OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-18-21 FEBRUARY 2018

WESTERN FEDERAL POWER SYSTEM'S FISCAL YEAR 2017 FINANCIAL STATEMENT AUDIT

Department of Energy
Washington, DC 20585

February 27, 2018

MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER ADMINISTRATION

FROM: Sarah B. Nelson
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Western Federal Power System's Fiscal Year 2017 Financial Statement Audit"

The attached report presents the results of the independent certified public accountant's audit of the Western Federal Power System's combined balance sheets, as of September 30, 2017 and 2016, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended.

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

KPMG LLP concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Western Federal Power System as of September 30, 2017 and 2016, and the results of its operations and its cash flow for the years then ended, in conformity with United States generally accepted accounting principles.

As part of this review, the auditors also considered the Western Federal Power System's internal control over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit revealed three deficiencies in internal controls over financial reporting that were considered to be significant deficiencies. The following significant deficiencies in the Western Federal Power System's internal controls are not considered material weaknesses:

Changes in Project Types: During fiscal year 2017, Western Area Power Administration and the Bureau of Reclamation identified inconsistencies in the power trial balance related to changes in the project type attribute of utility plant that should have been corrected in prior periods. While the discrepancies were identified by management during fiscal year 2017 as part of a continually enhanced review process, the changes in the project type attribute were not analyzed in a timely manner to ensure the net book value was properly adjusted in the power trial balance and adjustments were not effectively communicated between the Bureau of Reclamation and Western Area Power Administration.

Transfers to Utility Plant: During test work over utility plant at the Bureau of Reclamation, instances of untimely recording of utility plant additions and transfers from construction work-in-progress were noted. Specifically, three Bureau of Reclamation construction work-in-progress projects tested were completed and in service, or had portions that were substantially complete and in service, but had not been transferred out of construction work-in-progress and into the associated utility plant-in-service account, subject to depreciation.

Timely Revocation of System Access: During testing of general information technology controls, we determined that 3 of 36 terminated users selected for testing did not have their access removed in a timely manner. In certain instances, Personal Identity Verification card credentials may mitigate the risk of inappropriate access. However, for all instances identified, Financial Information Management System user accounts were not tied to Personal Identity Verification card credentials. Therefore, revocation of Personal Identity Verification cards would not alleviate the potential for insider threat.

The results of the auditors' review of the Western Federal Power System's compliance with provisions of laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States.

Attachment

cc: Chief Financial Officer, CF-1
Deputy Chief Financial Officer, CF-2
Acting Senior Vice President and Chief Financial Officer, Western Area Power Administration
Vice President of Financial Management, Western Area Power Administration
Director, Office of Finance and Accounting, CF-10
Deputy Director, Office of Finance and Accounting, CF-10
Assistant Director, Office of Financial Policy and Internal Controls, CF-12
Division Director, Office of Financial Policy and Internal Controls, CF-12
Audit Resolution Specialist, Office of Financial Policy and Internal Controls, CF-12
Audit Liaison, Internal Audit and Compliance Office, Western Area Power Administration

KPMG

WESTERN FEDERAL POWER SYSTEM

Combined Financial Statements

September 30, 2017 and 2016

(With Independent Auditors’ Report Thereon)

WESTERN FEDERAL POWER SYSTEM

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Western Federal Power System (the System), which comprise the combined balance sheets as of September 30, 2017 and 2016, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1(a) to the combined financial statements, the combined financial statements include the Western Area Power Administration (WAPA), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of the Interior, Bureau of Reclamation; the U.S. Department of Defense, Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which WAPA markets and transmits power.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Western Federal Power System as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
February 14, 2018

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of the Western Federal Power System (the System), which comprise the combined balance sheets as of September 30, 2017 and 2016, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated February 14, 2018. As described in note 1(a) to the combined financial statements, the combined financial statements include the Western Area Power Administration (WAPA), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of the Interior, Bureau of Reclamation; the U.S. Department of Defense, Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which WAPA markets and transmits power.

Internal Control Over Financial Reporting

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

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

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

1. Significant Deficiency Over Changes in Project Types

As of September 30, 2017, the Bureau of Reclamation's (Reclamation) utility plant balance attributable to power was approximately $2.5 billion; the associated accumulated depreciation was approximately $1.5 billion. Capitalized utility plant is recorded to various project types, including multi-purpose and power. The portion of multi-purpose utility plant attributable to power is based on set allocation methodologies. In certain cases, the project type attribute is changed based on updated analyses or a change in facts and circumstances. During fiscal year (FY) 2017, WAPA and Reclamation identified inconsistencies in the power trial balance related to changes in the project type attribute of utility plant that should have been corrected in prior periods. While the discrepancies were identified by management during FY 2017 as part of a continually enhanced review process, the changes in the project type attribute were not analyzed in a timely manner to ensure the net book value was properly adjusted in the power trial balance and adjustments were not effectively communicated between Reclamation and WAPA.

Specifically, in FY 2016, certain plant assets were reassigned from multi-purpose to power; however, the associated accumulated depreciation was not reassigned until FY 2017. Consequently, the net book value in the power trial balance in the prior year was overstated by approximately $11.6 million.

Recommendations

We recommend that WAPA work with Reclamation to continuously improve processes over the power trial balance to identify and correct inconsistencies in the power-related data in the same year the original transaction was recorded. Specifically, we recommend:

- Procedures are enhanced to ensure that as project type attributes are reassigned, all account balances (such as accumulated depreciation) associated with the transfer are changed within the same accounting period.
- Procedures are enhanced to ensure changes in project type attributes, as well as the justification for such changes, are communicated between WAPA and Reclamation to ascertain the impact on the combined power financial statements and related power rates.

Management's Response

WAPA management will meet with the appropriate Reclamation officials to determine the best approach to address the recommendations. It is expected that as a result of this approach, all account balances associated with transfers due to reassignment of project type attributes will be changed within the same accounting period. In addition, changes in project type attributes, as well as the justification for such changes, will be communicated timely between the organizations to determine the impact on the financial statements and power rates. The target implementation date for corrective action is September 30, 2018.

2. Significant Deficiency Over Transfers to Utility Plant

During test work over utility plant at Reclamation, we noted instances of untimely recording of utility plant additions and transfers from construction work-in-progress (CWIP). Project managers did not properly notify the appropriate finance offices when a project was substantially complete, and regional/finance offices had not obtained sufficient documentation in a timely manner to initiate and complete transfers. Specifically, we identified three Reclamation CWIP projects selected for testing that were completed and in service, or had portions that were substantially complete and in service, but had not been transferred out of CWIP and into the associated utility plant-in-service account, subject to depreciation. Consequently, CWIP was overstated and utility plant were understated by approximately $46.2 million. Furthermore, accumulated depreciation and depreciation expense were understated by approximately $578,000 as of and for the year ended September 30, 2017.

Recommendations

We recommend that WAPA work with Reclamation to enhance training and communication of policies and procedures to regional or field offices (those responsible for CWIP review and project management) so that both project managers and finance offices are aware of Reclamation policies related to project completion and timely capitalization as constructed assets are placed in service.

Management's Response

WAPA management will meet with the appropriate Reclamation officials to determine the best approach to address this recommendation. It is expected that as a result of this approach, both project managers and finance offices will be fully aware of Reclamation's policies related to project completion and timely capitalization as constructed assets are placed in service. The target implementation date for corrective action is September 30, 2018.

