
**SOUTHWESTERN
POWER
ADMINISTRATION**

**COMBINED
FINANCIAL
STATEMENTS**

2006-2009

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SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(With Independent Auditors' Report Thereon)

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KPMG LLP
Suite 310
100 West Fifth Street
Tulsa, OK 74103

Independent Auditors' Report

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

We have audited the accompanying combined balance sheets of the Southwestern Federal Power System (SWFPS), as of September 30, 2009, 2008, 2007, and 2006, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended. As described in note 1(a), the combined financial statement presentation includes the hydroelectric generation functions of another Federal agency (hereinafter referred to as the generating agency), for which Southwestern Power Administration (Southwestern) markets and transmits power. These combined financial statements are the responsibility of the management of Southwestern and the generating agency. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southwestern and the generating agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Southwestern Federal Power System, as of September 30, 2009, 2008, 2007, and 2006, and the results of its operations and its cash flow for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the 2009, 2008, 2007, and 2006 SWFPS's combined financial statements taken as a whole. The supplementary information in the combining financial statements is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

KPMG LLP

December 16, 2011

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets

September 30, 2009, 2008, 2007, and 2006

Assets	2009	2008	2007	2006
Utility plant:				
Plant in service	\$ 1,349,499,896	1,332,567,626	1,303,316,215	1,278,684,347
Accumulated depreciation	(608,686,560)	(582,254,988)	(552,264,818)	(530,281,854)
Construction work in progress	112,616,706	69,431,629	53,177,557	50,854,899
Net utility plant	<u>853,430,042</u>	<u>819,744,267</u>	<u>804,228,954</u>	<u>799,257,392</u>
Current assets:				
Cash	208,531,459	125,717,507	84,395,754	77,688,171
Funds held in escrow	56,882,873	40,374,329	38,147,032	8,291,255
Accounts receivable	14,295,361	16,484,269	15,051,972	10,499,524
Material and supplies, at average cost	2,511,866	2,609,088	2,872,050	2,922,552
Total current assets	<u>282,221,559</u>	<u>185,185,193</u>	<u>140,466,808</u>	<u>99,401,502</u>
Banking exchange receivables	3,360,544	3,920,819	1,412,075	704,909
Deferred workers' compensation	16,679,751	16,887,598	12,645,577	14,817,464
Purchased power and banking exchange deferral	—	—	20,273,405	47,087,994
Other assets	30,821,588	22,877,170	18,000,526	5,961,898
Total assets	<u>\$ 1,186,513,484</u>	<u>1,048,615,047</u>	<u>997,027,345</u>	<u>967,231,159</u>
Federal Investment and Liabilities				
Federal investment:				
Net investment of U.S. Government	\$ 883,672,623	841,516,494	836,063,919	835,345,714
Accumulated net revenues	220,102,353	162,209,865	126,572,766	103,105,949
Total Federal investment	<u>1,103,774,976</u>	<u>1,003,726,359</u>	<u>962,636,685</u>	<u>938,451,663</u>
Current liabilities:				
Accounts payable and accrued liabilities	11,954,483	8,639,150	9,907,874	9,665,632
Advances for construction	22,244,110	11,738,566	10,760,437	3,206,054
Purchased power and banking exchange deferral	30,698,300	6,433,094	—	—
Total current liabilities	<u>64,896,893</u>	<u>26,810,810</u>	<u>20,668,311</u>	<u>12,871,686</u>
Accrued workers' compensation	17,841,615	18,077,878	13,722,349	15,907,810
Total liabilities	<u>82,738,508</u>	<u>44,888,688</u>	<u>34,390,660</u>	<u>28,779,496</u>
Commitments and contingencies (notes 5 and 6)				
Total Federal investment and liabilities	<u>\$ 1,186,513,484</u>	<u>1,048,615,047</u>	<u>997,027,345</u>	<u>967,231,159</u>

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues and Expenses

Years ended September 30, 2009, 2008, 2007, and 2006

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:				
Sales of electric power	\$ 166,999,249	168,116,561	140,910,865	99,593,998
Transmission and other operating revenues	<u>16,236,646</u>	<u>25,886,071</u>	<u>21,750,422</u>	<u>17,344,485</u>
Total operating revenues before deferrals	183,235,895	194,002,632	162,661,287	116,938,483
Net purchased power and banking exchange deferral	<u>(23,647,784)</u>	<u>(27,059,551)</u>	<u>(28,410,295)</u>	<u>64,868,517</u>
Total operating revenues	159,588,111	166,943,081	134,250,992	181,807,000
Non reimbursable revenues	<u>798,830</u>	<u>1,389,462</u>	<u>1,223,933</u>	<u>1,754,763</u>
Total revenues	<u>160,386,941</u>	<u>168,332,543</u>	<u>135,474,925</u>	<u>183,561,763</u>
Operating expenses:				
Operation and maintenance	61,537,944	66,572,408	59,070,629	54,080,739
Purchased power and banking exchange	2,674,735	6,924,440	7,684,140	71,886,468
Depreciation and amortization	29,305,410	32,010,410	25,459,116	26,032,707
Transmission service charges by others	3,093,593	3,101,182	3,058,968	3,060,065
Retirement and other employee benefit expense	6,346,124	6,125,625	6,308,339	6,597,223
Non reimbursable expenses	<u>1,300,718</u>	<u>960,846</u>	<u>670,876</u>	<u>1,276,574</u>
Total operating expenses	<u>104,258,524</u>	<u>115,694,911</u>	<u>102,252,068</u>	<u>162,933,776</u>
Net operating revenues	<u>56,128,417</u>	<u>52,637,632</u>	<u>33,222,857</u>	<u>20,627,987</u>
Interest expense:				
Interest on Federal investment and other	18,182,717	18,258,017	18,882,079	20,383,090
Allowance for funds used during construction	<u>(2,216,788)</u>	<u>(1,257,484)</u>	<u>(1,034,679)</u>	<u>(2,045,759)</u>
Net interest expense	15,965,929	17,000,533	17,847,400	18,337,331
Net revenues	\$ <u>40,162,488</u>	<u>35,637,099</u>	<u>15,375,457</u>	<u>2,290,656</u>

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM
 Combined Statements of Changes in Net Federal Investment
 Years ended September 30, 2009, 2008, 2007, and 2006

	Net investment of U.S. Government	Accumulated net revenues	Total Federal investment
Total Federal investment as of September 30, 2005 (unaudited)	\$ 747,566,094	100,815,293	848,381,387
Additions:			
Congressional appropriations	76,739,816	—	76,739,816
Interest on Federal investment and other	20,956,196	—	20,956,196
Total additions to net Federal investment	97,696,012	—	97,696,012
Deductions:			
Funds returned to U.S. Treasury	(15,666,174)	—	(15,666,174)
Transfer to/from other Federal agencies, net	5,749,782	—	5,749,782
Total deductions to Federal investment	(9,916,392)	—	(9,916,392)
Net revenues for 2006	—	2,290,656	2,290,656
Total Federal investment as of September 30, 2006	835,345,714	103,105,949	938,451,663
Additions:			
Congressional appropriations	79,979,465	8,091,360	88,070,825
Interest on Federal investment and other	20,322,004	—	20,322,004
Total additions to net Federal investment	100,301,469	8,091,360	108,392,829
Deductions:			
Funds returned to U.S. Treasury	(103,121,047)	—	(103,121,047)
Transfer to/from other Federal agencies, net	3,537,783	—	3,537,783
Total deductions to Federal investment	(99,583,264)	—	(99,583,264)
Net revenues for 2007	—	15,375,457	15,375,457
Total Federal investment as of September 30, 2007	836,063,919	126,572,766	962,636,685
Additions:			
Congressional appropriations	109,681,746	—	109,681,746
Interest on Federal investment and other	18,503,973	—	18,503,973
Total additions to net Federal investment	128,185,719	—	128,185,719
Deductions:			
Funds returned to U.S. Treasury	(129,573,952)	—	(129,573,952)
Transfer to/from other Federal agencies, net	6,840,808	—	6,840,808
Total deductions to Federal investment	(122,733,144)	—	(122,733,144)
Net revenues for 2008	—	35,637,099	35,637,099
Total Federal investment as of September 30, 2008	841,516,494	162,209,865	1,003,726,359
Additions:			
Congressional appropriations	143,443,238	17,730,000	161,173,238
Interest on Federal investment and other	17,761,900	—	17,761,900
Total additions to net Federal investment	161,205,138	17,730,000	178,935,138
Deductions:			
Funds returned to U.S. Treasury	(124,315,915)	—	(124,315,915)
Transfer to/from other Federal agencies, net	5,266,906	—	5,266,906
Total deductions to Federal investment	(119,049,009)	—	(119,049,009)
Net revenues for 2009	—	40,162,488	40,162,488
Total Federal investment as of September 30, 2009	\$ 883,672,623	220,102,353	1,103,774,976

