U.S. Department of Energy

Office of Inspector General

Office of Audits and Inspections

AUDIT REPORT

Western Federal Power System's Fiscal Year 2013 Financial Statement Audit

OAS-FS-15-02 November 2014

Department of Energy
Washington, DC 20585

November 19, 2014

MEMORANDUM FOR THE ADMINISTRATOR, WESTERN AREA POWER ADMINISTRATION

Daniel M. Weeber

FROM: Daniel M. Weeber
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Western Federal Power System's Fiscal Year 2013 Financial Statement Audit"

The attached report presents the results of the independent certified public accountants' audit of the Western Federal Power System's (Western) combined balance sheets, as of September 30, 2013 and 2012, and the related combined statements of changes in capitalization, revenues and expenses, and cash flows for the years then ended.

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

KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of Western as of September 30, 2013 and 2012, 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 Western's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit identified the following two deficiencies in internal control over financial reporting:

- A material weakness over Accounting for the Allocation of Accumulated Depreciation was identified due to a lack of appropriate controls and processes to ensure depreciation expense and related accumulated depreciation allocated to the power function was commensurate with the asset allocation and consistent with project wide accumulated depreciation.

- A significant deficiency over information technology was identified due to a lack of policies and procedures that resulted in (1) Western not performing a review of the audit logs for unusual or suspicious activity; (2) a lack of segregation of duties in the Power Billing System; (3) modifications and formal reviews of users accounts not being performed; and (4) certain accounts not being recertified.

Western management concurred with the findings and recommendations and agreed to take the necessary corrective actions.

The audit disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report Number: OAS-FS-15-02

Attachment

cc: Deputy Chief Financial Officer, CF-2
Director, Office of Finance and Accounting, CF-10
Vice President of Financial Management, WAPA
Senior Vice President and Chief Financial Officer, WAPA
Director, Office of Financial Risk, Policy and Controls, CF-50
Assistant Director, Office of Financial Risk, Policy and Controls, CF-50
Audit Resolution Specialist, Office of Financial Risk, Policy and Controls, CF-50
Team Leader, Office of Financial Risk, Policy and Controls, CF-50
Audit Liaison, Internal Audit and Compliance Office, WAPA

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WESTERN FEDERAL POWER SYSTEM

Combined Financial Statements

September 30, 2013 and 2012

(With Independent Auditors’ Reports Thereon)

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WESTERN FEDERAL POWER SYSTEM

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KPMG LLP
Suite 800
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Independent Auditors' Report

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

Report on the Combined 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, 2013 and 2012, 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 (Western), 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. Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which Western markets and transmits power.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted or 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 audits 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 opinion.

Opinion

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, 2013 and 2012, 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 and 2 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 and 2 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 and 2 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 September 5, 2014 on our consideration of the System's internal control over financial reporting and our report dated September 5, 2014 on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is 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 internal control over financial reporting or on compliance. Those reports are 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
September 5, 2014, except as to Note 13,
which is as of October 31, 2014

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Attachment

Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of the Combined Financial Statements Performed in Accordance with *Government Auditing Standards*

The Administrator of Western Area Power Administration and the
U.S. Department of Energy Office of the 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, 2013 and 2012, 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 September 5, 2014, except as to Note 13, which is as of October 31, 2014. The combined financial statements include the Western Area Power Administration (Western), 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 (Reclamation); the U.S. Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which Western markets and transmits power.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements as of and for the year ended September 30, 2013, 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.

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 have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below as item 1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below as item 2 to be a significant deficiency.

1. Material Weakness over Allocated Accumulated Depreciation

The System owns and maintains over 17,000 circuit miles of transmission lines and utility plant comprised of dams, spillways, generators, turbines, substations, and related components. As of September 30, 2013, the System's gross utility plant and accumulated depreciation was approximately $7.1 billion and $3.8 billion, respectively. Reclamation, whose hydroelectric power generating function is included in the System's financial reporting entity, calculates depreciation expense utilizing the composite method, typically at the project level. Depreciation expense and related accumulated depreciation is then allocated to the hydroelectric power generating function. During the year ended September 30, 2013, Reclamation and KPMG identified errors relating to an understatement of accumulated depreciation allocated to the hydroelectric power generating function. During our test work over accumulated depreciation and related depreciation expense, we identified the following conditions, primarily caused by the lack of appropriate controls and processes to ensure depreciation expense and related accumulated depreciation allocated to the power function is commensurate with the asset allocation and consistent with project-wide accumulated depreciation:

- Accumulated depreciation on multi-purpose assets was not consistently and appropriately allocated to the hydroelectric power generating function.
- Reclamation's regional offices were not applying a consistent methodology for allocating and recording accumulated depreciation to the hydroelectric power generating function.
- Allocation rates utilized by Reclamation's regional offices to allocate accumulated depreciation were not commensurate with the rates utilized to allocate the corresponding asset.

