service.

In carrying out the mission, we are guided by the following values:

Listen to understand, speak with purpose. We must always consider our audience and speak to them in ways that will be clear, simple, and relevant. We know active listening is the first step in effective communication. We consider context and check for clarity and simplicity. We are respectful, direct, honest, transparent, and consistent. We assume positive intent.

Seek. Share. Partner. We value partnership and actively engage others in the seeking and sharing of ideas. We collaborate to move forward and partner to add value. We actively engage others. We share all relevant information in a timely fashion, acting as one team united in our common mission.

Respect self, others, and the environment. We represent WAPA in being good neighbors and stewards of our collective resources. We are compassionate in our relationships with others, as well as toward ourselves. We are respectful in all of our dealings.

Do what is right. Do what is safe. We are public servants who act with integrity, stand up for what is right, and demonstrate courage when acting in the best interests of our customers and the communities they serve. We are safe in all of our actions and consider safety in all our planning.

Be curious, learn more, do better. Repeat. We seek and welcome feedback to directly and quickly improve. We innovate, plan for the future, and support the growth of our teams and colleagues. We reflect upon progress to learn and grow.

Serve like your lights depend on it! We understand the importance of our mission to provide power to customers that serve more than 40 million Americans. We anticipate customer needs, build relationships, seek win-win solutions, and embrace responsibility. We work hard to ensure other Americans know and understand the importance of our mission.

About WAPA

Through a combination of human power and hydropower, WAPA has built a lasting commitment to deliver clean and reliable wholesale electricity to preference and other customers to power the West. Established on December 21, 1977, under Section 302 of the Department of Energy (Department) Organization Act, WAPA is one of four federal power marketing administrations in the Department. It is the largest PMA in terms of service area and transmission line mileage, the youngest in time of existence, and the most legislatively complex.

WAPA carries out its mission through electrical, transmission, and ancillary services. Annually, we market and deliver more than 25,000 gigawatt-hours of reliable, cost-based hydropower generated at 57 federal dams operated by the Bureau of Reclamation, United States Army Corps of Engineers, and the International Boundary and Water Commission. WAPA purchases additional energy from utilities on the open market to fully meet our contractual obligations and system reliability needs. Our approximately 700 customers then provide electric service to more than 40 million Americans from the Desert Southwest to the Canadian border, and from the lakes of Minnesota to the California coastline.

In addition to marketing federal hydropower, WAPA operates a diverse transmission system prioritizing service to our firm electric customers. We also sell additional transmission capacity service as an open access transmission provider and offer ancillary services for system operation reliability. Our advanced and complex grid has fueled rural electrification throughout the West.

WAPA's more than 1,500 federal employees provide or support these primary products and services:

- **Power marketing** for the sale and transmission of firm and nonfirm, long-term, short-term, and seasonal power to existing and new customers in accordance with project marketing plans
- **Transmission services** allowing other utilities to transmit nonfederal power across our transmission lines
- **Operation and maintenance services** that balance supply and demand, and ensure the vast transmission system is maintained and operable to deliver energy where and when it's needed
- **Transmission infrastructure program** providing external partners access to our borrowing authority to develop transmission and related facilities to support delivery of renewable energy
- **Ancillary services** that make the system work, including scheduling and dispatch, voltage control, energy imbalance, operating reserves, and others.

Our ability to restore the grid through a "black start" is a lesser-known, but critical, purpose. Hydropower's black start capabilities make us the guardians of the grid and a critical source of grid resilience.

 (Continued)

Organizational Structure

Our organizational structure as of January 2024 is as follows. For more information, visit https://www.wapa.gov/about-wapa/organizational-chart/.

Administrator and CEO
Tracey LeBeau

Regional Executives	Corporate Executives	Ex Officio
Senior VP and Desert Southwest Regional Manager Jack Murray	Executive VP and Chief Operating Officer Tina Ko	Chief of Staff Chris Lawrence
Senior VP and Rocky Mountain Regional Manager Barton Barnhart	Senior VP and Chief Administrative Officer Jennifer Rodgers	Chief Strategy Officer Kerry Whitford
Senior VP and Sierra Nevada Regional Manager Michelle Williams	Senior VP and Chief Financial Officer Michael Peterson	Chief Public Affairs Officer Angie Harsh
Senior VP and Upper Great Plains Regional Manager Lloyd Linke	Senior VP and Chief Information Officer Michael Montoya	Human Resources Shared Service Center Cheryl Reese
Senior VP and Colorado River Storage Project Manager Rodney Bailey	Senior VP and General Counsel Ron Klinefelter	
	Senior VP and Transmission Infrastructure Program Manager Paul Schwabe	
	Senior VP and Assistant Administrator for Corporate Liaison Dionne Thompson	

Performance Goals and Results

WAPA's performance and results are aligned with the Power Forward 2030, the agency's Strategic Plan for 2023–2030, and allow leadership to gauge performance in key areas related to power marketing and transmission.

Repayment of Investment

Measures WAPA's ability to meet legislated cost recovery requirements for timely repayment of federal investment based on the latest available power repayment studies. Ensures unpaid investment (UFI) is equal to or less than the allowable unpaid investment (AUFI) in accordance with Department of Energy (DOE) Order RA 6120.2 and Reclamation Law. Targets based on AUFI forecasted two years in advance. Reported UFI at the end of the current fiscal year is the actuals from the previous fiscal year (lagging indicator).

Measure benchmark:

- Met: UFI <= $7.986 billion
- Warning: UFI > $7.986 billion and <= $8.873 billion (10% warning window)
- Failed: UFI > $8.873 billion.

Results: Metric was met at $4.810 billion and $4.822 billion for the fiscal years ending September 30, 2023 and 2022, respectively.

Control Performance Standard

Measures WAPA's reliability of the electrical grid by attaining a North American Electric Reliability Council Control Performance Standard 1 rating of equal to or greater than 100 percent for each balancing authority (i.e., Western Area Lower Colorado, Western Area Colorado Missouri, and Western Area Upper Great Plains).

Measure benchmark:

- Met: > 110%
- Warning: = 100% and <= 110% (10% warning window)
- Failed: < 100%

Results: Metric was met at 166.33% and 160.95% for the fiscal years ending September 30, 2023 and 2022, respectively.

Annual Operations and Maintenance Cost Per Kilowatt Generated

Measures WAPA's ability to provide power at the lowest possible cost by keeping total operation and maintenance cost per kilowatt-hour generated at or below the national median for public power for entities with more than 100,000 customers ($0.062/KWh).

Measure benchmark:

- Met: <= $0.050

 (Continued)

- Warning: > $0.050 and <= $0.062 (20% warning window)
- Failed: > $0.062

Results: Metric was met at $0.019 for fiscal years ending September 30, 2023 and 2022.

Systems Availability

Measures the extent at which significant systems, Supervisory Control and Data Acquisition/Energy Management System, are online and running as expected (includes underlying infrastructure, network computer systems, communication links, and storage devices).

Measure benchmark:

- Met: >= 99.95%
- Warning: >= 99.50% and < 99.95%
- Failed: < 99.50%

Results: Metric was met at 100% for both fiscal years ending September 30, 2023 and 2022.

Cybersecurity Response

Measures the percentage of cybersecurity threats resolved within two days of being identified by the QRadar system/incident logs.

Measure benchmark:

- Met: 90% or more resolved within two days
- Warning: >= 80% and < 90% of threats resolved within two days
- Failed: < 80% of threats resolved within two days

Results: Metric was met at 94.75% and 98.86% for the fiscal years ending September 30, 2023 and 2022, respectively.

Reliability Centered Maintenance

Measures WAPA's ability to maintain an acceptable range that serves WAPA by placing special emphasis on conducting reliability centered maintenance over corrective/emergency maintenance.

Measure benchmark:

- Met: >= 90%
- Warning: >= 80% and < 90%
- Failed: <80%

Results: Metric was met at 96.0% and 95.0% for the fiscal years ending September 30, 2023 and 2022, respectively.

Asset Data Use

Measures the extent at which WAPA emphasizes the use of asset management data to support strategic and operational actions. Data focuses on Health Index, Probability of Failure, and Risk Scores.

Measure benchmark:

- Met: >= 97%
- Warning: >= 95% and <97%
- Failed: <95%

Results: Metric was met at 97.9% for the fiscal year ending September 30, 2023 and received a warning indicator, 96.0%, for the fiscal year ending September 30, 2022. The missed target is a function of process changes and not an indicator of increased risk to the agency.

Analysis of Financial Statements

WAPA prepared annual financial statements in conformity with Generally Accepted Accounting Principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB).

WAPA, a federal power marketing administration, markets and transmits hydroelectric power generated from hydropower plants that are owned and operated by 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 (collectively referred to as the generating agencies). Users are advised that the statements presented do not include power-generating functions of the generating agencies.

For additional detailed breakout of cost drivers and expenditures by rate-setting system, see the published Financial Transparency reporting on The Source.

Statement of Net Cost

Presents WAPA costs and legislatively assigned generation costs incurred to conduct operations less any exchange revenues earned.

Hydroelectric and Transmission Program

Hydroelectric and transmission program activity represents WAPA's marketing and distribution of hydroelectric power generation, supplemental power, transmission, and ancillary services for the 15 multipurpose water projects and the Desert Southwest Pacific NW-SW Intertie transmission project that have received reimbursable appropriations. Power rates are set to recover all costs associated with power delivery, such as annual operating costs, federal investment in WAPA and power allocated generation facilities, with interest, and legislatively assigned costs to power for repayment.

The program is operated to break even. Rates are separately established by project to ensure full cost recovery of both WAPA and power-allocated costs of generating agencies. Operating, purchased power, purchased transmission, and interest expenses are estimated to be recovered in current rates and trued up in subsequent rates. Plant assets are generally recovered over the lesser of estimated useful life or 50 years. Congressional appropriations for asset purchases and deficits bear interest at rates set by law or administrative orders until paid.

Sale of electric power reports revenues for recovery of both WAPA and generating agency costs. Power revenues transferred, advanced directly to, or allocated to recovery of generating agency costs reduce WAPA's gross revenues.

Revenues collected for plant repayment are typically allocated to the highest interest-bearing assets first, which may result in uneven revenue distributions between agencies year over year and net cost. Additionally, the timing of purchase power costs and recovery may fluctuate year over year due to drought conditions, operating constraints, and timing of rate adjustments.

Analysis of significant variances

Figure 1: Abbreviated Consolidated Net Cost, major program variances
Dollars in thousands

				Increase (decrease)	
		2023	2022	$	%
Major program:					
Hydroelectric power and transmission program costs:					
Operations and maintenance	$	394,564	361,546	33,018	9.1 %
Purchase power and wheeling		705,850	677,391	28,459	4.2 %
Depreciation		105,316	98,143	7,173	7.3 %
Net interest		8,742	9,933	(1,191)	(12.0)%
Total program costs		1,214,472	1,147,013	67,459	5.9 %
Less: Earned revenues		(1,269,277)	(1,032,638)	(236,639)	22.9 %
Net cost of hydroelectric power and transmission	$	(54,805)	114,375	(169,180)	(147.9)%

- Operations and maintenance costs increased from fiscal year 2022 due to higher labor rates, inflationary pressures, and resuming previously delayed projects due to COVID-19.
- Purchase power and wheeling remained consistent year over year due to improved generation offset by an increase in cost per Megawatt Hour and pass-through purchases for customers' supplemental power.
- Earned revenues increased from fiscal year 2022 due to increased water flows and pass-through purchase power. In addition, in response to drought conditions, a drought rate adder was included in the fiscal year 2023 rates for the Pick-Sloan power system.