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM
 Combined Statements of Cash Flows
 Years ended September 30, 2009, 2008, 2007, and 2006

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:				
Net revenues	\$ 40,162,488	35,637,099	15,375,457	2,290,656
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:				
Depreciation	29,305,410	32,010,410	25,459,116	26,032,707
Benefit expense paid by other Federal agencies	3,012,173	2,989,885	3,386,845	3,632,152
Interest expense on Federal investment and other	17,761,900	18,503,973	20,322,004	20,956,196
Allowance for funds used during construction	(2,216,788)	(1,257,484)	(1,034,679)	(2,045,759)
(Increase) decrease in assets:				
Accounts receivable	2,188,908	(1,432,297)	(4,552,448)	3,054,121
Materials and supplies	97,222	262,962	50,502	134,792
Banking exchange receivables	560,275	(2,508,744)	(707,166)	4,339,066
Purchased power and banking exchange deferral	—	20,273,405	26,814,589	(47,087,994)
Deferred workers' compensation	207,847	(4,242,021)	2,171,887	(6,921,309)
Other assets	(7,944,418)	(4,876,644)	(12,038,628)	973,805
Increase (decrease) in liabilities:				
Accounts payable and accrued liabilities	3,315,333	(1,268,724)	242,242	2,789,892
Accrued workers' compensation	(236,263)	4,355,529	(2,185,461)	6,946,166
Purchased power and banking exchange deferral	24,265,206	6,433,094	—	(18,485,056)
Advances for construction	10,505,544	978,129	7,554,383	(1,199,540)
Net cash provided by (used in) operating activities	<u>120,984,837</u>	<u>105,858,572</u>	<u>80,858,643</u>	<u>(4,590,105)</u>
Cash flows from investing activity:				
Additions to utility plant	(60,774,397)	(46,268,239)	(29,395,999)	(26,797,361)
Cash flows from financing activities:				
Congressional appropriations	161,173,238	109,681,746	88,070,825	76,739,816
Funds returned to U.S. Treasury	(124,315,915)	(129,573,952)	(103,121,047)	(15,666,174)
Transfer to/from other Federal agencies	2,254,733	3,850,923	150,938	2,117,630
Funds held in escrow	(16,508,544)	(2,227,297)	(29,855,777)	(4,130,998)
Net cash provided by (used in) financing activities	<u>22,603,512</u>	<u>(18,268,580)</u>	<u>(44,755,061)</u>	<u>59,060,274</u>
Net increase in cash	82,813,952	41,321,753	6,707,583	27,672,808
Cash at beginning of year	<u>125,717,507</u>	<u>84,395,754</u>	<u>77,688,171</u>	<u>50,015,363</u>
Cash at end of year	<u>\$ 208,531,459</u>	<u>125,717,507</u>	<u>84,395,754</u>	<u>77,688,171</u>

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(1) Summary of Significant Accounting Policies

(a) *General Information and Basis of Preparation of Financial Statements*

The Southwestern Federal Power System (SWFPS) financial statements combine all of the activities associated with the production, transmission, and disposition of all Federal power marketed by the Southwestern Power Administration (Southwestern), an agency of the U.S. Department of Energy (DOE). The accompanying combined financial statements include the accounts of Southwestern and the related hydroelectric generating facilities and power operations of the U.S. Army Corps of Engineers (Corps), an agency of the U.S. Department of Defense (DOD). Southwestern and the Corps are separately managed and financed and each maintains their own accounting records. For purposes of financial and operational reporting, the facilities and related operations of Southwestern and the Corps (power purpose) are combined as SWFPS.

The Corps has constructed and operates hydroelectric generating facilities in the states of Arkansas, Missouri, Oklahoma, and Texas. Operating expenses and net assets of multi-purpose Corps projects are allocated to power and nonpower purposes (primarily irrigation, recreation, and flood control). Only the portion of such project costs and net assets allocated to power are included in the combined financial statements. Southwestern, as designated by the Secretary of Energy, transmits and markets power generated from these hydroelectric generating facilities.

The SWFPS is subject to the accounting regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as established by Financial Accounting Standards Board (FASB), the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE and DOD, and the requirements of specific legislation and executive directives issued by government agencies. SWFPS's combined financial statements follow the accounting and reporting guidance contained in FASB Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. Allocation of costs and revenues to accounting periods for rate-making and regulatory purposes may differ from bases generally applied by nonregulated companies. Such allocations to meet regulatory accounting requirements are considered to be U.S. GAAP for regulated utilities provided that there is a demonstrable ability to recover any deferred costs in future rates and such costs or revenues are accounted for as regulatory assets or liabilities.

(b) *Confirmation and Approval of New Rates*

SWFPS is not a public utility within the jurisdiction of FERC under the Federal Power Act. Under a Delegation Order issued by the Secretary of Energy, the Administrator of Southwestern has the authority to develop power and transmission rates for the SWFPS. Such rates are approved on an interim basis by the Deputy Secretary of Energy. FERC has the exclusive authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove, rates developed by the Administrator.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

FERC's review is limited to: 1) whether the rates are the lowest possible consistent with sound business principles; 2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and 3) the assumptions and projections used in developing the rates component. FERC shall reject decisions of the Administrator only if it finds them to be arbitrary, capricious, or in violation of the law.

The rates in effect as of September 30, 2009 are summarized as follows:

The Integrated System rate schedules were placed into effect October 1, 2006 and were approved on a final basis by the FERC on February 27, 2007. These rate schedules incorporated a three-year phase-in of a 27.7% revenue increase and remain in effect through September 30, 2010.

The Robert D. Willis project rate required no rate action during fiscal year (FY) 2009. The Robert D. Willis project rate was approved and confirmed by the FERC on April 27, 2009, for the period October 1, 2008 through September 30, 2012. The Sam Rayburn Dam project rate required no rate action during FY 2009. The current rate in effect from January 1, 2009 through September 30, 2012 was confirmed and approved by the FERC on the final basis on March 30, 2009.

(c) *Utility Plant, and Depreciation*

Utility plant includes items such as dams, spillways, generators, turbines, substations and related components (generating facilities), and transmission lines and related components. Utility plant is stated at original cost. Property transferred from other government agencies is transferred at net book value. Cost includes direct labor and material, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and an allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and minor replacements are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when the property is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives currently range from 5 to 100 years for transmission plant and generating facility components.

(d) *Cash and Funds Held in Escrow*

Cash represents the unexpended balance of funds authorized by Congress, customer advances, and spectrum relocation funds, held at the U.S. Department of the Treasury (Treasury). Cash received from the sale of power is generally deposited directly with the Treasury and is reflected as "Funds returned to Treasury" in the accompanying combined financial statements. Cash held for customer advances is restricted for the purposes agreed to between Southwestern and the customer.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

Funds held in escrow represents the unexpended balance of funds held in a bank trust account under a Memorandum of Agreement (MOA) with certain customers restricted specifically to fund operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region. Under the MOA, funds deposited to the escrow account by customers are credited by Southwestern against accounts receivable for power and energy sold to the customer. The escrowed funds are transferred to the Corps, as needed, to meet contractual obligations as outlined in certain sub-agreements to the MOA. Unused funds held in escrow, if any, will be returned to Southwestern upon termination of the MOA or individual sub-agreements.

