

memorandum

DATE: **March 13, 1997** *116-4-15-97 JS①*

REPLY TO:

ATTN OF: **IG-30**

SUBJECT: **Western Area Power Administration's Fiscal Year 1996 Financial Statement Audit (WR-FC-97-03)**

TO: **Administrator, Western Area Power Administration**

The attached report presents the results of the independent certified public accountants' audit of the Department of Energy's Western Area Power Administration's (Western) combined financial statements as of September 30, 1996. The auditors have expressed an unqualified opinion on the 1996 statements.

The 1996 financial statement audit was made under provisions of the Inspector General Act (5 U.S.C. App.) as amended, the Government Management Reform Act (31 U.S.C. 3515), and Office of Management and Budget implementing guidance. The auditors' work was conducted in accordance with generally accepted government auditing standards. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG Peat Marwick LLP (KPMG) to conduct the audit for us, subject to our review.

The auditors' report on Western's internal control structure disclosed two new reportable conditions and discussed the status of an unresolved condition from prior years. The new conditions involved the write-off of aging accounts receivable and the understatement of interest expense for inactive construction work orders. These reportable conditions are not considered to be material weaknesses. Western concurred with the audit recommendations and is responsible for necessary corrective actions. The auditors also considered the overview and performance measure data for completeness and material consistency with the basic financial statements as noted in the internal control report.

The report also disclosed an additional reportable condition directed to the Bureau of Reclamation (Reclamation) which is not considered to be a material weakness. Reclamation concurred with the audit recommendation and is responsible for necessary corrective action.

The auditors' report on Western's compliance with laws and regulations disclosed two new instances of noncompliance involving interest charges on all construction costs funded with Federal appropriations and other capitalized costs. The report also discussed the status of one instance of noncompliance from prior years. Western provided concurrence and corrective action plans for all of these instances of noncompliance.

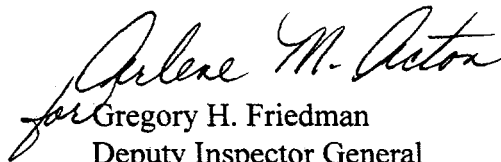
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During the course of the audit, KPMG identified certain other matters which, although not material to the financial statements, nevertheless warrant management's attention. These items are fully discussed in a separate letter to management.

We believe that the financial statements, together with KPMG's opinion and our review of that work, provide Western management and the Department of Energy's Chief Financial Officer with a basis for evaluating Western's financial position and results of operations for the period audited.

In accordance with Department Order 2320.2B, "Establishment of Departmental Position on Inspector General Reports," as amended by the October 11, 1994, memorandum on "Implementing Guidelines For Streamlining Pilot," no further action is required because corrective action is in progress.


for Gregory H. Friedman
Deputy Inspector General
for Audit Services

Attachments

cc: Audit Liaison, Western Area Power Administration
Director, Audit Liaison Division, CR-33
Manager, Western Regional Audit Office, IG-35

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KPMG

The Global Leader

WESTERN AREA POWER ADMINISTRATION

**Combined Power System
Financial Statements**

September 30, 1996 and 1995

(With Independent Auditors' Report Thereon)

WESTERN AREA POWER ADMINISTRATION

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OVERVIEW

The Western Area Power Administration (Western) was established December 21, 1977, under Section 302 of the Department of Energy Organization Act. Power marketing responsibilities and transmission system assets previously managed by the U.S. Bureau of Reclamation (Reclamation) were transferred to Western.

Western annually markets and transmits more than 10,000 megawatts (MW) of hydropower from 55 plants operated primarily by Reclamation, the U.S. Army Corps of Engineers, and the International Boundary and Water Commission. Western also markets the United States' 547 MW entitlement from the coal-fired Navajo Generating Station near Page, Arizona. These generation and transmission facilities are part of 11 rate setting systems made up of 14 multipurpose water resource projects and one transmission project. Each project maintains separate financial systems and accounting records.

Western and the generation agencies, identified above, though separately managed and financed, operate and maintain portions of the multipurpose projects, allocating their operating expenses among the projects. Costs are allocated among project individual purposes, which include power, navigation, irrigation, flood control, and recreation. The combined financial statements include only those amounts allocated to power for repayment for each of the four entities.

The goals shared by these entities include maintaining efficient and reliable generation and transmission systems; providing reliable, low-cost electricity to power customers; maintaining public safety, as well as a safe, accident-free work place for their employees; protecting and enhancing the environment; providing for national energy security, economic development, and energy diversity; and implementing quality improvements through management initiatives.

In fiscal year 1996, more than 39 billion kilowatt-hours of energy was sold to 636 wholesale power customers including municipalities, cooperatives, public utility, and irrigation districts, Federal and state agencies and investor-owned utilities. They, in turn, provided retail electric service to millions of consumers in these central and western states: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah, and Wyoming.

The generating agencies operate and maintain storage dams and reservoirs in addition to powerplants identified above. Western operates and maintains the integrated, high-voltage power transmission system to supply power to its customers. This system consists of 16,857 miles (27,123 kilometers) of transmission lines, 258 substations, and other complex electrical facilities in a 1.3-million-square-mile service area.

Western's staff is located in 47 duty stations throughout the service area. These include the Corporate Service Office in Golden, Colorado; and four regional offices in Billings, Montana; Loveland, Colorado; Phoenix, Arizona; and Folsom, California. Customer service and system operations are also supported by a Customer Service Office in Salt Lake City, Utah, and other offices in Bismarck, North Dakota; Fort Peck, Montana; Huron, South Dakota; and Montrose, Colorado; and an Operations Office staff in Watertown, South Dakota.

Appropriations are obtained to finance the expenses of most of the power systems. However, Western's operations and maintenance and power marketing expenses for the Colorado River Storage Project, the Colorado River Basin Project, and the Seedskeedee, Dolores, and Fort Peck Projects are financed from power revenues. The Colorado River Basin Project includes Western's expenses associated with the Central Arizona Project and the United States' entitlement from the Navajo coal-fired power plant. Funding is provided from the Colorado River Dam Fund to carry out the power marketing and transmission activities of the Boulder Canyon Project. Work for other Federal and non-Federal organizations under authority of the Economy Act and the Contributed Funds Act is also performed.

Western generated \$799.8 million in gross operating revenue in fiscal year 1996. Annual expenses for Western and the generating agencies included \$204.8 million for operations and maintenance, \$45.2 million for administrative and general expenses, \$95.4 million for depreciation; \$129.1 million in power purchases; and \$29.9 million in purchased transmission services. Net interest expense totaled \$193.7 million. Approximately \$14.2 million of Federal investment was repaid in fiscal year 1996.

PERFORMANCE MEASURES

FINANCIAL PERFORMANCE MEASURES

NOTE: As described in note 1(c) of the combined financial statements, Western acts as the power marketing agent for the Bureau of Reclamation's (Reclamation) power entitlement in the Navajo generating station, as prescribed by law. Revenues collected by Western are subsequently transferred to Reclamation's Central Arizona Project (RCAP) which is primarily an irrigation project. Such transfers are included in "income transfers, net" in the combined statement of revenues, expenses, and accumulated net revenues. Western's combined financial statements exclude all assets, liabilities, and operating expenses of RCAP. For the purposes of the following financial performance measures, CAP revenues transferred to Reclamation have also been excluded.

Debt Service Coverage Ratio:

The debt service coverage ratio measures revenues in excess of operating expenses available to make principal and interest payments. A ratio of 1.0 indicates sufficient cash flow to meet these payments, in addition to all other cash expenses. Western's FY 1996 ratio decreased below that in FY 1995 as influenced by an increase in net interest expense in FY 1996. Also, Western's purchased power expenses decreased \$44.7 million providing additional net operating revenue.

<u>FY</u>	<u>Rate</u>
1996	1.37
1995	1.48

Cumulative Principal Payments as a Percent of Total Federal Investment (Investment Repaid):

This indicator measures the progress toward reduction of cumulative principal over time. It compares the cumulative principal payments made relative to the total Federal investment to date. The FY 1996 rate decreased from the FY 1995 rate as a result of a \$318.9 million increase in Federal investment in FY 1996. The major investment increases occurred in the Pick-Sloan Missouri Basin Program with \$154.4 million (aid to irrigation in Belle Fourche and North Loup Block 4) and the Colorado River Storage Project with \$57 million.

<u>FY</u>	<u>Rate</u>
1996	34.30%
1995	35.82%

Percent Variance of Actual From Planned Annual Principal Payments:

Western's power generation and transmission activities provided \$14.2 million for repayment of unpaid Federal investment during FY 1996. This indicator measures the variance of actual from planned principal payments to the U.S. Department of the Treasury. The indicator is zero when the actual payment is equal to the planned payment. In FY 1996, Western's actual principal payments did not meet the planned principal payment amounts. This can be attributed to paying down deficits. In FY 1995, the actual principal payment exceeded the planned principal repayment.

<u>FY</u>	<u>Rate</u>
1996	-56.02%
1995	105.96%

NOTE: The latest industry statistics currently available are provided in the report titled, "Selected Financial and Operating Ratios of Public Power Systems, 1994," dated February 1996, as prepared by the American Public Power Association. Statistics are calculated based on data from over 400 of the largest publicly-owned electric utilities in the United States.

Operation and Maintenance (O&M) Cost/Kilowatt-hour (kWh) Sold:

O&M and administration and general expenses (AGE) costs per kWh sold is a measure of the cost to operate and maintain Western's transmission system, based on firm energy sales, and is measured as a cost per kWh sold. The ratio and subsequently, the cost decreased in FY 1996 due to a \$10.96 million decrease in O&M and AGE expenses. The FY 1994 industry average was \$0.047/kWh.

<u>FY</u>	<u>Rate</u>
1996	\$0.0083
1995	\$0.0088

Operating Ratio - Total Operation and Maintenance (O&M) Expenses/Total Operating Revenues:

This indicator measures the proportion of revenues received from electricity sales, rate adjustments, and other activities required to cover operating costs (which include O&M, AGE, purchased power, and purchased transmission) associated with producing and selling electricity. Western's FY 1996 rate decreased from that in FY 1995. Improved water conditions and higher reservoir levels resulted in increased generation and decreased power purchases in all three river basins. In FY 1996 the Central Valley Project purchases decreased \$13.6 million. CRSP and Pick-Sloan purchases decreased \$13.8 million. and \$20.5 million, respectively. The FY 1994 industry rate was 0.785.

<u>FY</u>	<u>Rate</u>
1996	\$0.569
1995	\$0.651

Revenue/Kilowatt-hour (kWh) Sold:

This indicator measures the amount of revenue (dollars) received for each kWh of electricity sold to wholesale customers. Western's rate declined in FY 1996 from FY 1995 as a reflection of sales of the increased FY 1996 generation from the system being sold non-firm and off-peak. This category of power is generally sold at lower rates than firm sales. The FY 1994 industry rate was \$0.060/kWh.

<u>FY</u>	<u>Rate</u>
1996	\$0.016
1995	\$0.019

Total Power Supply Expense/Kilowatt-hour (kWh) Sold:

This indicator measures all power supply costs, including generation and purchased power, associated with the sale of each kWh of electricity. Western's FY 1996 cost decreased predominately as a result of the decrease in purchased power expenses and the increase in kWhs sold. The FY 1994 industry average was \$0.038/kWh.

<u>FY</u>	<u>Rate</u>
1996	\$0.011
1995	\$0.014

OPERATIONAL PERFORMANCE MEASURES

Western's goals include commitments to maintaining a safe, accident-free work place, and a safe, efficient, and reliable transmission system. In as much, Western also reports on a number of operational measures for occupational safety and health and transmission system efficiency.

Occupational Safety and Health Performance Measures

NOTE: The following measures, as adopted by the U.S. Department of Energy (DOE) for occupational injuries and illnesses, are recognized throughout the industry (public and private utilities) and by statistical gathering entities to include the National Safety Council, Bureau of Labor Statistics and National Institute for Occupational Safety and Health. Industry statistics are provided on a calendar-year (CY) basis, accordingly, Western's measures have been calculated for the same timeframe.

Lost Workday Case Rate (Lost-Time Injury Frequency Rate):

This indicator measures the number of accidents (cases) per 200,000 hours worked. A comparison of Western's rate to the industry average is provided below.

<u>Western</u>		<u>Industry</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1996	0.4	1996	1.3
1995	0.8	1995	2.5

Total Recordable Case Rate (Recordable Accident Frequency Rate):

This indicator measures the recordable accident frequency rate by multiplying the number of recordable injuries by 200,000 then dividing by the total hours worked. The industry average is almost five times greater than Western's. A comparison of Western's rate to the industry average is provided below.

<u>Western</u>		<u>Industry</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1996	1.2	1996	5.7
1995	2.1	1995	5.8

Motor Vehicle Accident (Frequency) Rate:

This indicator measures the accident frequency rate by multiplying the number of recordable accidents by 1,000,000, and then dividing by the recorded miles driven. This rate does not distinguish between "preventable" or "non-preventable" accidents. In 1996 Western's rate is less than half of the DOE average. A comparison of Western's rate to the DOE average is provided as follows:

<u>Western</u>		<u>DOE</u>	
<u>CY</u>	<u>Rate</u>	<u>CY</u>	<u>Rate</u>
1996	1.2	1996	2.6
1995	1.6	1995	2.4

Transmission System Performance Measure

Operations Performance Measure: Area Control Error (ACE):

ACE measures the instantaneous difference between actual and scheduled electrical power interchange including the effects of deviation from 60 hertz frequency. Each control area should be in compliance with A1 and A2 Criteria at least 90 percent of the time. Control criteria compliance is a measure used to determine if utility employees, control equipment, and generation are responsive to the minute-by-minute load changes throughout the year. Good control performance is required to maintain system reliability and to reduce losses, as well as a matter of equity among interconnected systems. Western's rate is well above both the minimum requirement and the industry average.

<u>Western</u>		<u>Industry</u>	
<u>FY</u>	<u>Rate</u>	<u>FY</u>	<u>Rate</u>
1996	98.2	1996	91.9
1995	99.0	1995	92.8

KPMG Peat Marwick LLP

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Independent Auditors' Report

The Administrator
Western Area Power Administration
United States Department of Energy:

We have audited the accompanying combined power system statements of assets, Federal investment, and liabilities of the Western Area Power Administration (Western) as of September 30, 1996 and 1995, and the related combined power system statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended. These combined power system financial statements are the responsibility of Western's management. Our responsibility is to express an opinion on these combined power system financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined power system financial statements referred to above present fairly, in all material respects, the financial position of Western as of September 30, 1996 and 1995, and the results of its operations and changes in accumulated net revenues, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 13, 1996 on our consideration of Western's internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the combined power system financial statements taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the combined power system financial statements rather than to present the financial position, results of operations, and changes in accumulated net revenues, and cash flows of individual projects. The combining information has been subjected to the auditing procedures applied in the audits of the combined power system financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined power system financial statements taken as a whole.

The information presented in management's *Overview and Performance Measurements* is not a required part of the combined power system financial statements, but is supplementary information required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the combined power system financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the combined power system financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview and Performance Measurements* is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin 93-06.