Balance Sheet

The balance sheet presents the amounts of future economic benefits owned or managed by WAPA (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

(Continued)

Fund Balance with Treasury – budgetary represents available funding for operations and federal investment. Fund Balance with Treasury – nonbudgetary represents the special receipts funds that are unavailable until authorized by Congress.

Appropriated debt represents the unpaid balance of appropriations for purchase power, construction, operations and maintenance of power facilities, related interest, transfers of property and services, and postretirement benefits due the U.S. Treasury General Fund.

Analysis of significant variances

Figure 2: Abbreviated Consolidated Balance Sheet, key variances
Dollars in thousands

				Increase (decrease)	
		2023	2022	$	%
Assets:					
Fund balance with Treasury – budgetary	$	2,084,622	1,372,325	712,297	51.9 %
Fund balance with Treasury – nonbudgetary		1,758,180	1,885,288	(127,108)	(6.7)%
Accounts receivables, net		173,476	210,495	(37,019)	(17.6)%
General property, plant, and equipment, net		2,880,868	2,796,481	84,387	3.0 %
Other assets		175,707	159,912	15,795	9.9 %
Inventory		32,935	29,591	3,344	11.3 %
Total assets	$	7,105,788	6,454,092	651,696	10.1 %
Liabilities:					
Accounts payable	$	81,372	111,750	(30,378)	(27.2)%
Debt		76,193	76,193	—	0.0 %
Advances from others		213,789	134,278	79,511	59.2 %
Appropriated debt		1,846,531	1,311,245	535,286	40.8 %
Other liabilities		164,462	125,583	38,879	31.0 %
Total liabilities	$	2,382,347	1,759,049	623,298	35.4 %
Total net position	$	4,723,441	4,695,043	28,398	0.6 %
Total liabilities and net position	$	7,105,788	6,454,092	651,696	10.1 %

- Fund balance with Treasury – budgetary increased from fiscal year 2022 due to receipt of $520 million appropriation from the Disaster Relief and Emergency Assistance Act. Funding was received to address drought impacts and funding requirements for purchase power and wheeling plus allocation of receipts for purchase power reserves and customer advances for construction and maintenance projects. The authority allowed WAPA to reserve use of receipts for purchase power funding, resulting in an approximately $305 million increase.

- Accounts receivables, net decreased from fiscal year 2022 due to timing on collections and fluctuations in purchase power requirements for reimbursable customers, with a corresponding impact to accounts payable.

- Advances from others increased from fiscal year 2022 due to various construction and maintenance projects, including $49 million for the Vail to Tortolita transmission line project for Tucson Electric Power Company.
- Other irrigation assistance increased from fiscal year 2022 due to $21.9 million in deferred repayment to Treasury for aid to irrigation and $11.4 million due to environmental and asbestos-related cleanup.
- Appropriated debt increased from fiscal year 2022 due to receipt of $520 million appropriation from the Disaster Relief and Emergency Assistance Act.

Status of Appropriated Debt

Figure 3: Status of Appropriated Debt
Dollars in thousands

	2023	2022	Increase (decrease) $	Increase (decrease) %
General Fund – construction and operation:				
Appropriations	$ 946,628	939,765	6,863	0.7 %
Transfer of property and services, net	2,359,098	2,365,162	(6,064)	(0.3)%
Postretirement benefits	51,693	48,121	3,572	7.4 %
Interest	853,848	839,323	14,525	1.7 %
Payments to the U.S. Treasury	(3,384,736)	(3,381,126)	(3,610)	0.1 %
	$ 826,531	811,245	15,286	1.9 %
General Fund – purchase power:				
Appropriations	$ 1,020,000	500,000	520,000	104.0 %
Payments to the U.S. Treasury	—	—	—	0.0 %
	$ 1,020,000	500,000	520,000	104.0 %
Reclamation Fund – construction and operation:				
Appropriations	$ 6,687,790	6,609,508	78,282	1.2 %
Transfer of property and services, net	3,508,929	3,424,912	84,017	2.5 %
Postretirement benefits	207,516	194,498	13,018	6.7 %
Interest	3,525,099	3,420,145	104,954	3.1 %
Payments to the U.S. Treasury	(10,770,583)	(10,698,588)	(71,995)	0.7 %
	$ 3,158,751	2,950,475	208,276	7.1 %
Subtotal appropriated debt	$ 5,005,282	4,261,720	743,562	17.4 %
Reclamation Fund elimination[1]	(3,158,751)	(2,950,475)	(208,276)	7.1 %
Total appropriated debt	$ 1,846,531	1,311,245	535,286	40.8 %

[1]WAPA's financial statements include Treasury Account Symbol 5000.27 within the Reclamation Fund. Funding received from the Reclamation Fund is not reported as appropriated debt since the Reclamation Fund is managed by WAPA and activity is eliminated for reporting.

 (Continued)

Analysis of Systems, Controls, and Legal Compliance

Management's Assurances

WAPA's leadership and management is responsible for establishing and maintaining an effective system of internal controls to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). To support WAPA's management responsibilities, an annual evaluation of management and financial system internal controls is required by Sections II and IV of FMFIA and OMB Circular No. A-123, ***Management's Responsibility for Enterprise Risk Management and Internal Control***. The annual assurances are made based on the results of these evaluations, which are reflected in reports and representations completed by senior accountable managers within WAPA.

WAPA completed an evaluation of management and financial system internal controls, and as of September 30, 2023, WAPA provides reasonable assurance that internal controls for the effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations are operating effectively in design and operation. The evaluation of internal controls for reporting included processes supporting the Digital Accountability and Transparency Act of 2014 and overall data quality contained in agency reports, as required by Appendix A of OMB Circular No. A-123 and agency requirements. The evaluation is an assessment of entity and process controls and considered risks associated with the Infrastructure Investment and Jobs Act, environmental management, cybersecurity, climate change, aging or deteriorating equipment, physical attack, and human capital management, along with results of audit reports and internal management reviews. WAPA has reasonable assurance that processes are in place to identify risks and establish controls to mitigate identified risks. Evaluation results indicate WAPA's financial system generally conforms to government financial systems requirements, and substantially complies with requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

WAPA has one material weaknesses to report as a result of the internal control evaluations. During the financial statement audit, KPMG LLP identified a material weakness in WAPA's existing procedures and controls for the preparation of WAPA's stand-alone Agency Financial Report (AFR) specifically, certain balances may not be mapped to the proper financial statement line items, and footnotes may not agree to the financial statements resulting in an accurate or incomplete AFR. Management expects this matter to be addressed by fiscal year 2025.

KPMG also identified a significant deficiency over the process for recording manual journal entries by WAPA's budget offices. WAPA concurred with the finding and recommendation; however, management recognizes this as a control deficiency not rising to the level of a material weakness or a significant deficiency. Management addressed this in the first half of fiscal year 2024.

Tracey A. LeBeau
Administrator and CEO
May 29, 2024

Federal Managers' Financial Integrity Act

The FMFIA requires agencies to establish internal controls and financial systems to provide reasonable assurance that the integrity of federal programs and operations remains protected. The FMFIA also mandates that the head of the agency provide an annual assurance statement detailing if the agency met this requirement and if material weaknesses exist.

In response to the FMFIA, WAPA has an internal control program that holds managers accountable for the performance, productivity, operations, and integrity of programs through the use of internal controls. Each year, senior WAPA managers evaluate the adequacy of the internal controls surrounding activities and determine whether the controls conform to the principles and standards established by OMB and the Government Accountability Office. The results of these evaluations and other senior management information determine if there are internal control matters resulting in material weaknesses.

OMB Circular No. A-123, Appendix A

OMB Circular No. A-123, Appendix A requires agencies to conduct management assessment and evaluation of internal controls over reporting, which includes processes supporting the Digital Accountability and Transparency Act of 2014 and overall data quality contained in agency reports. The evaluation requires an annual assessment of entity and process controls.

WAPA's evaluation for fiscal year 2023 provides reasonable assurance that processes are in place to identify risks and establish controls to manage these risks.

Federal Financial Management Improvement Act

The FFMIA improves federal financial management and reporting by requiring financial management systems to comply substantially with three requirements:

1. Federal financial management system requirements
2. Applicable federal accounting standards
3. The United States Standard General Ledger (USSGL) at the transaction level.

The FFMIA requires independent auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports.

WAPA evaluated its financial management system and determined it substantially complies with federal financial management system requirements, applicable federal accounting standards, and the USSGL at the transaction level.

(Continued)

Financial Management Systems Plan

WAPA's enterprise-wide applications consist of financial and budgetary systems. These systems are supported by a data warehouse linking common data elements from each of the business systems and support external and internal reporting. The major business systems maintained by WAPA include:

Financial: Financial Management Information System (FIMS): Oracle's on-premises Business Intelligence Enterprise software solution is the principal financial management system used by WAPA for all financial transactions and budget distribution. FIMS is compliant with all annual Federal Information Security Management Act requirements and is fully accredited. Fiscal year 2023 FIMS activities included:

- Implemented government-wide G-invoicing functionality
- Implemented General Ledger Journal Voucher workflow solution
- Expanded Facility ID field size
- Actively maintained required security posture and upgraded to most current patches
- Provided 24x7 support for key processing and reporting timeframes (month, quarter, year-end).

Fiscal year 2024 outlook includes upgrading Exadata and Exalogic Servers, implementation of Federal Administrator module, and additional audit and reporting requirements.

Budget: Budget Formulation Integration Tool (BFIT): This is WAPA's cloud budgetary funds formulation system that provides the capability to capture and report formulation, revalidation, and spend plan activities. fiscal year 2023 BFIT activities included:

- Implemented a Capital Cube with a Project Initiation import form
- Metadata updated to be in line with system best practices
- Configured integration for FIMS execution data
- Added budgeting tools to formulate by employee or position
- Added functionality to run and/or rerun burden by desired version
- Actively maintained required security posture and upgraded to most current patches
- Offered training for users on the budget formulation functionality.

Fiscal year 2024 outlook includes additional integration between budgeting and capital cubes, including several enhancements for better reporting needs and user experience. Added reporting from the capital cube to accommodate both the Budget Analyst and Maintenance Program Managers reporting needs, and modifications to the Business Objects Enterprise (BOE) Budget vs. Actual report, which combines the budgeted data within BFIT to the actual expenditures from FIMS.

(Continued)

Asset, Work, and Property Management System (Maximo): Maximo is an on-premises IBM enterprise asset management (CMMS/EAM) software system used to track, manage, and analyze power system assets throughout their lifecycle. The system plays a key role in asset, work, and property management. fiscal year 2023 Maximo activities included:

- Receiving required flag unchecked for 2-WAY Purchase Requisitions
- Supported Facility ID changes from FIMS
- Critical Infrastructure Program enhancements/changes for Assets
- Actively maintained required security posture and upgraded to most current patches
- Provided 24x7 support for key processing and reporting timeframes (month, quarter, year-end).

Fiscal year 24 outlook includes updated fleet cards and associated functionality from Citibank to Wright Express, updated integration middleware from Oracle to TIBCO (The Information Bus Company), and initiating upgrades to Maximo Application Suite cloud with a proposed go-live in late fiscal year 2025.

