REPORT TO THE CONGRESS

Examination Of Financial Statements Of The Tennessee Valley Authority For Fiscal Year 1973 B-114850

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

MARCH 27, 1974

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114850

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the examination of the financial statements of the Tennessee Valley Authority (TVA) for fiscal year 1973, made pursuant to the Government Corporation Control Act (31 U.S.C. 851). We have included as an appendix the financial statements of TVA's retirement system and the opinion thereon of TVA's certified public accounting firm.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman, Board of Directors, Tennessee Valley Authority.

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

AEC	Atomic Energy Commission
GAO	General Accounting Office
TVA	Tennessee Valley Authority

EXAMINATION OF FINANCIAL STATEMENTS OF THE TENNESSEE VALLEY AUTHORITY FOR FISCAL YEAR 1973 B-114850

D I G E S T

WHY THE EXAMINATION WAS MADE

This examination was made in accordance with the Government Corporation Control Act which requires the Comptroller General to audit the financial transactions of the Tennessee Valley Authority (TVA) annually.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, TVA's financial statements present fairly its financial position at June 30, 1973, and the results of its operations and the changes in the financial position of its several programs for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. (See p. 15.)

OTHER MATTERS OF INTEREST

Power program operations

At June 30, 1973, power program assets totaled $4.37 billion, or about 87 percent of TVA's total assets. Although total power income increased in fiscal year 1973, net income of $106.4 million was $5.7 million less than in 1972 because of a substantial increase in interest charges. (See p. 4.)

Of the $106.4 million net income, TVA paid $53.8 million into the U.S. Treasury as a return on the Government's investment in power facilities and the remaining $52.6 million increased retained earnings. (See p. 4.)

In addition to the $53.8 million, TVA paid $20 million of power proceeds to the U.S. Treasury as partial repayment of the Government's investment in power facilities. Both payments are required by the TVA Act. (See p. 6.)

To assist in financing its power program, TVA issued $550 million in bonds, bringing its long-term debt to $1.775 billion. Total indebtedness was $2.355 billion at June 30, 1973. This is within limitations of the act which permit a maximum outstanding concurrent indebtedness of $5 billion. (See p. 7.)

Rate adjustment

TVA adjusted its power rates upward by about 9 percent as of January 2, 1973. Major reasons for the adjustment were greater costs for borrowing money and continuing increases in the cost of coal. Other factors were general inflationary trends and the increasing cost impact of environmental protection measures. The latest previous increase was in October 1970, when rates were raised about 23 percent. (See p. 5.)

Nuclear power developments

TVA has about as much power-

generating capacity under construction or scheduled for construction as it has in service. Most of the new capacity will be provided by large nuclear plants, but TVA continues to experience delays in bringing nuclear units into commercial operation. (See p. 9.)

The first nuclear unit, at Browns Ferry Nuclear Plant, was originally scheduled to begin operation in October 1970, but slippages in equipment deliveries, modifications of project features, and technical difficulties have caused delays. Currently, the first unit at Browns Ferry is scheduled to begin commercial operations in December 1973. (See p. 10.)

Scheduled commercial operation of two other nuclear plants, Sequoyah and Watts Bar, will be delayed from 8 to 10 months because of structural and design problems. The two plants are scheduled for service in 1975 and 1978, respectively. (See p. 11.)

Components have been ordered and a site has been tentatively selected for Bellefonte Nuclear Plant to be located near Scottsboro, Alabama. This plant is scheduled to begin service in 1979. Components have been ordered for other nuclear plants (locations not yet selected) which are scheduled to begin service in 1980. (See p. 11.)

New plant capacity planned for service by 1982 will require an estimated investment of over $4.5 billion. (See p. 11.)

Fuel selection

Because of cost and environmental considerations, most of TVA's new generating capacity will be nuclear fueled. The cost of nuclear fuel is lower and is expected to be more stable than the cost of coal. Coal, however, will still be a vital energy source. (See p. 11.)

TVA will be unable to meet State standards for control of sulfur dioxide emissions from coal-fired steamplants. As an alternative, TVA has proposed keeping ground-level concentrations of sulfur dioxide at a safe level by increasing the height of plant stacks where necessary and, when weather conditions cause concentrations to become excessive, by reducing power output or using low-sulfur fuels. (See p. 12.)

Problems of strip mining and land reclamation have created an element of uncertainty about future coal supplies. (See p. 12.)

TVA reports that radioactive releases from its nuclear plants will be well within Atomic Energy Commission (AEC) guidelines. (See p. 13.)

TVA believes that, since all present fuels are limited, nuclear breeder reactors have the best potential for meeting future energy requirements. A breeder reactor demonstration project has been undertaken jointly by TVA, Commonwealth Edison Company of Chicago, and AEC, with participation by the entire electric industry. (See p. 13.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommedations or suggestions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report, required by law, informs the Congress of the operations and financial conditions of TVA.

CHAPTER 1

INTRODUCTION

The Tennessee Valley Authority (TVA) is an independent Government corporation created by the Tennessee Valley Authority Act of May 18, 1933 (48 Stat. 58, 16 U.S.C. 831), to improve the public usefulness of the Tennessee River and to assist in the development of other resources in the Tennessee Valley and adjoining areas. TVA generates, transmits, and sells electric power; helps control floods; keeps navigable water in the Tennessee River; develops fertilizers and munitions; and participates in the development of recreational, agricultural, and other resources in the Tennessee Valley.

TVA activities are directed by its three-member Board of Directors. Members of the Board are appointed by the President, with the advice and consent of the Senate, to serve 9-year overlapping terms. The President designates one member as Chairman. Board members at June 30, 1973, and the expiration dates of their terms were:

Aubrey J. Wagner, Chairman	May 18, 1978
Don McBride	May 18, 1975
William L. Jenkins	May 18, 1981

Mr. Lynn Seeber, TVA's General Manager, is responsible to the Board for carrying out its programs, policies, and decisions.

Additional information on TVA activities can be found in its annual report to the President and to the Congress, issued pursuant to the TVA Act.

CHAPTER 2

GENERAL COMMENTS

POWER OPERATIONS

TVA supplies electric power, at wholesale prices, to 160 municipal and cooperative electric systems which distribute power to more than 2.3 million customers in 7 States. Power is sold also to 48 industrial consumers having large or unusual power requirements and to several Federal atomic, aerospace, and military installations.

Financially, TVA's power program is separate from its other programs. The power program is self-supporting, and part of its income is used to repay the original investment that created it.

At June 30, 1973, TVA's power program assets totaled $4.37 billion, or about 87 percent of TVA's total assets of $5.05 billion. Details of power program operating results for fiscal year 1973 are shown in exhibit II. The following comparison summarizes the results of TVA's power operations for fiscal years 1972 and 1973.

	1973	1972	Percent increase or decrease (-)
	(000 omitted)		
Operating revenues:			
Sales of electric energy	$729,031	$622,591	17
Rents	20,349	19,272	6
Total operating revenues	749,380	641,863	17
Operating expenses	577,429	481,312	20
Operating income	171,951	160,551	7
Other income and deductions	[a]73,800	[a]51,913	42
Total income	245,751	212,464	16
Interest charges	139,330	100,340	39
Net income	106,421	112,124	-5
Payment of return on appropriation investment	53,785	55,810	-4
Increase in retained earnings	$ 52,636	$ 56,314	-7

[a]Primarily the cost to borrow funds used in the construction program and for the fabrication of nuclear fuels. Both the interest rate and work in process increased in 1973.

Although fiscal year 1973 income from operations and other sources increased $33.3 million, or 16 percent, net income decreased $5.7 million, or 5 percent, because interest charges in 1973 were $39 million higher than in 1972. The increase in interest charges resulted from continued growth of TVA's long-term debt, incurred to help finance additions and replacements of power program assets.

TVA's payment to the Treasury as a return on the appropriation investment was lower in 1973 than in 1972 by $2 million, or 4 percent, because of continued reduction of the appropriation investment and a decline in the interest rate used in computing the payment. The payment in 1974 will be $9.6 million more than in 1973 because of an increase in the interest rate.

RATE ADJUSTMENT

The act requires TVA to sell power at rates as low as feasible but adequate to maintain the financial soundness of the power program. To comply with this requirement, TVA and a committee representing distributors review current and prospective power revenues and expenses quarterly. On the basis of the review, the Board determines whether a rate adjustment is needed.

The Board approved an upward rate adjustment of about 9 percent, effective January 2, 1973. Rates were increased about 23 percent in August and October 1970 and had remained at the same level until the January 1973 adjustment. Major reasons for the adjustment were greater costs for borrowing money and continuing increases in the cost of coal. About 75 percent of TVA's generating capacity is in coal-burning plants. Other factors in the rate adjustment were general inflationary trends and the increasing impact of environmental protection measures on the cost of producing electricity.

In response to a request from the Chairman, Subcommittee on Public Works Appropriations, House Committee on Appropriations, regarding these rate adjustments, GAO reported (B-114850, April 27, 1973) that adoption of an alternative to the present requirement for repayment of the Federal appropriation investment in the TVA power facilities from fiscal year 1974 through fiscal year 2014 could result in

savings of about $287 million to TVA's power customers without any net interest cost to the Treasury. The alternative would be to treat the Federal investment in TVA's power facilities as equity and, therefore, require continuation of payments to the Treasury as a return on the investment. The principal amount of the investment, however, would not be repaid. The estimated savings would result because of the difference between interest rates on TVA power revenue bonds being sold to the public and the lower rates paid by the Treasury on borrowed funds. On June 4, 1973, a bill (H.R. 8340) was introduced which, among other things, provides for the alternative payment method discussed in our report. The bill was referred to the House Committee on Public Works.