This report is intended for the information of the management of Western and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 13, 1996

WESTERN AREA POWER ADMINISTRATION

Combined Power System
Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995

(In thousands)

	<u>1996</u>	<u>1995</u>
<u>Assets</u>		
Utility plant:		
Completed plant	\$ 5,045,569	4,888,929
Accumulated depreciation	<u>(1,662,435)</u>	<u>(1,585,133)</u>
	3,383,134	3,303,796
Construction work-in-progress	<u>301,231</u>	<u>362,501</u>
Net utility plant	<u>3,684,365</u>	<u>3,666,297</u>
Cash	312,578	341,655
Accounts receivable	116,294	143,236
Other assets	<u>105,371</u>	<u>99,317</u>
Total assets	<u>\$ 4,218,608</u>	<u>4,250,505</u>
<u>Federal Investment and Liabilities</u>		
Federal investment:		
Congressional appropriations	\$ 8,385,061	8,009,392
Interest on Federal investment	2,985,635	2,786,583
Transfer of property and services, net	<u>547,741</u>	<u>678,918</u>
Gross Federal investment	11,918,437	11,474,893
Funds returned to U.S. Treasury	<u>(8,292,681)</u>	<u>(7,816,918)</u>
Net outstanding Federal investment	3,625,756	3,657,975
Accumulated net revenues	<u>302,526</u>	<u>288,421</u>
Total Federal investment	<u>3,928,282</u>	<u>3,946,396</u>
Commitments and contingencies (notes 5, 7, and 8)		
<u>Liabilities</u>		
Accounts payable	73,039	46,940
Other liabilities	<u>217,287</u>	<u>257,169</u>
Total liabilities	<u>290,326</u>	<u>304,109</u>
Total Federal investment and liabilities	<u>\$ 4,218,608</u>	<u>4,250,505</u>

The accompanying notes are an integral part of these combined power system financial statements.

WESTERN AREA POWER ADMINISTRATION

Combined Power System
Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1996 and 1995

(In thousands)

	<u>1996</u>	<u>1995</u>
Operating revenues:		
Sales of electric power	\$ 676,927	693,519
Other operating income	<u>122,836</u>	<u>103,656</u>
Gross operating revenues	799,763	797,175
Income transfers, net	<u>(87,485)</u>	<u>(83,594)</u>
Total operating revenues	<u>712,278</u>	<u>713,581</u>
Operating expenses:		
Operation and maintenance	204,753	212,568
Administrative and general	45,245	48,264
Purchased power	129,136	173,851
Purchased transmission services	29,929	27,858
Depreciation	<u>95,437</u>	<u>84,762</u>
Total operating expenses	<u>504,500</u>	<u>547,303</u>
Net operating revenues	<u>207,778</u>	<u>166,278</u>
Interest on Federal investment:		
Interest on Federal investment	211,350	143,031
Allowance for funds used during construction	<u>(17,677)</u>	<u>1,907</u>
Net interest expense	<u>193,673</u>	<u>144,938</u>
Net revenues	14,105	21,340
Accumulated net revenues:		
Balance, beginning of year	<u>288,421</u>	<u>267,081</u>
Balance, end of year	<u>\$ 302,526</u>	<u>288,421</u>

The accompanying notes are an integral part of these combined power system financial statements.

WESTERN AREA POWER ADMINISTRATION

Combined Power System
Statements of Cash Flows

Years ended September 30, 1996 and 1995

(In thousands)

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net revenues	\$ 14,105	21,340
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	95,437	84,762
Interest on Federal investment	184,070	133,899
Write on of recoverable asset	(13,052)	-
(Increase) decrease in assets:		
Accounts receivable	26,942	(28,375)
Other assets	4,474	8,132
Increase (decrease) in liabilities:		
Accounts payable	26,099	(21,668)
Other liabilities	(34,358)	16,542
Net cash provided by operating activities	<u>303,717</u>	<u>214,632</u>
Cash flows from investing activities - investment in utility plant	<u>(100,431)</u>	<u>(149,553)</u>
Cash flows from financing activities:		
Congressional appropriations	245,263	244,295
Funds returned to U.S. Treasury	(475,763)	(415,065)
Customer advances	400	3,400
Principal payments to upraters	(2,263)	(4,892)
Net cash used in financing activities	<u>(232,363)</u>	<u>(172,262)</u>
Decrease in cash	(29,077)	(107,183)
Cash at beginning of year	<u>341,655</u>	<u>448,838</u>
Cash at end of year	<u>\$ 312,578</u>	<u>341,655</u>
 <u>Supplemental Schedule of Noncash Investing and Financing Activities</u>		
Capitalized interest during construction	\$ 17,677	(1,907)
Transfer of construction work-in-progress to completed plant	213,460	353,146

The accompanying notes are an integral part of these combined power system financial statements.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

September 30, 1996 and 1995

(1) Basis of Preparation of Financial Statements and Summary of Significant Accounting Policies

(a) General

Western Area Power Administration's (Western) combined power system financial statements include the individual power projects listed in note 2 to these financial statements. Western is the Federal power marketing administration for these power projects. Except for the Central Arizona Project and the Pacific Northwest-Pacific Southwest Intertie, these power projects are part of multipurpose water resource projects and include certain transmission facilities of Western, an agency of the U.S. Department of Energy (DOE), and certain generating facilities of the U.S. Department of the Interior, Bureau of Reclamation (Reclamation); the U.S. Department of Defense, Army Corps of Engineers (the Corps); and the U.S. Department of State, International Boundary and Water Commission (IBWC). The United States has no ownership in power facilities of the Central Arizona Project (CAP), but does have an entitlement to power from the project generating facility and a transmission capacity entitlement to transmission facilities.

Western markets and transmits throughout 15 western states power which is produced by hydropower plants operated by Reclamation, the Corps, and IBWC. Each are separately managed and financed, and maintain separate accounting records. Reclamation, the Corps, and IBWC operate and maintain generating facilities that are part of multipurpose water resource projects and, accordingly, allocate certain operating expenses and net assets among the projects' activities. Costs of the multipurpose projects are allocated to individual purposes (principally power, irrigation, municipal and industrial water, navigation, and flood control) through cost allocation processes. (See note 5b.) The accompanying combined power system financial statements include only those expenses and net assets which are expected to be recovered through the sale of power and other related income.

Accounts are maintained in accordance with generally accepted accounting principles (GAAP) and the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). Accounting policies also reflect specific legislation and executive directives issued by Federal government departments. Western's combined power system financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effect of Certain Types of Regulation*. The provisions of SFAS No. 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

(b) Confirmation and Approval of Rates

The Secretary of Energy (Secretary) has delegated authority to Western's Administrator to develop power and transmission rates for the power projects. The Deputy Secretary of Energy has the authority to confirm, approve, and place such rates in effect on an interim basis.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(b) Confirmation and Approval of Rates (continued)

The Secretary delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis; to remand; or to disapprove such rates. Refunds with interest, as determined by FERC, are authorized if rates finally 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 significant refunds are anticipated in connection with rates approved on an interim basis through September 30, 1996.

(c) Operating Revenues

Operating revenues are recorded on the basis of power and services provided. Except for power projects using revolving funds, cash received is deposited directly with the U.S. Department of the Treasury (U.S. Treasury) and is reflected as "Funds returned to U.S. Treasury" in the accompanying combined power system statements of assets, Federal investment, and liabilities. For power projects using revolving funds, cash received is deposited in the U.S. Treasury and remains available to the project for operation and maintenance expenses. (Construction expenditures are financed through Congressional appropriations.) For revolving fund projects, cash collected in excess of expenditures is used for repayment of investment to the U.S. Treasury.

Power and transmission rates are established under requirements of the power projects' authorizing legislation and related Federal statutes and are intended to provide sufficient revenue to recover all costs allocated to power and, in some projects, a portion of irrigation-related costs (when such costs are beyond the ability of the irrigation users' ability to repay.) Costs allocated to power include repayment to the U.S. Treasury of its investment in power facilities and interest thereon. Rates are structured to provide for repayment of investment in power facilities, generally over 50 years, while operation and maintenance costs and interest on Federal investment are recovered annually.

The projects' enacting legislation does not recognize annual depreciation based on actual service lives as a measure of the required repayment for investment in utility plant. This results in some assets being fully depreciated before costs are recovered whereas annual depreciation costs on other assets continue after such costs have been recovered through revenues. Western matches these costs and revenues by deferring the unmatched portion of the revenues as accumulated net revenues. Because Western is a nonprofit Federal power marketing agency, accumulated net revenues are committed to repayment of the Federal investment.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of recognizing expenses and the related revenues, with the primary cause related to the difference between the recognition of depreciation expense and the related recovery of the U.S. Treasury's investment in utility plant. At any given time, the accumulated net revenue (deficit) balance is deemed to represent net deferred revenue or expense.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Operating Revenues (continued)

Income transfers, net, represent the amount of funds collected but subsequently transferred relating to the surplus generation marketed from the Navajo Generating Station on behalf of Reclamation's Central Arizona Project and the Central Arizona Water Conservation District.

(d) Cash

For purposes of reporting cash flows, cash consists principally of the unexpended balance of funds authorized by Congress, customer advances, as well as revolving fund revenues at the U.S. Treasury.

(e) Utility Plant

Utility plant is stated at original cost, net of contributions in aid of construction by entities outside of the combined power system. Costs include direct labor and materials, payments to contractors, indirect charges for engineering, supervision and administrative and general expense, and interest during construction (IDC). The costs of additions, major replacements, and betterments are capitalized, with the exception of replacements at the Boulder Canyon Project which are charged to operation and maintenance expense. Repairs are charged to operation and maintenance expense. The cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation at the time the plant retired is removed from service. Plant assets of the power systems are currently depreciated using the straight-line method over estimated service lives ranging from 16 years to 89 years.

(f) Interest on Federal Investment

Interest is accrued annually on the Federal investment as mandated by Federal statute and project legislation. Such interest is reflected as an annual expense in the accompanying statements of revenues, expenses, and accumulated net revenues with a corresponding increase in the gross Federal investment. Western calculates interest on Federal investment based on the annual unpaid balance using rates set by law, administrative orders pursuant to law, or administrative policies. Western follows the provisions of DOE Procedure RA 6120.2 which sets forth the priority of repayment. DOE Procedure RA 6120.2 requires annual net revenues available for repayment to be applied first to annual operating expenses and then to investment in facilities bearing the highest interest rate (see note 5a). Interest rates range from 0 to 12.4 percent depending on the year in which construction on the transmission and generation facilities was initiated or on the authorizing legislation.

As allowed under Federal law, interest is not accrued on Federal investment in irrigation facilities anticipated to be repaid through power sales. (See note 7b.)

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(g) Interest During Construction (IDC)

The practice of capitalizing IDC is followed for all generating and transmission facilities with the exception of certain portions of Central Valley Power System's generating facilities, which are currently exempt from IDC. Western generally calculates IDC based on the average annual outstanding balance of construction work-in-progress. Western's policy is to capitalize IDC through the end of the fiscal year in which assets are placed in service. IDC is recovered over the repayment period of the related plant asset through increased revenues resulting from higher investment. Applicable interest rates ranged from 7.1 to 12.4 percent for the years ended September 30, 1996 and 1995, respectively.

(h) Retirement Benefits

Western, Reclamation, the Corps, and IBWC employees participate in either the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and total 7 percent for CSRS and up to 12.2 percent for FERS. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM).

The contribution levels as legislatively mandated do not reflect the full cost requirements to fund the CSRS pension plan (approximately 25.1 percent). Additional sources of funding include direct appropriations provided to the OPM, not the individual agencies. The cost of health and life insurance benefit programs are similarly administered and paid through OPM.

In fiscal year 1997, as recommended by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* and SFFAS No 5, *Accounting for Liabilities of the Federal Government*, the full cost of pension and other retirement benefits will be reported in the accompanying combined power system financial statements. At that time, any portion of these expenses funded by OPM will be specifically identified.

(i) Income Taxes

The facilities and income included in these combined power system financial statements are exempt from taxation.

(j) Use of Estimates

Western's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates. (See notes 5b and 7d.)

(k) Reclassification

Certain amounts in the prior year's combined power system financial statements have been reclassified to conform with the fiscal year 1996 presentation.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(2) Power Projects and Authorizing Legislation

Western's combined power system financial statements include the financial position, results of operations, and cash flows of 15 separate power projects. The following is a list of the Federal power projects and related authorizing legislation. The transmission and generating facilities are operated as individual integrated power projects with the financial results combined in these financial statements.

- Boulder Canyon Power System
Boulder Canyon Project Act of 1928, as amended
- Central Arizona Project
Colorado River Basin Project Act of 1968, as amended
- Central Valley Power System
Act of August 26, 1937, as amended
- Collbran Power System
Act of July 3, 1952
- Colorado River Storage Power System
Colorado River Storage Project Act of 1956, as amended
- Dolores Power System
Colorado River Basin Project Act of 1968, as amended
- Falcon-Amistad Power System (International Boundary and Water Commission)
Acts of June 18, 1954, and July 7, 1960
- Fryingpan-Arkansas Power System
Act of August 16, 1962, as amended
- Pacific Northwest-Pacific Southwest Intertie Project
Act of August 31, 1964
- Parker-Davis Power System
Act of May 28, 1954
- Pick-Sloan Missouri Basin Power System
Flood Control Act of 1944, as amended
- Provo River Power System
Finding of Feasibility by the Secretary of the Interior, November 13, 1935
- Rio Grande Power System
Act of February 25, 1905
- Seedskadee Power System
Act of April 11, 1956
- Washoe Power System
Act of August 1, 1956

WESTERN AREA POWER ADMINISTRATION
Notes to Combined Power System Financial Statements

(3) Other Assets

Other assets as of September 30, 1996 and 1995, consist of the following (in thousands):

	<u>1996</u>	<u>1995</u>
Movable equipment, net	\$ 46,470	51,650
Stores inventory	20,627	22,819
Abandoned project costs	11,016	800
Interchange energy	10,537	5,940
Miscellaneous deferred debits	5,945	6,632
Energy banking deferral	5,925	2,462
Prepayments and advances to others	2,637	6,145
Deposit funds available	<u>2,214</u>	<u>2,869</u>
Total	<u>\$ 105,371</u>	<u>99,317</u>

The energy banking deferral is an arrangement with certain customers in which excess power and/or transmission capacity is banked with the customers until additional power is needed by Western to meet contractual obligations. Western records an other asset for the banked power and/or transmission services provided at a contractually agreed-upon amount. The net revenue or expense associated with the banking activity is deferred as an other liability.

(4) Utility Plant

Major classes of utility plant and related accumulated depreciation as of September 30, 1996 and 1995, consist of the following (in thousands):

	<u>1996</u>			<u>1995</u>		
	<u>Western</u>	<u>Generating agencies</u>	<u>Total</u>	<u>Western</u>	<u>Generating agencies</u>	<u>Total</u>
Completed plant:						
Generating plant	\$ -	2,834,917	2,834,917	-	2,805,795	2,805,795
Transmission plant	<u>2,210,652 *</u>	<u>-</u>	<u>2,210,652</u>	<u>2,083,134 *</u>	<u>-</u>	<u>2,083,134</u>
	2,210,652	2,834,917	5,045,569	2,083,134	2,805,795	4,888,929
Accumulated depreciation	<u>(694,844)</u>	<u>(967,591)</u>	<u>(1,662,435)</u>	<u>(651,659)</u>	<u>(933,474)</u>	<u>(1,585,133)</u>
	<u>1,515,808</u>	<u>1,867,326</u>	<u>3,383,134</u>	<u>1,431,475</u>	<u>1,872,321</u>	<u>3,303,796</u>
Construction work-in-progress:						
Generating plant	-	83,812	83,812	-	91,805	91,805
Transmission plant	<u>217,419</u>	<u>-</u>	<u>217,419</u>	<u>270,696</u>	<u>-</u>	<u>270,696</u>
	<u>217,419</u>	<u>83,812</u>	<u>301,231</u>	<u>270,696</u>	<u>91,805</u>	<u>362,501</u>
Net utility plant	<u>\$ 1,733,227</u>	<u>1,951,138</u>	<u>3,684,365</u>	<u>1,702,171</u>	<u>1,964,126</u>	<u>3,666,297</u>

* Includes approximately \$21 million and \$30 million of intangible assets representing power rights as of September 30, 1996 and 1995, respectively.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(5) Federal Investment and Cost Allocation

(a) General

Federal investment consists of Congressional appropriations (including nonreimbursable expenses), accumulated interest on unpaid Federal investment, and the net transfers of property and costs from other Federal agencies. All power projects (except Central Arizona, Fort Peck, Dolores, Seedskadee, and the operations and maintenance and purchased power programs of the Colorado River Storage Project) are primarily financed through Congressional appropriations for operation and maintenance and a portion of construction and rehabilitation and purchased power expenditures. The remainder of construction and rehabilitation and purchased power expenditures are financed through other mechanisms such as advances from nonfederal entities; reimbursements from other Federal Agencies; alternative methods such as net billing and bill crediting; or any combination thereof.