Combined, accumulated depreciation associated with Reclamation's hydroelectric power generating assets was understated by approximately $304.0 million as of October 1, 2011. Related adjustments were recorded by System management in the combined financial statements.

Recommendation

We recommend that Reclamation management strengthen its existing policies and procedures to ensure Reclamation's accumulated depreciation, and related depreciation expense, is appropriately allocated to the hydroelectric power generating function, consistent across Reclamation's regions and power systems, and commensurate with the allocation rates utilized to allocate the corresponding asset. We further recommend that Western management work with Reclamation to ensure the recommendation is appropriately implemented.

2. Significant Deficiency over Information Technology

The System utilizes multiple information technology systems to store and process data and to provide management information for decision-making purposes. During our test work over general information technology controls, we identified the following conditions, primarily caused by a lack of sufficient processes and procedures:

- While audit logging is in place for the information and technology systems used by Western, Western management did not perform a review of the audit logs for unusual or suspicious activity or violations.

- Developers of Western's Power Billing System (PBS) have access to the production environment, allowing the developers to migrate user interface changes. While Western's policies require segregation of duties, the PBS system does not enforce segregation and change tickets, which serve as the primary documentation of changes, nor does it capture the user who implemented the change to production. Of the 55 program changes tested, 43 changes did not sufficiently evidence the approval of changes to be migrated to production.
- Modifications to the Business Information Decision Support System (BIDSS) user access accounts, identified during the semi-annual recertification process, were not made as requested.
- Recertification of Hyperion accounts was not performed.
- A formal review of PBS user accounts was not performed.

Recommendations

We recommend that Western management perform the following:

A. Consistently review all system-generated audit logs on an organization-defined frequency in accordance with Western policies and procedures and ensure those reviews are appropriately documented.

B. Provide system administrators adequate training on the tools used to accomplish implementation of user interface changes, remove developers' access to migrate changes to the production environment, and properly document independent approvals of program change migrations.

C. Document and implement a consistent, formal process to recertify user accounts on an organization-defined frequency for all information technology systems. The recertification process should involve reviewing user accounts and related access rights for appropriateness based on users' job positions.

D. Document and implement a formal process for modifying users' access in accordance with changes requested during the recertification that ensures requested changes are made.

System's Response to Findings

System management has acknowledged and responded to our recommendations. In summary, System management concurs with the findings and recommendations. The target implementation date for corrective action for item 1, which will, in part, correspond with the implementation of Reclamation's new accounting system, is March 2, 2015. The target implementation date for correction action for item 2 is September 30, 2014. 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 the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
September 5, 2014

KPMG LLP
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Independent Auditors' Report on Compliance and Other Matters Based on an Audit of the Combined Financial Statements Performed in Accordance with *Government Auditing Standards*

The Administrator of Western Area Power Administration and the
U.S. Department of Energy Office of the 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, 2013 and 2012, 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 September 5, 2014, except as to Note 13, which is as of October 31, 2014. The combined financial statements include the Western Area Power Administration (Western), 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; U.S. Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which Western markets and transmits power.

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 combined 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 of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

Denver, Colorado
September 5, 2014

WESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets

September 30, 2013 and 2012

(In thousands)

Assets		**2013**	**2012**
Completed utility plant	$	7,136,595	6,917,444
Accumulated depreciation (note 12)		(3,813,588)	(3,698,741)
Net completed plant		3,323,007	3,218,703
Construction work in progress		395,545	397,569
Net utility plant		3,718,552	3,616,272
Cash		1,350,288	1,409,436
Accounts receivable, net		168,934	169,133
Regulatory assets		134,586	102,216
Other assets		100,343	87,837
Total assets	$	5,472,703	5,384,894
Total Liabilities and Capitalization			
Liabilities:			
Long-term liabilities	$	168,102	316,279
Customer advances and other liabilities		251,318	218,024
Accounts payable		92,343	90,171
Environmental cleanup liabilities		16,149	3,740
Total liabilities		527,912	628,214
Capitalization:			
Payable to U.S. Treasury		5,099,301	5,069,195
Accumulated net deficit (note 12)		(154,510)	(312,515)
Total capitalization		4,944,791	4,756,680
Commitments and contingencies (notes 9 and 11)			
Total liabilities and capitalization	$	5,472,703	5,384,894

See accompanying notes to combined financial statements.