PROPRIETARY CAPITAL AND PAYMENTS TO THE U.S. TREASURY

At June 30, 1973, the Government's proprietary capital in TVA was $2.521 billion, distributed between power and nonpower programs as shown in the following tabulation.

	Power	Nonpower	Total
	(000 omitted)		
Appropriation investments:			
Congressional appropriations	$1,383,332	$1,254,492	$2,637,824
Transfers of property from other Federal agencies	21,517	32,184	53,701
	1,404,849	1,286,676	2,691,525
Less repayments to general fund of the Treasury	370,059	41,615	411,674
Appropriation investment	1,034,790	1,245,061	2,279,851
Retained earnings of power program	823,686	-	823,686
Accumulated net expenses of nonpower programs	-	-582,536	-582,536
Total proprietary capital	$1,858,476	$ 662,525	$2,521,001

Section 15d of the TVA Act requires the agency to pay to the Treasury each year, beginning with fiscal year 1961, a return on the appropriation investment in power facilities plus a repayment of such investment. In addition, section 26

of the act provides for annual payments to the Treasury of any power or nonpower proceeds not needed for the operation of dams and reservoirs, the conduct of the power program, or the manufacture and distribution of fertilizers.

The required payment to the Treasury of an annual return on the net appropriation investment in power facilities is based on the average interest rate payable by the Treasury on its total marketable public obligations at the beginning of the fiscal year, and the rate is applied to the unrepaid appropriation investment as of that time. In fiscal year 1973 the payment of return was $53.8 million, which brought total return payments since 1961 to $623 million.

The required repayments of the appropriation investment in power facilities are: $10 million annually for the first 5 years (1961-65), $15 million annually for the next 5 years, and $20 million annually thereafter until $1 billion has been repaid. The Board may defer payments for not more than 2 years, but the Board has not exercised that option. TVA had repaid $185 million under this provision at June 30, 1973. An additional $185 million had been repaid to the Treasury before the 1961 repayment provision, making the total repayment $370 million.

In addition to the payments from power proceeds, TVA paid $28,676 of nonpower proceeds to the Treasury in fiscal year 1973 under section 26 of the act. This brought the total payments from nonpower proceeds to $41.6 million.

During fiscal year 1974 TVA will be required to pay the Treasury from power proceeds $63.4 million as a return on the appropriation investment in power facilities and $20 million as a repayment of the investment. Computation of the return is based on the unrepaid appropriation investment of $1.035 billion at July 1, 1973, and the average Treasury interest rate of 6.129 percent at that date.

BORROWING AUTHORITY

TVA is authorized, under section 15d of the act, to issue and sell bonds, notes, and other evidences of indebtedness up to $5 billion outstanding at any one time to assist in financing its power program. Section 15d states that the time of issuance and the maximum interest rates to be borne by the obligations are subject to approval by the

Secretary of the Treasury, who is authorized to purchase TVA interim obligations up to $150 million outstanding at any one time. Debt service on these obligations is payable solely from TVA's net power proceeds and has precedence over repayments of the appropriation investment and payments of a return on investment to the Treasury. The following tabulation shows the changes in TVA's indebtedness during fiscal year 1973.

	Balance June 30, 1972	Balance June 30, 1973	Increase or decrease (-)
	(000 omitted)		
Long-term bonds	$1,225,000	$1,775,000	$550,000
Short-term notes:			
Payable to public	630,000	480,000	-150,000
Payable to the Treasury	100,000	100,000	-
	$1,955,000	$2,355,000	$400,000

Under section 3.4 of the Basic Tennessee Valley Authority Power Bond Resolution, adopted October 6, 1960, TVA's net power income for the latest 5 fiscal years must aggregate at least $200 million before the amount of bonds outstanding can be increased with bonds of equal priority. Section 3.4 further provides that the minimum net income requirement be increased in certain increments based on the extent to which the interest rate on Treasury borrowings has averaged more than 3.25 percent during the 5-year period.

TVA met the minimum net income requirement for the 5 years ended June 30, 1972, and sold $550 million in bonds in four issues during fiscal year 1973. TVA met the requirement also for the 5 years ended June 30, 1973; therefore, the amount of bonds outstanding can be increased in fiscal year 1974, with bonds of equal priority. TVA sold a bond issue totaling $150 million in July 1973.

CONSTRUCTION PROGRAM

At June 30, 1973, TVA's investment in fixed assets was $4.701 billion, an increase of $401 million over the investment a year earlier. Shown below is a summary of the differences in yearend balances of the individual categories of fixed assets.

	Balance		
	June 30, 1972	June 30, 1973	Increases
	(000 omitted)		
Completed plant	$4,077,141	$4,509,924	$432,783
Less accumulated depreciation and depletion	1,201,213	1,288,784	87,571
	2,875,928	3,221,140	345,212
Construction in progress	1,354,849	1,381,324	26,475
Investigations for future projects	4,926	5,484	558
Nuclear fuel	63,860	93,090	29,230
Total	$4,299,563	$4,701,038	$401,475

Construction in progress at June 30, 1973, was primarily for powerplants and related facilities. TVA has about 19 million kilowatts of capacity under construction or scheduled for construction, compared with installed capacity of about 22 million kilowatts at June 30, 1973. Most of the new capacity will be provided by large nuclear units, but peaking capacity--units normally used only during periods of highest power demands--is being boosted by a pumped-storage hydroelectric project and by gas turbines. TVA's estimate of the scheduled dates for commercial operation of the major generating units under construction follows.

Project	Generating unit number	Nameplate capacity (kilowatts)	Scheduled commercial service date
Cumberland Steam Plant	[a]2	1,300,000	November 1973
Browns Ferry Nuclear Plant	1	1,152,000	December 1973
	2	1,152,000	July 1974
	3	1,152,000	April 1975
Raccoon Mountain Pumped-Storage Project	1	382,500	November 1974
	2	382,500	February 1975
	3	382,500	May 1975
	4	382,500	August 1975
Sequoyah Nuclear Plant	1	1,220,580	December 1975
	2	1,220,580	August 1976
Watts Bar Nuclear Plant	1	1,269,900	March 1978
	2	1,269,900	December 1978

[a]The first unit was placed in commercial operation during March 1973.

The first unit at Browns Ferry, TVA's first nuclear powerplant, was originally scheduled for commercial operation in October 1970 but is now scheduled to begin operations in December 1973. The second and third units were originally scheduled for operation in 1971 and 1972 but they have been rescheduled to begin operation in July 1974 and April 1975, respectively. Commercial operation dates have been rescheduled primarily due to delays in equipment deliveries, modifications in the scope of project features, and technical difficulties in meeting Atomic Energy Commission (AEC) requirements for environmental protection and engineering safeguards. The most recent delay, from August to December 1973, in the first unit, occurred because the time required for preoperational testing was underestimated and because contractor-supplied reactor control rods were improperly

fabricated. The second and third units will be delayed 3 and 6 months, respectively, because of the delay of the first unit.

According to TVA, commercial operation of the Sequoyah Nuclear Plant will be delayed 8 months because the steel structure that contains the reactor vessel must be reinforced and design problems in a safety mechanism within the reactor containment structure must be corrected. The units at Watts Bar will be delayed 10 months for the same reasons.

Commercial operation of the second unit of the coal-fired Cumberland Steam Plant has been rescheduled from April to November 1973, because of a failure in a component of the generator which caused other damage to the unit.

The first unit of the Raccoon Mountain Pumped-Storage Project (near Chattanooga, Tennessee) is scheduled for commercial operation in 1974 and the remaining three units in 1975. When the project is operational, water will be pumped from the Tennessee River into a mountaintop reservoir during offpeak power use periods and will be released to generate electric energy during peak periods.

In addition to the powerplants under construction, TVA has ordered components and tentatively selected a plantsite for another nuclear facility, designated the Bellefonte site (near Scottsboro, Alabama), which is scheduled for service in 1979-80. TVA has also ordered components for nuclear plants (locations not yet selected) tentatively scheduled for service in 1980-82.

Power program construction expenditures in 1973 totaled $407.7 million; most of which was for the electric-generating plant. New plant capacity planned for service by 1982 will require an estimated investment of over $4.5 billion.

SELECTION OF FUEL FOR POWER PRODUCTION

The major expense in generating electric power is for fuel. Coal is the principal fuel in present TVA power generation and it will continue to be a vital energy source; but, because of cost and environmental considerations, nuclear fuel will be the principal fuel in new generating capacity.

Of the 22 million kilowatts of capacity in service at June 30, 1973, 75 percent was coal fired; and of the additional 19 million kilowatts of generating capacity that TVA plans to construct, about 85 percent will be nuclear fueled. Hydroelectric plants, the least expensive but a limited source of power, presently account for most of the remainder (about 20 percent) of TVA's generating capacity. A small amount of power is generated by gas turbines, primarily to meet peak power demands, but this method of power production is far more expensive than steam generation.