The Federal investment in the combined power systems' utility plant is to be repaid to the U.S. Treasury within 50 years from the time the facilities are placed in service or are commercially operational. Replacements to Federal investments are generally to be repaid over their expected service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis. However, operating expenses (excluding depreciation expense) and interest on the unpaid Federal investment should be paid annually. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenue prior to any repayment of Federal investment. Interest is accrued on cumulative annual net deficits until paid. As of September 30, 1996 and 1995, the cumulative unpaid annual operating expenses (excluding depreciation expense) and interest on Federal investment was approximately \$81 million and \$195 million, respectively.

(b) Federal Investment in Multipurpose Facilities

The Federal investment in certain multipurpose facilities (primarily dams and appurtenant structures integral to the generation of power), required to be repaid from the sale of power, has been determined from preliminary cost allocation studies based on standards approved by Congress. Allocations between power and nonpower activities may be changed in future years; however, an allocation standard cannot be changed unless the change is also approved by Congress.

Final studies will be performed by Reclamation and the Corps, as appropriate, upon completion of each of the individual power projects and are still pending for all but the Fryingpan-Arkansas (FryArk) project. The FryArk final study was completed by Reclamation in fiscal year 1993. The Boulder Canyon and Parker-Davis projects are not subject to cost allocation studies since these projects' enacting legislation required the total cost of the dams and appurtenant structures to be repaid through power revenues.

As final cost allocation studies are still pending for many of the individual projects comprising the combined power system, potential exists for significant future adjustment in the Federal investment for the cost of multipurpose facilities allocated to power, and the related accrued interest on unpaid investment. Changes in the allocation of operating and maintenance expenses are accounted for prospectively, unless specific legislation requires retroactive application.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Shasta Cold Water Releases

For the years ended September 30, 1996 and 1995, bypass releases at the Shasta Dam resulted in Western increasing its purchased power and wheeling costs by \$15.3 million and \$11.3 million (as revised), respectively. As part of the Energy and Water Development Appropriations Act of 1990, Congress included a provision stating that any increase in purchase power costs incurred by Western after January 1, 1986, resulting from bypass releases for temperature control purposes related to preservation of anadromous fisheries in the Sacramento River shall not be the responsibility of power customers. Accordingly, such costs have been charged against Congressional appropriations in the accompanying combined power system statements of assets, Federal investment, and liabilities; thus increasing the net revenue applied to Federal investment subject to repayment.

(6) Other Liabilities

Other liabilities as of September 30, 1996 and 1995, consist of the following (in thousands):

	1996	1995
Customer advances	\$ 169,173	174,759
Cooperative and reimbursable work trust fund liability	17,801	28,200
Accrued annual leave	10,024	10,159
Energy banking deferral	5,925	2,462
Interchange energy	4,965	12,474
Deposit funds	4,407	4,773
Accrued payroll benefits	2,616	2,163
Miscellaneous deferred credits	2,376	22,179
Total	\$ 217,287	257,169

Customer advances primarily consist of two components. The first component consists of the principal and interest payable to contractors/customers of the Boulder Canyon project who provided financing for the cost of upgrading each of the generating units at Hoover Dam. The liability to such customers is being relieved through the issuance of credits on the subsequent sale of power. The obligation is scheduled to be relieved over a period through and including the year 2017, with interest at rates ranging between 5.5 and 8.2 percent. The second component consists of the principal payable to the State of Wyoming which provided partial financing for the cost of improvements at the Buffalo Bill Dam and associated powerplants. The liability to the State of Wyoming is scheduled to be relieved over a period of 35 years beginning in 1996, with an approximate interest rate of 11.1 percent.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(7) Commitments and Contingencies

(a) General

Western, Reclamation, the Corps, and IBWC are involved in various claims, suits, and complaints which are routine to the nature of their business. In the opinion of management and their legal counsel, the actions are either without merit or involve amounts which are not material to these combined power system financial statements.

The accompanying September 30, 1996, combined power system statement of assets, Federal investment, and liabilities includes investment in completed plant for the Hoover Dam visitor facilities. Presently, the total cost of the facilities, including IDC, is approximately \$124 million and contingent upon the settlement of the following claim.

The construction contractor for the Hoover Dam visitors center and parking structure submitted a \$32.3 million breach of contract claim to Reclamation on July 28, 1995. The Contracting Officer issued a final decision on the claim on September 21, 1995, stating that the claim, as submitted, was denied. Subsequently, the contractor filed a breach of contract lawsuit against Reclamation with the Court of Federal Claims on October 4, 1995. The lawsuit is in the early stages of litigation.

Reclamation believes the claim is excessive and unsupported, although Reclamation acknowledges that the construction contractor may be due some consideration as a result of some necessary contract modifications. Reclamation plans to complete a technical evaluation of the project by February 1997. This evaluation is expected to provide the basis for a determination of an appropriate amount, if any, to be paid to the construction contractor for contract modifications.

(b) Irrigation Assistance

Federal statute requires the use of the combined power system's net revenues to repay the U.S. Treasury a certain 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. Although these costs may be paid through sales of power, such costs do not represent an operating cost of the combined power system. Accordingly, neither the costs nor the related revenues will be reflected in the financial statements of the combined power system at the time such revenues are collected and returned to the U.S. Treasury. Such payments were \$1 million and \$1.1 million for the years ended September 30, 1996 and 1995, respectively.

(c) Financing of Boulder Canyon Project Improvements

In 1987, Reclamation initiated a project designed to increase (uprate) the generating capacity of the Boulder Canyon Project (the Project). Certain customers of the Project agreed to provide funding for the cost of the improvements, primarily through the issuance of long-term bonds. In some cases, proceeds from the issuance of the bonds exceeded the amounts required to fund the cost of the improvements.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Financing of Boulder Canyon Project Improvements (continued)

For purposes of measuring the liability related to the Uprating Program (the Program), Reclamation reports only the total amount of the advances received from customers in the accompanying combined power system statements of assets, Federal investment, and liabilities. Bond issuance costs are being included in the determination of annual interest expense to be recognized over the term of the debt repayment. The net proceeds from the issuance of the debt, in excess of the amount advanced to Reclamation, have similarly been excluded from the assets of the Project.

Presently, interest expense on the liability is measured based on the total outstanding bonded indebtedness. Interest income from excess proceeds will reduce future interest costs subject to arbitrage regulations. Until all improvements are complete, and any remaining excess funds are applied against outstanding debt, the total interest cost of financing the Uprating Program will be subject to uncertainty.

(d) Colorado River Storage Project

In October 1992, Congress passed the Grand Canyon Protection Act of 1992 (the Act). The purpose of the Act was to "protect. . . and improve the values for which the Grand Canyon National Park and Glen Canyon National Recreation Area were established".

The Act relieves Colorado River Storage Project (CRSP) power customers of repayment obligations for capital costs equivalent to certain expenses of environmental impact studies related to the Glen Canyon Dam. However, in connection with this legislation, Congress included a provision that such costs could become the responsibility of the power customers if the overall provisions of the Act cause net offsetting receipts to decrease through fiscal year 1997. Beginning in fiscal year 1998, power customers will receive credit to outstanding capital obligations equal to their spending on the aforementioned environmental expenses.

The Secretary of the Interior in concert with Reclamation management are in the process of studying the provisions of the Act and are reconsidering previous interpretations applied to these costs by Reclamation through 1996. Thus, final determination of these costs is subject to uncertainty. As such, Reclamation will continue to account for these costs under the current interpretation until the Secretary submits a report with the final determination to the appropriate House and Senate committees. Any future obligations related to the final allocation of these costs will be reflected in the period in which such obligations become evident.

For the years ended September 30, 1996 and 1995, Western and Reclamation incurred \$12.8 million and \$13.9 million, respectively, in environmental costs which were deemed nonreimbursable. Accordingly, such costs have been charged against Congressional appropriations in the accompanying combined power system statements of assets, Federal investment, and liabilities; thus increasing the net revenue applied to the Federal investment subject to repayment.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(e) Power Contract Commitments

Western has entered into various long-term agreements for power and transmission purchases to meet its contract obligations. For the years ended September 30, 1996 and 1995, purchased power expenses totaled \$129.1 million and \$173.9 million; and purchased transmission service expenses totaled \$29.9 million and \$27.9 million, respectively.

(8) Other

(a) Washoe Project

The Washoe Project Power Repayment Study dated January 10, 1997, indicates the project requires a rate of at least 57 mills per kWh to cover annual operating expenses (excluding depreciation expense) plus interest to repay the Federal investment in project facilities allocated to power. At this time, Western is selling the output of the Stampede powerplant at 18.95 mills per kWh.

Cumulative unpaid annual operating expenses plus interest and the net unpaid Federal investment in Washoe Project facilities total approximately \$4.1 and \$3.9 million and \$8.9 and \$8.9 million as of September 30, 1996 and 1995, respectively. Based on current conditions, it is unlikely the project will be able to generate sufficient revenues to repay the Federal investment. Power rates currently in place at the Washoe Power System have been placed into effect on an interim basis and are waiting FERC approval.

(b) PG&E Energy Settlement for Energy Account No. 2 Rates

On February 2, 1992, Western and Pacific Gas and Electric (PG&E) entered into a settlement agreement on the methodology to be used to calculate PG&E's thermal rates for PG&E capacity and energy purchases under Contract No. 14-06-200-2948A (Thermal Rate Settlement). The Thermal Rate Settlement provides for the reconciliation of costs for energy withdrawals and deposits from Energy Account No. 2 (EA2). The settlement period for the reconciliation of costs of energy deposits and withdrawals covers 1985 through 1992.

On April 18, 1994, PG&E filed a Rate Schedule with FERC acknowledging the reconciliation of the energy account costs. The reconciliation of the rates for the 1985 through 1992 period, including interest, resulted in PG&E owing Western \$39.8 million. It was agreed that PG&E would apply the refund as a credit against Western's energy bills starting with the month of October 1993.

Refunds applied cumulatively through September 30, 1996 totaled \$39.4 million. The remaining credit will be returned to the rate payers as the credit is applied against PG&E billings.

WESTERN AREA POWER ADMINISTRATION

Notes to Combined Power System Financial Statements

(c) Celio-Mead Transmission Line

In 1993, Western's management of the Pacific Northwest-Pacific Southwest Intertie Project determined the Celio-Mead 750-kV DC line project abandoned. Accordingly, \$13.5 million in costs were charged against operations and maintenance (O&M) expense. In 1996, Western restored the asset through a credit to O&M expense and began amortizing these abandoned project costs. For the year ended September 30, 1996, actual O&M expense on the project amount to \$1.3 million which includes approximately \$.5 million in amortization expense.

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statements of Assets, Federal Investment, and Liabilities

September 30, 1996 and 1995

(In thousands)

	1996			1995		
	Western	Generating agencies ¹	Total	Western	Generating agencies ¹	Total
Assets						
Utility plant:						
Completed plant	\$ 2,210,652	2,834,917	5,045,569	2,083,134	2,805,795	4,888,929
Accumulated depreciation	(694,844)	(967,591)	(1,662,435)	(651,659)	(933,474)	(1,585,133)
	<u>1,515,808</u>	<u>1,867,326</u>	<u>3,383,134</u>	<u>1,431,475</u>	<u>1,872,321</u>	<u>3,303,796</u>
Construction work-in-progress	217,419	83,812	301,231	270,696	91,805	362,501
Net utility plant	<u>1,733,227</u>	<u>1,951,138</u>	<u>3,684,365</u>	<u>1,702,171</u>	<u>1,964,126</u>	<u>3,666,297</u>
Cash	257,028	55,550	312,578	276,784	64,871	341,655
Accounts receivable	115,893	401	116,294	143,105	131	143,236
Other assets	94,557	10,814	105,371	85,258	14,059	99,317
Total assets	<u>\$ 2,200,705</u>	<u>2,017,903</u>	<u>4,218,608</u>	<u>2,207,318</u>	<u>2,043,187</u>	<u>4,250,505</u>
Federal Investment and Liabilities						
Federal investment:						
Congressional appropriations	\$ 3,995,307	4,389,754	8,385,061	3,771,784	4,237,608	8,009,392
Interest on Federal investment	1,224,979	1,760,656	2,985,635	1,087,499	1,699,084	2,786,583
Transfer of property and services, net	2,377,949	(1,830,208)	547,741	2,354,087	(1,675,169)	678,918
Gross Federal investment	<u>7,598,235</u>	<u>4,320,202</u>	<u>11,918,437</u>	<u>7,213,370</u>	<u>4,261,523</u>	<u>11,474,893</u>
Funds returned to U.S. Treasury	<u>(5,378,386)</u>	<u>(2,914,295)</u>	<u>(8,292,681)</u>	<u>(4,917,824)</u>	<u>(2,899,094)</u>	<u>(7,816,918)</u>
Net outstanding Federal investment	<u>2,219,849</u>	<u>1,405,907</u>	<u>3,625,756</u>	<u>2,295,546</u>	<u>1,362,429</u>	<u>3,657,975</u>
Accumulated net revenues (deficit)	<u>(119,822)</u>	<u>422,348</u>	<u>302,526</u>	<u>(196,617)</u>	<u>485,038</u>	<u>288,421</u>
Total Federal investment	<u>2,100,027</u>	<u>1,828,255</u>	<u>3,928,282</u>	<u>2,098,929</u>	<u>1,847,467</u>	<u>3,946,396</u>
Commitments and contingencies						
Liabilities						
Accounts payable	62,412	10,627	73,039	40,057	6,883	46,940
Other liabilities	38,266	179,021	217,287	68,332	188,837	257,169
Total liabilities	<u>100,678</u>	<u>189,648</u>	<u>290,326</u>	<u>108,389</u>	<u>195,720</u>	<u>304,109</u>
Total Federal investment and liabilities	<u>\$ 2,200,705</u>	<u>2,017,903</u>	<u>4,218,608</u>	<u>2,207,318</u>	<u>2,043,187</u>	<u>4,250,505</u>

¹ Generating agencies are the Bureau of Reclamation, Army Corps of Engineers, and International Boundary and Water Commission.

See independent auditors' report.