Power Billing: Western Transmission and Power Billing System (WTPBS): The WTPBS creates bills for customers based on usage, contractual rates of delivery, or quantities of energy. The final bills are interfaced into FIMS where they are recognized as power revenue. fiscal year 2023 PBS activities included:

- Actively maintained required security posture and upgraded to most current patches.
- Provided 24x7 support for key processing and reporting timeframes (month, quarter, year-end).

Fiscal year 2024 will focus on migrating from Windows 2016 servers to Windows 2019. Windows 2016 servers reached end-of-line for mainstream support in 2022; however, WAPA extended its Windows 2016 server support agreement until 2027 and is staggering the server migrations. Additional changes include process changes for assigned payments as well as investigating a potential software replacement vs. in-house customization to meet growing needs.

Data Reporting: SAP's Business Intelligence Platform (BOE): BOE is an ad-hoc web intelligence reporting application used to create, manage, and refresh reports against WAPA's enterprise applications. fiscal year 2023 BOE activities included:

- Performed review/cleanup effort to eliminate, rename, and/or combine like reports and queries
- Updated the knowledge/training classroom
- Continued to provide support to users on standard reports, ad hoc queries, and data inquiries.

Fiscal year 2024 will include server upgrade from MSSQL 2016 to MSSQL 2019 followed by upgrading the on-premises application version from 4.2 to 4.3.

Data Warehouse: Central Data Repository (CDR): Data is copied daily into the CDR from FIMS, BFIT, and Maximo. WAPA's BOE system accesses the CDR data for various reporting needs.

 (Continued)

The following are used by WAPA but maintained outside of WAPA:

- Procurement: Strategic Integrated Procurement Enterprise System (STRIPES): STRIPES is DOE's procurement and contracts management system, automating all procurement and contract activities associated with planning, awarding, and administering various unclassified acquisition and financial assistance instruments. STRIPES data is transmitted to WAPA, which is uploaded into FIMS via a WAPA process. STRIPES is integrated with STARS and IDW, STRIPES connects DOE with General Services Administration's (GSA) Integrated Award Environment systems, including the System for Award Management (SAM), Federal Procurement Data System – Next Generation, and SAM.gov's Contracts Opportunities. STRIPES also interfaces with Grants.gov and Unison's FedConnect.
- Travel Processing: Services outsourced through the GSA's eTravel Services contract using a system called Concur Government Edition. In fiscal year 2024, Concur will be upgraded to cloud services.
- Payroll Processing: Automated Time and Attendance Production System along with internal systems for collating internal data, which is then outsourced to be serviced by Defense Finance and Accounting Service.

Analysis of Entity-specific Risks

OMB A-123 requires federal agencies to effectively identify and manage risks using an enterprise approach. The Enterprise Risk Management (ERM) program at WAPA is responsible for supporting all business units in assessing and managing risk, providing the leadership team with a WAPA-wide view of risks impacting accomplishment of the mission and strategic goals, integrating risk considerations into strategic planning, execution and management operations, and managing risks to an acceptable level.

For fiscal year 2023, ERM has developed a risk profile that highlights seven risk categories and ten specific risks. Figure 4 displays the impact and likelihood of each specific risk.

Figure 4: Risk Rating

		Inherent Risk Rating		Residual Risk Rating	
Risk Category	**Specific Risk**	**Impact**	**Likelihood**	**Impact**	**Likelihood**
Cybersecurity	Cybersecurity Incident	Very High	High	High	Moderate
Climate Change	Reduced Hydropower Generation	Very High	High	Moderate	High
Safety and Security	Physical Attack on Critical Assets	High	High	High	Moderate
Safety and Security	Safety Incident	High	High	High	Moderate
Physical Infrastructure	Key Material Shortages	High	High	Moderate	High
Physical Infrastructure	Failure of Critical Assets	High	Moderate	Moderate	Moderate
Financial Management	Financial Risk (non-fraud)	High	High	Moderate	High
Financial Management	Financial Risk (procurement)	Moderate	Moderate	Low	Low
Human Capital Management and Diversity and Inclusion	Human Capital Risk	High	High	Moderate	Moderate
Reputational	Failure to Meet Regulatory Obligations	High	Moderate	Moderate	Moderate

(Continued)

Risk Category 1: Cybersecurity

Specific Risk: Cybersecurity Incident

If unauthorized access to WAPA's information system occurs, then malicious actors could impede WAPA's ability to operate its transmission system and/or market operations. This risk includes the potential for an insider threat, using authorized access to systems and supply chain to compromise or cause harm to WAPA or unintentional misuse of systems resulting in system impact or exposure to external breach.

WAPA's current strategy is to reduce risk through having a robust information security program that includes continuous review of WAPA's security posture and Plan of Action and Milestones processes serve as corrective action plans for tracking and planning the resolution of information security weakness. Additionally, WAPA continues to maintain strong partnerships with the DOE chief information officer, DOE chief information security officer, and the intelligence community to exchange best practices and timely threat information.

Risk Category 2: Climate Change

Specific Risk: Reduced Hydropower Generation

If prolonged drought results in constrained water resources and reduced hydropower generation, then there may be an inability for WAPA to reliably deliver affordable, cost-based power. Extreme environmental conditions may be coupled with operating restrictions that further reduce flexibility for operating agencies to generate hydropower when optimal.

WAPA's current strategy is to reduce risk by managing the financial impacts of drought using the purchase power and wheeling reserve fund to purchase alternative sources of energy. In addition, WAPA applies drought adders and cost recovery charges to cover additional costs and adjusts contractual agreements to ensure estimated future power sales align with projected hydropower generation. WAPA is pursuing alternative operating scenarios in cases of severe drought and will continuously review its internal processes and explore ways to improve integration of severe weather and climate risks into management plans.

Risk Category 3: Safety and Security

Specific Risk: Physical Attack on Critical Assets

If unauthorized intrusion or destructive acts occur at a critical substation, communications hub, or control center, then malicious actors could impede WAPA's ability to operate its transmission system. This risk includes the potential for an insider threat, using their authorized access to facilities to cause harm to WAPA.

WAPA's current strategy is to reduce risk by WAPA's Office of Security and Emergency Management (OSEM) Program ensuring activities are undertaken regularly, including, physical security risk assessments and physical security remediation.

Specific Risk: Safety Incident

If WAPA's ability to maintain a high level of safety is compromised, then a significant safety incident could occur, impacting the ability to meet our mission.

WAPA's current strategy is to reduce risk by continuing to maintain a comprehensive safety and occupational health program; activities include outreach and training to help reduce safety incidents.

 (Continued)

Risk Category 4: Physical Infrastructure

Specific Risk: Key Material Shortages

If supply cannot keep pace with demand for critical equipment and system components (e.g., transformers, power circuit breakers, line conductors, and critical IT software and hardware), and acquisitions are delayed or prohibited, then WAPA's ability to replace aging equipment or construct new transmission and IT infrastructure will be limited, increasing risk of failure, emergency response, and IT capabilities.

WAPA's current strategy is to reduce risk by increasing understanding of the current supply chain landscape and adapt to diminished supplies of critical components by standardizing equipment requirements so common parts can be shared, prioritizing replacements and upgrades of the most critical systems, establishing or reinforcing certain contract strategies to expedite acquisition, and sharing supplies with other utilities should the availability of critical equipment pose a significant risk to grid reliability.

Specific Risk: Failure of Critical Assets

If significant and widespread equipment failures occur due to aging or deteriorating equipment or widespread natural disaster events, then system resiliency and WAPA's ability to reliably deliver power and transmission services to customers will be impacted.

WAPA's current strategy is to reduce risk by continuing to maintain an asset management program and a reliability centered maintenance program to evaluate electric power system assets and make investments that increase reliability.

Risk Category 5: Financial Management

Specific Risk: Financial Risk (nonfraud)

If WAPA's funding is uncertain or limited due to insufficient power sales and appropriations, unanticipated costs, and/or legislative or political decisions, then WAPA's ability to secure adequate funding for operations and maintain reserves to offset the inherent volatility of the energy commodity markets would be jeopardized, affecting our ability to perform mission-essential functions.

WAPA's current strategy is to reduce risk by relying on WAPA's rate-making authority, comprised of 11 rate-setting projects that represent 15 multipurpose water resource projects and 3 transmission projects, serving as the primary control point for revenues. Budget performance assessments and other financial controls serve as governance to keep expenditures in check. Active management of WAPA's requested authorities and appropriations, combined with proactive management of WAPA's reserves on-hand, enhance the key controls available to offset financial risk.

Specific Risk: Financial Risk (procurement)

If intentional violations of the procurement process occur (e.g., kickbacks, conflicts of interest, improper invoicing, collusion, bid rigging, improper or fraudulent charges, etc.), then WAPA could experience financial and/or business losses and disruption; reduced credibility and reputation; noncompliance with procurement laws, regulations, policies, or procedures; and increased oversight by auditing agencies.

WAPA's current strategy is to reduce risk by continuing to conduct various routine reviews of the procurement program including planned procurement profiles, procurement office reviews, and internal audit.

 (Continued)

Risk Category 6: Human Capital Management and Diversity and Inclusion

Specific Risk: Human Capital Risk

If employee needs and labor markets continue to rapidly change, then WAPA may lose its ability to attract and retain employees with the institutional knowledge, skills, and expertise needed to deliver mission-critical products and services in a dynamic energy industry.

WAPA's current strategy is to reduce risk by continuing to evaluate and improve its workforce planning program to ensure the organization remains agile and adaptable to change.

Risk Category 7: Reputational

Specific Risk: Failure to Meet Regulatory Obligations

If WAPA does not maintain sufficient rigor in its programs, processes, and procedures, then it may fail to meet regulatory obligations leading to potential compromise of reliability, regulatory violations that could result in monetary impacts, inability to meet contractual obligations, and exposure to reputational risk.

WAPA's current strategy is to reduce risk through continuously addressing North American Electric Reliability Council regulatory requirements through WAPA's Reliability Compliance Program, which provides ongoing oversight and support in this operational area.

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

Independent Auditor's Report

The Inspector General, United States Department of Energy, and
The Administrator, Western Area Power Administration:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Western Area Power Administration (WAPA), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net costs, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of WAPA as of September 30, 2023 and 2022, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of WAPA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 WAPA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted qualitative and quantitative deferred maintenance disclosures that generally accepted accounting principles, as established by the Federal Accounting Standards Advisory Board (FASAB), require to be presented to supplement the basic consolidated financial statements. Such missing information, although not a part of the basic consolidated financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information included in the Agency Financial Report (AFR). The other information comprises the Table of Contents, Message from the Administrator, and Management's Assurances but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2023, we considered WAPA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of WAPA's internal control. Accordingly, we do not express an opinion on the effectiveness of the WAPA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

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. We consider the deficiencies described below as item 23-WAPA-02 to be a material weakness.

23-WAPA-02 Controls over Financial Reporting

While WAPA's stand-alone statements are designed to conform to FASAB and OMB Circular A-136 requirements, WAPA's existing procedures and controls are not designed to accommodate the dramatic deviations from the U.S. Department of Energy (Department) reporting package. WAPA's existing financial reporting process includes monthly and quarterly standard checks and adjustment checklists, prepared to confirm that all period-end activities are completed for financial reporting purposes. WAPA also prepares analytics to identify unusual or unexpected activity.

We identified the following conditions that, taken together, are considered material to the financial statements:

- WAPA management did not have a formal, documented process to support the development of the AFR. We identified approximately $450 million, gross, in activity reported on the statement of net cost that was not in compliance with FASAB, OMB Circular A-136, or the U.S. Standard General Ledger Crosswalk. We proposed, and management corrected, adjustments to the AFR.