(e) *Congressional Appropriations*

Southwestern and the Corps receive Congressional Appropriations through DOE and DOD, respectively, to finance their operations. The Corps also receives appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act of 1944 (the Flood Control Act), Southwestern is responsible for repayment to the Federal government, with interest, of its appropriations, and the portion of Congressional Appropriations allocated to the Corps for construction and operations of the power projects.

Congressional Appropriations received by the Corps are authorized and allocated to individual projects on a total project basis. These total project allocations are further distributed between power and nonpower purposes at the discretion of the Corps project management. Power purpose allocations may vary from actual amounts expended during the year. It is the intent of the Corps' project management to distribute Congressional Appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the transfer authority residing at the district level.

(f) *Purchased Power and Banking Exchange Deferral and Receivable*

SWFPS utilizes a separate rate component (purchased power adder) to recover the estimated cost of purchased power based upon the average purchased power costs expected to occur in the future. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred. From time to time, Southwestern may utilize a separate rate component (adder adjustment), to manage additional purchased power expenses or excess revenues, respectively.

SWFPS has arrangements with certain customers in which excess power available on the power system is banked with the customer until needed by the power system and the customer has power available. The power system records a receivable for the power banked at the cost specified in the marketing arrangement, under the provisions of ASC Topic 845, *Nonmonetary Transactions*. The net revenue or expense associated with banking activity is deferred until the power is returned or delivered.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(g) Operating Revenues

Operating revenues are recorded on the basis of service rendered. Rates are established under requirements of the Flood Control Act, related legislation and executive departmental directives, and are to provide sufficient revenues to meet all required repayment of system costs, including operation and maintenance expenses less depreciation, interest, and payment to the Treasury for the Federal investment in utility plant. Rates are intended to provide for recovery of the Federal investment in transmission and generating facilities not to exceed 50 years from the date placed in service, while operation and maintenance costs and interest on Federal investment are intended to be recovered annually.

As set forth in "Utility Plant, and Depreciation" above, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives, which currently range from 5 to 100 years for transmission and generating facility components. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

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 the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the Treasury's investment in utility plant. SWFPS is a Federal entity, thus at any given time the accumulated net revenues, to the extent available, are committed to the repayment of the Federal investments.

The practices followed by Southwestern and the Corps are in conformity with the accounting practices and standards established by DOE and DOD and the requirements of specific legislation and executive directives issued by government agencies. Based upon guidelines established in DOE Order RA 6120.2, revenues distributed to the Corps cover annual operating expenses including interest, with the remainder applied to the unpaid generation investment.

(h) Accounts Receivable

SWFPS's accounts receivable consist generally of receivables for power and energy sold to its customers who are primarily public bodies and cooperatives. SWFPS provides for uncollectible accounts if collection is in doubt. No allowance for uncollectible accounts was considered necessary for any year presented herein.

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

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(i) Interest on Federal Investment

Interest on repayable Federal investment is a cost mandated by the Secretary of Energy and by the FERC. SWFPS computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate.

(j) Allowance for Funds Used During Construction (AFUDC)

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from a higher recoverable investment. The interest rates used are established by law, administrative order, or administrative policy for the fiscal year during which the construction commenced (4.500% for FY 2009, 4.875% for FY 2008 and 2007, and 4.625% for FY 2006).

(k) Retirement Benefits

SWFPS employees participate in one of the following contributory defined benefit plans: the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). Based on statutory contribution rates, the FY 2009, FY 2008, FY 2007, and FY 2006 cost factors under CSRS were 25.8%, 25.2%, 25.0%, and 25.0%, respectively, of basic pay. The cost factor under FERS was 12.3% of basic pay for FY 2009, and 12.0% of basic pay for FY 2008, FY 2007, and FY 2006. The contribution levels, however, are legislatively mandated and do not reflect the current full cost requirements to fund the plans. Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program which costs \$5,756, \$5,220, \$5,572, and \$5,229 per enrolled employee, for FY 2009, FY 2008, FY 2007, and FY 2006, respectively, and the Federal Employees Group Life Insurance Program which had a FY 2009 cost factor of 0.02% of basic pay, the same as for FY 2008, FY 2007, and FY 2006.

In addition to the amounts contributed to the CSRS and FERS as stated above, SWFPS recorded an expense and related liability for the pension and other postretirement benefits in the combined financial statements of \$3,012,173, \$2,989,885, \$3,386,845, and \$3,632,152 for the years ended September 30, 2009, 2008, 2007, and 2006, respectively. This amount reflects the contribution made on behalf of SWFPS by OPM to the benefit program trust funds.

As a Federal agency, all post-retirement activity is managed by OPM, therefore, neither the assets of the plans nor the actuarial data with respect to the accumulated plan benefits relative to Southwestern and the Corps employees are included in this report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(l) Workers' Compensation

Workers' compensation consists of two elements: actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future (future claims) and a liability for expenses associated with actual claims incurred and paid by the Department of Labor (DOL), the program administrator, whom SWFPS must reimburse. DOL, DOE, and DOD determined Southwestern and the Corps actuarial liability associated with workers' compensation cases. The actuarial liability for future claims was determined using historical benefit payment patterns and the Treasury discount rates.

The recovery of these future claims will be deferred for purposes of the rate-making process until such time as the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as deferred workers' compensation in the combined balance sheets in accordance with ASC Topic 980 to reflect the effects of the rate-making process.

(m) Income Taxes

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

(n) Use of Estimates

The preparation of the combined financial statements in conformity with U.S. GAAP requires management of SWFPS to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful lives of completed utility plant; allowances for doubtful accounts; employee benefit obligations; and other contingencies. Actual results could differ from those estimates.

(o) Non-Reimbursable Activities

Federal and Non-Federal Projects

Southwestern has agreements with customers to provide services on a fee basis where the fee is generally paid in advance. The operating revenues and expenses related to these services are excluded from the rate-making process, a portion of which is accounted for on a net basis. A portion of cash and advances from construction in the accompanying combined financial statements relate to these activities.

Escrow Interest Revenue

Interest revenue represents the interest earned on funds held in escrow. These funds are authorized specifically to fund operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region. This activity is not reimbursable through the rate-making process.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

White River Minimum Flows Project

Section 132 of P.L. 109-103 (Section 132) authorized the Corps of Engineers to implement the White River Minimum Flows Project at the Federal Bull Shoals and Norfolk projects in Arkansas. The legislation directed Southwestern to determine the hydropower impacts to the Federal projects and to Federal Energy Regulatory Commission (FERC) Project No. 2221 resulting from the implementation of minimum flows. Section 132 provided that all Federal costs for the White River Minimum Flows Project be considered nonreimbursable.

Southwestern determined the Federal and non-Federal hydropower impacts through an extensive public process. Additionally, as directed in Section 132, the non-Federal hydropower impacts on FERC Project No. 2221 were determined in consultation with the project licensee and the relevant state public utility commissions. Throughout the entire process, the administrative costs incurred during Southwestern's determination of the Federal and non-Federal hydropower impacts of the White River Minimum Flows Project were accounted for and were considered nonreimbursable.

In October 2009, Section 314 of P.L. 111-85 (Section 314) amended the Section 132 language by authorizing the establishment of a Special Receipts and Disbursement Account (Special Account) and providing that Southwestern would provide the compensation to the non-Federal licensee of FERC Project No. 2221 using receipts collected in the Special Account. According to the legislation, such payment shall be considered nonreimbursable. Further, Section 314 also established the date of implementation for the minimum flows project to be October 28, 2009. Accordingly, when Southwestern's determination of the non-Federal hydropower impacts was finalized in June 2010, Southwestern began collecting receipts in the Special Account and provided full compensation of \$26,563,700, as non reimbursable expense, to the non-Federal licensee in September 2010.