Although coal supplies were adequate in 1973, coal costs continued to rise. The cost of coal burned by TVA increased steadily from an average of $4.51 per ton in 1969 to $7.46 per ton in 1973, an increase of 65 percent in 5 years. The increase in 1973 was 15 percent. TVA expects the climbing fuel cost trend to be slowed to some extent with the coming operation of its nuclear power plants. According to TVA, nuclear fuel costs are lower and will tend to be relatively stable.

One of the environmental impacts of burning coal is the emission of sulfur dioxide from powerplant stacks. In the three States where it has coal-fired powerplants, TVA has told air pollution control agencies that it will be unable to meet the emission limits and compliance schedules proposed by the agencies. State emission standards place strict limits on the amount of sulfur dioxide that may be emitted from the top of a powerplant stack. TVA is studying various processes of sulfur dioxide removal and is equipping a generating unit at one of its plants with a full-scale test removal process; but currently the agency has no feasible method for meeting the State emission standards. As an alternative, TVA has proposed keeping ground-level concentration of sulfur dioxide at a safe level by increasing the height of plant stacks where necessary and by reducing generation or using low-sulfur fuels when weather conditions cause concentrations to become excessive.

Another environmental consideration in using coal is the national issue of how to deal effectively with the problems of strip mining and land reclamation, which has created an element of uncertainty about future coal supplies. About half of the coal purchased by TVA is strip mined. TVA believes that, since strip-mined coal is a much needed fuel nationally and a vital one in maintaining electric power

service in the Tennessee Valley region, it is prudent to uncover the coal expeditiously, then reclaim the disturbed land for useful purposes. TVA contract requirements for coal purchases include approval of a mining and reclamation plan before strip-mined coal will be considered acceptable under terms of the contract.

An environmental consideration in the use of nuclear fuel is the release of radioactive materials from the powerplants. There have been delays in getting nuclear plants into operation, resulting partly from changes in AEC regulations requiring additional and more rigid safeguards. According to TVA reports, radioactive releases from its powerplants will be only a small fraction of the amounts allowable under AEC guidelines.

A breeder reactor demonstration project has been undertaken jointly by TVA, Commonwealth Edison Company of Chicago, and AEC, with participation by the entire electric utility industry. The proposed breeder reactor plant, with a generating capacity of about 400,000 kilowatts, will be built on the TVA system near Oak Ridge, Tennessee. Construction which is to begin near the end of 1974, will require about 5 years to complete. Recognizing that all fuel reserves--oil, gas, coal, and uranium--are limited, TVA views development of nuclear breeder reactors as having the best potential for meeting the Nation's future energy requirements in an economical and environmentally acceptable manner. The key advantage of the breeder reactor is that it is expected to capture from 60 to 80 percent of the potential energy available in uranium, while present light water reactors capture only about 2 percent. The breeder reactor also will release less waste heat to the environment.

The nuclear breeder reactor project is described in more detail in our report (B-114850, March 27, 1973) on TVA's financial statements for fiscal year 1972.

CHAPTER 3

SCOPE OF EXAMINATION

Our examination of TVA's balance sheet as of June 30, 1973, and the related statements of power and nonpower programs and of changes in financial position for the year then ended was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As provided by section 15d(c) of the TVA Act, TVA employs a firm of certified public accountants to audit its accounts and financial statements for each fiscal year, to facilitate its issuance and sale of revenue bonds. The audit does not take the place of that required by our Office under the Government Corporation Control Act. We observed and tested the firm's audit work.

CHAPTER 4

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements (exhibits I through IV and schedules A through F) present fairly TVA's financial position at June 30, 1973, and the results of its operations and the changes in the financial position of its several programs for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

The public accounting firm's opinion on the financial statements follows.

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

To the Board of Directors of
Tennessee Valley Authority:

We have examined the accompanying financial statements of TENNESSEE VALLEY AUTHORITY at June 30, 1973 and 1972 and for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, Exhibits I, II, III and IV present fairly:

(1) the financial position of the Authority at June 30, 1973 and 1972, and the results of operations and changes in financial position of its several programs for the years then ended; and

(2) the assets and liabilities of the Authority at June 30, 1973 and 1972, relating to the power program, and the results of operations and changes in financial position of that program for the years then ended,

all in conformity with generally accepted accounting principles applied on a consistent basis.

The supplemental information appearing in Schedules A to F, inclusive, which has been subjected to audit procedures applied in the examination of the basic financial statements, is, in our opinion, fairly stated in relation to the basic financial statements taken as a whole.

Coopers & Lybrand

New York, August 24, 1973.

TENNESSEE VALLEY AUTHORITY
(A CORPORATION WHOLLY OWNED BY THE UNITED STATES OF AMERICA)
BALANCE SHEETS JUNE 30, 1973 AND 1972

A S S E T S

	Power program		All programs	
	1973	1972	1973	1972
	(Thousands)			
PROPERTY, PLANT, AND EQUIPMENT, substantially all at original cost				
Completed plant; schedule A				
Multipurpose dams; note 1	$ 489,435	$ 488,644	$1,014,358	$1,010,967
Single-purpose dams	65,736	66,876	65,736	66,876
Steam production plants	1,944,471	1,713,992	1,944,471	1,713,992
Other electric plant	1,320,837	1,134,849	1,320,837	1,134,849
Other plant	-	-	164,522	150,457
	3,820,479	3,404,361	4,509,924	4,077,141
Less accumulated depreciation and depletion; note 2	1,156,187	1,075,425	1,288,784	1,201,213
	2,664,292	2,328,936	3,221,140	2,875,928
Construction and investigations in progress; schedule B and note 3	1,318,645	1,294,367	1,386,808	1,359,775
Nuclear fuel in process of fabrication	93,090	63,860	93,090	63,860
Total property, plant, and equipment	4,076,027	3,687,163	4,701,038	4,299,563
CURRENT ASSETS				
Cash	63,356	50,763	110,082	86,835
Accounts receivable	71,333	61,170	79,241	70,453
Inventories, principally at average cost	140,772	109,323	146,473	114,565
Total current assets	275,461	221,256	335,796	271,853
DEFERRED CHARGES				
Unamortized debt discount and expense; note 2	14,478	11,034	14,478	11,034
Other	600	647	600	647
Total deferred charges	15,078	11,681	15,078	11,681
Total assets	$4,366,566	$3,920,100	$5,051,912	$4,583,097

Notes 1 through 8 following the exhibits are an integral part of the financial statements.

*Deduct

LIABILITIES

	Power program		All programs	
	1973	1972	1973	1972
	(Thousands)			
PROPRIETARY CAPITAL				
Appropriation investment; note 4				
Total congressional appropriations	$1,383,332	$1,383,558	$2,637,824	$2,573,274
Transfers of property from other Federal agencies	21,517	21,305	53,701	53,358
	1,404,849	1,404,863	2,691,525	2,626,632
Less repayments to General Fund of the U.S. Treasury; note 5	370,059	350,059	411,674	391,645
Appropriation investment	1,034,790	1,054,804	2,279,851	2,234,987
Retained earnings of power program; exhibit II	823,686	771,050	823,686	771,050
Accumulated net expense of nonpower programs; exhibit III	-	-	582,536*	538,136*
Total proprietary capital	1,858,476	1,825,854	2,521,001	2,467,901
LONG-TERM DEBT; note 6	1,775,000	1,225,000	1,775,000	1,225,000
SHORT-TERM NOTES; note 6	580,000	730,000	580,000	730,000
OTHER CURRENT LIABILITIES				
Accounts payable	115,146	102,047	125,654	110,719
Employees' accrued leave	12,871	11,300	23,033	20,977
Payrolls accrued	6,104	12,278	8,255	14,879
Interest accrued	17,972	12,558	17,972	12,558
Total other current liabilities	152,093	138,183	174,914	159,133
DEFERRED CREDITS				
Unamortized debt premium; note 2	96	165	96	165
CONTRIBUTIONS IN AID OF CONSTRUCTION	901	898	901	898
COMMITMENTS; note 3				
Total liabilities	$4,366,566	$3,920,100	$5,051,912	$4,583,097

EXHIBIT II

TENNESSEE VALLEY AUTHORITY
POWER PROGRAM
NET INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1973 AND 1972

	1973		1972	
	kWh	Amount	kWh	Amount
		(Thousands)		
OPERATING REVENUES				
Sales of electric energy				
Municipalities and cooperatives	63,822,013	$476,354	57,820,337	$415,349
Federal agencies	17,112,478	103,166	12,501,761	73,255
Industries	21,864,681	144,732	19,591,953	124,308
Electric utilities	92,169	791	539,724	6,250
Total outside sales	102,891,341	725,043	90,453,775	619,162
Interdivisional	581,272	3,988	636,631	3,429
Total sales of electric energy	103,472,613	729,031	91,090,406	622,591
Rents		20,349		19,272
Total operating revenues		749,380		641,863
OPERATING EXPENSES; schedule C				
Production		408,765		325,567
Transmission		18,921		17,779
Customer accounts		498		442
Demonstration of power use		1,272		1,158
Administrative and general		27,379		24,031
Payments in lieu of taxes		27,310		25,726
Social security taxes		3,816		3,210
Provision for depreciation		89,468		83,399
Total operating expenses		577,429		481,312
Operating income		171,951		160,551
OTHER INCOME AND DEDUCTIONS				
Interest income		25		54
Allowance for funds used (construction and nuclear fuel); note 2		73,357		52,023
Other, net		418		164*
Total other income and deductions		73,800		51,913
Income before interest charges		245,751		212,464
INTEREST CHARGES				
Interest on long-term debt		111,399		69,028
Other interest expense; note 2		27,642		31,140
Amortization of long-term debt discount, expense, and premium, net; note 2		289		172
Total interest charges		139,330		100,340
NET INCOME		106,421		112,124
Payment of return on appropriation investment; note 5		53,785		55,810
Increase in retained earnings		52,636		56,314
Retained earnings at beginning of period		771,050		714,736
Retained earnings at end of period		$823,686		$771,050

Notes 1 through 8 following the exhibits are an integral part of the financial statements.