- The Business Objects Explorer (BOE) query WAPA used to convert the fiscal year 2023 trial balance into the financial statements was only partially mapped to the extensive level of disaggregation in the stand-alone financial statements, and certain accounts required manual intervention to avoid conflicts with the U.S. Standard General Ledger Crosswalk. We identified approximately $20 million within the statement of presentation that was not mapped properly. We proposed, and management corrected, adjustments to the AFR. In addition, we identified multiple instances where the BOE query used to prepare the financial statements did not match the mapping decision document prepared by WAPA.

- The checklists and analytics are performed at the caption subtotal level consistent with Department financial reporting, but the form and content of the stand-alone financial statements and related footnotes include multiple levels of disaggregation that are not subjected to these activities.
- There is no review and approval process for the stand-alone AFR. We identified approximately $150 million in variances between the draft financial statements and related footnotes. We proposed, and management corrected, adjustments to the AFR.
- While WAPA has a database of required maintenance activities, both preventative and corrective, and work order flow is formalized in the Maximo Business Rule, 1.01 Work Order Management, we identified the following conditions:
  - WAPA's Required Supplemental Information section of the AFR did not include any of the required qualitative disclosures regarding deferred maintenance required under Statements of Federal Financial Accounting Standards (SFFAS) No. 42.
  - WAPA does not have a formal method of measuring deferred maintenance as defined under SFFAS No. 42.
  - WAPA does not have a policy or procedure consistently applied across the organization for ranking and prioritizing or scheduling and assigning due dates for maintenance and repairs activities. Consequently, WAPA does not have a reliable method to ascertain whether the maintenance and repairs have been delayed for a future period.

Recommendations

We recommend that the Vice President of Finance and Accounting, WAPA:

1. Establish formal policies and procedures addressing financial reporting considerations in WAPA's stand-alone AFR.
2. Implement modifications to BOE to reduce manual intervention in account mapping to the financial statements.
3. Implement checklists and analytics at the disaggregated financial statement caption level, and the related footnotes, to ensure internal consistency and proper mapping of the trial balance to the financial statements.
4. Implement formal review and approval controls over the AFR.
5. Work with WAPA's asset management office to establish a formal, consistent method for measuring, ranking and prioritization, and scheduling of maintenance and repairs WAPA-wide to satisfy the requirements of SFFAS No. 42 and relating Required Supplemental Information disclosures.

Management's Response

WAPA concurs with the finding and recommendations and will enhance procedures prior to completion of the fiscal year 2024 financial reporting to include:

1. Accounting and Reporting will modify Quarter 3 and Quarter 4 period-end checklists and analytics to be in conformity with Federal statements.
2. Accounting and Reporting will perform a detailed review of the BOE query mapping to ensure compliance with the U.S. Standard General Ledger for fiscal year-end.

3. Accounting and Reporting will create a footnote disclosure checklist and ensure footnote preparation is prepared and reviewed by separate individuals, with appropriate signatures, for fiscal yearend.

4. Accounting and Reporting, in coordination with Governance and Policy, will provide guidance to the Asset Management office on deferred maintenance reporting requirements for power system related assets listed in their Asset Management portfolio.

5. The Asset Management office will establish a consistent process for measuring, ranking and prioritization, and scheduling of maintenance and repairs of power system related assets listed in their Asset Management portfolio WAPA-wide.

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. We consider the deficiency described below as item 23-WAPA-01 to be a significant deficiency.

23-WAPA-01 Controls over Manual Journal Entries

During walkthroughs and related audit procedures for WAPA's fiscal year 2023 financial statement audit, we identified that manual journal entries recorded by WAPA's various budget offices did not require or enforce segregation of duties. Hundreds of entries are recorded annually by budget personnel across the organization. While regional budget personnel are limited to certain cash, liabilities, equity, and budgetary accounts, budget personnel at WAPA's Headquarters can prepare and post transactions to any general ledger account. However, supervisory review was not performed, and sufficient alternative controls were not in place to address the risk of fraud or error, for all budget entries recorded at WAPA. While WAPA's finance and accounting function at Headquarters did perform certain budgetary to proprietary tie-point analyses; cash, warrant, and account balancing; and fluctuation analytics, these activities were either (a) not performed at a precision level necessary to prevent or detect fraud or other misstatements or (b) did not address the risk that budget personnel can record entries to both budgetary and proprietary accounts.

Recommendation

We recommend that the Vice President of Finance and Accounting, WAPA:

6. Establish policies and procedures to require appropriate segregation of duties relating to all manual journal entries, including those initiated and recorded by WAPA's budget offices.

Management's Response

WAPA concurs with the finding and will modify the Financial Information Management System journal voucher workflow to ensure all journal vouchers are processed with appropriate segregation of duties and levels of approval as soon as practical. In addition, WAPA will investigate implementation of Oracle Federal Administration module to process budgetary entries more efficiently and ensure appropriate segregation of duties and approval controls are in place. Implementation of the Financial Information Management System journal voucher workflow modification and Oracle Federal Administration module may take time. During the implementation process, WAPA will monitor journal voucher activity to ensure transactions are appropriate. We anticipate having the Financial Information Management System journal voucher workflow correction implemented during the first quarter of fiscal year 2024.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether WAPA's consolidated financial statements as of and for the year ended September 30, 2023 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 consolidated 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* or OMB Bulletin No. 24-01.

We also performed tests of WAPA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996*. Providing an opinion on compliance with the *Federal Financial Management Improvement Act of 1996* was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which WAPA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

WAPA's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on WAPA's responses to the findings identified in our audit and described previously. WAPA's responses were not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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 WAPA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
May 31, 2024

WESTERN AREA POWER ADMINISTRATION

Consolidated Balance Sheets

September 30, 2023 and 2022

(In thousands)

Assets	2023	2022
Intragovernmental assets:		
Fund balance with Treasury – budgetary (note 1(c))	$ 2,084,622	1,372,326
Fund balance with Treasury – nonbudgetary (note 1(c))	1,758,180	1,885,287
Total fund balance with Treasury (note 3)	3,842,802	3,257,613
Accounts receivables, net (note 4)	38,290	57,278
Total intragovernmental assets	3,881,092	3,314,891
With the public:		
Accounts receivables, net (note 4)	135,186	153,217
Inventory, net (note 5)	32,935	29,591
General property, plant, and equipment, net:		
Completed utility plant, net	2,141,347	2,172,189
Construction work in progress	248,613	146,241
Contributed property, plant, and equipment, net	374,829	368,744
Other	116,079	109,307
Total general property, plant, and equipment, net (note 6)	2,880,868	2,796,481
Other assets:		
Regulatory assets (note 8)	78,647	64,579
Power rights, net	86,022	89,037
Other	9,239	4,436
Contributed power rights, net	1,799	1,860
Total other assets (note 7)	175,707	159,912
Total with the public assets	3,224,696	3,139,201
Total assets	$ 7,105,788	6,454,092
Liabilities		
Intragovernmental liabilities:		
Accounts payable	$ 3,334	3,696
Debt (note 10)	76,193	76,193
Advances from others and deferred revenue	592	2,562
Other liabilities:		
Appropriated debt	1,846,531	1,311,245
Other	39,119	12,288
Total other liabilities (note 12)	1,885,650	1,323,533
Total intragovernmental liabilities	1,965,769	1,405,984
With the public:		
Accounts payable	78,038	108,054
Federal debt and interest payable (note 10)	35,615	40,246
Federal employee benefits payable	33,460	30,358
Environmental and disposal liabilities (note 11)	33,657	22,226
Advances from others	213,197	131,716
Other liabilities (note 12)	22,611	20,465
Total with the public liabilities	416,578	353,065
Total liabilities (note 9)	2,382,347	1,759,049
Net position:		
Unexpended appropriations	180,424	164,923
Cumulative results of operations	4,543,017	4,530,120
Total net position	4,723,441	4,695,043
Total liabilities and net position	$ 7,105,788	6,454,092

See accompanying notes to financial statements.

WESTERN AREA POWER ADMINISTRATION

Consolidated Statements of Net Cost

Years ended September 30, 2023 and 2022

(In thousands)

		2023	2022
Major programs:			
Hydroelectric power and transmission program costs:			
Operations and maintenance	$	394,564	361,546
Purchase power		416,120	375,458
Purchased transmission services		289,730	301,933
Depreciation		105,316	98,143
Interest on appropriated debt		14,531	15,977
Allowance for funds used during construction		(7,196)	(7,797)
Net interest to U.S. Treasury		7,335	8,180
Interest on long-term debt		1,407	1,753
Total hydroelectric power and transmission program costs		1,214,472	1,147,013
Less: earned revenues:			
Sales of electric power		(605,101)	(396,325)
Transmission and other operating revenues		(664,176)	(636,313)
Total hydroelectric power and transmission earned revenues		(1,269,277)	(1,032,638)
Net cost of hydroelectric power and transmission		(54,805)	114,375
Other programs:			
Transmission infrastructure program:			
Program costs		9,135	6,249
Less: earned revenues		(8,646)	(6,190)
Net cost of transmission infrastructure program		489	59
Reimbursable programs:			
Program costs		283,738	282,609
Less: earned revenues		(283,795)	(282,552)
Net cost of reimbursable programs		(57)	57
Other programs:			
Program costs		17,230	19,957
Less: earned revenues		(14)	(18)
Net cost of other programs		17,216	19,939
Costs applied to reduction of legacy environmental liabilities		—	8
Net costs of operations	$	(37,157)	134,438

See accompanying notes to financial statements.

27

WESTERN AREA POWER ADMINISTRATION

Consolidated Statements of Changes in Net Position

Years ended September 30, 2023 and 2022

(In thousands)

	Funds from dedicated collections 2023	Funds from dedicated collections 2022
Unexpended appropriations:		
Beginning balances	$ 164,923	—
Appropriations received	520,000	500,000
Appropriations transferred – out	—	(1,000)
Other adjustments	—	1,503
Appropriations used	(504,499)	(335,580)
Net change in unexpended appropriations	15,501	164,923
Total unexpended appropriations	180,424	164,923
Cumulative results of operations:		
Beginning balances	4,530,120	4,699,587
Appropriations used	504,499	335,580
Nonexchange revenue	3	—
Transfers – in (out) without reimbursement:		
Generating agency warrant transfers	(106,821)	(107,278)
Other transfers	205	—
Total transfers – (out) without reimbursement	(106,616)	(107,278)
Donations and forfeitures of property	19,408	16,160
Imputed financing	13,661	10,265
Other:		
Generating agency revenue transfers (note 1(n))	83,451	209,290
Irrigation assistance (note 14(b))	(21,798)	—
Constructive returns	3,111	1,809
Appropriations received	(520,000)	(500,000)
Miscellaneous	21	(855)
Net costs of operations	37,157	(134,438)
Net change in cumulative results of operations	12,897	(169,467)
Total cumulative results of operations	4,543,017	4,530,120
Net position	$ 4,723,441	4,695,043

See accompanying notes to financial statements.