Section 132 provided that losses to Federal hydropower shall be offset by a reduction in the costs allocated to the Federal hydropower purpose, and the reduction shall be based on the future lifetime impacts of the minimum flows project. As determined by Southwestern, the offset will take into account the multiple impacts of minimum flows on Federal hydropower. Those impacts include lost on-peak energy and capacity, lost off-peak energy, increased costs due to dissolved oxygen impacts, and increased maintenance costs at Bull Shoals.

Spectrum Relocation Fund

In December 2004, the U.S. Congress passed and the President signed the Commercial Spectrum Enhancement Act (CSEA, Title II of P.L. 108-494), creating the Spectrum Relocation Fund (SRF) to streamline the relocation of Federal systems from existing spectrum bands to accommodate commercial use by facilitating reimbursement to affected agencies of relocation costs. In FY 2009 and FY 2007 Southwestern received \$17,730,000 and \$8,091,360, respectively, in spectrum relocation funds, as approved by the Office of Management and Budget, and as reported to the Congress. This activity is not reimbursable through the rate-making process.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

The components of non reimbursable activity in each of the years are as follows:

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Operating revenues:				
Non reimbursable				
Federal project revenue	\$ 612,934	385,901	551,866	1,276,574
Interest revenue	<u>185,896</u>	<u>1,003,561</u>	<u>672,067</u>	<u>478,189</u>
Total nonreimbursable revenues	<u>798,830</u>	<u>1,389,462</u>	<u>1,223,933</u>	<u>1,754,763</u>
Operating expenses:				
Non reimbursable				
Federal project expense	612,934	385,901	551,866	1,276,574
White River Minimum Flows administrative expense	324,965	—	—	—
Spectrum Relocation Fund expense	<u>362,819</u>	<u>574,945</u>	<u>119,010</u>	<u>—</u>
Total nonreimbursable expenses	<u>\$ 1,300,718</u>	<u>960,846</u>	<u>670,876</u>	<u>1,276,574</u>

(p) Derivative and Hedging Activities

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

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

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

SWFPS's policy is to fulfill all derivative and hedging contracts by providing power to a third party as provided for in each contract. SWFPS's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond SWFPS's estimated capacity to deliver power. Accordingly, SWFPS evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal sales contracts are accounted for as executory contracts as required under U.S. GAAP. As of September 30, 2009, 2008, 2007, or 2006, SWFPS has no contracts accounted for as derivatives.

(q) Fair Value of Financial Instruments

In April 2009, the FASB issued an update to FASB ASC Topic 825, *Financial Instruments*. The update to ASC Topic 825 requires disclosure of the fair value of financial instruments, and was effective for SWFPS in fiscal year 2009. Fair value estimation methods for individual classes of financial instruments are described below.

(r) Short-Term Financial Instruments

The carrying (recorded) value of short-term financial instruments, including cash, funds held in escrow, accounts receivable, accounts payable and accrued liabilities, and advances for construction, approximates the fair value of these instruments. The fair value of certain unfunded and actuarially based liabilities cannot be determined as the future payout dates have yet to be determined.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements
September 30, 2009, 2008, 2007, and 2006

(2) Utility Plant

Plant in service and construction work in progress consist principally of generating and transmission facilities as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Plant in service:				
Generating facilities	\$ 1,068,912,690	1,064,022,108	1,042,807,349	1,027,228,439
Transmission facilities	280,587,206	268,545,518	260,508,866	251,455,908
	<u>1,349,499,896</u>	<u>1,332,567,626</u>	<u>1,303,316,215</u>	<u>1,278,684,347</u>
Less accumulated depreciation	(608,686,560)	(582,254,988)	(552,264,818)	(530,281,854)
Construction work in progress:				
Generating facilities	85,856,699	52,422,527	34,643,323	31,279,957
Transmission facilities	26,760,007	17,009,102	18,534,234	19,574,942
	<u>112,616,706</u>	<u>69,431,629</u>	<u>53,177,557</u>	<u>50,854,899</u>
Net utility plant	\$ <u>853,430,042</u>	<u>819,744,267</u>	<u>804,228,954</u>	<u>799,257,392</u>

(3) Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30 consist of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Regulatory assets:				
Purchased power and banking exchange deferral	\$ —	—	20,273,405	47,087,994
Deferred workers' compensation	16,679,751	16,887,598	12,645,577	14,817,464
Total	\$ <u>16,679,751</u>	<u>16,887,598</u>	<u>32,918,982</u>	<u>61,905,458</u>
Regulatory liabilities:				
Purchased power and banking exchange deferral	\$ <u>30,698,300</u>	<u>6,433,094</u>	<u>—</u>	<u>—</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements
September 30, 2009, 2008, 2007, and 2006

Southwestern's purchased power and banking exchange deferral account represents the deferral of net revenue or expenses associated with net purchased power and banking exchange activities as follows:

	Purchased power and banking exchange deferral
September 30, 2005 (unaudited)	\$ (18,485,056)
Purchased power adder revenue	(5,025,346)
Purchased power expense	65,892,726
Net banking exchange	4,001,136
Net purchased power and banking exchange deferral	64,868,516
Interest on deferred activities and other	704,534
September 30, 2006	47,087,994
Purchased power adder revenue	(24,530,776)
Purchased power expense	(3,142,478)
Net banking exchange	(737,041)
Net purchased power and banking exchange deferral	(28,410,295)
Interest on deferred activities and other	1,595,706
September 30, 2007	20,273,405
Purchased power adder revenue	(25,159,183)
Purchased power expense	486,531
Net banking exchange	(2,386,899)
Net purchased power and banking exchange deferral	(27,059,551)
Interest on deferred activities and other	353,052
September 30, 2008	(6,433,094)
Purchased power adder revenue	(25,135,057)
Purchased power expense	1,480,275
Net banking exchange	6,998
Net purchased power and banking exchange deferral	(23,647,784)
Interest on deferred activities and other	(617,422)
September 30, 2009	\$ (30,698,300)

The deferred workers' compensation represents a regulatory asset that will be expensed as future claims are actually submitted and paid by the DOL (see note 1 (I)).

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(4) Financing Sources

SWFPS's financing sources include annual appropriations, Federal power receipts (Use of Receipts) and alternative financing arrangements to fund its operations.

(a) Federal Investment

Construction and operation of Southwestern's transmission system and the Corps generating facilities and operations are financed through Congressional Appropriations. The exceptions are capital assets and maintenance activities funded through the alternative financing arrangements and the funding by non-Federal parties of the construction of the Robert Douglas Willis project. The U.S. Government's investment in each generating project and each year's investment in the transmission system is to be repaid to the Treasury over a period not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis.

Revenues received from the sale of Federal power and purchased power are generally deposited with the Treasury. Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 2009. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by a repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric generating facilities range from 2.50% to 5.75% for unpaid facilities in service prior to FY 2009 and 4.50% for facilities placed in service during FY 2009. The rates have been set by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

(b) Alternative Financing

Due to fluctuations in the amount of annual appropriations received to fund operations, maintenance, rehabilitation, and modernization of the SWFPS facilities, SWFPS has established an alternative financing program under reimbursable authority regulations. Under agreements with customers to finance projects, which benefit the SWFPS, funds received from the sale of power are net billed, allowing a portion of the funds to be utilized to finance agreed-upon projects rather than returned to the Treasury. Under the MOA with certain customers, alternative financing restricted specifically to fund operation, maintenance, rehabilitation, and modernization activities at the hydroelectric generating facilities are held in escrow. All other alternative financing arrangements are collected by Southwestern and deposited as cash held by the Treasury, and are reflected as other assets with an offsetting liability included in Advances for Construction, until completion of the project at which time the asset and liability are eliminated.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(5) Commitments and Contingencies

(a) General

Based on the 2009 Integrated System Power Repayment Study prepared as of September 30, 2009, the projected increase in capital investment in 2009 is \$82,414,707, which includes \$33,484,609 for transmission facilities and \$48,930,098 for generating facilities. The five-year investment increase projected in the 2009 Integrated System Power Repayment Study for FY 2009 through FY 2013 is estimated to cost \$552,417,579.