Attachment

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues and Expenses

Years ended September 30, 2013 and 2012

(In thousands)

	2013	2012
Operating revenues:		
Sales of electric power	$ 916,676	925,877
Transmission and other operating revenues	398,592	368,926
Total operating revenues	1,315,268	1,294,803
Operating expenses:		
Operation and maintenance	522,060	539,603
Purchased power	274,689	210,620
Purchased transmission services	71,881	67,778
Depreciation	140,758	132,716
Administration and general	59,244	57,618
Total operating expenses	1,068,632	1,008,335
Net operating revenues	246,636	286,468
Interest expenses:		
Interest on payable to U.S. Treasury (note 1(i))	45,899	206,376
Allowance for funds used during construction	(20,710)	(14,199)
Net interest on payable to U.S. Treasury	25,189	192,177
Interest on long-term liabilities	8,122	8,523
Net interest expense	33,311	200,700
Net revenues	$ 213,325	85,768

See accompanying notes to combined financial statements.

Attachment

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Changes in Capitalization

Years ended September 30, 2013 and 2012

(In thousands)

		Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
Total capitalization as of September 30, 2011 (note 12)	$	4,975,080	(503,519)	4,471,561
Additions:				
Congressional appropriations		550,076	113,445	663,521
Interest		206,376	—	206,376
Total additions to capitalization		756,452	113,445	869,897
Deductions:				
Payments to U.S. Treasury		(659,051)	—	(659,051)
Transfers of property and services, net		(3,286)	—	(3,286)
Irrigation assistance (note 11(b))		—	(8,209)	(8,209)
Total deductions to capitalization		(662,337)	(8,209)	(670,546)
Net revenues for the year ended September 30, 2012		—	85,768	85,768
Total capitalization as of September 30, 2012		5,069,195	(312,515)	4,756,680
Additions:				
Congressional appropriations		586,560	14,591	601,151
Interest		45,899	—	45,899
Total additions to capitalization		632,459	14,591	647,050
Deductions:				
Payments to U.S. Treasury		(601,503)	—	(601,503)
Transfers of property and services, net		(850)	—	(850)
Irrigation assistance (note 11(b))		—	(69,911)	(69,911)
Total deductions to capitalization		(602,353)	(69,911)	(672,264)
Net revenues for the year ended September 30, 2013		—	213,325	213,325
Total capitalization as of September 30, 2013	$	5,099,301	(154,510)	4,944,791

See accompanying notes to combined financial statements.

Attachment

WESTERN FEDERAL POWER SYSTEM

Combined Statements of Cash Flows

Years ended September 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Net revenues	$	213,325	85,768
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Depreciation		140,758	132,716
Interest on payable to U.S. Treasury		25,189	192,177
Loss on disposition of assets		6,321	18,013
Unfunded postretirement benefits		17,685	19,960
Bill credits applied against long-term liabilities		(18,559)	(14,905)
Accreted interest on construction financing receivable		—	(2,328)
Amortization of regulatory assets		2,266	508
Change in unfunded FECA liability		2,794	63
(Increase) decrease in assets:			
Accounts receivable, net		199	13,275
Regulatory assets		(20,409)	(3,037)
Other assets		(13,664)	(11,401)
Increase (decrease) in liabilities:			
Customer advances and other liabilities		26,912	8,315
Accounts payable		2,038	869
Environmental cleanup liabilities		(560)	(8,474)
Net cash provided by operating activities		384,295	431,519
Cash flows from investing activities:			
Investment in utility plant		(234,588)	(232,974)
Principal collected on construction financing		—	155,672
Net cash used in investing activities		(234,588)	(77,302)
Cash flows from financing activities:			
Congressional appropriations		576,690	608,878
Payments to U.S. Treasury		(581,777)	(642,843)
Irrigation assistance		(69,911)	(8,209)
Proceeds from long-term liabilities		79,576	414,565
Principal payments on long-term liabilities		(213,433)	(382,087)
Net cash used in financing activities		(208,855)	(9,696)
Net increase (decrease) in cash		(59,148)	344,521
Cash, beginning of year		1,409,436	1,064,915
Cash, end of year	$	1,350,288	1,409,436
Cash paid for interest	$	27,957	194,353
Supplemental cash flow information:			
Capitalized interest	$	20,710	14,199
Transfer of construction work in progress to completed plant		244,286	193,158
Constructive payment to U.S. Treasury		19,726	16,208
Plant acquired by long-term financing		4,239	—
Accreted interest on long-term liabilities		—	581
Changes in the allocation and assignment of generating agency balances to hydroelectric power generating function affecting net utility plant		9,286	(6,395)

See accompanying notes to combined financial statements.

(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 (Western), 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, 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 Western markets and transmits hydroelectric power are included in the combined financial statements. Western, 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 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.

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

TIP activity represents Western 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 Western'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 Western 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 Western activities that are not reimbursable through the rate-setting process. This primarily consists of funds received from the Federal Communications Commission (FCC) to change Western's bandwidth (referred to as the Spectrum Relocation fund). The Spectrum Relocation Fund paid for the cost of Western to relocate its bandwidth when the FCC sold the former bandwidth. The remaining activity primarily consists of agreements Western has with Federal and non-Federal customers to provide services on a fee basis. 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.