WESTERN AREA POWER ADMINISTRATION

Combined Statements of Budgetary Resources

Years ended September 30, 2023 and 2022

(In thousands)

		2023	2022
Budgetary resources:			
Unobligated balance from prior year budget authority, net	$	907,642	673,385
Appropriations		618,960	590,000
Spending authority from offsetting collections		1,624,246	1,085,812
Total budgetary resources	$	3,150,848	2,349,197
Status of budgetary resources:			
New obligations and upward adjustments (total)	$	1,501,722	1,446,732
Unobligated balance, end of year:			
Apportioned, unexpired accounts		1,212,381	708,646
Unapportioned, unexpired accounts		436,745	193,819
Unobligated balance, end of year (total)		1,649,126	902,465
Total budgetary resources	$	3,150,848	2,349,197
Outlays, net:			
Outlays, net (total)	$	(97,337)	217,644
Distributed offsetting receipts		(72,614)	(299,252)
Agency outlays, net	$	(169,951)	(81,608)

See accompanying notes to financial statements.

WESTERN AREA POWER ADMINISTRATION

Consolidated Statements of Custodial Activities

Years ended September 30, 2023 and 2022

(In thousands)

		2023	2022
Sources of collections:			
Cash collections:			
Miscellaneous	$	175,284	154,759
Total cash collections		175,284	154,759
Accrual adjustment		(510)	(820)
Total custodial revenue	$	174,774	153,939
Disposition of revenue:			
Transfers to others:			
Department of Treasury	$	(533)	(775)
Bureau of Reclamation		(174,751)	(153,984)
Decrease in amounts to be transferred		510	820
Total disposition of revenues		(174,774)	(153,939)
Net custodial activity	$	—	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Western Area Power Administration (WAPA) is a power marketing administration within the U.S. Department of Energy (DOE) that markets and transmits wholesale electrical power across 15 western states through an integrated 17,000-plus circuit-mile, high-voltage transmission system.

WAPA delivers power from 11 rate-setting projects that encompass both WAPA's transmission facilities and the power-generating facilities owned and operated by the Bureau of Reclamation (BOR), the Army Corps of Engineers (COE) and the International Boundary and Water Commission (IBWC) (collectively – Generating Agencies). These projects are made up of 15 multipurpose water resource projects and three transmission projects.

Project	Rate Setting	Facilities Use Charge	Mulitpurpose Water	Transmission Only
Boulder Canyon Project	x		x	
Central Arizona Project	x			x
Parker-Davis Project	x		x	
Pacific NW-SW Intertie - DSW	x			x
Electrical District 5-to-Palo Verde Hub		x		x
Central Valley Project	x		x	
Washoe Project			x	
Salt Lake City Integrated Projects	x			
Dolores Project			x	
Colorado River Storage Project			x	
Seedskadee Project			x	
Colbran Project			x	
Rio Grande Project			x	
Falcon-Amistad Project	x		x	
Provo River Project	x		x	
Olmsted Project	x		x	
Loveland Area Projects	x			
Fryingpan-Arkansas Project			x	
Pick Sloan Western Division			x	
Pick Sloan Eastern Division	x		x	

The financial statements contain four primary program activities: Hydroelectric Power and Transmission, Transmission Infrastructure Program (TIP), Reimbursable and Other.

(i) Hydroelectric Power and Transmission

Hydroelectric Power and Transmission activity represent WAPA's marketing and distribution of hydroelectric power generation, supplemental power, transmission, and ancillary services for the 15 multipurpose water resource projects and the Desert Southwest Pacific NW-SW Intertie transmission project that have received appropriations requiring repayment. Rates are set to recover costs associated with power delivery, transmission and ancillary services, such as annual operating costs, transmission construction costs and specific multipurpose costs associated with recovering the federal investment in WAPA and power allocated generation facilities, with interest, and legislatively assigned costs to power for repayment.

The program is cost based and as such seeks to recover costs incurred or statutorily allocated to power customers. Rates for power and transmission customers are established by project, or a collection of projects, to ensure cost recovery of both WAPA and power allocated costs of Generating Agencies. Operating, purchase power, purchased transmission and interest expenses are estimated to be recovered in current rate and trued up in subsequent rates. Plant assets are generally recovered over the lesser of estimated useful life or 50 years. Congressional appropriations for asset purchases and deficits bear interest at rates set by law or administrative orders until repaid.

The statement of net cost reports WAPA costs and legislatively assigned generation costs. The sale of electric power in the consolidated statements of net cost reports gross revenues collected for recovery of WAPA costs. Power revenues are derived from bundled rates that include collection for both energy and transmission. The portion of power revenues collected for the recovery of Generating Agencies costs are separately reported as custodial collections in the consolidated statements of custodial activity.

Revenues collected for plant repayment are allocated to highest interest-bearing assets first which may result in uneven revenue distributions between WAPA and the Generating Agencies year-over-year and WAPA's net cost of operations. Additionally, the timing of purchase power costs and recovery may fluctuate year-over-year due to drought conditions, operating performance, and timing of rate adjustments.

(ii) Transmission Infrastructure Program (TIP)

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.

TIP activity includes revenues and expense of the Electric District 5-to-Palo Verde Hub project (ED5 PVH) funded by the Recovery Act.

(iii) Reimbursable Activity

Reimbursable activity represents agreements WAPA has with federal and non-federal customers to provide service on a fee basis for purchase power under agreements contracted outside of the rate setting process, transmission interconnections and maintenance. Activity includes reimbursement from BOR for transmission maintenance for the Boulder Canyon and Central Arizona Projects since BOR receives budget authority and has repayment obligation for both projects.

(iv) Other Activity

Other activity represents WAPA activity that is not reimbursable through the rate process or reimbursable agreements and include congressional funding for specific activities.

(b) Basis of Accounting

The accompanying financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and custodial activities of WAPA. These financial statements have been prepared from the books and records of WAPA in accordance with generally accepted accounting principles promulgated by Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in Office of Management and Budget (OMB) Circular No. A-136. The accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Transactions are recorded on the accrual and budgetary bases of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All material inter-entity balances and transactions have been eliminated in the consolidated balance sheets, statements of net cost, statements of changes in net position, and statements of custodial activities. The statements of budgetary resources (SBR) are prepared on a combined basis and do not include inter-entity eliminations.

Throughout these financial statements, assets, liabilities, earned revenue, and costs have been classified according to the type of entity with which the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities.

(c) Fund Balance with U.S. Treasury

Budgetary fund balance with U.S. Department of the Treasury (U.S. Treasury) (FBWT) represents special expenditure funds and revolving funds that are available to pay current liabilities and finance authorized purchases. Nonbudgetary fund balance with U.S. Treasury represents special fund receipt accounts, deposit funds, and clearing and suspense account balances awaiting disposition or reclassification.

Disbursements and receipts are processed by the U.S. Treasury, and WAPA's records are reconciled with those of the U.S. Treasury.

(d) Accounts Receivable, Net

Intragovernmental accounts receivable represents amounts due from other federal agencies. Receivables due from the public and from federal agencies are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on experience in the collections of receivables and an analysis of the outstanding balances (note 4).

(e) Inventory, Net

Inventory is recorded at cost and consists of operating materials, supplies, and minor equipment held for future use in connection with construction or maintenance.

(f) General Property, Plant, and Equipment, Net

Property, plant, and equipment (PP&E) that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. Contributed PP&E is capitalized at estimated fair market value. WAPA capitalizes all costs associated with utility plant and real property. WAPA's threshold for capitalization is $25,000 and $150,000 for equipment and software, respectively.

Utility plant includes transmission lines, substations, buildings, and related components. 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. Utility plant assets are depreciated using the straight-line method over the estimated service lives ranging from 5 to 50 years.

Utility plant is capitalized 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.

Other PP&E consists of moveable equipment and internal use software. Moveable equipment cranes, energy testing equipment, helicopters, trucks, woodchippers and computers. Moveable equipment is depreciated using the straight-line method over the estimated service lives ranging from 3 to 20 years. Internal use software includes software purchased from commercial vendors "off the shelf" and internally developed software. Internal use software is depreciated over five years, using the straight-line method.

(g) Regulatory Assets

WAPA has elected to record certain amounts as assets in accordance with Financial Accounting Standards Board (FASB) ASC Topic 980, *Regulated Operations*. FASAB Statement of Federal Financial Accounting Standard (SFFAS) 34 allows application of FASB standards when a transaction or event is not specified by FASAB standards, and a FASB standard more appropriately meets the entity's unique financial reporting objectives.

WAPA is not a public utility within the jurisdiction of Federal Energy Regulatory Commission (FERC) under the Federal Power Act. The Secretary of Energy, through the Under Secretary for Science (and Energy) and the Assistant Secretary for Electricity, has delegated authority to WAPA's Administrator to confirm, approve, and place into effect on an interim basis power and transmission rates for the individual power systems included in the consolidated financial statements. 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 Administrator.

Regulatory assets are assets that result from rate actions of WAPA's Administrator and other regulatory agencies (note 8) and relate to the Hydroelectric Power and Transmission program. These assets arise from specific costs that would have been included in the determination of net cost in one period but are deferred for purposes of developing rates to charge for services. WAPA defers costs as regulatory assets enabling the costs to be recovered through the rates during the periods when the costs are scheduled to be collected from customers. This ensures the matching of revenues and expenses.

(h) Power Rights

WAPA capitalizes all costs associated with power rights. Purchased power rights are capitalized at cost. Contributed power rights are capitalized at estimate fair market value. Power rights are amortized using the straight-line method over the lesser of the contract term or 40 years.

(i) Liabilities

Liabilities represent amounts of monies or other resources to be paid by WAPA because of a transaction or event that has already occurred.

(j) Advances From Others

Customer advances represent the balance of advance payments received from power customers under agreements for purchase power and wheeling, construction, operation and maintenance or other furnished items. Subsidiary accounts are maintained by customer to reflect the status of each advance. Customer advances also include revenue financing contracts that provide advanced customer funds in exchange for revenue credits on future power bills up to the amount of the advanced funds and, if applicable, any interest or fees.

(k) Appropriated Debt

Appropriated debt represents the unpaid balance of appropriations for purchase power and construction, operation and maintenance of power facilities, related interest, transfers of property and services and post-retirement benefits due the U.S. Treasury General Fund (note 12). Interest on the unpaid federal investment and cost of post-retirement benefits are recovered annually. WAPA generally sets its rates to recover the construction costs within a 50 year period. Replacements are generally expected to be repaid over their estimated useful service lives. There is no requirement for repayment of a specific amount of federal investment on an annual basis.

(l) Federal Employee Benefits Payable

(i) Federal Employees Compensation Act

The Federal Employees' Compensation Act (FECA) actuarial liability represents the liability for future workers' compensation benefits, which includes the expected liability for disability, survivors, and medical benefits to employees who are injured, or become ill, in the course of federal employment and to the survivors of employees killed on the job. This liability is calculated annually by the Department of Labor (DOL) and allocated by DOE to WAPA for financial reporting purposes. The FECA actuarial liability has been deferred as a regulatory asset (note 8), while the current amounts are expensed.

(ii) Accrued Annual, Sick, and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current year or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are expensed as taken. Accrued annual leave, not funded by revolving funds, has been deferred as a regulatory asset (note 8).

(m) Retirement Plans and Other Post Retirement Benefits

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by FERS, a TSP account is automatically established to which the WAPA is required to contribute one percent of gross pay and match employee contributions up to an additional four percent. For most employees hired since December 31, 1983, WAPA also contributes the employer's matching share for Social Security. WAPA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM).