3. Significant Deficiency Over the Timely Revocation of System Access

During our testing of general information technology (IT) controls as part of our FY 2017 financial statement audit of WAPA, which included the Financial Information Management System (FIMS), Yearly Online Gathering Information (YOGI), Corporate Data Repository (CDR), and Business Objects Enterprise (BOE) applications, we observed that three of 36 terminated users selected for testing did not have their access removed in a timely manner. Specifically, we noted that:

- One terminated user was not removed from the FIMS application until 12 days after separation.
- One terminated user was not removed from the FIMS application until 24 days after separation.
- One terminated user was not removed from the FIMS application until 52 days after separation. Prior to separation, this user's job function and duties did not require access to the application. The user last accessed the application on February 11, 2016 and the user's password had expired. Nonetheless, the user's account was not removed.

Two of the three accounts identified had been provisioned to individuals with management-level responsibilities within the organization. Neither of these accounts were identified for access revocation by upper management on a timely basis. In certain instances, Personal Identity Verification (PIV) card credentials may mitigate the risk of inappropriate access. However, for all instances identified, FIMS user accounts were not tied to PIV card credentials. Therefore, revocation of PIV cards would not alleviate the potential for insider threat.

In all instances identified, the terminated user's account was not used to access the application after the separation date.

WAPA's User Account Management – Enterprise Applications (A2800) policy documented dated May 31, 2001 (update June 2017) outlines the requirement for user accounts to be removed upon termination. However, the policy does not define an acceptable timeframe between termination and access revocation.

Recommendations

With increased scrutiny over insider threats at both a national and industry-wide level, we recommend that WAPA:

- Strengthen and re-communicate exit clearance procedures to all levels within the organization.
- Define the acceptable time frame for both regional office and/or user supervisor notification to IT of terminations and access revocation by IT.

Management's Response

WAPA concurs with the finding, but does not agree that the issue rises to the level of a significant deficiency due to the effectiveness of a compensating control that removes terminated users' network access upon separation from WAPA. To access its network, WAPA requires two-factor authentication (common access card and a unique personal identification number). The common access cards were removed and domain accounts deactivated for the three cited users upon separation from WAPA. The terminated users could not access WAPA's financial systems without the assistance of an internal active user, which WAPA believes has a very low probability of occurring.

To mitigate the issues presented, WAPA will re-evaluate and update (as needed) its current exit clearance procedures to:

- Ensure the IT function is notified timely when employees and contractors separate from WAPA so all systems access is removed;
- Determine whether a time frame should be more clearly defined for IT access revocation, and if so, identify a reasonable time frame; and
- In accordance with Homeland Security Presidential Directive 12 and Office of Management and Budget Memoranda M-14-03, *Enhancing the Security of Federal Information and Information Systems*, WAPA will finalize the implementation of Level of Assurance 4 two-factor authentication for the FIMS system utilizing the Personal Identify Verification cards.

WAPA plans to implement these corrective actions by December 31, 2018. To mitigate the issues presented, WAPA will conduct additional training on this critical responsibility at all levels of the organization as well as increasing testing on the applicable controls.

Auditors' Response to Management's Response

We agree that removal of the common access cards and deactivation of domain accounts may reduce the risk of unauthorized use, disclosure, or modification of data by the terminated user. However, we believe the extended timeframe between termination and FIMS user access revocation merits the attention of those charged with governance to help prevent nefarious actions by a malicious insider.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

The System's Responses to Findings

The System's responses to the findings identified in our audit are described previously. The System's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

KPMG LLP

Denver, Colorado
February 14, 2018

WESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets

September 30, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Completed utility plant	$	8,006,508	7,799,236
Accumulated depreciation		(4,320,343)	(4,188,416)
Net completed plant		3,686,165	3,610,820
Construction work in progress		365,970	377,280
Net utility plant		4,052,135	3,988,100
Cash		1,421,090	1,455,150
Restricted cash (note 1(g))		1,434,909	1,249,926
Accounts receivable, net		154,228	151,765
Regulatory assets		162,221	159,486
Other assets		131,973	111,458
Total assets	$	7,356,556	7,115,885
Total Liabilities and Capitalization			
Liabilities:			
Long-term liabilities	$	175,048	188,980
Customer advances and other liabilities		215,918	236,323
Deferred revenue (note 1(f))		107,704	111,771
Accounts payable		48,235	49,875
Environmental cleanup liabilities		19,734	23,911
Total liabilities		566,639	610,860
Capitalization (note 6):			
Payable to U.S. Treasury		1,539,576	1,527,000
Accumulated net revenues		5,250,341	4,978,025
Total capitalization		6,789,917	6,505,025
Commitments and contingencies (notes 6(c), 9, 10, and 11)			
Total liabilities and capitalization	$	7,356,556	7,115,885

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues and Expenses

Years ended September 30, 2017 and 2016

(In thousands)

	2017	2016
Operating revenues:		
Sales of electric power	$ 858,813	833,672
Transmission and other operating revenues	548,548	487,268
Total operating revenues	1,407,361	1,320,940
Operating expenses:		
Operation and maintenance	582,368	545,094
Purchased power	118,282	109,596
Purchased transmission services	179,179	149,943
Depreciation	157,910	139,391
Administration and general	82,717	75,677
Total operating expenses	1,120,456	1,019,701
Net operating revenues	286,905	301,239
Interest expenses:		
Interest on payable to U.S. Treasury (note 1(k))	51,326	50,026
Allowance for funds used during construction	(14,021)	(14,946)
Net interest on payable to U.S. Treasury	37,305	35,080
Interest on long-term liabilities	6,907	3,608
Net interest expense	44,212	38,688
Net revenues	$ 242,693	262,551

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Changes in Capitalization

Years ended September 30, 2017 and 2016

(In thousands)

	Payable to U.S. Treasury	Accumulated net revenues	Total capitalization
Total capitalization as of September 30, 2015	$ 1,565,161	4,710,028	6,275,189
Additions:			
Congressional appropriations	12,842	5,446	18,288
Interest	50,026	—	50,026
Total additions to capitalization	62,868	5,446	68,314
Deductions:			
Payments to U.S. Treasury	(101,016)	—	(101,016)
Transfers of property and services, net	(13)	—	(13)
Total deductions to capitalization	(101,029)	—	(101,029)
Net revenues for the year ended September 30, 2016	—	262,551	262,551
Total capitalization as of September 30, 2016	$ 1,527,000	4,978,025	6,505,025
Additions:			
Congressional appropriations	490	29,623	30,113
Interest	51,326	—	51,326
Transfers of property and services, net	2,366	—	2,366
Total additions to capitalization	54,182	29,623	83,805
Deductions:			
Payments to U.S. Treasury	(41,606)	—	(41,606)
Total deductions to capitalization	(41,606)	—	(41,606)
Net revenues for the year ended September 30, 2017	—	242,693	242,693
Total capitalization as of September 30, 2017	$ 1,539,576	5,250,341	6,789,917

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Cash Flows

Years ended September 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Net revenues	$	242,693	262,551
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Depreciation		157,910	139,391
Net interest on payable to U.S. Treasury		37,305	35,080
Loss on disposition of assets		9,249	4,452
Unfunded postretirement benefits		15,306	18,310
Bill credits applied against long-term liabilities		(13,496)	(35,925)
Amortization of regulatory assets		3,836	3,660
Change in unfunded FECA liability		(285)	(321)
(Increase) decrease in assets:			
Accounts receivable, net		(2,463)	7,437
Regulatory assets		(2,369)	(3,420)
Other assets		(21,368)	(7,299)
Increase (decrease) in liabilities:			
Customer advances and other liabilities		(27,670)	(3,061)
Deferred revenue		(4,067)	(4,066)
Accounts payable		(1,640)	(18,486)
Environmental cleanup liabilities		(844)	(170)
Net cash provided by operating activities		392,097	398,133
Cash flows from investing activities:			
Investment in utility plant		(220,838)	(213,040)
Net cash used in investing activities		(220,838)	(213,040)
Cash flows from financing activities:			
Congressional appropriations		21,791	38,060
Payments to U.S. Treasury		(41,606)	(101,016)
Proceeds from long-term liabilities		20,856	—
Principal payments on long-term liabilities		(21,377)	(833)
Net cash used in financing activities		(20,336)	(63,789)
Net increase in cash and restricted cash		150,923	121,304
Cash and restricted cash, beginning of year		2,705,076	2,583,772
Cash and restricted cash, end of year	$	2,855,999	2,705,076
Cash paid for interest	$	42,230	40,074
Supplemental cash flow information:			
Capitalized interest		14,021	14,946
Transfer of construction work in progress to completed plant		224,526	263,345
Plant acquired by long-term financing		85	23,249
Changes in the allocation and assignment of generating agency balances to hydroelectric power generating function affecting net utility plant		3,989	41,453

See accompanying notes to combined financial statements.