(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(e)), 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 Western'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 Western'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 Western'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 2013 and 2012. As of September 30, 2013, 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 Western'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) Operating Revenues and Accumulated Net Revenues (Deficit)

Operating revenues are recognized when goods or services are provided to the public or another government agency. Except for power systems using revolving funds and customer advances, cash received from sales 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. As such, these funds are unavailable for power system operating needs without congressional action. 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.

Western 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. However, as of September 30, 2013 and 2012, the hydroelectric power systems have an accumulated net deficit of $244.26 million and $425.98 million, respectively.

Western 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 Western typically shares in the risks and rewards of the transaction. In the event Western does not meet the majority indicators of gross reporting, the System records the activity at net value within the combined statements of revenue and expenses.

Western 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.

(e) 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.

(f) Accounts Receivable, Net

Accounts receivable, net represents amounts billed to customers but not collected, net of the related allowance of $137 thousand and $127 thousand as of September 30, 2013 and 2012, 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 Western 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 Western, 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.

(g) Construction Financing Receivable

Pursuant to the Recovery Act, Western 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, 2013 and 2012, there was no construction financing receivables outstanding.

(h) 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 utilizes the composite method of depreciation and, accordingly, the cost of retired utility plant is charged against accumulated depreciation.

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.

(i) 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 2.500% to 11.375% for the years ended September 30, 2013 and 2012.

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)).

The Reclamation Projects Authorization and Adjustment Act of 1992 was enacted to protect the Grand Canyon from further environmental damage resulting from the operation of the Glen Canyon Hydroelectric Power Plant, effectively reducing the hydroelectric production of the dam. During 2013, after an extensive study, Reclamation, in their 'Interim Reallocation of the Costs of Glen Canyon' released in April 2013, determined that a portion of the multipurpose joint capital costs should be reallocated from the power function to protection of the Grand Canyon. The study indicated that $25.8 million of capital costs should be reallocated retroactive to fiscal year 1993 and operation and maintenance costs totaling $10.1 million should be reallocated retroactive to fiscal year 1999. Application of the retroactive cost adjustments to the power repayment study, accounted for as a change in estimate, for the year ended September 30, 2013 resulted in reduction of interest payable to the U.S. Treasury of $137.0 million.

(j) 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 2.75% to 8.27% and 3.75% to 8.27% for the years ended September 30, 2013 and 2012, respectively, depending on the year in which construction on the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(k) 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 Western and the generating agencies eliminate upon combination.

(l) Pension and Other Postretirement Benefits

Western 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 11.9% 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 $29.0 million for the years ended September 30, 2013 and 2012. 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 32.3% and 14.2% of base salary, respectively, and is funded by OPM.

Other postretirement benefits administered and partially funded by OPM are the Federal Employees Health and Benefits Program (FEHB) and the Federal Employee Group Life Insurance Program (FEGLI). FEHB is calculated at $5,190 and $5,187 per employee in fiscal years 2013 and 2012, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

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 $17.7 million and $20.0 million for the years ended September 30, 2013 and 2012, respectively. This amount reflects the contribution made on behalf of Western 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.

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 Western and generating agency employees are included in this report.

(m) 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. 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. Estimates have also been used in allocating the reimbursable power activity of generating agencies for the purpose of repayment to the U.S. Treasury, and for allocating capital assets to project use energy. Actual results could differ significantly from these estimates.

(n) 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.

Western 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 Western'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, 2013 and 2012, the System has no contracts accounted for as derivatives.

(o) 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.

(p) Regulatory Assets (note 3)

Regulatory assets are assets that result from rate actions of Western'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:

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.

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%.

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 year ended September 30, 2013.

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.

Transmission Termination Settlement

Western 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 will be made through 2017 to PacifiCorp for a total of $6.0 million. The unpaid portion of the settlements has been deferred as a regulatory asset to reflect the effects of the rate-making process.

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.

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.

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

Western's power contracts may include a provision for energy transfers and exchanges between Western 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 Western is the net supplier, or as other liabilities when Western 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.

(r) Customer Advances

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

(s) Taxes

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

(t) Fair Value of Financial Instruments

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

Short-Term Financial Instruments

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

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 $186.3 million and $348.7 million as of September 30, 2013 and 2012, respectively.

(u) Related Parties

As components of DOE, DOI, DOD, and State, these departments are considered related parties to the System. Western has certain agreements with DOE, DOI, and DOD to provide electric power, transmission services, and other services. As of September 30, 2013 and 2012, amounts outstanding in accounts receivable relating to related parties totaled $28.9 million and $27.2 million, respectively; for the years ended September 30, 2013 and 2012, total operating revenues earned from related party sources totaled $247.2 million and $262.0 million, respectively.