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 $9,640 and $8,775 per employee in fiscal years 2023 and 2022, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

WAPA records an imputed financing source (see note 1(n)) and a program expense equal to the difference between its contributions to federal employee pension and other retirement benefits and the estimated actuarial costs as computed by OPM for all programs except Hydroelectric Power and Transmission program. For the Hydroelectric Power and Transmission program, the difference is recorded as an increase in appropriated debt and the program expense is recovered in rates. WAPA's contributions for the two plans amounted to $41.0 million and $38.9 million for the years ended September 30, 2023 and 2022, respectively. WAPA recorded an expense for pension and other postretirement benefits of $17.3 million and $11.7 million for the years ended September 30, 2023 and 2022, respectively.

(n) Revenue and Other Financing Sources

Exchange and Non-Exchange Revenues: In accordance with FASAB accounting standards, WAPA classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which WAPA provides goods and services to the public or another government entity at a price. These revenues are presented on the consolidated statements of net cost and serve to offset the costs of these goods and services.

Non-exchange revenues result from donations to WAPA and derive from WAPA's sovereign right to demand payment, including fines and penalties. These revenues are not considered to reduce the cost of operations and are reported on the consolidated statements of changes in net position. Penalties are in other revenues.

Generating Agency Collections: WAPA bills and collects electric power revenues to cover Generating Agency power allocated costs including utility plant repayment, interest, operation, and maintenance expenses. WAPA incurs virtually no costs associated with these revenues and, consequently, these revenues are reported as custodial collections and distributions in the consolidated statements of custodial activities (note 17). In certain cases, advances to cover the Generating Agency power allocated costs are collected directly by the Generating Agency from the customer and bill credited by WAPA. Since these revenues are collected directly by the Generating Agency, these revenues are excluded from the consolidated statements of custodial activities.

Certain electric power revenues collected to recover Generating Agency costs occurs within the Reclamation Fund, which is managed by WAPA. Since FBWT within the Reclamation Fund is recorded in WAPA's consolidated balance sheets, these revenue collections are retained by WAPA and are reported as revenue allocations from generating agencies as a financing source in the consolidated statements of net position.

The below table displays total exchange revenue reported by WAPA less the revenue associated with generating agency collections in the four primary program activities as of September 30, 2023 and 2022 (in thousands):

	2023				
	Hydro	TIP	Reimbursable	Other	Total
Sales of electric power	$ 951,392	33	205,932	31,153	1,188,510
Transmission and other operating revenues	664,176	8,646	77,863	14	750,699
Total WAPA billings	1,615,568	8,679	283,795	31,167	1,939,209
Less:					
Bill credits on customer advances	(118,932)	—	—	—	(118,932)
Financing sources	(83,451)	—	—	—	(83,451)
Revenue allocation	(320)	—	—	—	(320)
Custodial revenue	(143,588)	(33)	—	(31,153)	(174,774)
Total earned revenues	$ 1,269,277	8,646	283,795	14	1,561,732

	2022				
	Hydro	TIP	Reimbursable	Other	Total
Sales of electric power	$ 824,572	33	194,397	43,045	1,062,047
Transmission and other operating revenues	636,313	6,190	88,155	18	730,676
Total WAPA billings	1,460,885	6,223	282,552	43,063	1,792,723
Less:					
Bill credits on customer advances	(130,806)	—	—	—	(130,806)
Financing sources	(209,290)	—	—	—	(209,290)
Revenue allocation	22,710	—	—		22,710
Custodial revenue	(110,861)	(33)	—	(43,045)	(153,939)
Total earned revenues	$ 1,032,638	6,190	282,552	18	1,321,398

Appropriations: WAPA receives funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. These funds are made available to WAPA until expended. Reimbursable Hydroelectric Power and Transmission program appropriations are reported as an increase in appropriated debt in the consolidated balance sheets.

Imputed Financing Sources: In certain instances, program costs of WAPA are paid out of the funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by OPM. When costs are incurred by other Federal entities because of WAPA's programs, WAPA recognizes these amounts on the consolidated statements of net cost. In addition, these amounts are recognized as imputed financing sources on the consolidated statements of changes in net position.

(o) Net Cost of Operations

Program costs are summarized in the consolidated statements of net cost by programs. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

(p) Interest on Appropriated Debt

Interest, a component of appropriated debt, is accrued annually based on Federal statutes and project legislation. Such interest is reflected as an expense in the consolidated statements of net cost within the Hydroelectric Power and Transmission program. WAPA 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. Interest rates on unpaid balances ranged from 2.50% to 11.38% for the years ended September 30, 2023, and 2022.

Funding received from the Reclamation Fund and related interest is not reported as appropriated debt since the Reclamation Fund is managed by WAPA and all intra-fund activity is eliminated in the consolidated statements of net cost (note 12).

As provided by Federal law, interest is not assessed on unpaid balances in irrigation facilities anticipated to be repaid through power sales (note 15(b)).

(q) 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 utility plant. WAPA 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 depreciated over the underlying asset's estimated useful life (note 1(f)). Applicable interest rates ranged from 3.00% to 8.21% for the years ended September 30, 2023, and 2022, depending on the year in which construction of utility plant was initiated and requirements of the authorizing legislation.

(r) Funds From Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statue to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. WAPA's predominate source of funding is from dedicated collections and all activity is reported as funds from dedicated collections in the consolidated statements of net position.

(s) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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.

(2) Non-Entity Assets (in thousands)

		2023	2022
Intragovernmental	$		
Fund balance with treasury – nonbudgetary		5,078	309
Accounts receivable		179	246
Total intragovernmental		5,257	555
Accounts receivable		7,975	8,419
Total non-entity assets		13,232	8,974
Total entity assets		7,092,556	6,445,118
Total assets	$	7,105,788	6,454,092

Assets in the possession of WAPA that are not available for its use are considered non-entity assets. WAPA's non-entity assets are custodial receivables that will be collected on behalf of others and custodial fund balance with U.S. Treasury that will be transferred to others (note 18).

(3) Fund Balance with Treasury (in thousands)

		2023	2022
Status of fund balance with treasury			
Unobligated balance:			
Available	$	1,212,381	708,646
Unavailable		437,099	194,175
Obligated balance not yet disbursed		449,932	484,295
Borrowing authority not yet converted to fund balance		(14,790)	(14,790)
Nonbudgetary fund balance with Treasury (note 1(c))		1,758,180	1,885,287
Total fund balance with Treasury	$	3,842,802	3,257,613

Unobligated balance and obligated balance not yet disbursed amounts reported above differ from related amounts on the SBR because unobligated and obligated balances reported on the SBR are supported by both FBWT and other budgetary resources that do not affect FBWT. These amounts include borrowing authority, budgetary receivables, and budgetary resources temporarily precluded or reduced.

Borrowing authority not yet converted to fund balance represents unobligated and obligated amounts recorded that will be funded by future borrowings.

(4) Accounts Receivable, Net (in thousands)

		2023			2022		
		Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	$	38,290	—	38,290	57,340	(62)	57,278
With the public		136,233	(1,047)	135,186	153,960	(763)	153,217
Total accounts receivable, net	$	174,523	(1,047)	173,476	211,320	(825)	210,495

Accounts receivable represents amounts earned but not collected primarily for Hydroelectric Power and Transmission and Reimbursable programs. The estimate of the allowance is based on 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.

WESTERN AREA POWER ADMINISTRATION

Notes to the Consolidated and Combined Financial Statements

September 30, 2023 and 2022

(5) Inventory, Net (in thousands)

		2023	2022
Operating materials	$	17,242	17,231
Supplies		12,163	9,739
Minor equipment		3,530	2,621
Total inventory, net	$	32,935	29,591

(6) General Property, Plant, and Equipment, Net (in thousands)

		2023			
		Acquisition Costs	Accumulated Depreciation	Net Book Value	Useful Life
Structures and facilities	$	4,591,003	(2,588,530)	2,002,473	10 - 50 years
Land and land rights		138,874	—	138,874	
Construction work in process		248,813	—	248,813	
Capital lease assets		5,835	(700)	5,135	50 years
Equipment		228,824	(148,443)	80,381	5 - 20 years
Internal use software		95,388	(64,825)	30,563	5 years
Contributed structures and facilities		680,080	(329,441)	350,639	10 - 50 years
Contributed land and land improvements		24,190	—	24,190	
Total general property, plant & equipment	$	6,012,807	(3,131,939)	2,880,868	

		2022			
		Acquisition Costs	Accumulated Depreciation	Net Book Value	Useful Life
Structures and facilities	$	4,529,010	(2,495,140)	2,033,870	10 - 50 years
Land and land rights		138,319	—	138,319	
Construction work in process		146,241	—	146,241	
Capital lease assets		5,835	(583)	5,252	50 years
Equipment		218,431	(140,312)	78,119	5 - 20 years
Internal use software		86,259	(60,323)	25,936	5 years
Contributed structures and facilities		661,667	(317,051)	344,616	10 - 50 years
Contributed land and land improvements		24,128	—	24,128	
Total general property, plant & equipment	$	5,809,890	(3,013,409)	2,796,481	

(7) Other Assets (in thousands)

		2023	2022
With the public			
Regulatory assets (note 8)	$	78,647	64,579
Power rights		223,173	220,920
Amortization of power rights		(137,151)	(131,883)
Subtotal power rights, net (note 1(h))		86,022	89,037
Contributed power rights		2,458	2,458
Amortization of contributed power rights		(659)	(598)
Subtotal contributed power rights, net (note 1(h))		1,799	1,860
Cap and trade		6,438	2,410
Capital credits		1,606	1,593
Interchange energy		1,195	433
Total other assets	$	175,707	159,912

(8) Regulatory Assets (in thousands)

		2023	2022
Environmental cleanup liabilities	$	33,640	22,209
Accrued annual leave		18,630	17,339
Workers' compensation actuarial cost		14,668	12,911
Recovery implementation program		11,709	12,120
Total regulatory assets	$	78,647	64,579

(a) Environmental Cleanup Liabilities

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.

(b) 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.

(Continued)

(c) Workers' Compensation Actuarial Cost

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 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 consolidated balance sheets to reflect the effects of the rate making process.

(d) Recovery Implementation Program (RIP)

Section 8 of the Colorado River Storage Project (CRSP) Act of 1956, as amended, mandates that the U.S. Department of the Interior (Interior) 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 WAPA from its power customers and provided to Reclamation to finance capital costs. WAPA received loans from the State of Colorado to finance the RIP $5.5 million was financed in December 2002 at an interest rate of 4.50% per year and an additional $5.9 million was received in December 2004 with an interest rate of 3.25%. 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, 2023 and 2022. The status of the State of Colorado financing is disclosed in note 10.

(9) Liabilities Not Covered by Budgetary Resources (in thousands)

		2023	2022
Intragovernmental:			
Appropriated capital and other adjustments (note 12)	$	1,846,531	1,311,245
Debt (note 10)		76,193	76,193
Irrigation assistance (note 14(b))		21,798	—
Other		123	(798)
Total intragovernmental		1,944,645	1,386,640
Federal debt held by the public		35,615	40,246
Federal employee benefits payable		33,460	30,358
Environmental liabilities (note 11)		33,640	22,209
Other liabilities			
Contingencies and commitments		300	300
Other		6,435	4,501
Total liabilities not covered by budgetary resources		2,054,095	1,484,254
Total liabilities covered by budgetary resources		313,165	265,790
Total liabilities not requiring budgetary resources		15,087	9,005
Total liabilities	$	2,382,347	1,759,049

(10) Debt (in thousands)

		2023			2022		
		Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Debt owed to Treasury other than FFB	$	76,193	—	76,193	76,193	—	76,193
Debt owed to the public		40,246	(4,631)	35,615	39,106	1,140	40,246
Total debt	$	116,439	(4,631)	111,808	115,299	1,140	116,439

(a) *Debt Owed to Treasury other than Federal Financing Bank (FFB)*

TIP borrowed funds from the U.S. Treasury for ED5 PVH. 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, 2023, and 2022, 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%.