*Deduct

EXHIBIT III
Page 1

TENNESSEE VALLEY AUTHORITY
NONPOWER PROGRAMS
NET EXPENSE AND ACCUMULATED NET EXPENSE
FOR THE YEARS ENDED JUNE 30, 1973 AND 1972

	1973	1972
	(Thousands)	
WATER RESOURCES DEVELOPMENT		
Navigation operations		
Studies and investigations	$ 975	$ 823
Operation and maintenance of facilities	4,985	4,926
Total expense of navigation operations	5,960	5,749
Flood control operations		
Studies and investigations	1,166	899
Operation and maintenance of facilities	3,930	3,914
Local flood control improvements	7	68
Total expense of flood control operations	5,103	4,881
Recreation projects		
Recreation resources development	682	736
Operation and maintenance of facilities	1,785	1,498
Total expense of recreation projects	2,467	2,234
Regional water quality management	1,563	1,545
Fisheries and waterfowl resources development	494	338
Preliminary surveys and engineering (including in 1973, $2,065,000 related to abandoned projects)	2,526	547
Total expense of water resources development	18,113	15,294
FERTILIZER AND MUNITIONS DEVELOPMENT		
Developmental production		
Cost of products distributed	26,912	23,090
General expenses		
Loss on retirements of manufacturing plant and equipment, net	71	3,533
Loss or adjustment* on disposal of spare parts from inventory, net	41*	105
Loss or gain* on sale of phosphate reserves, net	134*	9
Other general expenses	1,059	1,431
Total general expenses	955	5,078
Total production expense	27,867	28,168
Less transfers and sales of products		
Transfers to TVA programs, at market prices		
Fertilizer industry demonstrations	19,748	14,974
Farm test demonstrations	345	280
Agricultural projects	169	178
Other	61	37
	20,323	15,469
Direct sales	70	146
Total transfers and sales	20,393	15,615
Net expense of developmental production	7,474	12,553
Fertilizer introduction		
Fertilizer industry demonstrations		
Fertilizers used	19,748	14,974
Educational distribution expense	1,291	1,298
	21,039	16,272
Less industry payments for fertilizer	19,094	14,393
	1,945	1,879

TENNESSEE VALLEY AUTHORITY
NONPOWER PROGRAMS
NET EXPENSE AND ACCUMULATED NET EXPENSE
FOR THE YEARS ENDED JUNE 30, 1973 AND 1972

	1973	1972
	(Thousands)	
FERTILIZER AND MUNITIONS DEVELOPMENT - continued		
Fertilizer introduction - continued		
Farm test demonstrations outside the Valley		
Fertilizers used	$ 345	$ 280
Planning and supervision	624	503
	969	783
Less farmer payments for fertilizer	192	190
	777	593
Net expense of fertilizer introduction	2,722	2,472
Research and development	5,553	5,059
Net expense of fertilizer and munitions development	15,749	20,084
GENERAL RESOURCES DEVELOPMENT		
Agricultural projects		
Agricultural development		
Fertilizers used	169	178
Planning and supervision	909	952
	1,078	1,130
Less farmer payments for fertilizer	90	114
	988	1,016
Development investigations and general expenses	509	438
Net expense of agricultural projects	1,497	1,454
Forest and wild land resources development	1,367	1,235
Tributary area development	1,755	1,668
Regional development planning	914	558
Townlift community improvement	723	480
Demonstrations in education and manpower development	803	139
Minerals projects	274	213
Environmental quality projects	430	332
Net expense of general resources development	7,763	6,079
LAND BETWEEN THE LAKES OPERATIONS	2,306	1,972
VALLEY MAPPING	469	499
OTHER EXPENSE, NET	-	80
NET EXPENSE; schedule D	44,400	44,008
Accumulated net expense at beginning of period	538,136	494,128
Accumulated net expense at end of period	$582,536	$538,136

Notes 1 through 8 following the exhibits are an integral part of the financial statements.

EXHIBIT IV
Page 1

TENNESSEE VALLEY AUTHORITY
CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1973 AND 1972

	Power program		All programs	
	1973	1972	1973	1972
	(Thousands)			
SOURCE OF FUNDS				
Program sources				
Net power income; exhibit II	$ 106,421	$ 112,124	$ 106,421	$ 112,124
Add items not requiring funds; note a	16,241	31,931	16,241	31,931
Funds from power operations	122,662	144,055	122,662	144,055
Sale of power facilities	665	480	665	480
Funds from power program; note b	123,327	144,535	123,327	144,535
Net expense of nonpower programs; exhibit III			44,400*	44,008*
Add items not requiring funds; note a			7,547	10,270
Funds used in nonpower operations			36,853*	33,738*
Sale of nonpower facilities			1,131	564
Funds used in nonpower programs			35,722*	33,174*
Debt sources				
Long-term bonds				
Issues	548,069	547,034	548,069	547,034
Short-term notes				
Issues	1,520,000	2,020,000	1,520,000	2,020,000
Redemptions	1,670,000*	2,070,300*	1,670,000*	2,070,300*
Total debt sources	398,069	496,734	398,069	496,734
Other sources				
Congressional appropriations	226*	3,359	64,550	67,150
Property transfers	212	228	343	414
Contributions in aid of construction	3	117	3	117
Total source of funds	$ 521,385	$ 644,973	$ 550,570	$ 675,776
DISPOSITION OF FUNDS				
Expended for plant and equipment, excluding allowance for funds used	$ 407,715	$ 538,165	$ 431,436	$ 559,033
Less salvage from plant transfers, and depreciation charged to construction and clearing accounts	2,282	2,676	4,714	5,053
	405,433	535,489	426,722	553,980
Payments to U.S. Treasury; note 5				
Return on appropriation investment	53,785	55,810	53,785	55,810
Repayment of appropriation investment	20,000	20,000	20,029	20,034
	73,785	75,810	73,814	75,844
Deferred charges, net	1,872	1,119*	1,872	1,119*
Changes in working capital; note c	40,295	34,793	48,162	47,071
Total disposition of funds	$ 521,385	$ 644,973	$ 550,570	$ 675,776

*Deduct

TENNESSEE VALLEY AUTHORITY
CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1973 AND 1972

NOTES:

a. Items not requiring funds:

	Power		Nonpower	
	1973	1972	1973	1972
	(Thousands)			
Provisions for depreciation	$89,468	$83,399	$7,600	$ 6,714
Provisions for depletion	211	104	10	14
Loss or gain* on retirements and disposals of property, plant, and equipment, net	418*	164	63*	3,542
Amortization of deferred charges and credits, net	337	287	-	-
Allowance for funds used (construction and nuclear fuel)	73,357*	52,023*	-	-
	$16,241	$31,931	$7,547	$10,270

b. Net power proceeds (see note 6) may be derived as follows:

	Year ended June 30	
	1973	1972
	(Thousands)	
Funds from power program	$123,327	$144,535
Add back interest charges	139,041	100,168
Net power proceeds	$262,368	$244,703

c. Components of changes in working capital:

	Power program		All programs	
	1973	1972	1973	1972
	(Thousands)			
Cash	$12,593	$29,994	$23,247	$42,853
Accounts receivable	10,163	6,634	8,788	7,810
Inventories	31,449	26,191	31,908	26,096
	54,205	62,819	63,943	76,759
Less other current liabilities	13,910	28,026	15,781	29,688
	$40,295	$34,793	$48,162	$47,071

Notes 1 through 8 following the exhibits are an integral part of the financial statements.

*Deduct

1. Allocation of cost of multipurpose projects--Section 14 of the TVA Act requires TVA's Board of Directors to allocate the cost of completed multipurpose projects, subject to the approval of the President of the United States. The cost of facilities installed exclusively for a single purpose is assigned directly to that purpose; the cost of multiple-use facilities is allocated among the various purposes served.

The total investment of $1,014,358,000 in completed multipurpose dams at June 30, 1973, is classified as follows:

	Investment		
	Direct	Multiple-use	Total
		(Thousands)	
Power	$312,163	$177,272	$ 489,435
Navigation	151,114	136,723	287,837
Flood control	59,656	135,133	194,789
Recreation	267	24,428	24,695
Tributary area development	20	17,582	17,602
Total	$523,220	$491,138	$1,014,358

2. Accounting policies--Straight-line depreciation is provided for substantially on a composite basis. Except for chemical plant, plant retirements (including original and removal costs less salvage) are charged against appropriate accumulated depreciation accounts. Because of the experimental nature of fertilizer and munitions development, losses on early retirements of chemical plant are included in current year operations. Rates of depreciation are derived from engineering studies of useful life and are reviewed each year. Depletion of coal land and land rights and phosphate land and mineral rights is provided on a unit of production basis.