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2017 and 2016

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

(a) Principles of Combination

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

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

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

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

The hydroelectric power systems activity include project use energy. Project use energy is the amount of hydroelectric energy required to deliver project water to project water customers and other project-specific authorizations such as irrigation and fish and wildlife needs. Project use energy capital costs may be reimbursed through the power rates, through the generating agencies' water rates, depending on the agreement with the generating agency, or may be deemed nonreimbursable (note 6(a)). Project use capital costs represent an allocation of total power capital assets necessary to generate and transmit hydroelectric power sufficient for project use needs. Although some project use capital costs may not be recovered through the power rates, the activity is included in the combined financial statements because it is directly related to hydroelectric power generation and transmission and is necessary to reflect the full financial activity of the System.

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

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

(b) Allocation of Costs to Hydroelectric Power

Certain amounts included in the combined financial statements represent reimbursable power activities of the generating agencies for repayment to the U.S. Treasury. The costs of multipurpose generating agency projects are assigned to specific hydroelectric power functions through a cost allocation process. Reclamation hydroelectric power amounts are allocated to the combined financial statements based on power repayment responsibility (note 6(b)). Reclamation has power-only facilities that are fully reimbursable, and has certain multi-purpose water resource projects where the costs are allocated among project activities, which primarily include power, irrigation, recreation, municipal and industrial water, navigation and flood control. Completed utility plant costs are allocated to the hydroelectric power portion of the Statement of Project Construction Cost and Repayment (SPCCR) based on studies prepared by Reclamation economists. The allocation method developed from the SPCCRs is applied to all multi-purpose utility plant and construction work-in-progress balances. Current assets and liabilities, excluding cash (note 1(g)), are allocated based upon the amounts directly recorded to power accounts. Revenue and expense accounts are also allocated based on the amounts directly recorded to power activities or amounts attributed to power repayment by Reclamation.

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

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

(c) Confirmation and Approval of Rates

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

Administrator. FERC's review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates. FERC shall reject decisions of WAPA's Administrator only if it finds them to be arbitrary, capricious or in violation of the law. Refunds with interest, as determined by FERC, are authorized if final rates approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No such refunds have been required or made in 2017 and 2016. As of September 30, 2017, none of the System's power systems were awaiting final rate approval.

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

(d) Payable to U.S. Treasury

Under the requirements of the power system's authorizing legislation and related Federal statues, the System is required to repay the U.S. Treasury all costs, including capital investment, allocated to hydroelectric power system activity. Obligations to the U.S. Treasury include activity within the Reclamation Fund and the U.S. Treasury's General Fund. WAPA's payable to the U.S. Treasury includes congressional appropriations, related interest, transfers of property and services, and payments to the U.S. Treasury (note 6). As discussed in note 6(c), effective September 30, 2014, WAPA was transferred program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund. Accordingly, the associated payable to U.S. Treasury and the corresponding receivable have been eliminated within the System for combination purposes.

(e) Operating Revenues and Accumulated Net Revenues (Deficit)

Operating revenues are recognized when goods or services are provided to the public or another government agency. Cash received from sales whose funding is derived from the U.S. Treasury's General Fund is deposited directly with the U.S. Treasury and is reflected as repayments to the U.S. Treasury, which is included in the payable to U.S. Treasury in the combined balance sheets. Cash received from sales whose funding is derived from the Reclamation Fund is reflected as restricted cash (note 1(g)) in the combined balance sheets, and represents both a repayment to the U.S. Treasury and reduction to the corresponding Reclamation Fund receivable. For power systems using revolving funds and customer advances, cash received is deposited in the U.S. Treasury and remains available to the power system; cash collected into revolving funds in excess of operating requirements is used for repayment of the payable to U.S. Treasury (note 6(a)).

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

WAPA and the generating agencies are nonprofit Federal agencies; therefore, accumulated net revenues of the hydroelectric power systems, to the extent that they are available, are committed to repayment.

WAPA provides purchasing, selling, scheduling, billing, and other ancillary services on behalf of other Federal and non-Federal entities. The agent transactions are evaluated under the provisions of FASB ASC Subtopic 605-45, *Revenue Recognition – Principal Agent Considerations*, to determine whether the transactions should be reported at the "gross" or "net" value. Generally, the System's policy is to record agent activity at "gross" because WAPA typically shares in the risks and rewards of the transaction. In the event WAPA does not meet the indicators of "gross" reporting, the System records the activity at net value within the combined statements of revenues and expenses.

WAPA may provide multiple services to any one customer. Significant services may include the sale of electric power, ancillary services and the purchase and resale of electric power and transmission services. The System accounts for these arrangements in accordance with the provisions of FASB ASC Subtopic 605-25, *Revenue Recognition – Multiple-Element Arrangements*. Services qualify as separate units of accounting with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer load requirements and revenues are recognized when services are provided.

Transmission and other operating revenues include items such as transmission services, power wheeling, and recreational fees. Other operating revenues consist of fee-for-service arrangements, typically on a reimbursable basis, for services performed by the System that are not a part of its core mission of marketing and transmitting hydroelectric power generated by the combined power systems.

(f) Deferred Revenue

During 2014, certain customers prepaid $124.0 million to satisfy the System's obligation to the U.S. Treasury for appropriations received for construction of the Hoover Dam visitor center and air slots. The prepayments were deposited into the U.S. Treasury and represent a reduction to the payable to U.S. Treasury on the combined balance sheets. Although the prepayments are considered repayments for rate setting purposes, the prepayment has been deferred for revenue recognition purposes until power is delivered. For the years ended September 30, 2017 and 2016, the System recognized $4.1 million of revenue relating to the Hoover Dam prepayment. As of September 30, 2017, the remaining deferred revenue balance of $107.7 million is expected to be fully realized over a period of 20 to 37 years, depending on the underlying repayment contract to which the prepayment relates, and includes the following items (in thousands):

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2017 and 2016

	2014 Prepayment	Earned revenue	2016 Deferred revenue	Earned revenue	2017 Deferred revenue
1995 Visitor facility upgrade	$ 111,941	10,833	101,108	3,611	97,497
1988 Air slots	8,996	1,125	7,871	375	7,496
2005 Visitor facility upgrade	2,346	171	2,175	57	2,118
1993 Air slots	687	70	617	24	593
	$ 123,970	12,199	111,771	4,067	107,704

The 1995 and 2005 visitor facility upgrades are expected to be realized over a period of 30 and 40 years, respectively; the 1988 and 1993 air slots are expected to be realized over a period of 23 and 28 years, respectively.