 (Continued)

(b) Debt Owed to the Public

Debt owed to the public includes borrowing form the State of Colorado and customer construction financing.

WAPA received loans from the State of Colorado totaling $11.9 million. The purpose of these loans was to fund BOR's endangered fish recovery implementation programs (note 8). 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. Principal outstanding was $11.7 million and $12.1 million, as of September 30, 2023, and 2022, respectively.

WAPA enters long-term financing arrangements with customers for project improvements and construction of interconnection facilities. These obligations are scheduled to be satisfied by issuing credits against future power bills through December 2031 at interest rates ranging from 0.00% to 3.00%. Principal outstanding was $23.9 million and $28.1 million, as of September 30, 2023, and 2022, respectively.

(11) Environmental and Disposal Liabilities (in thousands)

		2023	2022
Beginning balance	$	22,226	20,480
Changes to environmental cleanup and disposal liability estimates		11,431	1,738
Costs applied to reduction of legacy environmental liabilities		—	8
Ending environmental cleanup and disposal liabilities	$	33,657	22,226
Unfunded environmental liabilities	$	33,640	22,209
Funded environmental liabilities		17	17
Total environmental cleanup and disposal liabilities	$	33,657	22,226

WAPA'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. WAPA estimated cleanup costs based on an inventory of assets and estimated cleanup costs per square foot, consistent with cost factors prescribed by DOE. The unfunded asbestos related cleanup costs are deferred as a regulatory asset until actual cleanup expenditures are incurred (note 8).

(12) Other Liabilities (in thousands)

		2023	2022
Intragovernmental:			
Appropriated debt	$	1,846,531	1,311,245
Irrigation assistance (note 14(b))		21,798	—
Custodial		13,232	8,974
Other		4,089	3,314
Total intragovernmental		1,885,650	1,323,533
With the public			
Obligations under capital leases		5,466	5,531
Contingencies and commitments		300	300
Accrued funded payroll and leave		14,987	14,606
Other		1,858	28
Total other than intragovernmental		22,611	20,465
Total other liabilities	$	1,908,261	1,343,998

Appropriated Debt

Appropriated debt represents the unpaid balance of appropriations, related interest, transfers of property and services and post-retirement benefits due the U.S. Treasury General Fund (note 1(k)).

During fiscal year 2022 WAPA received $500 million from the Infrastructure Investment and Jobs Act and during fiscal year 2023 WAPA received an additional $520 million from the Disaster Relief and Emergency Assistance Act to address drought impacts and funding requirements for purchase power and wheeling. These appropriations are collectively referred to as purchase power appropriations, do not bear interest, but are payable to the U.S. Treasury from available receipts.

WAPA's financial statements include Treasury Account Symbol 5000.27 within the Reclamation Fund. Funding received from the Reclamation Fund is not reported as appropriated debt since the Reclamation Fund is managed by WAPA and all intra-fund activity is eliminated.

Status of appropriated debt (in thousands):

		2023	2022
General fund – construction and operation:			
Appropriations	$	946,628	939,765
Transfer of property and services, net		2,359,098	2,365,162
Post-retirement benefits		51,693	48,121
Interest		853,848	839,323
Payments to the U.S. Treasury		(3,384,736)	(3,381,126)
		826,531	811,245
General fund – purchase power:			
Appropriations		1,020,000	500,000
Payments to the U.S. Treasury		—	—
		1,020,000	500,000
Total general fund		1,846,531	1,311,245
Reclamation fund – construction and operation:			
Appropriations		6,687,790	6,609,508
Transfer of property and services, net		3,508,929	3,424,912
Post-retirement benefits		207,516	194,498
Interest		3,525,099	3,420,145
Payments to the U.S. Treasury		(10,770,583)	(10,698,588)
		3,158,751	2,950,475
Reclamation fund elimination		(3,158,751)	(2,950,475)
Total Reclamation fund		—	—
Appropriated Debt	$	1,846,531	1,311,245

(13) Leases (in thousands)

(a) Capital Leases:

Non-Federal:

		2023	2022
Summary of assets under capital lease:			
Power line equipment	$	5,835	5,835
Total capital lease assets		5,835	5,835
Less accumulated depreciation		(700)	(583)
Net assets under capital leases	$	5,135	5,252

Future payments due under capital leases as of September 30, 2023, consist of the following:

		Power Line Equipment
Future lease payments:		
2024	$	209
2025		209
2026		209
2027		209
2028		209
2029+		8,136
Total future lease payments		9,181
Less imputed interest		(3,715)
Net capital lease liability	$	5,466
Capital lease liabilities covered by budgetary resources	$	5,466
Capital lease liabilities not covered by budgetary resources		—
Total capital lease liability	$	5,466

WAPA 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 general property, plant and equipment (note 6) and the remaining lease obligation is reported in other liabilities (note 12). Amortization expense of $117 thousand dollars is included in operation and maintenance expense for the year ended September 30, 2023 and 2022.

There are no intragovernmental capital leases as of September 30, 2023 and 2022.

(b) Operating Leases:

Future payments due under non-cancelable leases as of September 30, 2023, consist of the following:

		Asset Category	Totals	
		Buildings	Federal	Non-Federal
Future lease payments:				
2024	$	2,289	2,289	—
2025		2,303	2,303	—
2026		2,317	2,317	—
2027		2,331	2,331	—
2028		—	—	—
2029+		—	—	—
Total future lease payments	$	9,240	9,240	—

(Continued)

WAPA has one noncancelable operating lease that has a remaining noncancelable term more than year with the General Services Administration (GSA) for WAPA's headquarters office building in Lakewood, Colorado. The lease has a remaining lease term of approximately 4 years as of September 30, 2023.

WAPA 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 GSA 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.

(14) Contingencies and Commitments

(a) General

WAPA is involved in various claims, suits, and complaints routine to the nature of their business and could be liable for damages associated with these matters. It is management's opinion that the ultimate disposition of these claims will not have a material adverse effect on the consolidated 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.

WAPA has accrued contingent liabilities of $0.3 million as of September 30, 2023, and 2022, 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.

WAPA is involved in a suit in which the plaintiffs are seeking $60 million in personal injuries under the Federal Tort Claims Act due to a motor vehicle accident involving a WAPA tractor-trailer. Based on the Administrative Record, the acts of the United States' agent occurred within their scope of employment. WAPA believes a finding of total or partial liability against WAPA is reasonably possible, however the amount is not currently measurable, and no liability is accrued as of September 30, 2023. Any associated losses are expected to be paid by the Judgment Fund.

Contingencies as of September 30, 2023, and 2022, consist of the following (in thousands):

	2023	2022
Unfunded contingencies:		
Legal contingencies	$ 300	300
Subtotal	300	300
Funded contingencies	—	—
Total contingencies	$ 300	300

	2023			2022		
	Estimated Range of Loss			Estimated Range of Loss		
	Accrued Liabilities	Lower End	Upper End	Accrued Liabilities	Lower End	Upper End
Legal contingencies:						
Probable	$ 300	—	9,400	300	—	9,400
Reasonably possible	—	—	63,300	—	—	63,300
Total contingencies	$ 300	—	72,700	300	—	72,700

WAPA is involved in a suit in which the plaintiffs are seeking $3.3 million in personal injuries and loss of consortium under the Federal Tort Claims Act due to a accident involving a pedestrian riding a bike and a WAPA government-owned vehicle. WAPA believes a finding of total or partial liability against WAPA is reasonably possible, however, the amount is not currently measurable, and no liability is accrued as of September 30, 2023. Any associated losses are expected to be paid by the Judgment Fund.

(b) Irrigation Assistance

As directed by law, WAPA is required to establish rates sufficient to make cash distributions to the U.S. Treasury for the portion of Reclamation's original capital construction costs allocated to irrigation purposes, which were determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to pay. These irrigation distributions do not specifically relate to power generation. In establishing power rates, particular statutory provisions guide the assumptions that WAPA makes as to the amount and timing of such distributions. As a result, WAPA includes a schedule of irrigation assistance costs in each respective power system's power repayment study to demonstrate repayment of principal within the allowable repayment period. 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. Irrigation assistance represents a non-exchange liability under SFFAS No. 5, *Accounting for Liabilities*, and repayments are not recorded as a liability on the consolidated balance sheets until the due date established by the Secretary of Interior. Repayments made by WAPA are recorded as a financing source transferred out on the consolidated statements of net position.

Depending on legislation, irrigation assistance payments are transferred to the U.S. Treasury General Fund or covered into the Reclamation Fund. The Reclamation Fund is a component of WAPA, and all related irrigation assistance activity has been eliminated. Irrigation assistance payments covered into the Reclamation Fund, and eliminated for consolidation, totaled $0.6 million and $54.9 million in 2023 and 2022, respectively.

(Continued)

The 2023 irrigation assistance distribution due and payable as of September 30, 2023, to the U.S. Treasury General Fund for the Colorado River Storage Project of $21.8 million has been accrued as other intragovernmental liabilities (note 12) due to legislation to withhold payments to U.S. Treasury during extreme drought conditions. There were no irrigation assistance distributions due and payable as of September 30, 2022.

Anticipated future payments are not accrued until both due and payable as of the balance sheet date. As of September 30, 2023, anticipated future irrigation assistance payments are as follows (in thousands):

		Payment to the Reclamation Fund	Payable to the General Fund
Anticipated payments:			
2024	$	7	21,797
2025		—	84,464
2026		—	534
2027		—	172
2028		—	—
2029+		697,477	661,093
Total anticipated irrigation assistance payments	$	697,484	768,060

(c) 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 consolidated statement of net costs. WAPA'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
Anticipated payments:				
2024	$	3,199	7,034	10,233
2025		—	4,976	4,976
2026		—	4,976	4,976
2027		—	4,976	4,976
2028		—	4,376	4,376
2029+		—	62,228	62,228
Total anticipated payments	$	3,199	88,566	91,765

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. WAPA has historically had to purchase a certain level of transmission services under these agreements.

(15) Inter-Entity Costs

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by WAPA are recognized as imputed cost in the consolidated statements of net cost and are offset by imputed financing in the consolidated statements of changes in net position. Such imputed costs relate to post-retirement benefits described in note 1(m).

(16) Combined Statements of Budgetary Resources

The combined statement of budgetary resources is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

(a) Net Adjustments to Unobligated Balance, Brought Forward, October 1

		2023	2022
		($ in thousands)	
Unobligated balance brought forward, Oct 1	$	902,465	672,661
Recoveries of prior year unpaid obligations		9,177	724
Unobligated balance transferred to other accounts		(4,000)	—
Total adjusted unobligated balance brought forward	$	907,642	673,385

(b) Borrowing Authority

The amount of borrowing authority available for WAPA has remained unchanged at $3.2 billion as of September 30, 2023.

(c) Undelivered Orders at the End of the Period

		2023		2022	
		Federal	Non-federal	Federal	Non-federal
		($ in thousands)			
Undelivered orders – unpaid	$	27,545	414,122	28,300	374,293
Undelivered orders – paid		—	—	—	—
Total undelivered orders	$	27,545	414,122	28,300	374,293

(Continued)

(d) Permanent Indefinite Appropriations

WAPA has no permanent indefinite appropriations. A permanent indefinite appropriation is open ended as to both period of availability and amount.