(v) Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU No. 2011-02 updates ASC Subtopic 310-40, *Troubled Debt Restructurings by Creditors*, to clarify guidance on whether a restructuring constitutes a troubled debt restructuring. ASU No. 2011-02 was effective for fiscal years ending on or after December 15, 2012. Adoption of ASU No. 2011-02 had no significant impact to the System's combined financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 updates ASC Subtopic 210-20, *Balance Sheet-Offsetting*, to provide quantitative disclosures about offsetting financial instruments and derivative instruments. Additionally, this guidance requires qualitative and quantitative disclosures about master netting agreements or similar agreements when the financial instruments and derivative instruments are not offset. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* to address implementation issues about the scope of ASU No. 2011-11. ASU No. 2013-01 clarified that the scope of ASU 2011-11 applies to derivatives accounted for in accordance FASB ASC Topic 815, Derivatives and Hedging. ASU No. 2011-11, as amended, was effective for fiscal years ending on or after January 1, 2013. Adoption of ASU No. 2011-11 had no significant impact to the System's combined financial statements.

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, 2017, and early adoption is not permitted. 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.

(2) Hydroelectric Power Systems and Generating Agencies

Western 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 Amistad-Falcon 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 Western'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(p)) as of September 30, 2013 and 2012 consist of the following (in thousands):

		2013	2012
Workers' compensation actuarial cost	$	47,996	43,705
Extraordinary maintenance		33,340	13,424
Accrued annual leave		16,445	19,401
Recovery implementation program		15,197	15,480
Environmental cleanup liabilities (note 10)		12,970	—
Abandoned project costs, net		6,438	7,406
Transmission termination settlement		2,200	2,800
Total regulatory assets	$	134,586	102,216

As of September 30, 2013 and 2012, abandoned project costs, net include the Celilo-Mead transmission line, which is being amortized over 23 years, through 2019.

(4) Other Assets

Other assets as of September 30, 2013 and 2012 consist of the following (in thousands):

		2013	2012
Moveable equipment, net (note 1(h))	$	52,852	48,624
Stores inventory		20,904	19,115
Assets under development		8,329	3,827
Internal use software, net (note 1(h))		7,488	5,246
Interchange energy and energy exchange (note 1(q))		3,728	7,557
Advances to others		345	1,455
Other		6,697	2,013
Total other assets	$	100,343	87,837

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 $3.8 million and $0.5 million for the years ended September 30, 2013 and 2012, respectively.

(5) Utility Plant

Utility plant as of September 30, 2013 and 2012 consists of the following (in thousands):

		2013	2012
Utility plant:			
Structures and facilities	$	6,297,927	6,109,576
Buildings		454,530	437,257
Land		215,101	202,393
Power rights		169,037	168,218
Gross completed plant		7,136,595	6,917,444
Accumulated depreciation (note 12)		(3,813,588)	(3,698,741)
Net completed plant		3,323,007	3,218,703
Construction work in progress		395,545	397,569
Net utility plant	$	3,718,552	3,616,272

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, 2013 and 2012, contributed plant, net used in the System's operations totaled $320.1 million and $321.8 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 deficit. Congressional appropriations are comprised of the cumulative appropriations received. Appropriations are allocated to the payable to U.S. Treasury or net 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, 2013 and 2012 was $760.9 million and $747.2 million, respectively. Generating agency project use operation and maintenance costs not recovered through 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.

(7) Long-Term Liabilities

Long-term liabilities, as of September 30, 2013 and 2012, consist of the following (in thousands):

		2013	2012
Long-term liabilities:			
Long-term construction financing	$	95,132	109,629
State of Colorado loan (note 1(p))		15,197	15,480
Transmission Infrastructure Program		57,773	191,170
Total long-term liabilities	$	168,102	316,279

Outstanding long-term liabilities, as of September 30, 2013, are scheduled to be credited or repaid as follows (in thousands):

		Principal	Interest	Total
Year ending September 30:				
2014	$	74,857	7,020	81,877
2015		16,274	5,988	22,262
2016		17,298	5,097	22,395
2017		14,724	3,473	18,197
2018		4,391	2,484	6,875
2019 and thereafter		40,558	21,452	62,010
Total outstanding long-term liabilities	$	168,102	45,514	213,616

(a) Long-Term Construction Financing

The majority of long-term construction financing consists of three significant contractual arrangements. The first significant arrangement provides customer financing for the Boulder Canyon power system to upgrade each of the generating units at Hoover Dam. The obligation to these customers began in 1987 and is scheduled to be satisfied through issuing credits on power bills through fiscal year 2017. Interest rates ranged between 5.3% and 7.9% and between 5.2% and 7.7% during fiscal years 2013 and 2012, respectively. As of September 30, 2013 and 2012, the outstanding obligation was $46.0 million and $57.1 million, respectively.