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statements of Revenues, Expenses, and Accumulated Net Revenues (Deficit)

Years ended September 30, 1996 and 1995

(In thousands)

	1996			1995		
	Western	Generating agencies ¹	Total	Western	Generating agencies ¹	Total
Operating revenues:						
Sales of electric power	\$ 676,927	-	676,927	693,519	-	693,519
Other operating income	114,169	8,667	122,836	97,178	6,478	103,656
Gross operating revenues	791,096	8,667	799,763	790,697	6,478	797,175
Income transfers, net	(229,609)	142,124	(87,485)	(173,996)	90,402	(83,594)
Total operating revenues	561,487	150,791	712,278	616,701	96,880	713,581
Operating expenses:						
Operation and maintenance	97,316	107,437	204,753	108,825	103,743	212,568
Administrative and general	39,621	5,624	45,245	41,815	6,449	48,264
Purchased power	129,136	-	129,136	173,851	-	173,851
Purchased transmission services	29,929	-	29,929	27,858	-	27,858
Depreciation	53,964	41,473	95,437	46,504	38,258	84,762
Total operating expenses	349,966	154,534	504,500	398,853	148,450	547,303
Net operating revenues (deficit)	211,521	(3,743)	207,778	217,848	(51,570)	166,278
Interest on Federal investment:						
Interest on Federal investment	149,051	62,299	211,350	140,282	2,749	143,031
Allowance for funds used during construction	(14,325)	(3,352)	(17,677)	(32,532)	34,439	1,907
Net interest expense	134,726	58,947	193,673	107,750	37,188	144,938
Net revenues (deficit)	76,795	(62,690)	14,105	110,098	(88,758)	21,340
Accumulated net revenues (deficit):						
Balance beginning of year	(196,617)	485,038	288,421	(306,715)	573,796	267,081
Balance end of year	\$ (119,822)	422,348	302,526	(196,617)	485,038	288,421

¹ Generating agencies are the Bureau of Reclamation, Army Corps of Engineers, and International Boundary and Water Commission.

See independent auditors' report.

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statement of Assets, Federal Investment, and Liabilities, By Project

September 30, 1996

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Assets							
Utility plant:							
Completed plant	\$ 472,246	-	551,221	14,102	1,010,920	36,072	44,447
Accumulated depreciation	(143,624)	-	(230,641)	(4,232)	(292,750)	(1,273)	(12,188)
	<u>328,622</u>	<u>-</u>	<u>320,580</u>	<u>9,870</u>	<u>718,170</u>	<u>34,799</u>	<u>32,259</u>
Construction work-in-progress	-	-	53,958	147	41,118	16	-
Net utility plant	<u>328,622</u>	<u>-</u>	<u>374,538</u>	<u>10,017</u>	<u>759,288</u>	<u>34,815</u>	<u>32,259</u>
Cash	26,346	360	64,034	74	40,578	2,397	407
Accounts receivable	3,703	7,600	52,837	-	12,330	6	268
Other assets	2,500	57	9,387	514	12,586	5	-
Total assets	<u>\$ 361,171</u>	<u>8,017</u>	<u>500,796</u>	<u>10,605</u>	<u>824,782</u>	<u>37,223</u>	<u>32,934</u>
Federal Investment and Liabilities							
Federal investment:							
Congressional appropriations	\$ 623,190	76	2,073,423	27,354	658,832	30,440	59,082
Interest on Federal investment	216,511	-	371,178	10,970	657,877	9,129	37,016
Transfer of property and services, net	(34,341)	36	272,654	448	22,958	(1,494)	475
Gross Federal investment	<u>805,360</u>	<u>112</u>	<u>2,717,255</u>	<u>38,772</u>	<u>1,339,667</u>	<u>38,075</u>	<u>96,573</u>
Funds returned to U.S. Treasury	(609,398)	-	(2,361,734)	(29,945)	(753,285)	-	(62,557)
Net outstanding Federal investment	<u>195,962</u>	<u>112</u>	<u>355,521</u>	<u>8,827</u>	<u>586,382</u>	<u>38,075</u>	<u>34,016</u>
Accumulated net revenues (deficit)	<u>14,332</u>	<u>7,787</u>	<u>107,946</u>	<u>1,674</u>	<u>222,059</u>	<u>(886)</u>	<u>(1,349)</u>
Total Federal investment	<u>210,294</u>	<u>7,899</u>	<u>463,467</u>	<u>10,501</u>	<u>808,441</u>	<u>37,189</u>	<u>32,667</u>
Commitments and contingencies							
Liabilities							
Accounts payable	1,447	85	32,380	15	4,815	8	143
Other liabilities	<u>149,430</u>	<u>33</u>	<u>4,949</u>	<u>89</u>	<u>11,526</u>	<u>26</u>	<u>124</u>
Total liabilities	<u>150,877</u>	<u>118</u>	<u>37,329</u>	<u>104</u>	<u>16,341</u>	<u>34</u>	<u>267</u>
Total Federal investment and liabilities	<u>\$ 361,171</u>	<u>8,017</u>	<u>500,796</u>	<u>10,605</u>	<u>824,782</u>	<u>37,223</u>	<u>32,934</u>

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
147,609 (26,011)	99,629 (35,772)	298,065 (123,701)	2,338,890 (784,865)	1,515 (653)	12,479 (2,922)	7,269 (2,222)	8,822 (1,158)	2,283 (423)	5,045,569 (1,662,435)
121,598	63,857	174,364	1,554,025	862	9,557	5,047	7,664	1,860	3,383,134
192	100,428	18,668	85,150	173	1,266	115	-	-	301,231
121,790	164,285	193,032	1,639,175	1,035	10,823	5,162	7,664	1,860	3,684,365
676	8,201	14,694	58,481	39	527	773	86	94,905	312,578
1,193	598	4,386	31,997	47	-	-	122	1,207	116,294
65	11,206	14,147	42,280	-	205	-	15	12,404	105,371
<u>123,724</u>	<u>184,290</u>	<u>226,259</u>	<u>1,771,933</u>	<u>1,121</u>	<u>11,555</u>	<u>5,935</u>	<u>7,887</u>	<u>110,376</u>	<u>4,218,608</u>
165,914 103,153	224,743 93,962	704,240 144,561	3,632,289 1,315,992	3,697 721	54,270 15,689	2,120 4,658	9,625 4,218	115,766 -	8,385,061 2,985,635
2,205	(4,994)	(2,080)	307,659	81	(304)	1,571	(33)	(17,100)	547,741
271,272 (124,574)	313,711 (84,397)	846,721 (683,435)	5,255,940 (3,501,342)	4,499 (3,806)	69,655 (72,084)	8,349 (1,638)	13,810 (920)	98,666 (3,566)	11,918,437 (8,292,681)
146,698 (23,696)	229,314 (46,349)	163,286 50,805	1,754,598 (37,908)	693 396	(2,429) 13,652	6,711 (834)	12,890 (4,828)	95,100 (275)	3,625,756 302,526
<u>123,002</u>	<u>182,965</u>	<u>214,091</u>	<u>1,716,690</u>	<u>1,089</u>	<u>11,223</u>	<u>5,877</u>	<u>8,062</u>	<u>94,825</u>	<u>3,928,282</u>
442	558	1,825	16,949	23	102	13	39	14,195	73,039
280	767	10,343	38,294	9	230	45	(214)	1,356	217,287
722	1,325	12,168	55,243	32	332	58	(175)	15,551	290,326
<u>123,724</u>	<u>184,290</u>	<u>226,259</u>	<u>1,771,933</u>	<u>1,121</u>	<u>11,555</u>	<u>5,935</u>	<u>7,887</u>	<u>110,376</u>	<u>4,218,608</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statement of Assets, Federal Investment, and Liabilities, By Project

September 30, 1995

(in thousands)

	<u>Boulder Canyon Power System</u>	<u>Central Arizona Project</u>	<u>Central Valley Power System</u>	<u>Collbran Power System</u>	<u>Colorado River Power System</u>	<u>Dolores Power System</u>	<u>Falcon- Amistad Power System (IBWC)</u>
Assets							
Utility plant:							
Completed plant	\$ 470,631	-	513,571	14,306	999,563	17,422	44,437
Accumulated depreciation	<u>(133,496)</u>	<u>-</u>	<u>(221,821)</u>	<u>(4,049)</u>	<u>(274,349)</u>	<u>(694)</u>	<u>(11,444)</u>
	337,135	-	291,750	10,257	725,214	16,728	32,993
Construction work-in-progress	<u>22</u>	<u>2</u>	<u>46,899</u>	<u>147</u>	<u>43,917</u>	<u>10,938</u>	<u>-</u>
Net utility plant	<u>337,157</u>	<u>2</u>	<u>338,649</u>	<u>10,404</u>	<u>769,131</u>	<u>27,666</u>	<u>32,993</u>
Cash	35,025	6,000	64,317	252	67,142	1,856	17
Accounts receivable	6,841	7,674	69,581	-	16,135	-	278
Other assets	<u>2,461</u>	<u>113</u>	<u>10,146</u>	<u>554</u>	<u>15,575</u>	<u>31</u>	<u>-</u>
Total assets	<u>\$ 381,484</u>	<u>13,789</u>	<u>482,693</u>	<u>11,210</u>	<u>867,983</u>	<u>29,553</u>	<u>33,288</u>
Federal Investment and Liabilities							
Federal investment:							
Congressional appropriations	\$ 618,196	76	1,922,039	20,246	665,536	22,680	57,799
Interest on Federal investment	203,934	-	360,057	10,605	611,767	6,828	34,830
Transfer of property and services, net	<u>(30,787)</u>	<u>36</u>	<u>298,780</u>	<u>7,149</u>	<u>24,364</u>	<u>546</u>	<u>365</u>
Gross Federal investment	791,343	112	2,580,876	38,000	1,301,667	30,054	92,994
Funds returned to U.S. Treasury	<u>(594,247)</u>	<u>-</u>	<u>(2,276,837)</u>	<u>(28,146)</u>	<u>(661,285)</u>	<u>-</u>	<u>(59,270)</u>
Net outstanding Federal investment	197,096	112	304,039	9,854	640,382	30,054	33,724
Accumulated net revenues (deficit)	<u>26,756</u>	<u>13,572</u>	<u>132,064</u>	<u>1,262</u>	<u>211,677</u>	<u>(502)</u>	<u>(436)</u>
Total Federal investment	<u>223,852</u>	<u>13,684</u>	<u>436,103</u>	<u>11,116</u>	<u>852,059</u>	<u>29,552</u>	<u>33,288</u>
Commitments and contingencies							
Liabilities							
Accounts payable	1,379	74	22,006	53	6,255	1	-
Other liabilities	<u>156,253</u>	<u>31</u>	<u>24,584</u>	<u>41</u>	<u>9,669</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>157,632</u>	<u>105</u>	<u>46,590</u>	<u>94</u>	<u>15,924</u>	<u>1</u>	<u>-</u>
Total Federal investment and liabilities	<u>\$ 381,484</u>	<u>13,789</u>	<u>482,693</u>	<u>11,210</u>	<u>867,983</u>	<u>29,553</u>	<u>33,288</u>

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
149,440 (23,040)	60,958 (34,087)	279,316 (119,902)	2,307,252 (755,421)	1,515 (628)	12,422 (2,725)	7,269 (2,075)	8,822 (1,026)	2,005 (376)	4,888,929 (1,585,133)
126,400	26,871	159,414	1,551,831	887	9,697	5,194	7,796	1,629	3,303,796
55	118,217	28,927	111,705	-	927	115	-	630	362,501
126,455	145,088	188,341	1,663,536	887	10,624	5,309	7,796	2,259	3,666,297
762	14,568	20,653	49,869	78	542	1,663	175	78,736	341,655
1,249	586	6,060	33,386	33	-	-	140	1,273	143,236
36	4,474	11,795	38,464	82	190	-	20	15,376	99,317
<u>128,502</u>	<u>164,716</u>	<u>226,849</u>	<u>1,785,255</u>	<u>1,080</u>	<u>11,356</u>	<u>6,972</u>	<u>8,131</u>	<u>97,644</u>	<u>4,250,505</u>
149,008 99,406	220,215 77,232	678,894 131,957	3,488,416 1,225,710	3,140 702	44,213 15,690	2,280 3,849	9,502 3,658	107,152 358	8,009,392 2,786,583
12,714	(4,984)	(3,385)	375,441	256	8,100	3,127	37	(12,841)	678,918
261,128 (108,707)	292,463 (77,707)	807,466 (653,775)	5,089,567 (3,278,681)	4,098 (3,508)	68,003 (69,356)	9,256 (1,638)	13,197 (697)	94,669 (3,064)	11,474,893 (7,816,918)
152,421 (24,717)	214,756 (52,409)	153,691 60,268	1,810,886 (82,685)	590 452	(1,353) 12,487	7,618 (701)	12,500 (4,456)	91,605 (4,211)	3,657,975 288,421
127,704	162,347	213,959	1,728,201	1,042	11,134	6,917	8,044	87,394	3,946,396
572	997	1,717	6,328	30	18	8	17	7,485	46,940
226	1,372	11,173	50,726	8	204	47	70	2,765	257,169
798	2,369	12,890	57,054	38	222	55	87	10,250	304,109
<u>128,502</u>	<u>164,716</u>	<u>226,849</u>	<u>1,785,255</u>	<u>1,080</u>	<u>11,356</u>	<u>6,972</u>	<u>8,131</u>	<u>97,644</u>	<u>4,250,505</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statement of Revenues, Expenses, and Accumulated Net Revenues (Deficit), By Project

Year ended September 30, 1996

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Operating revenues:							
Sales of electric power	\$ 45,158	82,069	144,738	1,798	117,144	2,920	3,220
Other operating income	10,890	949	16,241	25	13,084	-	(284)
Gross operating revenues	56,048	83,018	160,979	1,823	130,228	2,920	2,936
Income transfers, net	-	(87,485)	60	-	75	-	-
Total operating revenues	56,048	(4,467)	161,039	1,823	130,303	2,920	2,936
Operating expenses:							
Operation and maintenance	27,939	863	32,394	839	35,865	414	806
Administrative and general	4,551	455	8,486	24	7,677	12	113
Purchased power	3,662	-	112,019	-	676	-	-
Purchased transmission services	-	-	13,454	-	7,521	-	-
Depreciation	10,034	-	12,387	183	18,774	580	744
Total operating expenses	46,186	1,318	178,740	1,046	70,513	1,006	1,663
Net operating revenues (deficit)	9,862	(5,785)	(17,701)	777	59,790	1,914	1,273
Interest on federal investment:							
Interest on federal investment	22,180	-	11,120	365	46,110	2,300	2,186
Allowance for funds used during construction	106	-	(4,703)	-	3,298	(2)	-
Net interest expense	22,286	-	6,417	365	49,408	2,298	2,186
Net revenues (deficit)	(12,424)	(5,785)	(24,118)	412	10,382	(384)	(913)
Accumulated net revenues (deficit):							
Balance, beginning of year	26,756	13,572	132,064	1,262	211,677	(502)	(436)
Balance, end of year	\$ 14,332	7,787	107,946	1,674	222,059	(886)	(1,349)

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick- Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
13,758	-	11,197	250,559	279	2,728	1,172	187	-	676,927
<u>568</u>	<u>6,741</u>	<u>18,942</u>	<u>55,129</u>	<u>6</u>	<u>2</u>	<u>45</u>	<u>-</u>	<u>498</u>	<u>122,836</u>
14,326	6,741	30,139	305,688	285	2,730	1,217	187	498	799,763
-	-	100	263	-	-	-	-	(498)	(87,485)
<u>14,326</u>	<u>6,741</u>	<u>30,239</u>	<u>305,951</u>	<u>285</u>	<u>2,730</u>	<u>1,217</u>	<u>187</u>	<u>-</u>	<u>712,278</u>
2,720	(10,439)	16,713	98,540	185	1,348	381	115	(3,930)	204,753
272	780	4,981	17,830	29	21	14	-	-	45,245
409	-	277	12,011	82	-	-	-	-	129,136
2,710	-	-	6,244	-	-	-	-	-	29,929
<u>2,633</u>	<u>1,695</u>	<u>5,158</u>	<u>42,796</u>	<u>26</u>	<u>196</u>	<u>147</u>	<u>84</u>	<u>-</u>	<u>95,437</u>
<u>8,744</u>	<u>(7,964)</u>	<u>27,129</u>	<u>177,421</u>	<u>322</u>	<u>1,565</u>	<u>542</u>	<u>199</u>	<u>(3,930)</u>	<u>504,500</u>
<u>5,582</u>	<u>14,705</u>	<u>3,110</u>	<u>128,530</u>	<u>(37)</u>	<u>1,165</u>	<u>675</u>	<u>(12)</u>	<u>3,930</u>	<u>207,778</u>
3,746	16,729	12,734	93,051	19	-	808	360	(358)	211,350
<u>815</u>	<u>(8,084)</u>	<u>(161)</u>	<u>(9,298)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352</u>	<u>(17,677)</u>
4,561	8,645	12,573	83,753	19	-	808	360	(6)	193,673
1,021	6,060	(9,463)	44,777	(56)	1,165	(133)	(372)	3,936	14,105
<u>(24,717)</u>	<u>(52,409)</u>	<u>60,268</u>	<u>(82,685)</u>	<u>452</u>	<u>12,487</u>	<u>(701)</u>	<u>(4,456)</u>	<u>(4,211)</u>	<u>288,421</u>
<u>(23,696)</u>	<u>(46,349)</u>	<u>50,805</u>	<u>(37,908)</u>	<u>396</u>	<u>13,652</u>	<u>(834)</u>	<u>(4,828)</u>	<u>(275)</u>	<u>302,526</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statement of Revenues, Expenses, and Accumulated Net Revenues (Deficit), By Project