The practice of capitalizing an allowance for funds used during construction and during the fabrication of nuclear fuels is followed in the power program. The rate is established at the beginning of each 6-month period on the basis of the cost of borrowings during the preceding 12 months. Rates used were 6.0 percent and 6.0 percent during 1973 and 5.4 percent and 5.5 percent during 1972.

Discounts, expenses, and premiums on power borrowings are amortized on a straight-line basis over the term of the related securities. Amortization of discount on short-term notes is charged to other interest expense.

3. Estimates of cost to complete major construction projects, and commitments--The cost to complete the major power projects (including nuclear fuel) under construction or authorized for construction at June 30, 1973, is estimated to be $4,545,100,000, including commitments of $1,328,900,000 for materials and services contracted for and not delivered. The corresponding estimate for multipurpose and nonpower projects is $148,400,000, including commitments of $3,300,000.

TVA and the City of Memphis, Tennessee, have entered into agreements under which (1) TVA sells to the City all the power and energy requirements of its electric distribution system, and (2) the City leases to TVA the Thomas H. Allen steam-electric generating plant with an installed capacity of 990,000 kilowatts; each agreement is for a term of 20 years, beginning January 1, 1965. The lease agreement provides for annual rental payments of $6,900,000 and grants TVA an option to buy the plant for $2,000,000 at the end of the lease term.

On June 22, 1972, the TVA Board of Directors approved a Utility Contribution Agreement with Breeder Reactor Corporation (BRC), a District of Columbia nonprofit corporation. The agreement obligates TVA to pay to Breeder Reactor Corporation the sum of $21.7 million over a 10-year period with equal annual payments beginning December 31, 1972, and ending December 31, 1981. The payment is on behalf of TVA and its distributors in support of the Nation's first commercial-scale liquid metal fast breeder reactor demonstration plant project. At June 30, 1973, the remaining commitment was $18,445,000.

4. Appropriation investment--Changes in appropriation investment during the years ended June 30, 1973 and 1972, were as follows:

	Power program		All programs	
	1973	1972	1973	1972
	(Thousands)			
Congressional appropriations	$ 226*	$ 3,359	$ 64,550	$ 67,150
Transfers of property from other Federal agencies	212	228	343	414
	14*	3,587	64,893	67,564
Less repayments to General Fund of the U.S. Treasury	20,000	20,000	20,029	20,034
Increase or decrease* for the period	20,014*	16,413*	44,864	47,530
Balance, beginning of period	1,054,804	1,071,217	2,234,987	2,187,457
Balance, end of period	$1,034,790	$1,054,804	$2,279,851	$2,234,987

*Deduct

An additional appropriation of $45,676,000 was made as of July 1, 1973, by Public Law 93-97, approved August 16, 1973.

5. Payments to the U.S. Treasury--Section 15d of the TVA Act requires the payment from net power proceeds of a return on the net appropriation investment in power facilities plus repayments of such investment, beginning with fiscal year 1961. The amount of return payable during each year is based on the appropriation investment as of the beginning of that year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations as of the same date. The repayment schedule calls for payment of not less than $10 million for each of the first five years (1961-1965), $15 million for each of the next five years (1966-1970), and $20 million for each year thereafter until a total of $1 billion shall have been repaid. The payments required by Section 15d may be deferred under certain circumstances for not more than two years.

Required payments have been made as follows:

	Return	Repayment	Total
		(Thousands)	
Total to June 30, 1972	$569,203	$165,000	$734,203
Year ended June 30, 1973	53,785	20,000	73,785
	$622,988	$185,000	$807,988

For 1974 the required payments will be $63,422,000 as a return on the appropriation investment at the computed average interest rate of 6.129 percent and $20,000,000 as a repayment, a total of $83,422,000.

In addition to the payments from net power proceeds, $29,000 of nonpower proceeds was paid to the U.S. Treasury in 1973 under the provisions of Section 26 of the TVA Act. This brought the total payments from nonpower proceeds to $41,615,000.

Prior to 1961, under then existing legislation, TVA paid to the Treasury $185,059,000 of power proceeds. In addition to the repayments indicated in Exhibit I, $65,072,000 of bonds sold to the Treasury and Reconstruction Finance Corporation in fiscal years 1939-1941 have been fully repaid from power proceeds. Section 26 of the TVA Act provides for annual payments to the Treasury of any power or nonpower proceeds not needed for the operation of dams and reservoirs, the conduct of the power program, and the manufacture and distribution of fertilizers.

6. Borrowing authority--Section 15d of the TVA Act authorizes TVA to issue bonds, notes, and other evidences of indebtedness up to a total of $5 billion outstanding at any one time to assist in financing its power program. Debt service on these obligations, which is payable solely from TVA's net power proceeds, has precedence over the payments to the U.S. Treasury described in note 5. Issues outstanding on June 30, 1973, consist of the following:

	(Thousands)
Long-term debt	
4.40% 1960 Series A, due November 15, 1985	$ 50,000
4-5/8% 1961 Series A, due July 1, 1986	50,000
4-1/2% 1962 Series A, due February 1, 1987	45,000
5.70% 1967 Series A, due May 15, 1992	70,000
6-3/8% 1967 Series B, due November 1, 1992	60,000
8% 1969 Series A, due June 1, 1974 (To be refinanced)	100,000
8-1/4% 1969 Series B, due October 15, 1994	100,000
9% 1970 Series A, due March 15, 1995	100,000
9-1/4% 1970 Series B, due June 15, 1995	50,000
8-3/4% 1970 Series C, due June 15, 1975	50,000
7-1/4% 1971 Series A, due July 1, 1976	100,000
7.30% 1971 Series B, due October 1, 1996	150,000
7% 1972 Series A, due January 1, 1997	150,000
7.35% 1972 Series B, due May 1, 1997	150,000
7.35% 1972 Series C, due July 1, 1997	150,000
7.40% 1972 Series D, due October 1, 1997	150,000
7.35% 1973 Series A, due January 1, 1998	100,000
7.35% 1973 Series B, due April 1, 1998	150,000
Total long-term debt	1,775,000
Short-term notes	
Payable to U.S. Treasury	100,000
Payable to public	480,000
Total short-term notes	580,000
	$2,355,000

An additional bond issue, 7-3/4 percent 1973 Series C, due July 1, 1998, in the amount of $150,000,000 was sold in July 1973.

7. Retirement plan--TVA has a contributory retirement plan which covers substantially all of its salaried employees. The cost of currently accruing benefits is funded currently, and the unfunded prior service cost is being amortized and funded over a period of 33 years from July 1, 1972. The cost of the plan to TVA for the years ended June 30, 1973 and 1972, was $18,683,000 and $16,813,000, respectively.

8. Litigation--On December 2, 1971, the Environmental Defense Fund and other plaintiffs filed suit to enjoin construction of the Tellico project on various grounds, including alleged failure to comply with the National Environmental Policy Act by, among other things, not filing an Environmental Impact Statement for the project. On January 11, 1972, the United States District Court for the Eastern District of Tennessee issued a limited preliminary injunction, pending trial, enjoining certain phases of work on the project, but allowing other activities to go forward. Thereafter, TVA filed an Environmental Impact Statement for the Tellico project, and the trial to determine the adequacy of that statement and other questions raised by the plaintiffs is to begin on September 17, 1973.

On July 5, 1972, the Environmental Defense Fund and other plaintiffs filed suit to enjoin TVA from constructing the Duck River project, consisting of the Normandy and Columbia Dams, on various grounds, including alleged failure to comply with the National Environmental Policy Act by, among other things, filing an Environmental Impact Statement for the project which plaintiffs claimed was inadequate. The action was filed in the United States District Court for the Eastern District of Tennessee, Northern Division, but was transferred to the Winchester Division of that Court. TVA filed a motion to dismiss the action or in the alternative for summary judgment. The motion was granted except as to the cause of action based on an alleged violation of the National Environmental Policy Act. The case has been set for trial during January 1974. Work on the project is proceeding as scheduled.

With respect to both of the above cases, counsel for TVA believe that the National Environmental Policy Act and all other applicable laws have been complied with and that the actions are without merit.

On May 26, 1972, TVA filed a condemnation action in the United States District Court for the Northern District of Alabama, Northeastern Division, to acquire 1,174 acres of land in Jackson County, Alabama, known as the Bellefonte site, "for and as a part of an inventory of sites for electric generating plants." Defendants filed an answer in which they raised 34 objections and defenses to the taking. In substance they are that TVA lacks statutory and constitutional authority to acquire the property, that it is not being acquired for a public use, and that the taking is unnecessary, an abuse of discretion, and in violation of the National Environmental Policy Act of 1969. TVA filed a motion to strike such defenses and objections on the ground that they are insufficient as a matter of law. No court ruling has been made on this motion. Counsel for TVA believe that the defenses are without merit.