The second significant arrangement consists of the principal payable to 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%. The outstanding obligation amounted to $18.8 million and $19.1 million, as of September 30, 2013 and 2012, respectively.

The third significant arrangement is principal due to Griffith Energy LLC for providing financing for the construction of the Griffith-McConnico and Griffith-Peacock transmission lines along with certain assets at Peacock Substation and McConnico Switching Station within the Intertie and Parker-Davis power systems. Repayment is through power bill credits beginning in 2001 and ending in 2018. The interest rate is 8.5%. As of September 30, 2013 and 2012, the outstanding obligation totaled $11.8 million and $13.7 million, respectively.

Other components of long-term financing include Mohave Electric Cooperative, Inc., which provided financing to construct the network upgrades required for the Zorb Project within the Parker-Davis power system. Repayment through crediting of transmission service bills is anticipated to begin in March 2014. The monthly amounts are unknown at this time, as the rates have yet to be established for that period. However, based on estimates, repayment should be completed within a 20-year period, with an estimated annual bill credit of $454 thousand. As of September 30, 2013 and 2012, the outstanding obligation totaled $7.6 million. There is also an outstanding obligation with the Arizona Public Service Company for the construction of facilities for the Flagstaff 345-KV interconnection project in the Desert Southwest Colorado River Storage Project. As of September 30, 2013 and 2012, the outstanding obligation totaled $8.9 million and $8.7 million, respectively. Repayment through net billing arrangements will begin after construction is completed, around January of 2014. The balance of long-term construction financing is primarily related to the Wildhorse Creek substation completed in 2013. The repayment varies based on power produced by the customer and wind conditions, is estimated based on historical activity, and will be repaid through bill crediting (note 1(f)). As of September 30, 2013, the outstanding balance on this project totaled $1.7 million.

(b) State of Colorado Loan

Western 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(p)). 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.

(c) Transmission Infrastructure Program (TIP)

In fiscal year 2009, Western signed an agreement with Tonbridge Power Inc. (Tonbridge), acquired as a subsidiary of Enbridge, Inc. in November 2011, to finance up to $161 million for the construction of the Montana Alberta Tie Ltd. (MATL) transmission line project. This project was for the construction of a 214-mile, 230-kV power transmission line between Great Falls, Montana and Lethbridge, Alberta. When complete and fully operational, the line will have the capacity to deliver 300 megawatts of wind-generated power in either direction. Western funded this project with borrowing authority from the U.S. Treasury granted by the Recovery Act. In December 2012, Western repaid the U.S. Treasury the September 30, 2012 outstanding balance of $161.0 million with funds repaid by MATL in August 2012.

Western borrows funds from the U.S. Treasury for the Trans West Express (TWE) project. The TWE project is a 725-mile, 600-kV DC transmission line from south central Wyoming to the El Dorado Valley south of Las Vegas, a transmission gateway to California. The Office of Management and Budget (OMB) has authorized use of $25 million in borrowing authority to finance TIP's 50% portion of the $50 million for the development phase of the project. Costs incurred relative to TWE are expensed as incurred, as the project activities are considered investigatory for the years ended September 30, 2013 and 2012. Interest rates on the loan ranged between 0.104% to 0.124% and between 0.104% to 0.143% during fiscal years 2013 and 2012, respectively. As of September 30, 2013 and 2012, the outstanding amount borrowed was $10.7 million and $8.5 million, respectively.

Western borrows funds from the U.S. Treasury for the Electrical District No. 5 to Palo Verde Hub (ED5-PVH) project. The ED5-PVH project consists of building 45 circuit-miles of new and upgraded Western transmission line and purchasing capacity rights on 64 miles of the new Southeast Valley Project 500kV transmission line. The OMB has authorized use of up to $91 million in borrowing authority to finance the construction of the ED5-PVH project. Interest rates on the loan ranged between 0.099% to 0.139% and between 0.104% to 0.143% during fiscal years 2013 and 2012, respectively. As of September 30, 2013 and 2012, the outstanding amount borrowed was $47.0 million and $21.6 million, respectively.

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

		2013	2012
Customer advances (note 1(r))	$	127,312	113,475
Workers' compensation actuarial liability		48,154	44,138
Due to other federal agencies		17,759	11,965
Accrued payroll benefits		17,233	16,339
Accrued annual leave		16,445	19,401
Legal claims and settlements (note 11(a))		9,400	—
Workers' compensation accrual		8,419	9,012
Transmission termination settlement		2,200	2,800
Other		4,396	894
Total customer advances and other liabilities	$	251,318	218,024

(9) Lease Commitments

The System has three noncancelable operating leases. The first is for Western's Electric Power Training Center that expires in 2015. The lease represents an annual expense of approximately $279 thousand through 2015. Second, a noncancelable operating lease for two rooms in the Blake Street Building in Salida, Colorado. This lease is for a term of three years, with a three-year renewal option, at an annual cost of approximately $10 thousand. Third, Western has a contract with Southern California Edison Company for the lease of two 230-kV transmission lines from the Hoover Powerplant to Mead Substation. The contract provides Western the right to extend the lease indefinitely, but Western may terminate this contract upon three years written notice to the contractor. The lease represents an annual expense of approximately $209 thousand.