Year ended September 30, 1995

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Operating revenues:							
Sales of electric power	\$ 50,447	87,602	209,120	1,894	112,901	1,841	3,331
Other operating income	2,583	1,233	12,820	24	9,146	-	-
Gross operating revenues	53,030	88,835	221,940	1,918	122,047	1,841	3,331
Income transfers, net	(161)	(83,432)	18	-	(14)	36	-
Total operating revenues	52,869	5,403	221,958	1,918	122,033	1,877	3,331
Operating expenses:							
Operation and maintenance	23,916	673	32,568	951	35,381	331	812
Administrative and general	4,684	512	9,237	24	8,257	17	3
Purchased power	46	-	125,616	-	14,476	-	-
Purchased transmission services	-	-	12,822	-	7,340	-	-
Depreciation	8,621	-	8,175	183	17,269	684	741
Total operating expenses	37,267	1,185	188,418	1,158	82,723	1,032	1,556
Net operating revenues (deficit)	15,602	4,218	33,540	760	39,310	845	1,775
Interest on Federal investment:							
Interest on Federal investment	23,149	-	14,660	382	53,682	1,364	2,320
Allowance for funds used during construction	(9,237)	-	(6,164)	-	(10,497)	(24)	-
Net interest expense	13,912	-	8,496	382	43,185	1,340	2,320
Net revenues (deficit)	1,690	4,218	25,044	378	(3,875)	(495)	(545)
Accumulated net revenues (deficit):							
Balance, beginning of year	25,066	9,354	107,020	884	215,552	(7)	109
Balance, end of year	\$ 26,756	13,572	132,064	1,262	211,677	(502)	(436)

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest- Pacific Southwest Intertie Project</u>	<u>Parker- Davis Power System</u>	<u>Pick- Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seeds- kadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
13,046	-	14,271	194,448	198	2,927	1,340	153	-	693,519
(40)	5,532	17,864	52,426	15	3	85	-	1,965	103,656
13,006	5,532	32,135	246,874	213	2,930	1,425	153	1,965	797,175
-	-	31	84	-	-	-	-	(156)	(83,594)
13,006	5,532	32,166	246,958	213	2,930	1,425	153	1,809	713,581
2,761	1,261	14,435	97,211	151	1,319	489	155	154	212,568
289	628	6,062	18,373	51	24	15	6	82	48,264
-	-	1,191	32,522	-	-	-	-	-	173,851
2,636	-	-	5,060	-	-	-	-	-	27,858
1,946	1,732	5,366	39,556	19	200	148	79	43	84,762
7,632	3,621	27,054	192,722	221	1,543	652	240	279	547,303
5,374	1,911	5,112	54,236	(8)	1,387	773	(87)	1,530	166,278
4,723	6,774	7,360	27,736	30	(92)	598	286	59	143,031
(1)	(3,773)	2,051	29,448	-	157	-	-	(53)	1,907
4,722	3,001	9,411	57,184	30	65	598	286	6	144,938
652	(1,090)	(4,299)	(2,948)	(38)	1,322	175	(373)	1,524	21,340
(25,369)	(51,319)	64,567	(79,737)	490	11,165	(876)	(4,083)	(5,735)	267,081
(24,717)	(52,409)	60,268	(82,685)	452	12,487	(701)	(4,456)	(4,211)	288,421

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statement of Cash Flows, By Project

Year ended September 30, 1996

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Cash flows from operating activities:							
Net revenues (deficit)	\$ (12,424)	(5,785)	(24,118)	412	10,382	(384)	(913)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:							
Depreciation	10,034	-	12,387	183	18,774	580	744
Interest on Federal investment	12,683	-	6,417	365	49,408	2,298	2,186
Write on of recoverable asset	-	-	-	-	-	-	-
(Increase) decrease in assets:							
Accounts receivable	3,138	74	16,744	-	3,805	(6)	10
Other assets	(39)	56	759	40	2,989	26	-
Increase (decrease) in liabilities:							
Accounts payable	68	11	10,374	(38)	(1,440)	7	143
Other liabilities	(1,298)	2	(19,635)	48	1,857	26	124
Net cash provided by (used in) operating activities	<u>12,162</u>	<u>(5,642)</u>	<u>2,928</u>	<u>1,010</u>	<u>85,775</u>	<u>2,547</u>	<u>2,294</u>
Cash flows from investing activities - investment in utility plant	<u>(1,754)</u>	<u>2</u>	<u>(34,546)</u>	<u>(188)</u>	<u>2,431</u>	<u>(7,724)</u>	<u>(10)</u>
Cash flows from financing activities:							
Congressional appropriations	(2,073)	-	116,232	799	(22,770)	5,718	1,393
Funds returned to U.S. Treasury	(15,151)	-	(84,897)	(1,799)	(92,000)	-	(3,287)
Customer advances	400	-	-	-	-	-	-
Principal payments to upraters	(2,263)	-	-	-	-	-	-
Net cash provided by (used in) financing activities	<u>(19,087)</u>	<u>-</u>	<u>31,335</u>	<u>(1,000)</u>	<u>(114,770)</u>	<u>5,718</u>	<u>(1,894)</u>
Increase (decrease) in cash	(8,679)	(5,640)	(283)	(178)	(26,564)	541	390
Cash at beginning of year	<u>35,025</u>	<u>6,000</u>	<u>64,317</u>	<u>252</u>	<u>67,142</u>	<u>1,856</u>	<u>17</u>
Cash at end of year	<u>\$ 26,346</u>	<u>360</u>	<u>64,034</u>	<u>74</u>	<u>40,578</u>	<u>2,397</u>	<u>407</u>

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest Pacific Southwest Intertie Project</u>	<u>Parker Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seedskadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
1,021	6,060	(9,463)	44,777	(56)	1,165	(133)	(372)	3,936	14,105
2,633	1,695	5,158	42,796	26	196	147	84	-	95,437
4,561	8,645	12,573	83,753	19	-	808	360	(6)	184,070
-	(13,052)	-	-	-	-	-	-	-	(13,052)
56	(12)	1,674	1,389	(14)	-	-	18	66	26,942
(29)	3,796	(2,352)	(3,816)	82	(15)	-	5	2,972	4,474
(130)	(439)	108	10,621	(7)	84	5	22	6,710	26,099
<u>54</u>	<u>(605)</u>	<u>(830)</u>	<u>(12,432)</u>	<u>1</u>	<u>25</u>	<u>(2)</u>	<u>(284)</u>	<u>(1,409)</u>	<u>(34,358)</u>
<u>8,166</u>	<u>6,088</u>	<u>6,868</u>	<u>167,088</u>	<u>51</u>	<u>1,455</u>	<u>825</u>	<u>(167)</u>	<u>12,269</u>	<u>303,717</u>
<u>(137)</u>	<u>(10,254)</u>	<u>(9,311)</u>	<u>(38,544)</u>	<u>-</u>	<u>(396)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,431)</u>
7,752	4,489	26,144	102,729	208	1,654	(1,715)	301	4,402	245,263
(15,867)	(6,690)	(29,660)	(222,661)	(298)	(2,728)	-	(223)	(502)	(475,763)
-	-	-	-	-	-	-	-	-	400
-	-	-	-	-	-	-	-	-	(2,263)
<u>(8,115)</u>	<u>(2,201)</u>	<u>(3,516)</u>	<u>(119,932)</u>	<u>(90)</u>	<u>(1,074)</u>	<u>(1,715)</u>	<u>78</u>	<u>3,900</u>	<u>(232,363)</u>
(86)	(6,367)	(5,959)	8,612	(39)	(15)	(890)	(89)	16,169	(29,077)
<u>762</u>	<u>14,568</u>	<u>20,653</u>	<u>49,869</u>	<u>78</u>	<u>542</u>	<u>1,663</u>	<u>175</u>	<u>78,736</u>	<u>341,655</u>
<u>676</u>	<u>8,201</u>	<u>14,694</u>	<u>58,481</u>	<u>39</u>	<u>527</u>	<u>773</u>	<u>86</u>	<u>94,905</u>	<u>312,578</u>

WESTERN AREA POWER ADMINISTRATION

Combining Power System
Statement of Cash Flows, By Project

Year ended September 30, 1995

(in thousands)

	Boulder Canyon Power System	Central Arizona Project	Central Valley Power System	Collbran Power System	Colorado River Power System	Dolores Power System	Falcon- Amistad Power System (IBWC)
Cash flows from operating activities:							
Net revenues (deficit)	\$ 1,690	4,218	25,044	378	(3,875)	(495)	(545)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:							
Depreciation	8,621	-	8,175	183	17,269	684	741
Interest on Federal investment	2,873	-	8,496	382	43,185	1,340	2,320
(Increase) decrease in assets:							
Accounts receivable	(433)	337	(15,562)	86	(5,825)	-	(278)
Other assets	(74)	105	(1,413)	181	1,852	(25)	-
Increase (decrease) in liabilities:							
Accounts payable	(2,062)	9	(4,999)	(35)	(2,517)	1	(1)
Other liabilities	1,079	(1,722)	(17,021)	(8)	5,683	-	-
Net cash provided by (used in) operating activities	<u>11,694</u>	<u>2,947</u>	<u>2,720</u>	<u>1,167</u>	<u>55,772</u>	<u>1,505</u>	<u>2,237</u>
Cash flows from investing activities - investment in utility plant	<u>(7,925)</u>	<u>(2)</u>	<u>(17,921)</u>	<u>(291)</u>	<u>(7,447)</u>	<u>-</u>	<u>-</u>
Cash flows from financing activities:							
Congressional appropriations	7,850	-	18,137	926	(14,010)	346	756
Funds returned to U.S. Treasury	(5,146)	-	(78,380)	(1,894)	(40,000)	-	(2,995)
Customer advances	3,400	-	-	-	-	-	-
Principal payments to upraters	(4,892)	-	-	-	-	-	-
Net cash provided by (used in) financing activities	<u>1,212</u>	<u>-</u>	<u>(60,243)</u>	<u>(968)</u>	<u>(54,010)</u>	<u>346</u>	<u>(2,239)</u>
Increase (decrease) in cash	4,981	2,945	(75,444)	(92)	(5,685)	1,851	(2)
Cash at beginning of year	<u>30,044</u>	<u>3,055</u>	<u>139,761</u>	<u>344</u>	<u>72,827</u>	<u>5</u>	<u>19</u>
Cash at end of year	<u>\$ 35,025</u>	<u>6,000</u>	<u>64,317</u>	<u>252</u>	<u>67,142</u>	<u>1,856</u>	<u>17</u>

See independent auditors' report.

<u>Fryingpan- Arkansas Power System</u>	<u>Pacific Northwest Pacific Southwest Intertie Project</u>	<u>Parker Davis Power System</u>	<u>Pick-Sloan Missouri Basin Power System</u>	<u>Provo River Power System</u>	<u>Rio Grande Power System</u>	<u>Seedskadee Power System</u>	<u>Washoe Power System</u>	<u>Other</u>	<u>Combined total</u>
652	(1,090)	(4,299)	(2,948)	(38)	1,322	175	(373)	1,524	21,340
1,946	1,732	5,366	39,556	19	200	148	79	43	84,762
4,722	3,001	9,411	57,184	30	65	598	286	6	133,899
736	(334)	(2,997)	(4,311)	(33)	-	-	(98)	337	(28,375)
(14)	4,484	616	3,280	-	(178)	4	2	(688)	8,132
211	(1,220)	(894)	(8,346)	(30)	(124)	2	15	(1,678)	(21,668)
(288)	372	3,144	26,232	(302)	120	1	(57)	(691)	16,542
<u>7,965</u>	<u>6,945</u>	<u>10,347</u>	<u>110,647</u>	<u>(354)</u>	<u>1,405</u>	<u>928</u>	<u>(146)</u>	<u>(1,147)</u>	<u>214,632</u>
<u>(45)</u>	<u>(47,561)</u>	<u>(4,858)</u>	<u>(63,290)</u>	<u>-</u>	<u>(213)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,553)</u>
5,437	9,156	24,186	174,492	488	1,822	(1,317)	89	15,937	244,295
(15,229)	(5,200)	(28,015)	(235,005)	(132)	(2,927)	-	-	(142)	(415,065)
-	-	-	-	-	-	-	-	-	3,400
-	-	-	-	-	-	-	-	-	(4,892)
<u>(9,792)</u>	<u>3,956</u>	<u>(3,829)</u>	<u>(60,513)</u>	<u>356</u>	<u>(1,105)</u>	<u>(1,317)</u>	<u>89</u>	<u>15,795</u>	<u>(172,262)</u>
(1,872)	(36,660)	1,660	(13,156)	2	87	(389)	(57)	14,648	(107,183)
<u>2,634</u>	<u>51,228</u>	<u>18,993</u>	<u>63,025</u>	<u>76</u>	<u>455</u>	<u>2,052</u>	<u>232</u>	<u>64,088</u>	<u>448,838</u>
<u>762</u>	<u>14,568</u>	<u>20,653</u>	<u>49,869</u>	<u>78</u>	<u>542</u>	<u>1,663</u>	<u>175</u>	<u>78,736</u>	<u>341,655</u>

KPMG Peat Marwick LLP

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Independent Auditors' Report on the Internal Control Structure

The Administrator
Western Area Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1996, and have issued our report thereon dated December 13, 1996.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatement.

Management of Western, a unit of the U.S. Department of Energy (DOE); management of the Bureau of Reclamation (Reclamation), a unit of the U.S. Department of the Interior; management of the Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense; and management of the International Boundary and Water Commission (IBWC), a unit of the U.S. Department of State collectively referred to as "Western" management, are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the combined power system financial statements and any other laws and regulations that OMB, Western management, or the DOE have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable combined power system financial reports in accordance with generally accepted accounting principles and to maintain accountability over the assets; and that data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the combined power system financial statements of Western for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, we assessed control risk, and we performed tests of the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Western Area Power Administration
U. S. Department of Energy

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Western has responsibility for certain administrative and financial reporting activities of the combined power system. The generating agencies have certain administrative responsibilities. Accordingly, comments and recommendations contained in this report will be communicated to the other participants in the combined power system.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that the objectives of the internal control structure, as previously defined, are being achieved.

Those matters that we consider to be reportable conditions are summarized below:

**Western Area Power Administration (Western)
U. S. Department of Energy (DOE)**

1. Aging/Uncollectible Accounts Receivable

Chapter III, B (5) of Western's Accounting Handbook, states that allowances for uncollectible receivables shall be established and maintained through conservative, realistic projections of account activity detailed in the aging report. Management then submits all accounts determined to be uncollectible to the administrator for write-off.