TENNESSEE VALLEY AUTHORITY
COMPLETED PLANT
JUNE 30, 1973

	Assets	Depreciation and depletion: Provision year ended June 30, 1973	Depreciation and depletion: Accumulated balance June 30, 1973
Power			
Multipurpose dams			
System allocation	$ 430,086,109	$ 5,759,088	$ 155,736,739
Project allocations	59,349,295	899,139	5,982,748
Single-purpose dams	65,735,723	1,193,551	24,611,450
Steam production plants	1,944,470,917	50,475,566	643,214,680
Other electric plant	1,320,837,388	32,326,747	326,641,823
Total power	3,820,479,432	90,654,091	1,156,187,440
Navigation			
Multipurpose dams			
System allocation	227,968,688	2,291,310	47,950,905
Project allocations	59,868,479	557,056	3,718,756
Total navigation	287,837,167	2,848,366	51,669,661
Flood control			
Multipurpose dams			
System allocation	180,225,416	1,178,343	34,781,079
Project allocations	14,563,320	89,560	393,318
Single-purpose flood control plant	2,191,278	483,081	106,133
Total flood control	196,980,014	1,750,984	35,280,530
Tributary area development			
Multipurpose dams			
Project allocations	17,602,065	99,843	367,475
Recreation and conservation education			
Multipurpose dams			
Project allocations	24,694,528	126,690	169,024
Land between the lakes	48,062,079	380,629	2,049,747
Other recreation plant	930,321	22,641	55,206
Total recreation and conservation education	73,686,928	529,960	2,273,977
Chemical	67,201,371	2,223,146	22,910,997
General	46,136,515	2,505,981	20,093,660
Total	$4,509,923,492	$100,612,371	$1,288,783,740
Total completed plant			
Multipurpose dams			
System allocation	$ 838,280,213	$ 9,228,741	$ 238,468,723
Project allocations	176,077,687	1,772,288	10,631,321
	1,014,357,900	11,001,029	249,100,044
Single-purpose dams	65,735,723	1,193,551	24,611,450
Steam production plants	1,944,470,917	50,475,566	643,214,680
Other electric plant	1,320,837,388	32,326,747	326,641,823
Other plant	164,521,564	5,615,478	45,215,743
Total	$4,509,923,492	$100,612,371	$1,288,783,740

SCHEDULE B

TENNESSEE VALLEY AUTHORITY
CONSTRUCTION AND INVESTIGATIONS IN PROGRESS
JUNE 30, 1973

	Power program	All programs
Construction in progress		
Generating facilities		
Browns Ferry Nuclear Plant	$ 592,181,458	$ 592,181,458
Sequoyah Nuclear Plant	346,395,792	346,395,792
Watts Bar Nuclear Plant	37,326,879	37,326,879
Bellefonte Nuclear Plant (site proposed)	10,332,885	10,332,885
Nuclear Plants 5 and 6 (site undetermined)	884,169	884,169
Cumberland Steam Plant	161,970,962	161,970,962
Colbert gas turbine units 1-8	30,337	30,337
Allen gas turbine units 1-16	6,382	6,382
Allen gas turbine units 17-20	25,210	25,210
Raccoon Mountain pumped storage project	75,562,467	75,562,467
Total generating facilities	1,224,716,541	1,224,716,541
Transmission lines, substations, and other additions to power facilities	89,486,088	89,486,088
Navigation facilities		5,326,195
Flood control facilities		501,859
Multipurpose facilities		
Tellico Dam and Reservoir	-	35,408,035
Columbia Dam and Reservoir	-	2,388,656
Normandy Dam and Reservoir	-	8,842,491
Bear Creek water control system	-	5,763,336
Other	364,794	945,663
Total multipurpose facilities	364,794	53,348,181
Chemical plant		2,852,081
Recreation and conservation education facilities		
Land between the lakes		3,259,443
Other recreation facilities		472,112
Total recreation and conservation education facilities		3,731,555
General plant		
General construction equipment and materials	-	911,324
Other additions to general plant	41,019	450,010
Total general plant	41,019	1,361,334
Total construction in progress	1,314,608,442	1,381,323,834
Investigations for future projects		
Power facilities	4,035,852	4,035,852
Navigation facilities	-	117,903
Flood control facilities	-	702,109
Multipurpose facilities	-	627,704
Total investigations for future projects	4,035,852	5,483,568
Total construction and investigations in progress	$1,318,644,294	$1,386,807,402

TENNESSEE VALLEY AUTHORITY
DETAILS OF POWER EXPENSE
FOR THE YEAR ENDED JUNE 30, 1973

SUMMARY	Total	Provision for depreciation	Total before depreciation (exhibit II)	Operation	Maintenance	Other
Production						
Multipurpose dams						
Direct	$ 11,642,676	$ 5,536,204	$ 6,106,472	$ 3,614,391	$ 2,492,081	$ -
Multiple-use; schedule E	4,464,857	1,229,418	3,235,439	2,682,278	553,161	-
Single-purpose dams	4,877,523	1,193,551	3,683,972	895,784	2,788,188	-
Cumberland Basin projects; note a	10,662,563	-	10,662,563	-	-	10,662,563
Steam plants	400,113,401	50,475,566	349,637,835	300,132,395	49,505,440	-
Gas turbine plants	5,087,220	2,302,473	2,784,747	2,579,228	205,519	-
Total generation	436,848,240	60,737,212	376,111,028	309,904,076	55,544,389	10,662,563
Purchased power	8,123,365	-	8,123,365	-	-	8,123,365
Interchange power received	15,912,743	-	15,912,743	-	-	15,912,743
Interchange power delivered	27,295,325*	-	27,295,325*	-	-	27,295,325*
System control and load dispatching	1,484,682	-	1,484,682	-	-	1,484,682
Other	34,428,887	-	34,428,887	-	-	34,428,887
Total production	469,502,592	60,737,212	408,765,380	309,904,076	55,544,389	43,316,915
Transmission	45,858,863	26,937,859	18,921,004	10,953,164	7,967,840	-
Customer accounts	498,404	-	498,404	498,404	-	-
Demonstration of power use	1,271,576	-	1,271,576	1,271,576	-	-
Payments in lieu of taxes; note b	27,310,061	-	27,310,061	-	-	27,310,061
Social security taxes	3,816,311	-	3,816,311	-	-	3,816,311
Administrative and general						
Direct	29,042,714	1,793,039	27,249,675	27,244,373	5,302	-
Multiple-use	128,887	-	128,887	128,887	-	-
Total operating expense	$577,429,408	$89,468,110	$487,961,298	$350,000,480	$63,517,531	$74,443,287

SYSTEM STATISTICS	kWh generated less station use (thousands)	Production expense including depreciation Total	Production expense including depreciation Per kWh (mills)	Installed capacity at June 30, 1973 (kilowatts)	Ratio of average gross generation to installed capacity (percent)
Generation					
Multipurpose dams					
Direct	16,694,165	$ 11,642,676	.697	2,949,170	64.85
Multiple-use; schedule E	-	4,464,857	.268	-	
Total multipurpose dams	16,694,165	16,107,533	.965	2,949,170	64.85
Single-purpose dams	1,447,355	4,877,523	3.370	243,460	68.54
Cumberland Basin projects; note a	3,693,088	10,662,563	2.887	753,000	56.30
Alcoa dams; note c	2,623,187			423,715	70.81
Total hydro generation	24,457,795			4,369,345	64.16
Steam plants	79,862,016	400,113,401	5.010	16,426,335	61.93
Gas turbine plants	253,945	5,087,220	20.033	1,096,800	2.70
Total generation; note d	104,573,756			21,892,480	59.63
Purchased power	670,237	8,123,365			
Interchange power received	7,288,027	15,912,743			
System control and load dispatching	-	1,484,682			
Other; note e	4,521,990	34,428,887			
Total system input	117,054,010				
Delivered under Alcoa agreement	1,820,293*				
Interchange power delivered	8,202,723*	27,295,325*			
Net energy supply	107,030,994	469,502,592	4.387		
Shop and internal uses	5,886*				
Transmission and transformation losses	3,552,495*				
Total kWh sales and production expense	103,472,613	$469,502,592	4.537		

Notes:

a. TVA purchases substantially all of the output of seven hydro plants in the Cumberland River Basin. In accordance with memorandums of understanding with the Corps of Engineers, Department of the Army, the Cumberland Basin projects are operated for optimum production of power in conjunction with TVA's power system, subject to flood control, navigation, and other operating requirements of the Army.

b. Payments made to states and counties in which power operations are carried out. The basic amount is 5 percent of gross revenues from the sale of power to other than Federal agencies during the preceding year, with the provision of minimum payments under certain circumstances.

c. Operation of twelve hydro plants of the Aluminum Company of America is coordinated with the operation of TVA's power plants under an arrangement whereby the storage and release of water from the Alcoa plants are carried out by the company under TVA's direction.

d. Installed capacity increased 2,012,060 kilowatts during fiscal year 1973. Additions consisted of the first 1,300,000-kilowatt generating unit at the Cumberland Steam Plant, 238,400 kilowatts in four gas turbines at the Allen Steam Plant, 476,000 kilowatts in eight gas turbines at the Colbert Steam Plant, and 8,300 kilowatts from modifications to three generators. The Nolichucky Hydro Plant with an installed capacity of 10,640 kilowatts was retired.

e. "kWh generated" includes 4,521,990,000 kWh generated during test runs at the Cumberland Steam Plant of the first and second generating units. The expenses of the generation, less credit for the fair value of energy delivered to the TVA power system, were charged to construction.