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 $7.9 million and $8.0 million for the years ended September 30, 2013 and 2012, respectively.

(10) Environmental Cleanup Liabilities

The Desert Southwest Region of Western 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 $3.2 million and $3.7 million as of September 30, 2013 and 2012, respectively.

Western'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. Western 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 $13.0 million as of September 30, 2013. The asbestos-related cleanup costs are deferred as a regulatory asset until actual cleanup expenditures are incurred (note 1(p)). It is reasonably possible that a change in estimate will occur.

(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, 2013. 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, 2013 and 2012, the System has accrued contingent liabilities of $9.4 million and $0, respectively, where losses are determined to be probable and the amounts can be estimated. It is reasonably possible that a change in estimate will occur. However, any associated losses are expected to be paid by the Judgment Fund.

(b) Irrigation Assistance

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

Power repayment studies are one year in arrears. As of September 30, 2013, anticipated irrigation assistance totaled approximately $1.9 billion, which may be repaid from future power revenues. The 2013 power repayment studies have not been completed as of the date of this report. Irrigation assistance payments in 2013 and 2012 totaled $69.9 million and $8.2 million, respectively.

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

		Amount
Year ending September 30:		
2014	$	10,053
2015		32,507
2016		15,465
2017		9,839
2018		8,524
2019 and thereafter		1,810,063
Total anticipated irrigation assistance payments	$	1,886,451

(c) Power Contract Commitments

Western 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:				
2014	$	56,207	13,005	69,212
2015		43,667	13,005	56,672
2016		32,019	12,730	44,749
2017		13,404	12,730	26,134
2018		2,247	12,575	14,822
2019 and thereafter		—	155,638	155,638
Total	$	147,544	219,683	367,227

In addition to these contracts, Western 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.

(d) 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 was 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, 2013, power repayment is considered remote, and therefore, construction costs of $46.3 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) Adjustments to Accumulated Depreciation

Reclamation calculates depreciation expense utilizing the composite method, typically at the project level. Depreciation expense and related accumulated depreciation is then allocated to the hydroelectric power generating function. During the year ended September 30, 2013, Reclamation identified errors relating to an understatement of accumulated depreciation allocated to the hydroelectric power generating function. The System recognized the cumulative effect of the errors on periods prior to those that are presented herein by increasing accumulated depreciation and accumulated net deficit by approximately $303.97 million as of October 1, 2011.

The following table presents the effects of the immaterial errors that were corrected on the combined balance sheet as of September 30, 2012 (in thousands):

		As of September 30, 2012		
		As previously reported	**Adjustments**	**As adjusted**
Balance sheet:				
Accumulated depreciation	$	(3,394,775)	(303,966)	(3,698,741)
Net completed plant		3,522,669	(303,966)	3,218,703
Total assets		5,688,860	(303,966)	5,384,894
Accumulated net deficit		8,549	303,966	312,515
Total capitalization		(5,060,646)	303,966	(4,756,680)
Total liabilities and capitalization		(5,688,860)	303,966	(5,384,894)

Impacted financial statement line items appearing in the combined statements of changes in capitalization have also been revised accordingly. Net revenues and cash flows from operating, investing and financing activities for the above period were not impacted by the immaterial correction of errors.

(13) Subsequent Events

Western has evaluated subsequent events through the date the combined financial statements were available to be issued as of October 31, 2014 and identified no subsequent events, except as follows.

In October 2014, as a result of discussions with 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, Western will record approximately $997.9 million in cash, $2,955.1 million in other assets (which will eliminate upon consolidation within Western), and $3,953.0 million in accumulated net revenues as of September 30, 2014.

Attachment
Schedule 1

WESTERN FEDERAL POWER SYSTEM

Combining Schedules of Balance Sheet Data

September 30, 2013

(In thousands)