Southwestern sells the majority of its marketable power to customers under long-term power sales contracts of 15 years, which require Southwestern to provide 1,200 kilowatt hours per kilowatt of peaking contract demand per year, subject to scheduling constraints outlined in each customer's contract. If sufficient power is unavailable to Southwestern from Corps hydroelectric facilities to meet these commitments, Southwestern may be required to purchase power from other sources to meet these commitments. The cost to purchase such power is recovered through the purchased power adder discussed more fully in note 1(f).

(b) Legal

SWFPS has exposure to certain claims and legal actions arising in the ordinary course of business. In management's opinion, any resulting actions will not have a material adverse effect on the financial condition or results of operations of SWFPS during FY 2006 through FY 2009.

(6) Leases

SWFPS is obligated under a 10-year operating lease for office space. This lease consists of a 5-year firm term for the first 5-years and the option to terminate during the second 5-year term. This lease commenced January 1, 2004 and is scheduled to terminate December 31, 2013. Future minimum lease payments as of September 30, 2009 are as follows:

Year ending September 30:		
2010	\$	664,000
2011		656,000
2012		681,000
2013		673,000
2014		172,000
		<hr/>
Total future minimum lease payments	\$	<u>2,846,000</u>

Rent expense for operating leases during the years ended September 30, 2009, 2008, 2007, and 2006 was \$671,000, \$626,000, \$607,000, \$560,000, respectively.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2009, 2008, 2007, and 2006

(7) Subsequent Events

Section 838 of P.L. 99-662 (Section 838) authorized the Corps of Engineers to reallocate at Lake Texoma from hydropower storage to water supply storage, in increments as needed, up to 150,000 acre-feet for users in the State of Texas and up to 150,000 acre-feet for users in the State of Oklahoma. Section 838 directed that the Corps would provide credits to Southwestern equal to the replacement cost of the hydropower lost as a result of the reallocations, and Southwestern would reimburse the preference customers (Denison allottees) for an amount equal to the customers' replacement cost of the hydropower lost as a result of the reallocations.

In 2010, the Corps executed water supply contracts for the 150,000 acre-feet of storage authorized for customers in the State of Texas by Section 838. According to a June 2010 agreement between Southwestern and the Corps, the Corps agreed to deposit all cost of storage payments for storage reallocated under Section 838 into the U.S. Treasury and to provide credits in the same amount to the hydropower income account. During FY 2010, the Corps received \$21,611,724 in payments for the reallocated water supply storage and credited the total amount to Southwestern. The total amount was deferred by Southwestern for the provision of the reimbursement to the Denison allottees and credit to Southwestern for future hydropower storage revenues foregone.

A September 2010 agreement between Southwestern and the Denison allottees provided the initial hydropower replacement cost as determined by Southwestern and the methodology for providing the reimbursement to the Denison allottees as authorized under Section 838. Beginning with the invoice for the October 2010 service month, reimbursement pursuant to Section 838 began as a credit on the Denison allottees' monthly invoices.

On October 4, 2010, the FERC approved on a final basis a change to the Integrated System rate schedules and the new rate schedules incorporated a 10.8% revenue increase. The rates were placed into effect January 1, 2010 and will remain in effect through September 30, 2013.

SWFPS has evaluated subsequent events from the balance sheet date through December 16, 2011, the date at which the financial statements were available to be issued, and such events are disclosed in these accompanying notes.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2009

Assets	Southwestern	Corps	Total
Utility plant:			
Plant in service	\$ 280,587,206	1,068,912,690	1,349,499,896
Accumulated depreciation	(141,398,600)	(467,287,960)	(608,686,560)
Construction work in progress	26,760,007	85,856,699	112,616,706
Net utility plant	<u>165,948,613</u>	<u>687,481,429</u>	<u>853,430,042</u>
Current assets:			
Cash	66,763,859	141,767,600	208,531,459
Funds held in escrow	24,501,415	32,381,458	56,882,873
Accounts receivable	13,801,756	493,605	14,295,361
Material and supplies, at average cost	2,290,127	221,739	2,511,866
Total current assets	<u>107,357,157</u>	<u>174,864,402</u>	<u>282,221,559</u>
Banking exchange receivables	3,360,544	—	3,360,544
Deferred workers' compensation	3,787,931	12,891,820	16,679,751
Purchased power and banking exchange deferral	—	—	—
Other assets	30,821,588	—	30,821,588
Total assets	<u>\$ 311,275,833</u>	<u>875,237,651</u>	<u>1,186,513,484</u>
Federal Investment and Liabilities			
Federal investment:			
Net investment of U.S. Government	\$ 141,849,869	741,822,754	883,672,623
Accumulated net revenues	106,696,922	113,405,431	220,102,353
Total Federal investment	<u>248,546,791</u>	<u>855,228,185</u>	<u>1,103,774,976</u>
Current liabilities:			
Accounts payable and accrued liabilities	5,179,260	6,775,223	11,954,483
Advances for construction	22,244,110	—	22,244,110
Purchased power and banking exchange deferral	30,698,300	—	30,698,300
Total current liabilities	<u>58,121,670</u>	<u>6,775,223</u>	<u>64,896,893</u>
Accrued workers' compensation	4,607,372	13,234,243	17,841,615
Total liabilities	<u>62,729,042</u>	<u>20,009,466</u>	<u>82,738,508</u>
Commitments and contingencies			
Total Federal investment and liabilities	<u>\$ 311,275,833</u>	<u>875,237,651</u>	<u>1,186,513,484</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2008

Assets	Southwestern	Corps	Total
Utility plant:			
Plant in service	\$ 268,545,518	1,064,022,108	1,332,567,626
Accumulated depreciation	(129,707,253)	(452,547,735)	(582,254,988)
Construction work in progress	17,009,102	52,422,527	69,431,629
Net utility plant	<u>155,847,367</u>	<u>663,896,900</u>	<u>819,744,267</u>
Current assets:			
Cash	37,908,393	87,809,114	125,717,507
Funds held in escrow	5,770,249	34,604,080	40,374,329
Accounts receivable	16,305,470	178,799	16,484,269
Material and supplies, at average cost	2,387,349	221,739	2,609,088
Total current assets	<u>62,371,461</u>	<u>122,813,732</u>	<u>185,185,193</u>
Banking exchange receivables	3,920,819	—	3,920,819
Deferred workers' compensation	3,822,791	13,064,807	16,887,598
Purchased power and banking exchange deferral	—	—	—
Other assets	22,877,170	—	22,877,170
Total assets	<u>\$ 248,839,608</u>	<u>799,775,439</u>	<u>1,048,615,047</u>
Federal investment and Liabilities			
Federal investment:			
Net investment of U.S. Government	\$ 133,697,835	707,818,659	841,516,494
Accumulated net revenues	86,434,184	75,775,681	162,209,865
Total Federal investment	<u>220,132,019</u>	<u>783,594,340</u>	<u>1,003,726,359</u>
Current liabilities:			
Accounts payable and accrued liabilities	5,867,555	2,771,595	8,639,150
Advances for construction	11,738,566	—	11,738,566
Purchased power and banking exchange deferral	6,433,094	—	6,433,094
Total current liabilities	<u>24,039,215</u>	<u>2,771,595</u>	<u>26,810,810</u>
Accrued workers' compensation	4,668,374	13,409,504	18,077,878
Total liabilities	<u>28,707,589</u>	<u>16,181,099</u>	<u>44,888,688</u>
Commitments and contingencies			
Total Federal investment and liabilities	<u>\$ 248,839,608</u>	<u>799,775,439</u>	<u>1,048,615,047</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2007