Current receivable balances for some Western projects contain billing errors, disputed amounts and small miscellaneous accounts where collection is uncertain. We identified approximately \$123,000 in receivable balances over 1,500 days old for the Pick Sloan projects. For Central Valley Project, we identified balances of approximately \$100,000 from 91 to over 365 days old with an allowance of only \$5,000. Because the individual receivable balances are small, there is no current effort to establish adequate allowances or obtain administrative approval for write-off in accordance with Western's policy. As a result, these balances continue overstating receivable assets and understating bad debt expense.

Recommendation

Management should perform periodic evaluations of receivable balances and aging reports to identify uncollectible accounts and establish appropriate allowances. In addition, management should submit accounts identified as uncollectible to administration for resolution and removal from the financial statements.

Management's Response

Concur. To comply with the Debt Collection Improvement Act (DCIA) of 1996, Western is Currently reviewing all receivables older than 180 days. Certification and validation of these debts will result in their being submitted to the Department of Treasury for collection, to Western's General Counsel for legal action, or to Western's Fiscal Operations for write-off. The estimated date for completion is June 30, 1997.

Western Area Power Administration
U. S. Department of Energy

2. Suspension of Interest During Construction

Federal statute and Department regulations (DOE Procedure RA 6120.2) require determining and charging interest during construction (IDC) on federal moneys used in construction. Federal statute also requires the accrual of interest on unpaid federal investment (IOI) for the unpaid balance after costs are transferred to completed plant.

Western's Salt Lake City office had inactive work orders totaling \$7 million in CWIP as of September 30, 1996. Western's Financial Management System automatically calculates IDC on all CWIP and posts IDC to the work order and general ledger. However, if the work order's status is changed from active to inactive pending the transfer of costs from CWIP to completed plant, the system will not allow IDC calculations to post. In addition Western's procedures will not calculate or charge IOI on these amounts until the costs are actually transferred to completed plant. Western has held some of the \$7 million in an inactive status for two or more years. As a result, Western understated CWIP and IDC or IOI and completed plant, depending on when the assets were placed in service. Western also understated the balance of federal investment in the Power Rate Repayment Studies.

Recommendation

Western should evaluate the practice of placing work orders in an inactive status without transferring the costs to completed plant. Western should also establish and implement procedures for reviewing all inactive CWIP work orders Western-wide to ensure that either IDC or IOI is properly calculated and recorded in the accounting records and properly reflected in power repayment studies.

Management's Response

Concur. The estimated date for completion is September 30, 1997.

**Bureau of Reclamation (Reclamation)
U.S. Department of the Interior**

1. Adequacy of Accrued Liabilities

Reclamation's Finance and Accounting Division Directive No. CST-16-93, dated September 1, 1993, requires that accruals be made at year-end for "contract earnings" which it defines as amounts owed for goods or services received but the receipt of an invoice is pending.

The Mid Pacific Region did not accrue "contract earnings" totaling \$5.5 million on September 30, 1996. This came to our attention when testing disclosed that Reclamation processed several disbursements in October for goods and services received but not paid before year-end. This omission is a result of personnel's inexperience with new responsibilities assigned when Reclamation experienced significant staff reductions during Reclamation-wide restructuring. The effect was an understatement of \$5.5 million in the accounts payable balance and expenses at September 30, 1996.

Recommendation

Reclamation should reiterate and enforce year-end accrual policy and procedures to all responsible personnel to ensure they are aware of, and carry out, their duties. Reclamation might wish to consider implementing the use of a supervisory checklist for year-end procedures to ensure the completion of all tasks.

Western Area Power Administration
U. S. Department of Energy

Management's Response

Concur. The Mid-Pacific Region will be reiterating and enforcing the year-end accrual policy and procedures to its responsible personnel.

In addition, Reclamation has considered the checklist recommended by the auditors and believes that current yearend closing instructions adequately address the subject.

* * * * *

Status of Prior Years Findings

**Western Area Power Administration (Western)
U. S. Department of Energy (DOE)**

The purpose of this section is to provide a status report of those comments reported on in the prior year, for which management has considered, but are still pending resolution or require further attention.

1. Power Billing Contracts

In the report on the internal control structure for fiscal year 1993, we reported that the Desert Southwest Region (DSW) frequently had to adjust power billings because (i) power was delivered to customers with expired contracts and subsequent contract renewals provided for different rates or (ii) renewal contracts were not received in the billing department in a timely manner. Western agreed to establish procedures that provide adequate lead-time for negotiating contract renewals before existing contracts for selling electrical power expire. Management also agreed to establish procedures to provide timely contractual information to the billing department.

The DSW is working to develop a system for tracking contract expiration dates to provide adequate lead-time for negotiating contracts. The system is currently in the late development stage with a targeted completion and testing in early 1997.

Recommendation

Western should continue to monitor the development and implementation of the tracking system to ensure timely completion of the corrective plan.

Management's Response and Status

Concur. A system is currently being developed for tracking contract expiration dates which will allow adequate lead time for negotiating new contracts. The targeted completion date for this system is September 30, 1997.

Western Area Power Administration
U. S. Department of Energy

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the combined power system financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to Western's management in a separate letter dated December 13, 1996.

Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

This report is intended for the information and use of the management of Western, Reclamation, the Corps, and IBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 13, 1996

KPMG Peat Marwick LLP

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Independent Auditors' Report on Compliance with Laws and Regulations

The Administrator
Western Area Power Administration
U. S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1996, and have issued our report thereon dated December 13, 1996.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the combined power system financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the individual combined power system financial statements is the responsibility of Western, a unit of the U.S. Department of Energy (DOE); of the Bureau of Reclamation (Reclamation), a unit of the U.S. Department of the Interior; of the Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense; and of the International Boundary and Water Commission (IBWC), a unit of the U.S. Department of State, collectively referred to as "Western" management. As part of obtaining reasonable assurance about whether the combined power system financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the combined power system financial statements and certain other laws and regulations designated by OMB and DOE, including:

- Boulder Canyon Project Act of 1928, as amended
- Act of August 26, 1937, as amended (Central Valley Power System)
- Act of July 3, 1952 (Collbran Power System)
- Colorado River Storage Project Act of 1956, as amended
- Act of August 16, 1962, as amended (Fryingpan-Arkansas Power System)
- Act of August 31, 1964 (Pacific Northwest-Pacific Southwest Intertie Project)
- Act of May 28, 1954 (Parker-Davis Power System)
- Flood Control Act of 1944, as amended - Authorized the construction of certain public works on rivers and harbors for flood control, and for other purposes (Pick-Sloan Missouri Basin Power System)
- Reclamation Project Act of 1939
- Finding of Feasibility by the Secretary of the Interior, November 13, 1935 (Provo River Power System)
- Act of February 25, 1905 (Rio Grande Power System)
- DOE Procedure RA 6120.2, Power Marketing Administration Financial Reporting
- 10 CFR 903 - Power and Transmission Rates
- 10 CFR 904 - General Regulations for the Charges for the Sale of Power from the Boulder Canyon Project
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Chief Financial Officers (CFO) Act of 1990
- 18 CFR Part 300

Western Area Power Administration
U. S. Department of Energy

- DOE Delegation Order 02304-108
- Budget and Accounting Procedures Act
- Corps Engineering Regulation 37-2-10
- Anti-deficiency Act

However, the objective of our audit of the combined power system financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

As part of our audit, we obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared Western's most recent FMFIA reports with the evaluation we conducted of the combined power system's internal control structure.

The results of our tests disclosed the following instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, for which the ultimate resolution cannot presently be determined. Accordingly, the financial statement impact that may result has not been recognized in the combined power system financial statements.

Western Area Power Administration (Western)
U. S. Department of Energy (DOE)

1. Interest on Other Capitalized Costs

Western receives funding for annual operations, maintenance, and capital expenditures for most projects through appropriations. These appropriations represent the United States government's investment (i.e., the federal investment) in Western power systems. The government provides the appropriations for such an investment primarily through public debt borrowing. Therefore, some of the interest on public debt represents the cost to the U.S. Treasury for investing in the power systems.

The Reclamation Project Act of 1939, Subsection (c) of Section 9, requires recovery of operations and maintenance cost, including interest on an appropriate share of the construction investment. It also provides for recovery of other fixed charges as the Secretary deems proper through power revenues. Western's Accounting Handbook, Chapter III, section (7) concerning recovery of costs from power customers states that the federal investment consists of congressionally appropriated funds invested by Western, including interest charges on those funds, not yet repaid to the government. Invested funds not repaid to the government primarily represents unpaid plant balances. These also include any capitalized costs for which Western defers the recognition of expense to a future period.

Western excludes capitalized costs not specifically identified as plant from the balance of unpaid federal investment in its power rate setting process. Western also does not accrue interest on such capitalized costs. The capitalized costs not classified as plant consist of (1) unamortized abandoned project costs; (2) average balance of stores inventories costs, and (3) feasibility, engineering, and development costs. This practice, in our opinion, causes Western to understate interest owed to the U.S. Treasury and prevents the recovery of such interest from power customers.

Western Area Power Administration
U. S. Department of Energy

Abandoned Project Costs

Western classifies abandoned project cost as other assets and amortizes the costs over a period of years or expenses the cost immediately. Although interest generally accrues while costs accumulate in construction work in progress (CWIP), Western reverses the interest charges when a project is abandoned and removed from CWIP. Additionally, Western does not charge interest on the unamortized balance and excludes the unamortized balance from the unpaid federal investment in the power rate setting process. To illustrate, Western discontinued a part of the Intertie project started in 1969 and suspended CWIP costs totaling about \$11 million. Western has not paid the government any interest on these costs but, in 1996, agreed with previous recommendations to recover these costs through power rates. We estimate the power rate charges will not recover \$9 million in interest lost to date.

Stores Inventory Costs

Western-wide stores inventory on hand generally averages about \$17 million at any period of time. Western does not include the costs of stores inventory in the unpaid federal investment on which it determines interest charges even though repayment of these costs is often deferred for several years. Western excludes such costs from the power rate setting process until they are either capitalized as utility plant or expensed as a maintenance cost.

Feasibility, Engineering, and Development Costs

Western does not accrue interest on certain intangible CWIP costs, consisting of feasibility, engineering, or development costs, until actual construction begins. In some cases, Western did not recognize interest for periods exceeding ten years. To illustrate, Western has about \$7 million for Salt Lake City Projects suspended in CWIP not subject to interest estimated at \$750,000 annually. As a result, the U.S. Treasury is financing Western's intangible costs.

Management's interpretation of the 1939 Act which is influenced by Western's stated objective to minimize costs to its customers, limits the definition of Federal investment subject to interest accrual. This interpretation fails to recognize other deferred costs capitalized on the balance sheet. Exclusion of these costs, understates interest on the federal government's investment.

Recommendation

Western should accrue interest on capitalized costs not classified as unpaid plant and include such costs in the power rate setting process until they are either capitalized as utility plant or expensed as maintenance cost.

Management's Response

Abandoned Project Costs. Concur. The abandoned project costs have been included in the power rate setting process. Amortization of \$11 million began in FY 1996.

Also, Western will include additional interest in the amount of \$8.4 million for those costs not classified as unpaid plant. The amortization of this expense will begin in FY 1997.

Stores Inventory Costs. Concur. Western will research this issue and determine requirements for complying with Federal regulations to repay all interest due the U.S. Treasury. Estimated date for completion is September 30, 1997.

Western Area Power Administration
U. S. Department of Energy

Feasibility, Engineering, and Development Costs. Concur. Western will research this issue and determine requirements for complying with Federal regulations to repay all interest due the U.S. Treasury. Estimated date for completion is September 30, 1997.

2. IDC on Appropriated Funds

DOE Procedure RA 6120.2 paragraph (10)(k), requires that the investment cost for power repayment purposes include interest during construction (IDC) on all construction costs funded with congressional appropriations.

Western has some projects funded from appropriated funds as well as revolving account funds provided by power customers. Western's Financial Management System (FMS) is programmed to exclude IDC calculations on all costs classified as object code 9200 established for recording nonappropriated fund transactions.

Western personnel, however, erroneously classified costs charged to both the appropriated and nonappropriated funds for the Mead Phoenix projects under object classification 9200. Personnel responsible for recording these costs indicated they were not aware of FMS guidelines or the impact on IDC as a result of misclassifying costs. As a result, Western understated IDC on approximately \$31 million in appropriated costs for the Mead Phoenix project.

Recommendation

Western should take action to correct the problem associated with costs incorrectly charged to object classification 9200 on the Mead Phoenix project and ensure that IDC is properly calculated on all costs funded with appropriated funds. Western should also consider emphasizing to accounting personnel the importance of recording all appropriated fund charges according to FMS guidelines.

Management's Response

Concur. All cost charged to object classification 9200 on the Mead-Phoenix project have been corrected. An adjustment to IDC was made to the Mead-Phoenix work order and is reflected in the FY 1996 Results of Operations. Western will review accounting procedures, FMS guidelines and update as necessary. Furthermore, Western will emphasize the use of proper accounting procedures regarding non-appropriated transfers. Estimated date of completion is September 30, 1997.

Status of Prior Year Findings

The purpose of this section is to provide a status report of those comments reported in the prior year, for which management has considered, but are still pending resolution or require further attention:

Western Area Power Administration
U. S. Department of Energy

**Western Area Power Administration (Western)
U. S. Department of Energy (DOE)**

1. Loss on Washoe Project's Stampede Dam Power Operations

Federal regulations require sufficient power revenue collections to cover the cost of operations as well as repay the interest and principal on Federal investment. In the fiscal year 1993 report, we recommended that Western evaluate the economic feasibility of continuing to operate the power generating facilities at the Stampede Dam (Washoe Power Project) or the possibility of integrating the Washoe Power Project with the Central Valley Project (CVP) for rate-making purposes. Western began efforts to improve the project status in 1994, by performing certain procedures to review Reclamation costs allocated to power over a six-year period. This effort resulted in minor savings to the project. During fiscal year 1995, Western continued making efforts to improve revenues and reduce expenses for the Washoe Power Project. These efforts included negotiating contracts with the U.S. Fish and Wildlife Service, Reclamation, and Sierra Pacific Power Company to provide project use power to the loads of the Lahontan National fish hatchery and Marble Bluff fish facility (i.e., power used by another Federal agency). The authorizing legislation of the project deems all costs relating to Fish and Wildlife as nonreimbursable. Thus, this action effectively reduced expenses allocated to the Washoe Power Project by approximately 44 percent. However, the reduction does not produce sufficient savings such that revenues derived by the project are adequate to cover all project costs plus principal and interest.

The United States General Accounting Office (GAO), in its September 1996 Report, to Congressional Requesters entitled "Power Marketing Administrations; Cost Recovery, Financing and Comparison to Nonfederal Utilities," acknowledged the efforts to reduce expenses, noting "this action just shifts the responsibility for recovering the project's costs from the ratepayers to the federal government, and does not reduce the actual costs of producing the power." In this report, the GAO concurs with Western's assessment of the project in Western's 1995 annual report that "based on current conditions it is unlikely the project will be able to generate sufficient revenues to repay the Federal investment."

During fiscal year 1996, Reclamation investigated the feasibility of the Washoe Power Project to determine if decommissioning the project is the best option. Reclamation determined that the project is "providing benefits that surpass its expenses, and that the nonuse of a functioning power plant is not in the best interest of the United States." This analysis argues that the project's O&M expenses are close to industry norms and that, absent accounting procedures, the project covers its annual O&M expenses. However, the analysis does not consider the fact that the project will likely never repay all project costs plus principal and interest, thus continuing to increase its deficit position. Given the existing circumstances, management can do very little to avoid further loss in the project.

Recommendation

Because this matter has been reported to all proper authorities, we make no further recommendation in this area.