(g) Cash and Restricted Cash

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

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

(h) Accounts Receivable, Net

Accounts receivable, net represents amounts billed to customers but not collected, net of the related allowance of $4.9 million and $0.3 million as of September 30, 2017 and 2016, respectively. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. Interest is charged on the principal portion of delinquent receivables based on rates published by the U.S. Treasury for the period in which the debt became delinquent. Delinquent receivables are charged off against the allowance once they are deemed uncollectible. Generally, all delinquent receivables are charged off once the delinquency exceeds two years or the debtor has filed for bankruptcy.

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

(i) Construction Financing Receivable

Pursuant to the Recovery Act, WAPA may enter into public-private agreements to finance capital investments in transmission facilities that will assist in delivering renewable energy. Interest is accrued based on the terms of the financing agreement. As of September 30, 2017 and 2016, there were no construction financing receivables outstanding.

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

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

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

Moveable equipment includes computers, copiers, cranes, energy testing equipment, helicopters, trucks and wood chippers. Moveable equipment is currently depreciated using the straight-line method over the estimated service lives ranging from 3 to 20 years. Moveable equipment is classified as other assets on the combined balance sheets (note 4).

Internal use software includes software purchased from commercial vendors "off the shelf" and internally developed software. The System's internal use software is depreciated over five years, using the straight-line method. Internal use software is classified as other assets on the combined balance sheets (note 4).

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

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

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

Interest, a component of total capitalization, is accrued annually on the payable to U.S. Treasury based on Federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. The System calculates interest annually based on the unpaid balances owed to the U.S. Treasury using rates set by law, administrative orders following law or administrative policies. Interest rates on unpaid balances ranged from 2.38% to 11.38% and 2.50% to 11.38% for the years ended September 30, 2017 and 2016, respectively.

As discussed in note 6(c), effective September 30, 2014, WAPA was transferred program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund. Accordingly, the associated interest on the payable to U.S. Treasury of $136.8 million and $124.2 million, has been eliminated within WAPA for combination purposes for the years ended September 30, 2017 and 2016, respectively.

As provided by Federal law, interest is not assessed on unpaid balances in irrigation facilities anticipated to be repaid through power sales (note 11(b)).

(l) Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC or interest during construction) represents interest on funds borrowed from the U.S. Treasury during the construction of all generation and transmission facilities including assets allocated to project use energy. The System calculates AFUDC based on the average annual outstanding balance of construction work in progress and is calculated through the date in which assets are placed in service. AFUDC is capitalized and recovered over the repayment period of the related plant asset. Applicable interest rates ranged from 2.88% to 8.21% and 2.88% to 8.27% for the years ended September 30, 2017 and 2016, respectively, depending on the year in which construction of the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(m) Transfers of Property and Services, Net

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

(n) Pension and Other Postretirement Benefits

WAPA and generating agency employees participate in one of the following contributory defined-benefit plans: the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and total 7.0% for CSRS and up to 13.7% for FERS. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). The System's contributions for the two plans amounted to $38.1 million and $36.7 million for the years ended September 30, 2017 and 2016, respectively. The contribution levels, as legislatively mandated, do not reflect the full-cost requirements to fund the CSRS or FERS pension plans. The additional cost of providing CSRS and FERS benefits is approximately 32.8% and 14.7% of base salary, respectively, and is funded by OPM.

In addition to the amounts contributed to the CSRS and FERS as stated above, the System recorded an expense for the pension and other postretirement benefits in the combined financial statements of $15.4 million and $18.3 million for the years ended September 30, 2017 and 2016, respectively. This amount reflects the contribution made on behalf of WAPA and the generating agencies by OPM to the benefit program trust funds. This expense will be recovered from power customers through the future sale of power.

Other postretirement benefits administered and partially funded by OPM are the Federal Employees Health and Benefits Program (FEHB) and the Federal Employee Group Life Insurance Program (FEGLI). FEHB is calculated at $5,412 and $6,266 per employee in fiscal years 2017 and 2016, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

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

(o) Use of Estimates

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

(p) Derivative and Hedging Activities

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

WAPA enters into contracts for the purchase and sale of electricity for use in its business operations. ASC Topic 815 requires the System to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from ASC Topic 815 as normal purchases or normal sales. Normal purchases and sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented and exempted from the accounting and reporting requirements of ASC Topic 815.

The System's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. The System's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond WAPA's estimated capacity to deliver or receive power. Accordingly, the System evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under U.S. GAAP. As of September 30, 2017 and 2016, the System has no contracts accounted for as derivatives.

(q) Concentrations of Credit Risk

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

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

(r) Regulatory Assets (note 3)

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

(i) Workers' Compensation Actuarial Cost

The U.S. Department of Labor (DOL) determines an actuarial liability associated with cases incurred for which additional future claims may be made on an annual basis. DOL determines the actuarial liability associated with future claims using historical benefit payment patterns discounted to present value (37 years) using economic assumptions for 10-year U.S. Treasury notes and bonds.

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

(ii) Abandoned Project Costs, Net

Occasionally, congressionally authorized projects originally planned for service are discontinued due to political and/or economic reasons. The System classifies these discontinued projects based on congressional action as abandoned projects and amortizes them in the same manner as that used for rate-making purposes. The amortization period is a maximum of 50 years. These abandoned projects are considered regulatory assets because the costs are amortized into the power rates over a period of time, rather than being expensed in the year of the congressional action. The discount rate on the System's abandoned projects is 3%.

(iii) Recovery Implementation Program (RIP)

Section 8 of the Colorado River Storage Project (CRSP) Act of 1956, as amended, mandates that DOI establish and implement programs to conserve fish and wildlife. Under this Act and other legislation, Reclamation has established programs to preserve the habitat and otherwise aid endangered fish and wildlife. The RIP is an example of such a program and is managed by the U.S. Fish and Wildlife Service. On October 30, 2000, Congress passed Public Law 106-392 that authorized additional funding to Reclamation to continue the RIP. The legislation specifies that a total of $17.0 million is to be collected by the System from its power customers and provided to Reclamation to finance capital costs. Repayment of amounts borrowed from the State of Colorado for the RIP and accrued interest were deferred until October 1, 2012. All interest accrued during the deferral period of $4.0 million was accreted into the outstanding principal balance. Commencing October 1, 2012, all costs are amortized to expense over the repayment period of 30 years. Total expense amortized was $0.3 million for the years ended September 30, 2017 and 2016.

(iv) 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.

(v) *Transmission Termination Settlement*

WAPA renegotiated certain CRSP long-term contractual obligations with third-party power providers in 2007. Under the terms of the settlement agreements, annual payments of $0.6 million were made through 2017 to PacifiCorp for a total of $6.0 million. The unpaid portion of the settlements was deferred as a regulatory asset to reflect the effects of the rate-making process.

(vi) *Extraordinary Maintenance*

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

(vii) *Environmental Cleanup Liabilities (note 10)*

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

(s) Interchange Energy and Energy Exchange (note 4)

Western’s power contracts may include a provision for energy transfers and exchanges between WAPA and a supplier that result in claims or obligations to be settled at a future date, based on contractual provisions. Energy claims or obligations represent the valuation of excess energy delivered or received under the energy interchange and exchange contract provisions. The energy balance is recorded either as other assets when WAPA is the net supplier, or as other liabilities when WAPA is the net user. Transactions are recorded at the market value on the date of the transaction, under the provisions of ASC Topic 845, *Nonmonetary Transactions*, and are netted within purchase power expense as incurred under FERC regulations and rulings.