Assets	**Hydroelectric power systems**	**Transmission infrastructure program**	**Other activities**	**Total**
Completed utility plant	$ 7,058,647	—	77,948	7,136,595
Accumulated depreciation	(3,802,535)	—	(11,053)	(3,813,588)
Net completed plant	3,256,112	—	66,895	3,323,007
Construction work in progress	342,496	48,848	4,201	395,545
Net utility plant	3,598,608	48,848	71,096	3,718,552
Cash	1,198,477	11,681	140,130	1,350,288
Accounts receivable, net	155,286	178	13,470	168,934
Regulatory assets	134,294	—	292	134,586
Other assets	98,248	—	2,095	100,343
Total assets	$ 5,184,913	60,707	227,083	5,472,703
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	$ 110,329	57,773	—	168,102
Customer advances and other liabilities	139,887	672	110,759	251,318
Accounts payable	74,391	13,805	4,147	92,343
Environmental cleanup liabilities	12,970	—	3,179	16,149
Total liabilities	337,577	72,250	118,085	527,912
Capitalization:				
Payable to U.S. Treasury	5,091,597	—	7,704	5,099,301
Accumulated net (deficit) revenues	(244,261)	(11,543)	101,294	(154,510)
Total capitalization	4,847,336	(11,543)	108,998	4,944,791
Total liabilities and capitalization	$ 5,184,913	60,707	227,083	5,472,703

See accompanying independent auditors’ report.

Attachment
Schedule 1

WESTERN FEDERAL POWER SYSTEM

Combining Schedules of Balance Sheet Data

September 30, 2012

(In thousands)

Assets	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Completed utility plant	$ 6,855,480	—	61,964	6,917,444
Accumulated depreciation	(3,691,957)	—	(6,784)	(3,698,741)
Net completed plant	3,163,523	—	55,180	3,218,703
Construction work in progress	359,587	18,647	19,335	397,569
Net utility plant	3,523,110	18,647	74,515	3,616,272
Cash	1,098,748	173,853	136,835	1,409,436
Accounts receivable, net	161,350	12	7,771	169,133
Regulatory assets	102,216	—	—	102,216
Other assets	84,857	—	2,980	87,837
Total assets	$ 4,970,281	192,512	222,101	5,384,894
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	$ 125,109	191,170	—	316,279
Customer advances and other liabilities	129,976	539	87,509	218,024
Accounts payable	77,595	7,194	5,382	90,171
Environmental cleanup liabilities	—	—	3,740	3,740
Total liabilities	332,680	198,903	96,631	628,214
Capitalization:				
Payable to U.S. Treasury	5,063,583	—	5,612	5,069,195
Accumulated net (deficit) revenues	(425,982)	(6,391)	119,858	(312,515)
Total capitalization	4,637,601	(6,391)	125,470	4,756,680
Total liabilities and capitalization	$ 4,970,281	192,512	222,101	5,384,894

See accompanying independent auditors' report.

WESTERN FEDERAL POWER SYSTEM

Combining Schedules of Revenues and Expenses Data

Year ended September 30, 2013

(In thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Operating revenues:				
Sales of electric power	$ 878,482	—	38,194	916,676
Transmission and other operating revenues	324,539	2,069	71,984	398,592
Total operating revenues	1,203,021	2,069	110,178	1,315,268
Operating expenses:				
Operation and maintenance	441,100	5,978	74,982	522,060
Purchased power	229,362	—	45,327	274,689
Purchased transmission services	71,527	—	354	71,881
Depreciation	136,329	—	4,429	140,758
Administration and general	52,181	1,218	5,845	59,244
Total operating expenses	930,499	7,196	130,937	1,068,632
Net operating revenues (expenses)	272,522	(5,127)	(20,759)	246,636
Interest expenses:				
Interest on payable to U.S. Treasury	45,891	—	8	45,899
Allowance for funds used during construction	(20,710)	—	—	(20,710)
Net interest on payable to U.S. Treasury	25,181	—	8	25,189
Interest on long-term liabilities	7,996	126	—	8,122
Net interest expense	33,177	126	8	33,311
Net revenues (deficit)	$ 239,345	(5,253)	(20,767)	213,325

See accompanying independent auditors’ report.

WESTERN FEDERAL POWER SYSTEM

Combining Schedules of Revenues and Expenses Data

Year ended September 30, 2012

(In thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Operating revenues:				
Sales of electric power	$ 872,492	—	53,385	925,877
Transmission and other operating revenues	308,494	5,755	54,677	368,926
Total operating revenues	1,180,986	5,755	108,062	1,294,803
Operating expenses:				
Operation and maintenance	468,644	16,541	54,418	539,603
Purchased power	157,148	—	53,472	210,620
Purchased transmission services	66,029	—	1,749	67,778
Depreciation	130,406	—	2,310	132,716
Administration and general	51,963	340	5,315	57,618
Total operating expenses	874,190	16,881	117,264	1,008,335
Net operating revenues (expenses)	306,796	(11,126)	(9,202)	286,468
Interest expenses:				
Interest on payable to U.S. Treasury	206,188	—	188	206,376
Allowance for funds used during construction	(14,199)	—	—	(14,199)
Net interest on payable to U.S. Treasury	191,989	—	188	192,177
Interest on long-term liabilities	8,384	139	—	8,523
Net interest expense	200,373	139	188	200,700
Net revenues (deficit)	$ 106,423	(11,265)	(9,390)	85,768

See accompanying independent auditors’ report.

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