Western Area Power Administration
U. S. Department of Energy

Management's Response and Status

Concur. Western and Reclamation are continuing efforts to jointly improve the financial status of the project and are in the process of reviewing the allocable and direct costs in an effort to realize additional savings. While the agencies efforts continue to decrease the full cost of recovery, the project continues to accrue interest for the remaining unpaid balances. Washoe project generation in excess of that required to serve project use loads is being considered as a resource in the Central Valley Project 2004 Marketing Plan. As such, the Washoe resource would be integrated with the CVP for marketing purposes and Washoe project costs would be recovered through CVP sales.

* * * * *

We considered these instances of noncompliance in forming our opinion on whether the combined power system financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 13, 1996, on those combined power system financial statements.

Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

Western has received a waiver from OMB with respect to the financial statement provisions of OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, however, Western is required to comply with the overview and performance measures requirements of the OMB Bulletin.

This report is intended for the information and use of the management of Western, Reclamation, the Corps, and IBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPM G Peat Marwick LLP

December 13, 1996

60 East South Temple
Suite 900
Salt Lake City, UT 84111

The Administrator
Western Area Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of Western Area Power Administration (Western) as of and for the year ended September 30, 1996, and have issued our report thereon dated December 13, 1996. In planning and performing our audit of the combined power system financial statements of Western, we considered the internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies.

**Western Area Power Administration (Western)
U. S. Department of Energy (DOE)**

1. Communicating Transformation Plans

Transformation and change is part of any dynamic business that operates in a competitive and changing industry. Communication, however, is a key ingredient for successfully implementing business process change within an organization. Management must develop and communicate a transformation plan that identifies all activities and processes subject to change from a broad perspective down to specific detailed task levels.

Western transformed its organization during fiscal year 1995 with implementation primarily occurring during fiscal year 1996. The Salt Lake Area Office (SLAO) was reduced to a customer service center while the remaining area offices became regional offices. Western transferred most activities previously performed by the SLAO to either the Rocky Mountain Region (RMR) in Loveland, Colorado, or the Desert Southwest Region (DSWR) in Phoenix, Arizona.

In August 1996, each region accepted responsibility for a portion of the power customer accounts previously handled by SLAO. At September 30, each region established accruals for estimated revenue from power customers, including the accounts transferred from SLAO. The SLAO employee previously responsible for recording year-end accruals also recorded an accrual for 1996 September revenue. This action caused Western to overstate power revenues by \$5.7 million for fiscal year 1996.

Conversely, Western management did not clearly communicate the transfer of responsibility for preparing the Power Operations and Maintenance (PO&M) reports from SLAO to RMR and DSWR. Thus Western personnel did not complete the Salt Lake projects PO&M reports for August and September until the second week of December 1996. Because Western uses these reports to reconcile revenue in the financial statements with revenue in the Power Repayment Studies, final revenue adjustments were not available and delayed the completion of the fiscal year 1996 audit.



Western Area Power Administration,
U.S. Department of Energy
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While Western made the reassignment of functions on a broad level, management did not address the functional assignments at the task level to ensure that personnel at each regional office clearly understood what they were to do after the reorganization. This apparent lack of communication concerning duties at the task level becomes more significant when one considers that Regional offices function more independently with less oversight from Western's Corporate Services Office (CSO).

By not clearly communicating all transformation processes, the potential for errors in financial statement data increases significantly. Of the two cited situations one resulted in a duplication of accounting transactions while the other caused an omission of a necessary process.

Recommendation

We recommend Western investigate all processes previously performed by the SLAO and identify all tasks requiring reassignment. Management should then clearly define and communicate the reassignment of duties to all respective regional office personnel. Once the reassignment is complete, management should verify that all regional offices are properly performing their new responsibilities.

Management's Response

Concur. Processes and guidelines were established for the timely transfer of the functions and responsibilities of the SLAO to the appropriate regional offices. A complete review of this information will be conducted to ensure full cooperation and understanding by offices participating in the transition. The estimated date for completion is September 30, 1997.

2. Joint Venture Investments

The Accounting Principles Board Opinion 18 states that an entity should record joint venture investments at cost if the entity meets the requirement to use the equity method. Also, the entity should adjust the investment balance for the entity's share of any gain or loss reported by the joint venture. Any cash dividend from the joint venture should also reduce the investment balance.

Western's recorded investment in small Rural Utilities Services financed cooperatives totaled \$250,000 in fiscal year 1996. This balance is overstated, however, because Western did not adjust its investment balances (1) when receiving cash dividends or (2) for annual equity increases or decreases for which Western had no knowledge.

While most cooperatives send annual statements to investors showing equity ownership in the cooperative, some do not provide such statements. Western had not established procedures to periodically contact the cooperative to determine the status of their equity investment. Although Western's procedures require recording the income when receiving a cash dividend on a joint venture investment, the procedures do not require Western to adjust the investment balance. As a result, Western understated their investment and income for such joint venture activities.

Recommendation

We recommend Western establish procedures to obtain annual equity statements from joint venture cooperatives and adjust investment balances for any changes in their equity interest in the joint venture.

Management's Response

Concur. The estimated date for completion is September 30, 1997.

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U.S. Department of Energy
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3. Recording Budgetary Obligations as Expenses

Assets represent the probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Liabilities represent the probable future sacrifice of economic benefits arising from present obligations of a particular entity to transfer assets or provide future services to others as a result of past transactions or events. Expenses, however, are outflows of assets and or the insurance of liabilities, as a result of the delivery or production of goods, the rendering of services, or other earning activities that constitute an entity's major or primary operation.

Western's financial management system (FMS) automatically records as expenses the difference between the beginning and ending balance in CSO's budgetary obligations at year-end and allocates this amount to regional projects. The regional projects record the allocated change in CSO obligations as an expense in their project general ledgers.

The practice of distributing the change in the budgetary obligation began prior to Western installing the current FMS in 1987 and is system driven. The cumulative effect is an overstatement in Western's appropriations of \$9.6 million, an understatement of \$14.3 million in beginning accumulated net revenues, and an understatement of \$4.6 million in current year expenses:

The practice of distributing CSO budgetary obligations to specific regional projects results in the following discrepancies: 1) overstatement of expenses and understatement of cash in the general ledger of the specific regional project; 2) assets/liabilities (i.e., over/under cleared obligations in account 255-70) remaining on the balance sheet do not meet generally accepted accounting principles definition of an asset or liability and there is an overstatement of cash at the CSO level; 3) an overstatement of appropriations on a Western-wide basis resulting from the reclassification of year-end balances in account 255-70 to appropriations during the next fiscal year (i.e., cumulative reclassification equals the current of CSO obligation balance).

Recommendation

Western should investigate the origins of this established practice and evaluate whether the purposes accomplished with recording budgetary obligations as expenses outweigh the purposes of sound financial accounting practices. Assuming this practice does not outweigh the accounting purpose then the practice should be discontinued.

Management's Response

Concur. Western will investigate the origins of this practice and evaluate whether recording budgetary obligations as expenses should be discontinued. The estimated date for completion is September 30, 1997.

4. Payment Discounts and Penalties

Generally accepted accounting principles require that costs charged to a project should reflect the consideration given in exchange for a product or service.

Western Area Power Administration,
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Western's FMS records all vendor payment discounts and penalties to CSO work orders used to accumulate overhead costs instead of recording them to the specific project work orders to which the discounts or penalties apply. CSO allocates overhead costs accumulated in these work orders to the various area projects using the general Western allocation formula. To illustrate, Western took an early payment discount of \$77,303.32 on a work order related to trust work where costs pass through to the customer. Western charged the applicable work order (MED-0044C) the gross invoice cost before discounts. Western recorded the discount transaction to a CSO overhead account because their FMS system automatically accumulates all discounts and penalties in a CSO overhead work order instead of recording the transaction to the applicable project work order. As a result, the project originally charged 100 percent of the invoice cost and may only receive a portion of the discount or penalty. This creates a misstatement of costs at the individual project level and either over or undercharges projects and customers.

Recommendation

Western should take action to reprogram FMS to allow the project work order incurring the costs to receive the applicable vendor discount or penalty. If re-programming is either too cumbersome or costly, procedures should be established for recording an adjustment to the appropriate work order each time the system processes a vendor discount or penalty.

Management's Response

Concur. A review is being conducted to determine the most cost effective way to apply discounts and penalties to the appropriate work orders. Procedures will be established based on the results of this review. The estimated date for completion is September 30, 1997.

5. Revenue and Property Transfer Balance

All property and revenue transfer balances between Reclamation and Western should net to zero in financial statement consolidation. However, Reclamation's combined transfer account balances for revenues and property (accounts 3220-P-32B, 3230-P-32H, 3310-MP-33Z fund 615) exceed the offsetting balances in Western's records (account 21222,21241). These differences most likely represent misclassified or unrecorded transactions not identified because the two agencies do not reconcile inter-agency transfer accounts on a cumulative basis.

As a result, the net transfer balance in the consolidated financial statements, which should represent net transfers between nonconsolidating entities only, is over or understated by transfers that do not net to zero between Reclamation and Western.

Recommendation

In a collaborative effort, Western and Reclamation should reconcile, on a cumulative basis, the balance of all revenue and property transfers on both agencies financial accounting records, to determine whether the difference can be identified and adjusted accordingly. Once a reconciliation is complete and differences resolved, the agencies should establish procedures to reconcile transfer accounts annually.

Management's Response

Concur. The estimated date for completion is September 30, 1997.

Western Area Power Administration,
U.S. Department of Energy
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6. Authorization of Travel Reimbursement

Department of Energy Order 1500.2A, "Travel Policies and Procedures," contains the policies and procedures for authorizing employee travel and the paying and recording of employee travel transactions.

Our review of three travel vouchers at the Desert Southwest (DSW) Regional Office showed that Western paid one reimbursement voucher without supervisor approval. Another voucher's charge in the accounting records did not agree to the object code classification on the voucher, indicating a possible clerical input error. Failure to follow prescribed policies and procedures increases the potential for the payment of unauthorized travel expenses and improper recording of costs.

Recommendation

Western should determine why control procedures for employee travel were not followed by the DSW regional office and initiate corrective action.

Management's Response

Concur. These procedures are currently being reviewed by a CFO-sponsored process improvement team. Recommendations from the process review will include assurance of adequate internal control procedures for the final certification of travel vouchers for payment. The estimated completion date is September 30, 1997.

7. Time and Attendance Reports

DOE Order 3600.1A, "Time and Attendance Reporting," prescribes Western's policies and procedures concerning the certification, correction, and retention of Time and Attendance (T&A) reports. Supervisors are required to review each employee's T&A report and certify its accuracy by signing and dating the report. Supervisors should also initial all corrections made by T&A clerks. In situations requiring the delegation of certifying responsibilities, delegation should only be temporary and at a level so that subordinates are not certifying the T&A reports of supervisory personnel.

Often T&A reports tested at the DSW office, no one certified the accuracy of two T&A's and the Regional Manager's secretary rather than the Regional Manager had certified the accuracy of T&A's for two department level managers. Also, the supervisor had not initialed corrections on eight of the ten T&A's. Failure to follow policies and procedures increases the possibility of both errors and irregularities in the reporting of time and the paying of employees.

Recommendation

Western should emphasize the importance of following established T&A procedures and determine whether a systemic problem exists at the DSW office.

Management's Response

Concur. Action will be taken to document procedures and provide training to personnel responsible for the review and certification of T&A report accuracy. The estimated date for completion is September 30, 1997.

Western Area Power Administration,
U.S. Department of Energy
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8. Time and Attendance Clerk Procedures

DOE 3600.1A, "Time and Attendance Reporting," requires that corrections to T&A reports be documented by crossing through the error with a single line and making the correction on a new line in black ink. Western's PAY/PERS Time and Attendance Manual also requires departments submitting hard copy T&A reports to maintain a signature card file of certifying supervisors and retain the original T&A records for six years.

At the DSW Regional office, our test of ten T&A reports identified that corrections on one T&A were in pencil and personnel did not cross out the original entry and create a new line reflecting the accurate information on four other reports. Also, DSW region personnel could not locate the original copy of four T&A reports and three of the ten T&A reports were certified by officials who had no signature card on file.

Improperly documenting corrections on T&A's could be attributable to a lack of supervision over, or training of, T&A clerks. No one could explain the loss of original T&A reports or the failure to maintain and update the signature card file.

Correcting T&A reports in pencil increases the risk of falsification and improperly documenting changes to original reports can lead to mistakes when recording of payroll information. In addition, retention of copies rather than original T&A reports, increases the risk for unauthorized changes, and not properly maintaining the signature card file increases the potential for payment of unauthorized payroll charges.

Recommendation

Western should ensure that T&A clerks in the DSW region receive proper supervision and training on processing T&A reports, including authentication of T&A certification to signature cards.

Management's Response

Concur. Procedures have been implemented to correct the errors associated with preparation of T&As. Signature cards have been updated. Meetings and training sessions will be held to ensure processing deficiencies are corrected. The estimated date for completion is September 30, 1997.

9. Proper Approval for Blanket Purchase Agreements

Western follows the Simplified Acquisition Procedures outlined in the Federal Acquisition Regulation (FAR) 13 for blanket purchase agreements (BPAs) on purchases under \$25,000. The regulation states that all BPAs require proper authorization and budgetary approval. Western obtains these approvals by obtaining signatures on the General Purchase Requisition (GPR).

Verification of supervisory and budgetary approval was not possible on one of two BPA's selected at the DSW office because the GPR was not present in the vendor file. Contracting officers are awarding BPAs without verifying that the file contains all required information. Such practices could result in contracting officers obligating the government for purchases when funds might not be available.

Recommendation

Western should enforce policies and procedures that require appropriate approvals on all GPRs prior to awarding BPAs.

Western Area Power Administration,
U.S. Department of Energy
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Management's Response

Concur. At the time the audit was conducted, final documentation for the BPA agreement identified had been completed, but was not in the file. Procurement will ensure for future audits that files are annotated as being "complete" or "in process", as applicable. The estimated date for completion is September 30, 1997.

10. Non Facility Power Rights

Chapter X of the Financial Management System manual states that amounts classified in account 12310, Nonfacility Power Rights, shall include the original cost of the long-term rights not directly identifiable to a Western-owned facility but used by Western in power operations. Western should also amortize the rights over the life of the right or the service life of the applicable Western-owned project, whichever is less, with all amortization recorded in account 12320. In addition, Western should maintain detailed records for each power right.

Western has not established an amortization schedule for the Colorado River Storage Project (CRSP) completed plant balance of \$2.5 million in nonfacility power rights. Although Western personnel have general knowledge of what the balance represents, they claim the historical information is not sufficient to establish such a schedule. As a result, the balance included in completed plant represents the original cost without any amortization of the cost over the assets useful life.

Recommendation

Western should take action to research the origin of the \$2.5 million and determine whether these costs represent power rights requiring amortization.

Management's Response

Concur. The estimated date for completion is September 30, 1997.

11. Sole Source Justification

Federal Acquisition Regulation (FAR) 6 requires Western to obtain competitive bids for purchases greater than \$2,500 or obtain approval for sole-source purchasing. To obtain sole-source purchasing approval, procurement personnel must provide written justification for not following the competitive bidding process.

Our tests of purchases greater than \$2,500 disclosed that files for one purchase at the DSW and one at the Fort Peck Maintenance Office (FPMO) contained no documentation indicating that competitive bidding took place or justifying a sole-source purchase. The contracting officer at DSW indicated that he deemed competitive bidding unnecessary due to the urgency of the item and the general knowledge of the contractor. In addition, he did not document justification for not following competitive bidding procedures.