(e) Legal Arrangements Affecting the Use of Unobligated Balances

WAPA has no legal arrangements affecting the use of unobligated balances.

(f) Explanation of Differences Between the SBR and the Budget of the U.S. Government

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from the fiscal year 2022 SBR and the actual amounts from the "Appendix – Detailed Budget Estimates by Agency" sections of the fiscal year 2024 President's Budget; distributed offsetting receipts is reconciled to the "Analytical Perspectives – Federal Budget by Agency and Account."

		Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
			($ in thousands)		
Combined statement of budgetary resources as published	$	2,349	1,447	(299)	217
Differences		—	—	—	—
Budget of the United States Government	$	2,349	1,447	(299)	217

The budget with actual amounts is available with the President's Budget, typically in March the following year.

(17) Custodial Activities

WAPA's mission requires it to collect hydroelectric power revenues and miscellaneous fees from its power customers and others which are designated as custodial collections. The custodial collections do not affect WAPA's net cost or net position. Instead, the collections are transferred to others where the impact on financial statements is shown.

 (Continued)

A summary of custodial activities for the years ended September 30, 2023 and 2022, are presented below.

		2023	2022
Bureau of Reclamation:			
Sale of electric power:			
Boulder Canyon Project	$	67,680	69,745
Central Arizona Project Receipts		8,962	11,522
Colorado River Storage Project		72,911	38,019
Pick Sloan Western Division		2,497	2,497
Surcharges:			
Restoration Fund		9,071	16,620
Lower Colorado River Basin Development Fund		13,120	14,761
		174,241	153,164
U.S. Treasury:			
Debt Repayment – Falcon-Amistad Project		500	600
Miscellaneous Fees		33	175
		533	775
Total custodial revenue	$	174,774	153,939

(18) Reconciliation of Net Cost to Net Outlays

This reconciliation explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. It serves not only to identify costs paid for in the past, and those that will be paid for in the future, but also to assure integrity between budgetary and financial accounting.

The table illustrates the key reconciling items between net operating cost and net outlays which includes three sections. (1) The components of net cost not part of budgetary outlays includes proprietary accounts that do not result in net outlays during the current fiscal year. This includes items such as depreciation, changes to certain assets and liabilities, and imputed financing; (2) The components of the budget outlays that are not part of net operating cost accounts for budgetary outlays that do not result in proprietary costs for the current fiscal year. This includes acquisition of capitalized assets and inventory, both of which have disbursements without associated costs, and transfers; and (3) The miscellaneous items section includes custodial/non-exchange revenue.

(Continued)

WESTERN AREA POWER ADMINISTRATION

Notes to the Consolidated and Combined Financial Statements

September 30, 2023 and 2022

The reconciliation of net cost of operations to budgetary accounts for the years ending September 30, 2023 and 2022 is presented below.

		2023	
	Intra-governmental	Other than Intra-governmental	Total
		($ in thousands)	
Net cost	$ (201,307)	164,150	(37,157)
Components of net operating cost not part of the budgetary outlays:			
Property, plant, and equipment depreciation	—	(139,535)	(139,535)
Property, plant, and equipment disposal & reevaluation	—	4,874	4,874
Cost capitalization offset	—	174,455	174,455
Increase/(decrease) in assets:			
Accounts receivable	(7,058)	(18,030)	(25,088)
Other assets	—	18,870	18,870
(Increase)/decrease in liabilities:			
Accounts payable	997	29,377	30,374
Environmental and disposal liabilities	—	(11,431)	(11,431)
Federal employee and veteran benefits payable	—	(3,102)	(3,102)
Federal debt and interest payable	—	4,631	4,631
Advances from others and deferred revenue	1,969	(81,481)	(79,512)
Other liabilities	(35,383)	(2,141)	(37,524)
Financing sources:			
Imputed cost	(13,661)	—	(13,661)
Other imputed finance	(83,451)	—	(83,451)
Total components of net operating cost not part of budgetary outlays	(136,587)	(23,513)	(160,100)
Components of the budget outlays not part of the net operating cost:			
Acquisition of capital assets	1,020	14,633	15,653
Acquisition of inventory	—	5,596	5,596
Other	6,592	—	6,592
Total components of the budget outlays not part of net operating cost	7,612	20,229	27,841
Miscellaneous items:			
Custodial/non-exchange revenue	—	(535)	(535)
Non-entity activity	—	—	—
Other adjustments	—	—	—
Total other reconciling items	—	(535)	(535)
Total net outlays (calculated total)	$ (330,282)	160,331	(169,951)
Related amounts on the statement of budgetary resources:			
Outlays, net (total) (SBR 4210)			$ (97,337)
Distributed offsetting receipts			(72,614)
Agency outlays, net			$ (169,951)

WESTERN AREA POWER ADMINISTRATION

Notes to the Consolidated and Combined Financial Statements

September 30, 2023 and 2022

	2022		
	Intra-governmental	Other than Intra-governmental ($ in thousands)	Total
Net cost	$ (184,346)	318,784	134,438
Components of net operating cost not part of the budgetary outlays:			
Property, plant, and equipment depreciation	—	(134,573)	(134,573)
Property, plant, and equipment disposal & reevaluation	—	5,847	5,847
Cost capitalization offset	—	115,084	115,084
Increase/(decrease) in assets:			
Accounts receivable	32,768	19,121	51,889
Other assets	—	(6,621)	(6,621)
(Increase)/decrease in liabilities:			
Accounts payable	348	(40,330)	(39,982)
Environmental and disposal liabilities	—	(1,746)	(1,746)
Federal employee and veteran benefits payable	—	4,453	4,453
Federal debt and interest payable	—	(1,141)	(1,141)
Advances from others and deferred revenue	(1,106)	271	(835)
Other liabilities	(15,042)	(1,228)	(16,270)
Financing sources:			
Imputed cost	(10,265)	—	(10,265)
Other imputed finance	(209,290)	—	(209,290)
Total components of net operating cost not part of budgetary outlays	(202,587)	(40,863)	(243,450)
Components of the budget outlays not part of the net operating cost:			
Acquisition of capital assets	503	29,772	30,275
Acquisition of inventory	—	2,263	2,263
Other	(4,359)	—	(4,359)
Total components of the budget outlays not part of net operating cost	(3,856)	32,035	28,179
Miscellaneous items:			
Custodial/non-exchange revenue	—	(775)	(775)
Non-entity activity	—	—	—
Other adjustments	—	—	—
Total other reconciling items	—	(775)	(775)
Total net outlays (calculated total)	$ (390,789)	309,181	(81,608)
Related amounts on the statement of budgetary resources:			
Outlays, net (total) (SBR 4210)			$ 217,644
Distributed offsetting receipts			(299,252)
Agency outlays, net			$ (81,608)

(Continued)

(19) Subsequent Events

WAPA has evaluated subsequent events through the date the consolidated and combined financial statements were available to be issued as of May 31, 2024 and identified no subsequent events.

WESTERN AREA POWER ADMINISTRATION

Required Supplementary Information (Unaudited)

Year ended September 30, 2023

This section of the report provides required supplementary information for Western Area Power Administration (WAPA) on deferred maintenance, government land, and budgetary resources by major budget account.

(1) Deferred Maintenance

Deferred maintenance and repairs information is a requirement under SFFAS No. 42, *Deferred Maintenance and Repairs*, which requires deferred maintenance disclosures as of the end of each fiscal year. Deferred maintenance is defined in SFFAS No. 42 as "maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period."

WAPA, in accordance with North American Electric Reliability Corporation standards, requires all maintenance and repairs to be maintained according to schedule. There is no deferred maintenance and repairs as of September 30, 2023.

(2) Land

Federal land reporting is a new requirement in fiscal year 2022 under SFFAS No. 59, *Accounting and Reporting of Government Land*, which provides requirements to report the estimated size (acres) of federal land use by purpose or intent and ownership status. WAPA uses its property, plant, and equipment (PP&E) land to support its mission activities by providing area to primarily accommodate WAPA's electric power transmission system.

The following tables provide the required reporting detail: Table 1 is a breakdown of all the land WAPA owns by general PP&E land and stewardship land followed by a subsequent breakout into three predominant use subcategories (Conservation and Preservation, Operational, and Commercial Use land); Table 2 shows estimated land held for disposal or exchange; Table 3 reports land rights (land not owned by WAPA), whether such rights are permanent or temporary, and amounts paid during the year to maintain such rights; and Table 3a shows the permanent land rights by predominant use.

Table 1

	Characterized by Purpose or Intent at Acquisition			Sub-Categorized by Predominant Use			
	Stewardship Land (Acres)	General PP&E Land (Acres)	Total Land (Acres)	Conservation & Preservation (Acres)	Operational (Acres)	Commercial Use (Acres)	Total Land (Acres)
Start of FY 2023	4,676	4,518	9,194	—	11	9,183	9,194
End of FY 2023	4,676	4,526	9,202	—	19	9,183	9,202

Table 2

	Land Held for Disposal or Exchange		
	Stewardship Land (Acres)	General PP&E Land (Acres)	Total Land (Acres)
Start of FY 2023	—	9	9
End of FY 2023	—	9	9

(Continued)

WESTERN AREA POWER ADMINISTRATION

Required Supplementary Information (Unaudited)

Year ended September 30, 2023

Table 3

Land Rights			
Permanent Land Rights (Acres)	Temporary Land Rights (Acres)	Total Land Rights (Acres)	Total Cost to Maintain Land Rights ($ in thousands)
16,848	208,342	225,190	$6,501

Table 3a

Permanent Land Rights Subcatorized by Predominant Use			
Commerical Use (Acres)	Conservation and Preservation (Acres)	Operational (Acres)	Total Permanent Land Rights (Acres)
16,848	—	—	16,848

(3) Combining Statement of Budgetary Resources – by Major Account

For the year ended September 30, 2023:

		Recovery Act	Colorado River Basins Power Marketing Fund	Construction, Rehabilitation, Operation, and Maintenance	Emergency Fund	Falcon and Amistad Operation and Maintenance Fund	Total
				(In thousands)			
Budgetary resources:							
Unobligated balance from prior year budget authority, net	$	15,028	190,426	696,857	500	4,831	907,642
Appropriations		—	—	618,732	—	228	618,960
Spending authority from offsetting collections		11,096	340,831	1,266,217	—	6,102	1,624,246
Total budgetary resources	$	26,124	531,257	2,581,806	500	11,161	3,150,848
Status of budgetary resources:							
New obligations and upward adjustments (total)	$	9,823	243,530	1,242,062	—	6,307	1,501,722
Unobligated balance, end of year:							
Apportioned, unexpired accounts		13,712	146,700	1,046,615	500	4,854	1,212,381
Unapportioned, unexpired accounts		2,589	141,027	293,129	—	—	436,745
Unobligated balance, end of year (total)		16,301	287,727	1,339,744	500	4,854	1,649,126
Total budgetary resources	$	26,124	531,257	2,581,806	500	11,161	3,150,848
Outlays, net:							
Outlays, net (total)	$	(1,769)	(95,989)	1,146	—	(725)	(97,337)
Distributed offsetting receipts		—	—	(72,028)	—	(586)	(72,614)
Agency outlays, net	$	(1,769)	(95,989)	(70,882)	—	(1,311)	(169,951)
Disbursements, net (total)	$	—	—	—	—	—	—

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at 202–586–1818. For media-related inquiries, please call 202–586–7406.