(t) Customer Advances

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

(u) Taxes

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

(v) Fair Value of Financial Instruments

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

(i) Short-Term Financial Instruments

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

(ii) Long-Term Liabilities

Fair value is estimated by computing the present value of future payments discounted at prevailing U.S. Treasury interest rates at year end. The fair value of long-term liabilities was $190.2 million and $215.6 million as of September 30, 2017 and 2016, respectively.

(w) Related Parties

As components of DOE, DOI, DOD, and State, these departments are considered related parties to the System. WAPA has certain agreements with DOE, DOI, and DOD to provide electric power, transmission services, and other services. As of September 30, 2017 and 2016, amounts outstanding in accounts receivable relating to related parties totaled $20.7 million and $20.2 million, respectively; for the years ended September 30, 2017 and 2016, total operating revenues earned from related party sources totaled $289.0 million and $206.0 million, respectively.

(x) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU No. 2014-09 is effective for the System for periods beginning after December 15, 2018. ASU No. 2014-09 permits the use of either the retrospective or cumulative effect transition method. The System has not yet selected a transition method and is currently evaluating the effect that ASU No. 2014-09 will have on the System's combined financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU No. 2016-02 is effective for the System for periods beginning after December 15, 2019 and early adoption is permitted. The System is evaluating the effect that ASU No. 2016-02 will have on the System's combined financial statements and related disclosures.

(2) Hydroelectric Power Systems and Generating Agencies

WAPA markets and transmits hydroelectric power for 14 power systems. The expenses and net assets of the 14 power systems, which are generally expected to be recovered through rates, are included in the accompanying combined financial statements along with activity of the TIP program and other activity disclosed in note 1(a). Reclamation generates power for all power systems with the exception of Falcon-Amistad and Pacific Northwest-Pacific Southwest Intertie, which has only transmission facilities. The Pick-Sloan power system is unique in that both Reclamation and the Corps generate hydroelectric power for the power system. IBWC is WAPA's sole generation partner for the Falcon-Amistad power system. A listing of these power systems by generating agency includes:

Reclamation Power Systems

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

Corps Power System

- Pick-Sloan Missouri River Basin

IBWC Power System

- Falcon-Amistad

(3) Regulatory Assets

Regulatory assets (note 1(r)) as of September 30, 2017 and 2016 consist of the following (in thousands):

		2017	2016
Extraordinary maintenance	$	58,452	58,477
Workers' compensation actuarial cost		44,714	37,107
Accrued annual leave		23,307	23,004
Environmental cleanup liabilities (note 10)		19,516	22,849
Recovery implementation program		13,958	14,286
Abandoned project costs, net		2,274	3,363
Transmission termination settlement		—	400
Total regulatory assets	$	162,221	159,486

(Continued)

(4) Other Assets

Other assets as of September 30, 2017 and 2016 consist of the following (in thousands):

		2017	2016
Moveable equipment, net (note 1(j))	$	67,077	65,462
Stores inventory		22,527	22,986
Internal use software, net (note 1(j))		16,706	15,555
Collections due other federal agencies		14,667	59
Advances to others		4,149	1,909
Interchange energy and energy exchange (note 1(s))		114	458
Other		6,733	5,029
Total other assets	$	131,973	111,458

Under FERC requirements, the net revenue and expense activity in interchange energy and energy exchange is included in purchased power expense in the combined financial statements. The net activity included in purchased power expense was $0.3 million for the years ended September 30, 2017 and 2016.

(5) Utility Plant

Utility plant as of September 30, 2017 and 2016 consists of the following (in thousands):

		2017	2016
Utility plant:			
Structures and facilities	$	6,986,802	6,802,737
Buildings		567,724	551,519
Land		268,306	261,304
Power rights		183,676	183,676
Gross completed plant		8,006,508	7,799,236
Accumulated depreciation		(4,320,343)	(4,188,416)
Net completed plant		3,686,165	3,610,820
Construction work in progress		365,970	377,280
Net utility plant	$	4,052,135	3,988,100

In accordance with FERC guidelines, the System excludes contributed plant within the combined balance sheets to eliminate the impact on power and transmission rates. As of September 30, 2017 and 2016, contributed plant, net used in the System’s operations totaled $341.4 million and $351.3 million, respectively.

The balances shown above include project use utility plant amounts used to provide project benefits to water customers (note 6(a)). In addition to water benefits, the projects include other authorized benefits, such as support for fish and wildlife needs.

(6) Capitalization and Cost Allocation

(a) General

Capitalization consists of congressional appropriations and accumulated interest on unpaid balances, less net transfers of property and services from other Federal agencies and repayments to the U.S. Treasury, and accumulated net revenues (deficit). Capitalization also includes the portion of WAPA's Reclamation Fund (note 6(c)) that is not eliminated upon combination. Congressional appropriations are comprised of the cumulative appropriations received. Appropriations are allocated to the payable to U.S. Treasury or net revenues (deficit), based on expected use in reimbursable and nonreimbursable activities. All power systems, except Dolores, Seedskadee, Boulder Canyon and the operations and maintenance and purchased power programs of the Colorado River Storage Project (CRSP), are primarily financed through congressional appropriations. Dolores, Seedskadee, Boulder Canyon and the operations and maintenance programs of CRSP are funded through the use of a revolving fund. Revolving funds allow the System to utilize resources for reinvestment in power operations without congressional appropriations. A portion of construction and rehabilitation, operation and maintenance and purchased power expenditures are financed through other methods, such as advances from non-Federal entities, reimbursements from other Federal agencies, use of receipts authorization and alternative billing methods, such as net billing and bill crediting or any combination of these methods.

Although most of the appropriations received by the System are expected to be repaid through the collection of the power rate, some costs are not recoverable through the power rate. When costs are deemed not recoverable through the power rate, the funding for these amounts is not included in the payable to U.S. Treasury. These costs may be recovered through the water rate charged by Reclamation or may be deemed nonreimbursable by legislation; however, such recovery is not reflected in these combined financial statements. The amount of capital project use assets not recovered through the power rates as of September 30, 2017 and 2016 was $885.3 million and $843.8 million, respectively. Generating agency project use operation and maintenance costs not recovered through power revenues are excluded from the combined financial statements.

Operating expenses (excluding depreciation expense) and interest on the unpaid balances are generally repaid annually. In cases where revenues are not available for repayment, unpaid annual net deficits become payable from the future years' revenues. Interest is accrued on cumulative annual net deficits until paid. Deficits for operating expenses begin to accrue interest in the year they occur, while interest expense deficits begin to accrue interest in the following year. In cases where funds are available, unless otherwise required by legislation, repayment of balances is applied first to the increment bearing the highest interest rate. There is no requirement for repayment of a specific amount on an annual basis.

(b) Capitalization in Multi-Purpose Facilities

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

Final studies will be performed by the generating agencies, as appropriate, upon completion of each individual power project and are still pending for all but the Fryingpan-Arkansas Power System (FryArk), which was completed in 1993. The Boulder Canyon and Parker-Davis power systems are not subject to cost allocation studies since the power systems' enacting legislation requires the total costs of the dams and appurtenant structures be repaid through power revenues.