The supply technician at FPMO responded that they established the BPA for the vendor with the understanding that they were the only known local vendor to supply a chemical product. As a result, they did not obtain price quotes or document justification of sole-sourcing for the purchase which subjects Western to potential allegations of biased purchases or litigation by other qualified vendors.

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Recommendation

Western should ensure that DSW region and the FPMO instruct its contracting officers to comply with sole-source procurement requirements.

Management's Response

Concur. Action will be taken to ensure that proper documentation of vendor small business is contained in all procurement actions over \$2,500. The estimated date for completion is February 28, 1997.

12. Verification of Small Business Status

Federal Acquisition Regulations (FAR) require contracting officers to insert the Small Business Concern Representation in solicitations. To be eligible for award as a small business concern, the contractor must provide written representation of their status as a small business.

We could not verify the small business status on three blanket purchase agreements because contracting personnel did not obtain or retain written representation of the contractors status as a small business. The Upper Great Plains Region (UGPR) could not provide supporting documentation for the small business status of Dakota Electric Supply or Agribasics at the FPMO, or Utility Electric Supply at the Huron Maintenance office. Procurement personnel offered no explanation for not complying with this requirement.

Recommendation

Western should ensure that the UGPR establishes adequate procedures to ensure that contractors provide written representation of their status as a small business before awarding blanket purchase agreements.

Management's Response

Concur. Action will be taken to ensure that proper documentation of vendor small business status is included in procurement files for BPA actions. The estimated date for completion is February 28, 1997.

**Bureau of Reclamation (Reclamation)
U. S. Department of the Interior**

1. Statement of Project Construction Costs and Repayment

The Reclamation Project Act of 1939 requires that power revenues be sufficient to cover the annual operation and maintenance costs, interest on construction investment, and other costs related to generating and delivering power. Because Reclamation's maintenance and operation of a dam site relate to multipurpose uses such as recreation, irrigation, and power generation, each Reclamation office provides Western with a Statement of Project Construction Costs and Repayment (SPCCR) showing the costs allocated to power.

Western Area Power Administration,
U.S. Department of Energy
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Reclamation's multipurpose balances included in Western financial statements changed significantly between 1995 and 1996 because Reclamation's Mid-Pacific region submitted incomplete allocation data. For example, although Reclamation personnel prepared the 1995 SPCCR, the financial information did not agree with the 1995 published financial statements. In addition, when we tested the allocation percentages, completed plant allocation exceeded the total rollforward of plant on Reclamation's general ledger by approximately \$1.5 million.

The SPCCR prepared by each Reclamation office provides the detail allocation of accumulated project costs to such functions as flood control, irrigation, power generation, and recreation. The Reclamation's Mid-Pacific region's draft report contains a column titled "Other Costs to be Allocated" totaling \$222.5 million not yet allocated to any functions. Research disclosed that the employee who usually prepared the report left Reclamation before completing his work and a reassignment of his duties did not occur due to a lack of staff available. Because of the time required to develop an accurate report, Reclamation's Mid-Pacific region and Western's Sierra Nevada region agreed to use the prior years SPCCR's allocation percentages. As a result, Reclamation's 1996 allocated financial information may not reflect recent changes in operations and activities.

Recommendation

Reclamation's Mid-Pacific Region should take immediate action to hire and train a competent individual with the requisite skills to assume responsibility for preparing the annual SPCCR. Reclamation should then provide personnel with necessary training to ensure the future SPCCRs are accurate and prepared in a manner consistent with other regional offices.

Management's Response

Concur. Reclamation's Mid-Pacific Region will fill the position with an individual who will be responsible for preparing future SPCCRs. Also, the Region has contracted with a consultant to develop an updated and fully documented CVP cost allocation which will be the basis for ensuring accurate and consistent multipurpose cost allocations in the future.

2. Revenue and Property Transfer Balance

All property and revenue transfer balances between Reclamation and Western should net to zero in financial statement consolidation. However, Reclamation's combined transfer account balances for revenues and property (accounts 3220-P-32B, 3230-P-32H, 3310-MP-33Z fund 615) exceed the offsetting balances in Western's records (account 2111,21241). These differences most likely represent misclassified or unrecorded transactions not identified because the two agencies do not reconcile inter agency transfer accounts on a cumulated basis.

As a result, the net transfer balance in the consolidated financial statements, which should represent net transfers between nonconsolidating entities only, is over or understated by transfers that do not net to zero between Reclamation and Western.

Recommendation

In a collaborative effort, Western and Reclamation should reconcile the cumulative balance of all revenue and property transfers on both agencies financial accounting records, to determine whether the difference can be identified and adjusted accordingly. Once a reconciliation is complete and differences resolved, the agencies should establish procedures to reconcile transfer accounts annually.

Western Area Power Administration,
U.S. Department of Energy
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Management's Response

Concur. In collaboration with Western, Reclamation will endeavor to identify the differences in the revenue and property transfers between our organizations and make adjustments where necessary to bring the accounts into agreement.

Status of Prior Year Comments

The purpose of this section is to provide a status report of those comments reported in the prior year, for which management has considered, but are still pending resolution or require further attention:

Western Area Power Administration (Western) U. S. Department of Energy (DOE)

1. Undue Delays in Properly Classifying Plant Costs

Last year, we reported that Western had \$344 million of plant assets recorded as plant-not-classified for periods of time significantly exceeding the three month limit allowed by Western regulations. Western's delay in properly classifying the value of plant assets could result in the overstating of depreciation expense and interest on federal investment (IOI) in its annual financial statements. Western responded that they planned to have the backlog of work orders for amounts recorded as plant-not-classified reduced to the three month limit by September 30, 1996. As of that date, however, Western still had about \$291 million in unclassified plant for periods exceeding three months.

Recommendation

Western should continue giving priority to reducing the age of work orders for amounts recorded as plant-not-classified to less than the three month maximum.

Management's Response and Status

Concur. Western has continued to emphasize the priority of this issue by providing documentation and training to regional accounting staffs on proper classification of plant costs. The estimated date for completion is September 30, 1997.

2. Value of Retired Plant Assets

We reported in fiscal year 1995 that utility industry standards require that any remaining net book value and/or gain or loss from the retirement (disposal) of an asset be included as an element within the accumulated depreciation account with amortization of these amounts occurring over future years through the use of "group depreciation" rather than as an immediate entry to the income statement.

Western calculates depreciation on the plant account balance excluding the net book value of any disposals or retirement of plant assets (i.e., retirements included within accumulated depreciation). Western was not aware that it should continue reducing the undepreciated balance of retired assets. As a result, the undepreciated balance of retired assets will remain on Western's records until the various projects end. This situation effectively overstates the book value of plant assets for all projects.

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In the current year, Western contacted several public utility companies inquiring about their approach to account for retirements. As a result of these inquiries, Western drafted an issue paper containing several acceptable industry methods. Western has yet to conclude on a preferred method.

Recommendation

Western should consult with Reclamation regarding the method to be used to account for retired assets and then select a method which best suits Western's operations. Western should then implement the selected method, prepare the appropriate adjustments to the financial statements, and modify current policies and procedures to reflect the new methodology.

Management's Response and Status

Concur. The issue paper, referenced in the final paragraph of this finding, is currently being reviewed by agency management for decision. The estimated date for completion is September 30, 1997.

3. Interest on Investment

Federal Statute requires power marketing administrations (PMA's) to accrue IDC on Federal projects constructed with appropriations. Federal Statute also requires the accrual of IOI for the unpaid balance after costs are transferred from CWIP to completed plant. In fiscal year 1995 we reported that, in practice, the application of this IOI requirement is inconsistent within Western.

Three of Western's projects (Colorado River Storage Project, Pick-Sloan Missouri Basin, and Fryingpan-Arkansas) maintain that the requirement is being complied with as Western's FMS computes a full year of IDC on any transfers to completed plant during the year. IOI expense is calculated on additions to completed plant in the year following transfer.

The remaining projects operate under the assumption that additions to completed plant are transferred from CWIP evenly throughout the year. Accordingly, these projects accrue one-half year of IOI in the year of addition (i.e., the one-half year convention method). Furthermore, as Western's FMS is programmed to compute one full year's IDC on all current year transfers to completed plant, any transfers to completed plant during the year are effectively charged interest expense twice over a six-month period.

In comparing Western's methodologies to Southeastern and Southwestern Power Administrations, we noted that these PMA's operate under the one-half year convention method with respect to IOI and only record one-half year's IDC. We also noted that these PMA's have incorporated these procedures within their accounting handbooks and cite RA 6120.2 as the underlying authoritative guidance for such procedures. As a result of the inconsistent applications indicated above, Western's projects may not be complying with the original intent of the Federal Statute.

In the prior year, Western agreed to review the basis and methodology for applying IOI and IDC for current year additions to completed plant and record any necessary adjustments by fiscal 1996 year-end. Upon investigation, Western learned that only the smaller Salt Lake projects (Colbran, Dolores, and Seedskafee) duplicate IDC and IOI on current year additions to completed plant. Because additions to these projects are not significant, Western did not pursue the issue. However, the current method does not comply with DOE procedure RA 6120.2, and is inconsistent within Western as well as other PMA methods.

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Recommendation

In order to achieve consistency within Western and among the PMA's, Western should review the basis and methodology for applying IOI and IDC for current year additions to completed plant for both the transmission and generating facilities. Policy and procedures should be modified as appropriate, and the accounting manual should be updated accordingly. Western should also evaluate the historical application of the modified policies and procedures to each of the power projects and record appropriate accounting adjustments as necessary.

Management's Response and Status

Concur. Western has initiated efforts to establish a cross-regional team to determine the appropriateness of the interest application methodology. The estimated date for completion is September 30, 1997.

4. Interest on Federal Investment

In the prior year, we reported that interest expense on net outstanding Federal investment should be recovered in accordance with the policies established by the Federal agencies associated with production and distribution of power. The details of our prior years finding are as follows:

DOE Procedure RA 6120.2 requires recovery of interest expense on the net outstanding Federal investment in power projects through power revenues. The criteria for determining the interest rate applicable to each project as it pertains to additions to utility plant is prescribed in each project's enacting legislation, DOE Procedure RA 6120.2, Department of the Interior Secretarial Order No. 2929, Department of the Army Circular EC 37-2-114, and a September 1, 1983, tri-agency agreement between the PMA's, U.S. Army Corps of Engineers (the Corps), and Reclamation. The calculation of interest expense between the various power projects and agencies should be consistently applied. Consistency of application requires that a position be taken, and a consensus be reached, among management responsible for transmission and generation, as to the proper interest rate to be applied to the outstanding Federal investment. Management should document the position taken, in consideration of and in reference to, the appropriate laws, regulations, guidelines, and agreements indicated above, which have been established for purposes of operating the various power projects.

Each of the agencies noted above calculate interest on investment in plant facilities related to their participation in the projects. We noted inconsistent application of interest rates to the outstanding Federal investment, in particular as it pertains to calculating interest for replacements and additions to plant on the Pick-Sloan and CRSP power projects. The guidelines for determining interest expense, which are prescribed in the enacting legislation, appear to be very similar in nature. However, management of the two projects clearly interpret the guidelines differently. The generating agency for the CRSP project calculates interest expense on replacements and additions using the rate determined by the Secretary of the Treasury at the time the construction funds were appropriated for the project. The transmission agency calculates interest using a current rate. Both the transmission and generating agencies for the Pick-Sloan project calculate interest expense on replacements and additions using a current rate as determined by the Treasury. The inconsistency in application is a result of unclear guidelines which have contributed to management interpreting these guidelines on a project-by-project basis without a centralized person or department taking responsibility to assure that the interpretation was consistent for the power system as a whole. The inconsistency in interpretation may have resulted in an under or over recovery of interest expense through power revenues. We are uncertain of the amount of interest on Federal investment which may have or may have not been collected in excess of the proper amount.

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We recommended Western's headquarters management thoroughly research the following documents for each power project: the original enacting legislation, DOE Procedure RA 6120.2, Department of Interior Secretarial Order No. 2929, Department of the Army Circular EC 37-2-114, and the September 1, 1983, tri-agency agreement between the PMA's, the Corps, and Reclamation.

Upon review of these documents management should establish and document their position as it relates to their interpretation of the above mentioned documents on a project-by-project basis. Once this position is determined it should be conveyed to the generating agencies (i.e., the Corps and Reclamation). Both the transmission and generating agencies should come to an agreement with the interpretation. Once this process is complete interest expense as historically recorded should be evaluated and adjusted in order to comply with applicable laws and regulations.

Management agreed to conduct a review of the interpretation of the original enacting legislation, orders, and circular by the generating agencies, to identify inconsistencies in the calculation of interest on federal investment. Furthermore, Western agreed to perform a review of the application of interest rate policies and collaborate with the generating agencies to resolve differences in calculating interest expense by all agencies and develop a common way to calculate interest and an approach to application.

During 1996, legal counsel and representatives from Reclamation and Western met in an attempt to resolve the inconsistent application of interest rates for CRSP. However, upon conclusion of the discussions, the parties agreed that both interpretations of project legislation were correct. Thus, Reclamation would continue to use the original project rate while Western applies the current rate to their project additions and replacements. Although the parties have yet to prepare and sign a formal agreement, it is our understanding that, if finalized, Western would recognize a reduction in prior interest expense of approximately \$13 million for the CRSP project. In addition, the pending agreement will not resolve the issue of inconsistency in methodologies used by the two agencies on a joint project or with other projects.

Recommendation

Given the potential magnitude of adjustments to interest expense which may result from these reviews, we strongly recommend each party prepare a written analysis supporting their interpretation. This analysis should include consideration of why the September 1, 1983 agreement does not apply to the CRSP project as well as consideration of the fact that the language or intent of section titled "interest rate" in the original legislation for CRSP and Pick Sloan do not differ significantly. Until the Bureau and Western agree on the method for the use of interest rates, Western should continue to use its method of applying current rates to investments in the power repayment study.

Management's Response and Status

Concur. Reclamation and Western staff, including representatives for both their Solicitors, met in Salt Lake City in late July 1996, to discuss the inconsistency in interest rate methodologies used by the two agencies. Both agencies agreed to draft a document that would validate their respective methodologies and interpretations of legislation. As of this writing, the Solicitors have not completed their draft agreement. The estimated date for completion is September 30, 1997.

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**Bureau of Reclamation (Reclamation)
U. S. Department of the Interior**

1. Value of Retired Plant Assets

Utility industry standards require that any remaining net book value and/or gain or loss from the retirement (disposal) of an asset be included as an element within the accumulated depreciation account with amortization of these amounts occurring over future years through the use of group depreciation rather than as an immediate entry to the income statement.

Reclamation calculates depreciation on the plant account balance excluding the net book value of any disposals or retirement of plant assets (i.e., retirements included within accumulated depreciation) and does not use group depreciation. Reclamation was not aware that it should continue reducing the undepreciated balance of retired assets. As a result, the undepreciated balance of retired assets will remain on Reclamation's records until the various projects end. This situation effectively overstates the book value of plant assets for all projects.

In the current year, Reclamation consulted with Western regarding their position and drafted their own issue paper on the current methods of accounting for asset retirements. As of December 1996, the issue is still unresolved.

Recommendation

Reclamation should continue to coordinate with Western to reach a resolution of the issue. Once resolved Reclamation should implement the selected method prepare the appropriate adjustments to the financial statements and modify current policies and procedures to reflect the new methodology.

Management's Response and Status

Concur. Reclamation continues to evaluate its overall asset management policies, particularly in light of the recent guidance issued by the Federal Accounting Standards Advisory Board (FASAB) regarding the accounting treatment of property, plant and equipment, including dispositions.

Reclamation will continue to coordinate its policy development with Western and expects to issue policy addressing asset management by September 30, 1997.

* * * * *

Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

This report is intended for the information and use of the management of Western, Reclamation, the Corps, and IBWC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 13, 1996