Assets	Southwestern	Corps	Total
Utility plant:			
Plant in service	\$ 260,508,866	1,042,807,349	1,303,316,215
Accumulated depreciation	(118,999,239)	(433,265,579)	(552,264,818)
Construction work in progress	18,534,234	34,643,323	53,177,557
Net utility plant	<u>160,043,861</u>	<u>644,185,093</u>	<u>804,228,954</u>
Current assets:			
Cash	41,839,274	42,556,480	84,395,754
Funds held in escrow	14,485,528	23,661,504	38,147,032
Accounts receivable	14,953,653	98,319	15,051,972
Material and supplies, at average cost	2,650,311	221,739	2,872,050
Total current assets	<u>73,928,766</u>	<u>66,538,042</u>	<u>140,466,808</u>
Banking exchange receivables	1,412,075	—	1,412,075
Deferred workers' compensation	3,788,316	8,857,261	12,645,577
Purchased power and banking exchange deferral	20,273,405	—	20,273,405
Other assets	18,000,526	—	18,000,526
Total assets	<u>\$ 277,446,949</u>	<u>719,580,396</u>	<u>997,027,345</u>
Federal Investment and Liabilities			
Federal investment:			
Net investment of U.S. Government	\$ 167,558,167	668,505,752	836,063,919
Accumulated net revenues	87,846,229	38,726,537	126,572,766
Total Federal investment	<u>255,404,396</u>	<u>707,232,289</u>	<u>962,636,685</u>
Current liabilities:			
Accounts payable and accrued liabilities	6,649,161	3,258,713	9,907,874
Advances for construction	10,760,437	—	10,760,437
Purchased power and banking exchange deferral	—	—	—
Total current liabilities	<u>17,409,598</u>	<u>3,258,713</u>	<u>20,668,311</u>
Accrued workers' compensation	4,632,955	9,089,394	13,722,349
Total liabilities	<u>22,042,553</u>	<u>12,348,107</u>	<u>34,390,660</u>
Commitments and contingencies			
Total Federal investment and liabilities	<u>\$ 277,446,949</u>	<u>719,580,396</u>	<u>997,027,345</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2006

Assets	Southwestern	Corps	Total
Utility plant:			
Plant in service	\$ 251,455,908	1,027,228,439	1,278,684,347
Accumulated depreciation	(110,697,849)	(419,584,005)	(530,281,854)
Construction work in progress	19,574,942	31,279,957	50,854,899
Net utility plant	<u>160,333,001</u>	<u>638,924,391</u>	<u>799,257,392</u>
Current assets:			
Cash	36,111,590	41,576,581	77,688,171
Funds held in escrow	6,933,282	1,357,973	8,291,255
Accounts receivable	10,305,597	193,927	10,499,524
Material and supplies, at average cost	2,700,813	221,739	2,922,552
Total current assets	<u>56,051,282</u>	<u>43,350,220</u>	<u>99,401,502</u>
Banking exchange receivables	704,909	—	704,909
Deferred workers' compensation	3,566,282	11,251,182	14,817,464
Purchased power and banking exchange deferral	47,087,994	—	47,087,994
Other assets	5,961,898	—	5,961,898
Total assets	<u>\$ 273,705,366</u>	<u>693,525,793</u>	<u>967,231,159</u>
Federal Investment and Liabilities			
Federal investment:			
Net investment of U.S. Government	\$ 174,676,342	660,669,372	835,345,714
Accumulated net revenues	83,138,753	19,967,196	103,105,949
Total Federal investment	<u>257,815,095</u>	<u>680,636,568</u>	<u>938,451,663</u>
Current liabilities:			
Accounts payable and accrued liabilities	8,324,230	1,341,402	9,665,632
Advances for construction	3,206,054	—	3,206,054
Purchased power and banking exchange deferral	—	—	—
Total current liabilities	<u>11,530,284</u>	<u>1,341,402</u>	<u>12,871,686</u>
Accrued workers' compensation	4,359,987	11,547,823	15,907,810
Total liabilities	<u>15,890,271</u>	<u>12,889,225</u>	<u>28,779,496</u>
Commitments and contingencies			
Total Federal investment and liabilities	<u>\$ 273,705,366</u>	<u>693,525,793</u>	<u>967,231,159</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2009

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 166,999,249	—	166,999,249
Transmission and other operating revenues	<u>14,987,972</u>	<u>1,248,674</u>	<u>16,236,646</u>
Total operating revenues before deferrals	181,987,221	1,248,674	183,235,895
Net purchased power and banking exchange deferral	(23,647,784)	—	(23,647,784)
Revenue distributed to Corps	<u>(108,625,473)</u>	<u>108,625,473</u>	<u>—</u>
Total operating revenues	49,713,964	109,874,147	159,588,111
Non reimbursable revenues	<u>701,452</u>	<u>97,378</u>	<u>798,830</u>
Total revenues	<u>50,415,416</u>	<u>109,971,525</u>	<u>160,386,941</u>
Operating expenses:			
Operation and maintenance	21,298,669	40,239,275	61,537,944
Purchased power and banking exchange	2,674,735	—	2,674,735
Depreciation and amortization	12,288,093	17,017,317	29,305,410
Transmission service charges by others	3,093,593	—	3,093,593
Retirement and other employee benefit expense	4,278,137	2,067,987	6,346,124
Non reimbursable expenses	<u>1,300,718</u>	<u>—</u>	<u>1,300,718</u>
Total operating expenses	<u>44,933,945</u>	<u>59,324,579</u>	<u>104,258,524</u>
Net operating revenues	<u>5,481,471</u>	<u>50,646,946</u>	<u>56,128,417</u>
Interest expense:			
Interest on Federal investment and other	4,088,168	14,094,549	18,182,717
Allowance for funds used during construction	<u>(1,139,435)</u>	<u>(1,077,353)</u>	<u>(2,216,788)</u>
Net interest expense	<u>2,948,733</u>	<u>13,017,196</u>	<u>15,965,929</u>
Net revenues	\$ <u><u>2,532,738</u></u>	\$ <u><u>37,629,750</u></u>	\$ <u><u>40,162,488</u></u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2008

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 168,116,561	—	168,116,561
Transmission and other operating revenues	24,373,822	1,512,249	25,886,071
Total operating revenues before deferrals	192,490,383	1,512,249	194,002,632
Net purchased power and banking exchange deferral	(27,059,551)	—	(27,059,551)
Revenue distributed to Corps	(113,079,091)	113,079,091	—
Total operating revenues	52,351,741	114,591,340	166,943,081
Non reimbursable revenues	923,553	465,909	1,389,462
Total revenues	53,275,294	115,057,249	168,332,543
Operating expenses:			
Operation and maintenance	24,327,112	42,245,296	66,572,408
Purchased power and banking exchange	6,924,440	—	6,924,440
Depreciation and amortization	12,319,983	19,690,427	32,010,410
Transmission service charges by others	3,101,182	—	3,101,182
Retirement and other employee benefit expense	3,998,579	2,127,046	6,125,625
Non reimbursable expenses	960,846	—	960,846
Total operating expenses	51,632,142	64,062,769	115,694,911
Net operating revenues	1,643,152	50,994,480	52,637,632
Interest expense:			
Interest on Federal investment and other	4,050,462	14,207,555	18,258,017
Allowance for funds used during construction	(995,265)	(262,219)	(1,257,484)
Net interest expense	3,055,197	13,945,336	17,000,533
Net revenues (deficit)	\$ (1,412,045)	37,049,144	35,637,099