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

(c) Reclamation Fund Appropriations

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

The following table presents the change in monies appropriated from the Reclamation Fund for the years ended September 30, 2017 and 2016 (in thousands):

		2017	2016
Reclamation Fund appropriations as of October 1	$	3,449,549	3,546,430
Congressional appropriations		131,689	110,713
Interest		136,791	123,182
Transfers of property and services, net		4,978	1,027
Payments to U.S. Treasury		(340,239)	(331,803)
Reclamation Fund appropriations as of September 30	$	3,382,768	3,449,549

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2017 and 2016

(7) Long-Term Liabilities

Long-term liabilities, as of September 30, 2017 and 2016, consist of the following (in thousands):

		2017	2016
Long-term liabilities:			
Customer construction financing	$	46,921	60,360
State of Wyoming loan		16,795	17,368
State of Colorado loan (note 1 (r))		13,958	14,286
Transmission Infrastructure Program		97,374	96,966
Total long-term liabilities	$	175,048	188,980

Outstanding long-term liabilities, as of September 30, 2016, are scheduled to be credited or repaid as follows (in thousands):

		Principal	Interest	Total
Year ending September 30:				
2018	$	5,578	5,835	11,413
2019		3,507	5,654	9,161
2020		24,800	5,541	30,341
2021		3,742	5,077	8,819
2022		3,488	4,944	8,432
2023 and thereafter		133,933	72,469	206,402
Total outstanding long-term liabilities	$	175,048	99,520	274,568

(a) Customer Construction Financing

WAPA enters into long-term financing arrangements with customers for project improvements and construction of interconnection facilities. These obligations are scheduled to be satisfied through issuing credits against future power bills. Outstanding customer financing obligations, as of September 30, 2017 and 2016, consist of the following (in thousands):

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2017 and 2016

Project	Terms	2017	2016
Grande Prairie Wind		$ 11,967	11,977
Power System	Pick-Sloan Missouri River Basin		
Maturity	2042		
Interest Rate	3.0%		
Zorb Project		7,601	7,601
Power System	Parker-Davis		
Maturity	2035		
Interest Rate	0%		
Buffalo Head Switching Station		7,415	7,415
Power System	Pick-Sloan Missouri River Basin		
Maturity	2042		
Interest Rate	3.0% - once project becomes operational		
Sunflower Wind Project/Hebron		6,841	7,176
Power System	Pick-Sloan Missouri River Basin		
Maturity	2042		
Interest Rate	3.0%		
Flagstaff Project		6,156	7,557
Power System	Colorado River Storage Project		
Maturity	2035		
Interest Rate	0%		
Campbell County Wind Farm		4,766	4,792
Power System	Pick-Sloan Missouri River Basin		
Maturity	2042		
Interest Rate	3.0%		
Griffith McConnico & Peacock Transmission Lines & Switching Station		2,175	4,914
Power System	Parker-Davis & Intertie		
Maturity	2018		
Interest Rate	8.5%		
Hoover Dam Generating Units		—	5,043
Power System	Boulder Canyon		
Maturity	2017		
Interest Rate	5.3% to 9.6%		
Terry Ranch Road Substation		—	3,885
Power System	Pick-Sloan Missouri River Basin		
Maturity	2017		
Interest Rate	3.0%		
Total		$ 46,921	60,360

(b) State of Wyoming Loan

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

(c) State of Colorado Loan

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

(d) Transmission Infrastructure Program

WAPA borrows funds for the Trans West Express (TWE) project which is a proposed interstate high-voltage direct current (HVDC) development effort spanning 725 miles from south central Wyoming to the El Dorado Valley south of Las Vegas, Nevada. In 2011, OMB authorized the use of up to $25 million in borrowing authority to finance this development phase of the project. In 2015, WAPA capped development costs at $21 million, due to the U.S. Treasury on September 30, 2017. In September 2017, WAPA refinanced the outstanding balance of $20.8 million and utilized an additional $83 thousand to fund loan administration costs and $324 thousand to capitalize interest to date. The principle is due at maturity in 2020 while interest is due quarterly at a rate of 1.62%. Costs incurred relative to TWE are expensed as incurred. As of September 30, 2017 and 2016, the outstanding amount borrowed was $21.2 million and $20.8 million, respectively.

WAPA borrowed funds from the U.S. Treasury for the Electrical District No. 5 to Palo Verde Hub (ED5-PVH) project. The ED5-PVH project is a 109-mile transmission project which encompasses the acquisition of 64 miles of capacity rights in the new Southeast Valley Project from the Duke/Test Track Substation to the Palo Verde Hub; and new construction of 45 miles of a WAPA transmission line and upgraded facilities from the ED5 Substation to the Test Track Substation. The OMB authorized use of up to $91 million in borrowing authority to finance the construction and related costs of the ED5-PVH project. As of September 30, 2017 and 2016, the outstanding amount borrowed was $76.2 million. In 2015, the project was completed and the outstanding loan was converted to a 30-year long-term financing agreement with the U.S. Treasury. The principle is due at maturity in 2045 while interest is due semi-annually at a rate of 3.03%.

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

		2017	2016
Customer advances (note 1(t))	$	89,456	132,990
Workers' compensation actuarial liability		44,906	37,261
Due to other federal agencies		25,857	11,131
Accrued annual leave		23,307	23,004
Legal claims and settlements (note 11(a))		9,401	9,408
Accrued payroll benefits		8,788	8,560
Workers' compensation accrual		7,471	7,295
Transmission termination settlement		—	400
Other		6,732	6,274
Total customer advances and other liabilities	$	215,918	236,323

(9) Lease Commitments

The System has one noncancelable operating lease which is for WAPA's headquarters office building in Lakewood, Colorado. The lease is for a term of 15 years with an annual cost of approximately $1.7 million.

The System has several cancelable operating leases, primarily for general purpose motor vehicles, office, and warehouse space that expire during the next 15 years. The right to relinquish space on cancelable leases is available with 120-day notice to terminate. The General Services Administration is generally the leaseholder for all cancelable equipment and building leases.

These leases generally contain renewal options for periods ranging from three to five years and require the lessee to pay all costs, such as maintenance and insurance.

Rental expense for operating leases was approximately $8.1 million and $8.7 million for the years ended September 30, 2017 and 2016, respectively.

(10) Environmental Cleanup Liabilities

The Desert Southwest Region of WAPA has been engaged in remediating the Basic Substation located in Henderson, Nevada, since 1991. This site, which was built in 1942 to provide power to a local magnesium plant, was decommissioned in 2002. Rather than address all contamination at the site at once, the remediation has been pursued in a staged process, in parallel with demolition work to reduce the impact on annual budgets. The remediation was financed with nonreimbursable funding in 2010; therefore, it has no impact on the power rates. The estimated liability to remediate the Basic Substation was $0.2 million and $1.1 million as of September 30, 2017 and 2016, respectively.

The System's environmental liabilities also include the estimated cleanup costs for asbestos. Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing of (1) asbestos-containing materials from property, or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated property, plant, and equipment. The System has estimated cleanup costs based on an inventory of assets and estimated cleanup costs per square foot, consistent with cost factors prescribed by DOE. The estimated liability for asbestos-related cleanup costs was approximately $19.5 million and $22.8 million as of September 30,

(Continued)

2017 and 2016, respectively. The asbestos-related cleanup costs are deferred as a regulatory asset until actual cleanup expenditures are incurred (note 1(r)).

(11) Commitments and Contingencies

(a) General

The System is involved in various claims, suits and complaints routine to the nature of their business as of September 30, 2017 and 2016. Liabilities for these claims, as reported in the combined financial statements, are based on reported pending claims, or estimates of claims incurred but not yet reported. It is System management's opinion that the ultimate disposition of these claims will not have a material adverse effect on the combined financial statements. In some cases, a portion of any loss that may occur may be paid from the U.S. Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government. Power-related claims related to the generating agencies, whose ultimate disposition will be paid by the Judgment Fund and are not subject to reimbursement from power revenues, are excluded from the combined financial statements and related footnote disclosures.