*Deduct

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1973

	Direct	Multiple-use (schedule E)	Total
WATER RESOURCES DEVELOPMENT			
Navigation operations			
Studies and investigations			
Navigation engineering and investigations	$ 922,381	$ -	$ 922,381
Administrative and general expenses; schedule F	52,745	-	52,745
	975,126	-	975,126
Operation and maintenance of facilities			
Operation	16,114	1,634,721	1,650,835
Maintenance	16,858	386,559	403,417
Administrative and general expenses	-	82,019	82,019
Provision for depreciation	1,813,713	1,034,653	2,848,366
	1,846,685	3,137,952	4,984,637
Total expense of navigation operations	$2,821,811	$3,137,952	5,959,763
Flood control operations			
Studies and investigations			
System studies and investigations	$ 350,077	$ -	350,077
Local flood studies and cooperation with other agencies	787,484	-	787,484
Administrative and general expenses; schedule F	28,884	-	28,884
	1,166,445	-	1,166,445
Operation and maintenance of facilities			
Operation	140,031	1,966,831	2,106,862
Maintenance	-	412,045	412,045
Administrative and general expenses	-	97,641	97,641
Provision for depreciation	393,677	919,988	1,313,665
	533,708	3,396,505	3,930,213
Local flood control improvements	6,636	-	6,636
Total expense of flood control operations	$1,706,789	$3,396,505	5,103,294
Recreation projects			
Recreation resources development	$ 628,949	$ -	628,949
Administrative and general expenses; schedule F	52,745	-	52,745
	681,694	-	681,694
Operation and maintenance of facilities			
Operation	-	1,532,483	1,532,483
Maintenance	12,886	12,867	25,753
Administrative and general expenses	-	78,113	78,113
Provision for depreciation	25,212	124,119	149,331
	38,098	1,747,582	1,785,680
Total expense of recreation projects	$ 719,792	$1,747,582	2,467,374
Regional water quality management			
Regional water quality management			1,478,917
Provision for depreciation			33,779
Administrative and general expenses; schedule F			50,234
Total expense of regional water quality management			1,562,930
Fisheries and waterfowl resources development			
Fisheries investigations			210,144
Fisheries management and use			142,017
Waterfowl management and use			109,571
Provision for depreciation			10,300
Administrative and general expenses; schedule F			21,349
Total expense of fisheries and waterfowl resources development			493,381

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1973

WATER RESOURCES DEVELOPMENT - continued		
Preliminary surveys and engineering		
Preliminary surveys and engineering (including $2,065,229 related to abandoned projects)		$ 2,508,422
Administrative and general expenses; schedule F		17,582
Total expense of preliminary surveys and engineering		2,526,004
Total expense of water resources development		$18,112,746
FERTILIZER AND MUNITIONS DEVELOPMENT		
Developmental production		
Cost of products distributed; note a		
Materials used		$ 9,165,836
Direct manufacturing and shipping expense		13,580,915
Indirect manufacturing and shipping expense		2,515,295
Provisions for depreciation and depletion		2,089,711
Recoveries from byproducts and in-process materials		285,038*
In-process inventory changes		45,675*
Finished inventory changes		109,407*
Total cost of products distributed		26,911,637
General expenses		
Loss on retirements of manufacturing plant and equipment, net		70,913
Adjustments on disposal of spare parts from inventory, net		41,328*
Gain on sale of phosphate reserves, net		133,954*
Other general expenses		
Administrative and general; schedule F	$ 547,389	
Shipping order and field inventory expense	286,298	
Provision for depreciation of idle manufacturing plant and equipment	130,342	
Other, including depreciation of $3,426*	95,383	1,059,412
Total general expenses		955,043
Total production expense		27,866,680
Less transfers and sales of products		
Transfers to TVA programs, at market prices		
Fertilizer industry demonstrations		19,747,459
Farm test demonstrations		345,127
Agricultural projects		169,339
Other		61,158
Total transfers		20,323,083
Direct sales		69,886
Total transfers and sales		20,392,969
Net expense of developmental production		7,473,711
Fertilizer introduction		
Fertilizer industry demonstrations		
Fertilizers used		19,747,459
Educational distribution expense	1,231,356	
Administrative and general expenses; schedule F	60,401	1,291,757
		21,039,216
Less industry payments for fertilizer; note b		19,094,311
		1,944,905
Farm test demonstrations outside the Valley		
Fertilizers used		345,127
Planning and supervision	604,523	
Administrative and general expenses; schedule F	18,875	623,398
		968,525
Less farmer payments for fertilizer		192,021
		776,504
Net expense of fertilizer introduction		2,721,409

*Deduct

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1973

FERTILIZER AND MUNITIONS DEVELOPMENT - continued		
Research and development		
Research and development of products and processes		
Applied research		$ 914,012
Process engineering		1,240,235
General expenses		837,349
		2,991,596
Research and development of processes for recovery of sulfur		182,998
Basic chemical and agronomic research		2,066,229
Provision for depreciation		93,650
Administrative and general expenses; schedule F		218,955
Total expense of research and development		5,553,428
Net expense of fertilizer and munitions development		$15,748,548
GENERAL RESOURCES DEVELOPMENT		
Agricultural projects		
Valley agricultural resources development		
Fertilizers used		$ 169,339
Planning and supervision		908,629
		1,077,968
Less farmer payments for fertilizer		89,665
		988,303
Special agricultural investigations and technical assistance	$121,953	
Agribusiness development	56,160	
Program planning and analysis	87,329	
Research on forage fertilization and utilization	65,417	
Studies of agricultural uses of heated water	86,869	
Tenure and land use adjustment	16,041	
Tennessee Valley rural life conferences	29,066	
Provision for depreciation	1,986	
Administrative and general expenses; schedule F	44,043	508,864
Net expense of agricultural projects		1,497,167
Forest and wild land resources development		
Forest industry development		256,185
Forest and wildlife management and wildlife use		287,777
Forest and wild land investigations		294,925
Improvement and establishment of wild land vegetation		332,595
Strip mine reclamation		124,802
Provision for depreciation		11,814
Administrative and general expenses; schedule F		59,024
Total expense of forest and wild land resources development		1,367,122
Tributary area development		
Basic investigations		376,874
Development assistance in specific tributary areas		1,046,418
Administrative and general expenses; schedule F		106,746
Multiple-use operating expenses; schedule E		
Operation and maintenance	121,016	
Provision for depreciation, including $195 direct	99,843	
Administrative and general expenses	3,906	224,765
Total expense of tributary area development		1,754,803
Regional development planning		
Regional development planning		437,201
Provision for depreciation		437,319
Administrative and general expenses; schedule F		38,931
Total expense of regional development planning		913,451
Townlift community improvement		
Townlift community improvement		694,490
Administrative and general expenses; schedule F		28,884
Total expense of townlift community improvement		723,374

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1973

GENERAL RESOURCES DEVELOPMENT - continued	
Demonstrations in education and manpower development	
Demonstrations in education and manpower development	$ 697,653
Administrative and general expenses; schedule F	105,490
Total expense of demonstrations in education and manpower development	803,143
Minerals projects	
Mineral resources investigations	265,218
Administrative and general expenses; schedule F	8,791
Total expense of minerals projects	274,009
Environmental quality projects	
Regional air quality management	111,422
Research on disposal of solid wastes	297,562
Administrative and general expenses; schedule F	21,349
Total expense of environmental quality projects	430,333
Net expense of general resources development	$ 7,763,402
LAND BETWEEN THE LAKES OPERATIONS	
Land between the lakes operations	$ 1,863,543
Provision for depreciation	380,629
Administrative and general expenses; schedule F	61,536
Total expense of land between the lakes operations	$ 2,305,708
VALLEY MAPPING	
Valley mapping	$ 435,942
Provision for depreciation	13,011
Administrative and general expenses; schedule F	20,314
Total expense of valley mapping	$ 469,267
OTHER EXPENSE OR INCOME*	
Emergency preparedness	$ 6,874
Maintenance of bridges financed by others on TVA dams	44,887
Writeoff of abandoned project design costs	2,970
Gain on disposition of general property	7,244*
Interest income from receivables	47,249*
Other expense, net	$ 238
NET EXPENSE	$44,399,909

Notes:

a. In the discharge of its obligations under Section 5 of the TVA Act, TVA operates plants for the manufacture of products for agricultural and military purposes; conducts research and pilot plant development of new or improved processes for the production of new or existing fertilizers and munitions; and tests the fertilizers produced and demonstrates their effectiveness. Production is carried out on an experimental basis, and costs are consequently affected by the developmental nature of the manufacturing operations.

Research on products and processes is not scaled to TVA's production operations. Its scope is determined by opportunities to render service in the public interest; findings are made available to the public through technical publications, answers to correspondence, and discussions with technical visitors to the laboratories and plants. For these reasons, the cost of such research is accounted for under a separate program rather than as a part of production operations.

b. Sales of fertilizer materials are not on a commercial basis, but are made to organizations collaborating in an educational program aimed at improving the manufacture, distribution, and use of fertilizers.