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2007

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 140,910,865	—	140,910,865
Transmission and other operating revenues	20,531,847	1,218,575	21,750,422
Total operating revenues before deferrals	161,442,712	1,218,575	162,661,287
Net purchased power and banking exchange deferral	(28,410,295)	—	(28,410,295)
Revenue distributed to Corps	(87,632,477)	87,632,477	—
Total operating revenues	45,399,940	88,851,052	134,250,992
Non reimbursable revenues	983,662	240,271	1,223,933
Total revenues	46,383,602	89,091,323	135,474,925
Operating expenses:			
Operation and maintenance	20,131,610	38,939,019	59,070,629
Purchased power and banking exchange	7,684,140	—	7,684,140
Depreciation and amortization	11,180,415	14,278,701	25,459,116
Transmission service charges by others	3,058,968	—	3,058,968
Retirement and other employee benefit expense	4,056,476	2,251,863	6,308,339
Non reimbursable expenses	670,876	—	670,876
Total operating expenses	46,782,485	55,469,583	102,252,068
Net operating revenues	(398,883)	33,621,740	33,222,857
Interest expense:			
Interest on Federal investment and other	3,867,004	15,015,075	18,882,079
Allowance for funds used during construction	(882,003)	(152,676)	(1,034,679)
Net interest expense	2,985,001	14,862,399	17,847,400
Net revenues (deficit)	\$ (3,383,884)	18,759,341	15,375,457

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2006

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 99,593,998	—	99,593,998
Transmission and other operating revenues	16,802,113	542,372	17,344,485
Total operating revenues before deferrals	116,396,111	542,372	116,938,483
Net purchased power and banking exchange deferral	64,868,517	—	64,868,517
Revenue distributed to Corps	(75,652,072)	75,652,072	—
Total operating revenues	105,612,556	76,194,444	181,807,000
Non reimbursable revenues	1,556,863	197,900	1,754,763
Total revenues	107,169,419	76,392,344	183,561,763
Operating expenses:			
Operation and maintenance	18,618,469	35,462,270	54,080,739
Purchased power and banking exchange	71,886,468	—	71,886,468
Depreciation and amortization	11,073,268	14,959,439	26,032,707
Transmission service charges by others	3,060,065	—	3,060,065
Retirement and other employee benefit expense	4,016,735	2,580,488	6,597,223
Non reimbursable expenses	1,276,574	—	1,276,574
Total operating expenses	109,931,579	53,002,197	162,933,776
Net operating revenues	(2,762,160)	23,390,147	20,627,987
Interest expense:			
Interest on Federal investment and other	3,884,898	16,498,192	20,383,090
Allowance for funds used during construction	(976,183)	(1,069,576)	(2,045,759)
Net interest expense	2,908,715	15,428,616	18,337,331
Net revenues (deficit)	\$ (5,670,875)	7,961,531	2,290,656

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Changes in Net Federal Investment Data
Years ended September 30, 2009, 2008, 2007, and 2006

	Southwestern net investment of U.S. Government	Southwestern accumulated net revenues (deficit)	Southwestern total Federal investment	Corps net investment Government	Corps accumulated net revenues (deficit)	Corps total Federal investment	Total Federal investments
Total Federal Investment as of September 30, 2005 (unaudited)	\$ 93,480,828	88,809,628	182,290,456	654,085,266	12,005,665	666,090,931	848,381,387
Additions:							
Congressional appropriations	29,864,340	—	29,864,340	46,875,476	—	46,875,476	76,739,816
Interest on Federal investment and other	4,458,113	—	4,458,113	16,498,083	—	16,498,083	20,956,196
Total additions to net Federal investment	34,322,453	—	34,322,453	63,373,559	—	63,373,559	97,696,012
Deductions:							
Funds returned to U.S. Treasury	62,911,490	—	62,911,490	(78,577,664)	—	(78,577,664)	(15,666,174)
Transfer to/from other Federal agencies, net	(16,038,429)	—	(16,038,429)	21,788,211	—	21,788,211	5,749,782
Total deductions to Federal investment	46,873,061	—	46,873,061	(56,789,453)	—	(56,789,453)	(9,916,392)
Net revenues (deficit)	—	(5,670,875)	(5,670,875)	—	7,961,531	7,961,531	2,290,656
Total Federal investment as of September 30, 2006	174,676,342	83,138,753	257,815,095	660,669,372	19,967,196	680,636,568	938,451,663
Additions:							
Congressional appropriations	29,998,340	8,091,360	38,089,700	49,981,125	—	49,981,125	88,070,825
Interest on Federal investment and other	5,322,172	—	5,322,172	14,999,832	—	14,999,832	20,322,004
Total additions to net Federal investment	35,320,512	8,091,360	43,411,872	64,980,957	—	64,980,957	108,392,829
Deductions:							
Funds returned to U.S. Treasury	(10,962,335)	—	(10,962,335)	(92,158,712)	—	(92,158,712)	(103,121,047)
Transfer to/from other Federal agencies, net	(31,476,352)	—	(31,476,352)	35,014,135	—	35,014,135	3,537,783
Total deductions to Federal investment	(42,438,687)	—	(42,438,687)	(57,144,577)	—	(57,144,577)	(99,583,264)
Net revenues (deficit)	—	(3,383,884)	(3,383,884)	—	18,759,341	18,759,341	15,375,457
Total Federal investment as of September 30, 2007	167,558,167	87,846,229	255,404,396	668,505,752	38,726,537	707,232,289	962,636,685
Additions:							
Congressional appropriations	30,164,978	—	30,164,978	79,516,768	—	79,516,768	109,681,746
Interest on Federal investment and other	4,507,556	—	4,507,556	13,996,417	—	13,996,417	18,503,973
Total additions to net Federal investment	34,672,534	—	34,672,534	93,513,185	—	93,513,185	128,185,719
Deductions:							
Funds returned to U.S. Treasury	(11,359,478)	—	(11,359,478)	(118,214,474)	—	(118,214,474)	(129,573,952)
Transfer to/from other Federal agencies, net	(57,173,388)	—	(57,173,388)	64,014,196	—	64,014,196	6,840,808
Total deductions to Federal investment	(68,532,866)	—	(68,532,866)	(54,200,278)	—	(54,200,278)	(122,733,144)
Net revenues (deficit)	—	(1,412,045)	(1,412,045)	—	37,049,144	37,049,144	35,637,099
Total Federal investment as of September 30, 2008	133,697,835	86,434,184	220,132,019	707,818,659	75,775,681	783,594,340	1,003,726,359
Additions:							
Congressional appropriations	28,414,000	17,730,000	46,144,000	115,029,238	—	115,029,238	161,173,238
Interest on Federal investment and other	3,430,945	—	3,430,945	14,330,955	—	14,330,955	17,761,900
Total additions to net Federal investment	31,844,945	17,730,000	49,574,945	129,360,193	—	129,360,193	178,935,138
Deductions:							
Funds returned to U.S. Treasury	(11,204,990)	—	(11,204,990)	(113,110,925)	—	(113,110,925)	(124,315,915)
Transfer to/from other Federal agencies, net	(12,487,921)	—	(12,487,921)	17,754,827	—	17,754,827	5,266,906
Total deductions to Federal investment	(23,692,911)	—	(23,692,911)	(95,356,098)	—	(95,356,098)	(119,049,009)
Net revenues	—	2,532,738	2,532,738	—	37,629,750	37,629,750	40,162,488
Total Federal investment as of September 30, 2009	\$ 141,849,869	106,696,922	248,546,791	741,822,754	113,405,431	855,228,185	1,103,774,976