As of September 30, 2017 and 2016, the System has accrued contingent liabilities of $9.4 million, where losses are determined to be probable and the amounts can be estimated. However, any associated losses are expected to be paid by the Judgment Fund.

(b) Irrigation Assistance

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

Power repayment studies are one year in arrears. As of September 30, 2017, anticipated irrigation assistance totaled approximately $1.7 billion, which may be repaid from future power revenues. The 2017 power repayment studies have not been completed as of the date of this report. Irrigation assistance payments in 2017 and 2016 totaled $0 and $0.2 million, respectively.

WESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2017 and 2016

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

		Amount
Year ending September 30:		
2018	$	—
2019		512
2020		45,105
2021		88
2022		8,336
2023 and thereafter		1,695,565
Total anticipated irrigation assistance payments	$	1,749,606

(c) *Upper Colorado River Basin Project Funding*

Among the purposes of the Colorado River Storage Project Act (CRSPA) is the comprehensive development of the water resources of the Upper Colorado River Basin (UCRB). A feature of section 5(e) of CRSPA is the use of hydroelectric power revenues to aid in development and repayment of certain irrigation costs of participating projects within the Upper Colorado River Basin. Current and future estimated collection of revenues required under CRSPA for irrigation assistance is beyond what is necessary to repay the irrigation components of the completed and under construction irrigation projects (note 11(b)). Revenues in excess of that required for irrigation assistance are authorized to be expended on projects within the UCRB. The System has entered into a Memorandum of Agreement (MOA) with upper division states of Colorado, New Mexico, Utah and Wyoming to fund projects within UCRB, and project costs are expensed as incurred. For the years ended September 30, 2017 and 2016, project costs of $19.1 million and $3.4 million, respectively, are included in the combined statements of revenues and expenses.

Anticipated projects payments are as follows (in thousands):

		Amount
Year ending September 30:		
2018	$	7,290
2019		786
2020		495
2021		416
2022		359
2023 and thereafter		115,650
Total anticipated project payments	$	124,996

(Continued)

(d) *Power Contract Commitments*

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

		Purchased power	Purchased transmission	Total
Year ending September 30:				
2018	$	32,344	6,679	39,023
2019		29,149	6,679	35,828
2020		18,416	6,679	25,095
2021		20,393	6,325	26,718
2022		20,375	6,325	26,700
2023 and thereafter		18,416	87,566	105,982
Total	$	139,093	120,253	259,346

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

(e) *Construction in Abeyance*

Construction in abeyance refers to long-term construction projects that have been suspended for a period of time due to legal, political or other reasons. There are several Reclamation construction projects that were placed in abeyance in the past. The Auburn dam, power plant and reservoir project were placed in abeyance due to a risk of major damage to the dam as a result of an earthquake in 1975. Although Reclamation has allocated a portion of the initial construction costs to hydroelectric power, these costs continue to be excluded from the System's rate-making processes until a final determination is made by Congress as to whether the project will be revised or deauthorized. As of September 30, 2017, power repayment is considered remote, and therefore, construction costs of $32.8 million, including AFUDC, are not included in the combined financial statements. If the project is ultimately completed, there is a possibility that the associated costs may be repaid through future hydroelectric power rates.

(12) Subsequent Events

WAPA has evaluated subsequent events through the date the combined financial statements were available to be issued as of February 14, 2018 and identified no subsequent events.

Attachment
Schedule 1

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2017

(In thousands)

Assets		**Hydroelectric power systems**	**Transmission Infrastructure Program**	**Other activities**	**Reclamation Fund**	**Elimination**	**Total**
Completed utility plant	$	7,834,077	70,643	101,788	—	—	8,006,508
Accumulated depreciation		(4,286,221)	(4,390)	(29,732)	—	—	(4,320,343)
Net completed plant		3,547,856	66,253	72,056	—	—	3,686,165
Construction work in progress		358,739	163	7,068	—		365,970
Net utility plant		3,906,595	66,416	79,124	—	—	4,052,135
Cash		1,299,084	17,979	104,027	—	—	1,421,090
Restricted cash		—	—	—	1,434,909	—	1,434,909
Accounts receivable, net		146,635	370	7,223	—	—	154,228
Regulatory assets		161,893	—	328	—	—	162,221
Other assets		116,048	—	15,925	3,382,768	(3,382,768)	131,973
Total assets	$	5,630,255	84,765	206,627	4,817,677	(3,382,768)	7,356,556
Total Liabilities and Capitalization							
Liabilities:							
Long-term liabilities	$	77,674	97,374	—	—	—	175,048
Customer advances and other liabilities		105,992	754	109,172	—	—	215,918
Deferred revenue		107,704	—	—	—	—	107,704
Accounts payable		45,898	88	2,249	—	—	48,235
Environmental cleanup liabilities		19,518	—	216	—	—	19,734
Total liabilities		356,786	98,216	111,637	—	—	566,639
Capitalization:							
Payable to U.S. Treasury		4,918,148	—	4,196	—	(3,382,768)	1,539,576
Accumulated net revenues (deficit)		355,321	(13,451)	90,794	4,817,677	—	5,250,341
Total capitalization		5,273,469	(13,451)	94,990	4,817,677	(3,382,768)	6,789,917
Total liabilities and capitalization	$	5,630,255	84,765	206,627	4,817,677	(3,382,768)	7,356,556

See accompanying independent auditors' report.

Attachment
Schedule 1

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2016

(In thousands)

Assets	**Hydroelectric power systems**	**Transmission Infrastructure Program**	**Other activities**	**Reclamation Fund**	**Elimination**	**Total**
Completed utility plant	$ 7,628,054	70,160	101,022	—	—	7,799,236
Accumulated depreciation	(4,160,580)	(2,988)	(24,848)	—	—	(4,188,416)
Net completed plant	3,467,474	67,172	76,174	—	—	3,610,820
Construction work in progress	372,311	199	4,770	—	—	377,280
Net utility plant	3,839,785	67,371	80,944	—	—	3,988,100
Cash	1,328,380	18,325	108,445	—	—	1,455,150
Restricted cash	—	—	—	1,249,926	—	1,249,926
Accounts receivable, net	142,785	652	8,328	—	—	151,765
Regulatory assets	159,216	—	270	—	—	159,486
Other assets	110,195	—	1,263	3,449,549	(3,449,549)	111,458
Total assets	$ 5,580,361	86,348	199,250	4,699,475	(3,449,549)	7,115,885
Total Liabilities and Capitalization						
Liabilities:						
Long-term liabilities	$ 92,014	96,966	—	—	—	188,980
Customer advances and other liabilities	136,650	971	98,702	—	—	236,323
Deferred revenue	111,771	—	—	—	—	111,771
Accounts payable	48,362	12	1,501	—	—	49,875
Environmental cleanup liabilities	22,849	—	1,062	—	—	23,911
Total liabilities	411,646	97,949	101,265	—	—	610,860
Capitalization:						
Payable to U.S. Treasury	4,972,637	—	3,912	—	(3,449,549)	1,527,000
Accumulated net revenues (deficit)	196,078	(11,601)	94,073	4,699,475	—	4,978,025
Total capitalization	5,168,715	(11,601)	97,985	4,699,475	(3,449,549)	6,505,025
Total liabilities and capitalization	$ 5,580,361	86,348	199,250	4,699,475	(3,449,549)	7,115,885

See accompanying independent auditors’ report.

Attachment
Schedule 2

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2017

(In thousands)

	Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Operating revenues:						
Sales of electric power	$ 849,915	—	8,898	—	—	858,813
Transmission and other operating revenues	467,443	4,725	76,380	136,791	(136,791)	548,548
Total operating revenues	1,317,358	4,725	85,278	136,791	(136,791)	1,407,361
Operating expenses:						
Operation and maintenance	507,052	1,942	73,374	—	—	582,368
Purchased power	109,384	—	8,898	—	—	118,282
Purchased transmission services	179,017	—	162	—	—	179,179
Depreciation	151,216	1,402	5,292	—	—	157,910
Administration and general	74,343	766	7,608	—	—	82,717
Total operating expenses	1,021,012	4,110	95,334	—	—	1,120,456
Net operating revenues (expenses)	296,346	615	(10,056)	136,791	(136,791)	286,905
Interest expenses:						
Interest on payable to U.S. Treasury	188,099	—	18	—	(136,791)	51,326
Allowance for funds used during construction	(14,021)	—	—	—		(14,021)
Net interest on payable to U.S. Treasury	174,078	—	18	—	(136,791)	37,305
Interest on long-term liabilities	4,463	2,444	—	—	—	6,907
Net interest expense	178,541	2,444	18	—	(136,791)	44,212
Net revenues (deficit)	$ 117,805	(1,829)	(10,074)	136,791	—	242,693

See accompanying independent auditors' report.

Attachment
Schedule 2

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2016

(In thousands)

		Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Operating revenues:							
Sales of electric power	$	808,851	—	24,821	—	—	833,672
Transmission and other operating revenues		429,207	6,759	51,302	124,158	(124,158)	487,268
Total operating revenues		1,238,058	6,759	76,123	124,158	(124,158)	1,320,940
Operating expenses:							
Operation and maintenance		488,865	1,653	54,576	—	—	545,094
Purchased power		91,038	—	18,558	—	—	109,596
Purchased transmission services		149,856	—	87	—	—	149,943
Depreciation		132,951	1,353	5,087	—	—	139,391
Administration and general		67,928	889	6,860	—	—	75,677
Total operating expenses		930,638	3,895	85,168	—	—	1,019,701
Net operating revenues (expenses)		307,420	2,864	(9,045)	124,158	(124,158)	301,239
Interest expenses:							
Interest on payable to U.S. Treasury		174,167	—	17	—	(124,158)	50,026
Allowance for funds used during construction		(14,946)	—	—	—	—	(14,946)
Net interest on payable to U.S. Treasury		159,221	—	17	—	(124,158)	35,080
Interest on long-term liabilities		1,164	2,444	—	—	—	3,608
Net interest expense		160,385	2,444	17	—	(124,158)	38,688
Net revenues (deficit)	$	147,035	420	(9,062)	124,158	—	262,551

See accompanying independent auditors’ report.

Attachment
Schedule 3

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data by Agency

September 30, 2017

(In thousands)

Assets		**Western**	**Generating agencies**	**Total**
Completed utility plant	$	4,415,376	3,591,132	8,006,508
Accumulated depreciation		(2,166,759)	(2,153,584)	(4,320,343)
Net completed plant		2,248,617	1,437,548	3,686,165
Construction work in progress		136,950	229,020	365,970
Net utility plant		2,385,567	1,666,568	4,052,135
Cash		1,014,633	406,457	1,421,090
Restricted cash		1,434,909	—	1,434,909
Accounts receivable, net		148,476	5,752	154,228
Regulatory assets		64,885	97,336	162,221
Other assets		121,290	10,683	131,973
Total assets	$	5,169,760	2,186,796	7,356,556
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	$	158,253	16,795	175,048
Customer advances and other liabilities		170,590	45,328	215,918
Deferred revenue		—	107,704	107,704
Accounts payable		38,449	9,786	48,235
Environmental cleanup liabilities		17,810	1,924	19,734
Total liabilities		385,102	181,537	566,639
Capitalization:				
Payable to U.S. Treasury		646,970	892,606	1,539,576
Accumulated net revenues		4,137,688	1,112,653	5,250,341
Total capitalization		4,784,658	2,005,259	6,789,917
Total liabilities and capitalization	$	5,169,760	2,186,796	7,356,556

See accompanying independent auditors’ report.

Attachment
Schedule 3

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data by Agency

September 30, 2016

(In thousands)

Assets		Western	Generating agencies	Total
Completed utility plant	$	4,325,697	3,473,539	7,799,236
Accumulated depreciation		(2,086,030)	(2,102,386)	(4,188,416)
Net completed plant		2,239,667	1,371,153	3,610,820
Construction work in progress		120,605	256,675	377,280
Net utility plant		2,360,272	1,627,828	3,988,100
Cash		1,061,070	394,080	1,455,150
Restricted cash		1,249,926	—	1,249,926
Accounts receivable, net		148,310	3,455	151,765
Regulatory assets		68,265	91,221	159,486
Other assets		103,138	8,320	111,458
Total assets	$	4,990,981	2,124,904	7,115,885
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	$	166,568	22,412	188,980
Customer advances and other liabilities		187,872	48,451	236,323
Deferred revenue		—	111,771	111,771
Accounts payable		36,341	13,534	49,875
Environmental cleanup liabilities		21,722	2,189	23,911
Total liabilities		412,503	198,357	610,860
Capitalization:				
Payable to U.S. Treasury		594,368	932,632	1,527,000
Accumulated net revenues		3,984,110	993,915	4,978,025
Total capitalization		4,578,478	1,926,547	6,505,025
Total liabilities and capitalization	$	4,990,981	2,124,904	7,115,885

See accompanying independent auditors' report.

Attachment
Schedule 4

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data by Agency

Year ended September 30, 2017

(In thousands)

		Western	Generating agencies	Total
Operating revenues:				
Sales of electric power	$	491,657	367,156	858,813
Transmission and other operating revenues		524,481	24,067	548,548
Total operating revenues		1,016,138	391,223	1,407,361
Operating expenses:				
Operation and maintenance		312,347	270,021	582,368
Purchased power		118,282	—	118,282
Purchased transmission services		179,179	—	179,179
Depreciation		102,095	55,815	157,910
Administration and general		82,653	64	82,717
Total operating expenses		794,556	325,900	1,120,456
Net operating revenues		221,582	65,323	286,905
Interest expenses:				
Interest on payable to U.S. Treasury		15,318	36,008	51,326
Allowance for funds used during construction		(5,984)	(8,037)	(14,021)
Net interest on payable to U.S. Treasury		9,334	27,971	37,305
Interest on long-term liabilities		3,494	3,413	6,907
Net interest expense		12,828	31,384	44,212
Net revenues	$	208,754	33,939	242,693

See accompanying independent auditors’ report.

Attachment
Schedule 4

WESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data by Agency

Year ended September 30, 2016

(In thousands)

		Western	Generating agencies	Total
Operating revenues:				
Sales of electric power	$	503,948	329,724	833,672
Transmission and other operating revenues		464,721	22,547	487,268
Total operating revenues		968,669	352,271	1,320,940
Operating expenses:				
Operation and maintenance		288,570	256,524	545,094
Purchased power		109,596	—	109,596
Purchased transmission services		149,943	—	149,943
Depreciation		102,632	36,759	139,391
Administration and general		75,619	58	75,677
Total operating expenses		726,360	293,341	1,019,701
Net operating revenues		242,309	58,930	301,239
Interest expenses:				
Interest on payable to U.S. Treasury		13,525	36,501	50,026
Allowance for funds used during construction		(5,450)	(9,496)	(14,946)
Net interest on payable to U.S. Treasury		8,075	27,005	35,080
Interest on long-term liabilities		4,306	(698)	3,608
Net interest expense		12,381	26,307	38,688
Net revenues	$	229,928	32,623	262,551

See accompanying independent auditors’ report.

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