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2009

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues	\$ 2,532,738	37,629,750	40,162,488
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	108,625,473	(108,625,473)	—
Depreciation	12,288,093	17,017,317	29,305,410
Benefit expense paid by other Federal agencies	1,286,608	1,725,565	3,012,173
Interest expense on Federal investment and other	3,430,945	14,330,955	17,761,900
Allowance for funds used during construction	(1,139,435)	(1,077,353)	(2,216,788)
(Increase) decrease in assets:			
Accounts receivable	2,503,714	(314,806)	2,188,908
Materials and supplies	97,222	—	97,222
Banking exchange receivables	560,275	—	560,275
Purchased power and banking exchange deferral	—	—	—
Deferred workers' compensation	34,860	172,987	207,847
Other assets	(7,944,418)	—	(7,944,418)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(688,295)	4,003,628	3,315,333
Accrued workers' compensation	(61,002)	(175,261)	(236,263)
Purchased power and banking exchange deferral	24,265,206	—	24,265,206
Advances for construction	10,505,544	—	10,505,544
Net cash provided by (used in) operating activities	<u>156,297,528</u>	<u>(35,312,691)</u>	<u>120,984,837</u>
Cash flows from investing activity:			
Additions to utility plant	(21,249,904)	(39,524,493)	(60,774,397)
Cash flows from financing activities:			
Congressional appropriations	46,144,000	115,029,238	161,173,238
Funds returned to U.S. Treasury	(119,830,463)	(4,485,452)	(124,315,915)
Transfer to/from other Federal agencies	(13,774,529)	16,029,262	2,254,733
Funds held in escrow	(18,731,166)	2,222,622	(16,508,544)
Net cash provided by (used in) financing activities	<u>(106,192,158)</u>	<u>128,795,670</u>	<u>22,603,512</u>
Net increase in cash	28,855,466	53,958,486	82,813,952
Cash at beginning of year	<u>37,908,393</u>	<u>87,809,114</u>	<u>125,717,507</u>
Cash at end of year	\$ <u><u>66,763,859</u></u>	<u><u>141,767,600</u></u>	<u><u>208,531,459</u></u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2008

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (deficit)	\$ (1,412,045)	37,049,144	35,637,099
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	113,079,091	(113,079,091)	—
Depreciation	12,319,983	19,690,427	32,010,410
Benefit expense paid by other Federal agencies	1,207,536	1,782,349	2,989,885
Interest expense on Federal investment and other	4,507,556	13,996,417	18,503,973
Allowance for funds used during construction	(995,265)	(262,219)	(1,257,484)
(Increase) decrease in assets:			
Accounts receivable	(1,351,817)	(80,480)	(1,432,297)
Materials and supplies	262,962	—	262,962
Banking exchange receivables	(2,508,744)	—	(2,508,744)
Purchased power and banking exchange deferral	20,273,405	—	20,273,405
Deferred workers' compensation	(34,475)	(4,207,546)	(4,242,021)
Other assets	(4,876,644)	—	(4,876,644)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(781,606)	(487,118)	(1,268,724)
Accrued workers' compensation	35,419	4,320,110	4,355,529
Purchased power and banking exchange deferral	6,433,094	—	6,433,094
Advances for construction	978,129	—	978,129
Net cash provided by (used in) operating activities	<u>147,136,579</u>	<u>(41,278,007)</u>	<u>105,858,572</u>
Cash flows from investing activity:			
Additions to utility plant	(7,128,224)	(39,140,015)	(46,268,239)
Cash flows from financing activities:			
Congressional appropriations	30,164,978	79,516,768	109,681,746
Funds returned to U.S. Treasury	(124,438,569)	(5,135,383)	(129,573,952)
Transfer to/from other Federal agencies	(58,380,924)	62,231,847	3,850,923
Funds held in escrow	8,715,279	(10,942,576)	(2,227,297)
Net cash provided by (used in) financing activities	<u>(143,939,236)</u>	<u>125,670,656</u>	<u>(18,268,580)</u>
Net increase (decrease) in cash	(3,930,881)	45,252,634	41,321,753
Cash at beginning of year	<u>41,839,274</u>	<u>42,556,480</u>	<u>84,395,754</u>
Cash at end of year	<u>\$ 37,908,393</u>	<u>87,809,114</u>	<u>125,717,507</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2007

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (deficit)	\$ (3,383,884)	18,759,341	15,375,457
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	87,632,477	(87,632,477)	—
Depreciation	11,180,415	14,278,701	25,459,116
Benefit expense paid by other Federal agencies	1,367,115	2,019,730	3,386,845
Interest expense on Federal investment and other	5,322,172	14,999,832	20,322,004
Allowance for funds used during construction	(882,003)	(152,676)	(1,034,679)
(Increase) decrease in assets:			
Accounts receivable	(4,648,056)	95,608	(4,552,448)
Materials and supplies	50,502	—	50,502
Banking exchange receivables	(707,166)	—	(707,166)
Purchased power and banking exchange deferral	26,814,589	—	26,814,589
Deferred workers' compensation	(222,034)	2,393,921	2,171,887
Other assets	(12,038,628)	—	(12,038,628)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(1,675,069)	1,917,311	242,242
Accrued workers' compensation	272,968	(2,458,429)	(2,185,461)
Purchased power and banking exchange deferral	—	—	—
Advances for construction	7,554,383	—	7,554,383
Net cash provided by (used in) operating activities	<u>116,637,781</u>	<u>(35,779,138)</u>	<u>80,858,643</u>
Cash flows from investing activity:			
Additions to utility plant	(10,009,272)	(19,386,727)	(29,395,999)
Cash flows from financing activities:			
Congressional appropriations	38,089,700	49,981,125	88,070,825
Funds returned to U.S. Treasury	(98,594,812)	(4,526,235)	(103,121,047)
Transfer to/from other Federal agencies	(32,843,467)	32,994,405	150,938
Funds held in escrow	(7,552,246)	(22,303,531)	(29,855,777)
Net cash provided by (used in) financing activities	<u>(100,900,825)</u>	<u>56,145,764</u>	<u>(44,755,061)</u>
Net increase in cash	5,727,684	979,899	6,707,583
Cash at beginning of year	<u>36,111,590</u>	<u>41,576,581</u>	<u>77,688,171</u>
Cash at end of year	<u>\$ 41,839,274</u>	<u>42,556,480</u>	<u>84,395,754</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2006

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (deficit)	\$ (5,670,875)	7,961,531	2,290,656
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	75,652,072	(75,652,072)	—
Depreciation	11,073,268	14,959,439	26,032,707
Benefit expense paid by other Federal agencies	1,348,305	2,283,847	3,632,152
Interest expense on Federal investment and other	4,458,113	16,498,083	20,956,196
Allowance for funds used during construction	(976,183)	(1,069,576)	(2,045,759)
(Increase) decrease in assets:			
Accounts receivable	3,125,581	(71,460)	3,054,121
Materials and supplies	134,792	—	134,792
Banking exchange receivables	4,339,066	—	4,339,066
Purchased power and banking exchange deferral	(47,087,994)	—	(47,087,994)
Deferred workers' compensation	(80,125)	(6,841,184)	(6,921,309)
Other assets	973,805	—	973,805
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	2,169,742	620,150	2,789,892
Accrued workers' compensation	87,420	6,858,746	6,946,166
Purchased power and banking exchange deferral	(18,485,056)	—	(18,485,056)
Advances for construction	(1,199,540)	—	(1,199,540)
Net cash provided by (used in) operating activities	<u>29,862,391</u>	<u>(34,452,496)</u>	<u>(4,590,105)</u>
Cash flows from investing activity:			
Additions to utility plant	(11,664,634)	(15,132,727)	(26,797,361)
Cash flows from financing activities:			
Congressional appropriations	29,864,340	46,875,476	76,739,816
Funds returned to U.S. Treasury	(12,740,582)	(2,925,592)	(15,666,174)
Transfer to/from other Federal agencies	(17,386,734)	19,504,364	2,117,630
Funds held in escrow	(2,773,025)	(1,357,973)	(4,130,998)
Net cash provided by (used in) financing activities	<u>(3,036,001)</u>	<u>62,096,275</u>	<u>59,060,274</u>
Net increase in cash	15,161,756	12,511,052	27,672,808
Cash at beginning of year	<u>20,949,834</u>	<u>29,065,529</u>	<u>50,015,363</u>
Cash at end of year	<u>\$ 36,111,590</u>	<u>41,576,581</u>	<u>77,688,171</u>

See accompanying independent auditors' report.

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**U.S. DEPARTMENT OF
ENERGY**