SCHEDULE E

TENNESSEE VALLEY AUTHORITY
OPERATING EXPENSES OF MULTIPLE-USE FACILITIES
FOR THE YEAR ENDED JUNE 30, 1973

Expenses	
Operation	
Water dispatching	$ 1,309,063
Water control investigations	189,684
Investigations and control of reservoir ecology	1,229,483
Plant protection and services to visitors	1,573,370
Operation and upkeep of dam reservations	1,204,556
Reservoir land management	1,907,172
Development of water resource management methods	256,133
Other expense	249,090
Total operation	7,918,551
Administrative and general expenses; schedule F	390,566
Maintenance	1,383,410
Provision for depreciation	3,407,826
Total	$13,100,353

Distributed to	Operation	Administrative and general	Maintenance	Depreciation	Total
Power operations	$2,682,278	$128,887	$ 553,161	$1,229,418	$ 4,593,744
Navigation operations	1,634,721	82,019	386,559	1,034,653	3,137,952
Flood control operations	1,966,831	97,641	412,045	919,988	3,396,505
Recreation projects	1,532,483	78,113	12,867	124,119	1,747,582
Tributary area development	102,238	3,906	18,778	99,648	224,570
Total	$7,918,551	$390,566	$1,383,410	$3,407,826	$13,100,353

TENNESSEE VALLEY AUTHORITY
ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 1973

Expenses	
Board of directors	$ 250,366
Office of the general manager	305,263
Planning and budget staffs	362,197
Washington office	97,536
Information office, including technical library service	1,091,114
Equal employment opportunity staff	300,066
Division of personnel	2,678,513
Division of finance	3,377,885
Division of law	1,443,032
Division of property and supply	1,253,297
Medical and safety services	1,363,226
Other administrative and general	215,605
Total	$12,738,100

	Amount	Percent of total
Distributed to		
Construction	$ 5,521,139	43.34
Recovered through services billed to others at cost	184,772	1.45
Expense of programs		
Power	5,077,356	39.86
Water resources development		
Navigation	52,745	.41
Flood control	28,884	.23
Regional water quality management	50,234	.39
Fisheries and waterfowl resources development	21,349	.17
Preliminary surveys and engineering	17,582	.14
Recreation projects	52,745	.41
Multiple-use operations	390,566	3.07
Fertilizer and munitions development		
Developmental production	547,389	4.30
Fertilizer industry demonstrations	60,401	.47
Farm test demonstrations	18,875	.15
Research and development	218,955	1.72
General resources development		
Agricultural projects	44,043	.35
Forest and wild land resources development	59,024	.46
Tributary area development	106,746	.84
Regional development planning	38,931	.30
Townlift community improvement	28,884	.23
Demonstrations in education and manpower development	105,490	.83
Minerals projects	8,791	.07
Environmental quality projects	21,349	.17
Land between the lakes operations	61,536	.48
Valley mapping	20,314	.16
Total	$12,738,100	100.00

RETIREMENT SYSTEM OF THE TENNESSEE VALLEY AUTHORITY

The TVA retirement system was established in 1939 to provide a program of retirement, disability, and death benefits financed jointly by contributions from TVA and from its salaried employees.

Administration of the system is vested in its own board of directors. Three directors are appointed by TVA, three are elected by the participants, and a seventh is chosen by these six.

The operation of the retirement system is regarded as a Federal function in general and a TVA function in particular. TVA contracted with a firm of certified public accountants to audit the system. Following are the balance sheet of the system at June 30, 1973, the related statement of changes in fund balances for the year then ended, and the auditor's opinion.

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

To the Board of Directors of the
Retirement System of the Tennessee Valley Authority:

We have examined the balance sheet of the RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY as of June 30, 1973 and the related statement of changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included confirmations from the trustees and custodians of cash and investments held as of June 30, 1973 and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Retirement System of the Tennessee Valley Authority at June 30, 1973, and the changes in fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

New York, September 25, 1973.

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY

BALANCE SHEET, June 30, 1973

ASSETS:

Investments (Note 1):
- Securities:
  - Bonds and notes (details annexed):
    - At amortized cost (current redemption values or market quotations, $57,705,195)
    - At market (cost, $3,235,000)
  - Real estate mortgages, at cost (details annexed)
  - Common stocks (details annexed):
    - At cost (market quotations, $285,890,976)
    - At market (cost, $53,778,561)
  - Preferred stocks (details annexed):
    - At cost (market quotations, $474,000)
  - United States Government obligations, at cost (market quotations $3,229,736 and $65,938)
  - Fund shares:
    - 157,990 shares, at market, $22.40 per share (cost $4,274,900)
    - 105,461 shares, at market, $9.03 per share (cost $1,096,303)
    - At market (cost, $2,362,384) (details annexed)
- Properties acquired under buy and leaseback agreements, at cost, less amortization of $747,190
- Real property:
  - Land, at cost
  - Buildings, at cost, less allowance for depreciation of $247,586

Cash:
- Treasurer's fund
- Trustee

Receivables:
- Contributions
- Securities sold
- Dividends, accrued interest, etc.

LIABILITIES and FUNDS:

Payables:
- Securities purchased
- Other

Fund balances (statement annexed)

See notes to financial statements.

Fixed Benefit Fund	Variable Annuity Fund	Voluntary Retirement Savings and Investment Plan: Fidelity Trend Fund	Puritan Fund	Unit Fund	Supplement to Medicare - Premium Reserve Fund
$ 63,973,389					
2,537,027	$ 3,327,088				
212,251,783	68,089,669				
474,000					
279,236,199	71,416,757				
3,293,525					$66,598
		$3,538,986	$953,217	$1,937,711	
282,529,724	71,416,757	3,538,986	953,217	1,937,711	66,598
1,706,342					
627,000	2,028,149				
822,164					
285,685,230	73,444,906	3,538,986	953,217	1,937,711	66,598
44,000	50,587	93	57	(5)	
355,444	156,326				594
456,232	179,878				
181,083	1,759,783				
1,089,809	93,590	8	21,110	4	1,918
$287,811,798	$75,685,070	$3,539,087	$974,384	$1,937,710	$69,110
$ 2,999,994	$ 1,162,727				
301,421	41,697	$ 100	$ 100		
284,510,383	74,480,646	3,538,987	974,284	$1,937,710	$69,110
$287,811,798	$75,685,070	$3,539,087	$974,384	$1,937,710	$69,110

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY
INVESTMENTS in SECURITIES
June 30, 1973

FIXED BENEFIT FUND (at cost or amortized cost):		
Bonds and notes:		
Principal amount:		
Utility	$ 19,414,000	
Industrial	9,996,915	
Financial	7,648,731	
Foreign	3,959,333	
Commingled	2,999,993	
Railroad	2,870,765	
Real estate	1,641,452	
Unamortized (discounts) and premiums, net	(1,483,584)	
	47,047,605	
Temporary investments	16,925,784	$ 63,973,389
Real estate mortgages:		
Commingled	1,505,239	
Veterans Administration	388,805	
Federal Housing Administration	163,640	
Other	479,343	2,537,027
Common stocks:		
Industrial	143,727,198	
Commingled	33,095,803	
Utility	20,241,623	
Other	15,187,159	212,251,783
Preferred stocks:		
Real estate		474,000
		$279,236,199
VARIABLE ANNUITY FUND (at market):		
Bonds and notes:		
Industrial	2,039,088	
Financial	1,288,000	$ 3,327,088
Common stocks:		
Industrial	56,962,025	
Financial	9,807,644	
Utility	1,320,000	68,089,669
		$ 71,416,757

Continued

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY

INVESTMENTS in SECURITIES, Continued

June 30, 1973

VOLUNTARY RETIREMENT SAVINGS and INVESTMENT PLAN:	
Unit fund (at market):	
Edie Special Institutional Fund, Incorporated: 8,717 shares, $49.49 per share (cost, $552,136)	$ 431,399
Rowe Price New Horizons Fund, Inc.: 53,740 shares, $8.84 per share (cost, $594,684)	475,059
T. Rowe Price Growth Stock Fund, Inc.: 40,778 shares, $12.77 per share (cost, $561,519)	520,740
Johnston Mutual Fund, Incorporated: 22,158 shares, $23.04 per share (cost, $654,045) (Note 2)	510,513
	$ 1,937,711

See notes to financial statements.

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY
STATEMENT of CHANGES in FUND BALANCES
for the year ended June 30, 1973

		Fixed Benefit Fund		
	Total	Annuity Savings Account	Pension Accumulation Account	Investm Reserv Accoun
Contributions:				
Members	$ 4,188,294	$ 4,188,294		
Tennessee Valley Authority	18,505,642		$ 18,505,642	
Investment income (Note 1):				
Interest	2,801,631		2,801,631	
Dividends	5,416,243		5,416,243	
Rents (less depreciation and amortization of $104,094)	157,932		157,932	
Net realized gains (losses) on sales of investments (Note 1)	5,607,113		7,982,402	($2,375,
Capital gains distribution				
Net unrealized depreciation of investments (Note 1)				
	36,676,855	4,188,294	34,863,850	(2,375,
Transfers:				
Interest		1,749,404	(1,895,785)	146,
Accumulations	(195,101)	(4,346,429)	4,151,328	
	$ 36,481,754	$ 1,591,269	$ 37,119,393	($2,228,
Administrative expenses	$ 712,601		$ 712,601	
Withdrawals	380,485	$ 377,149	3,336	
Death benefits	930,139	110,850	819,289	
Retirement benefits	10,490,084		10,490,084	
	$ 12,513,309	$ 487,999	$ 12,025,310	
Net increase (decrease)	$ 23,968,445	$ 1,103,270	$ 25,094,083	($2,228,
Balances, June 30, 1972	260,541,938	44,243,025	212,349,528	3,949,
Balances, June 30, 1973	$284,510,383	$45,346,295	$237,443,611	$1,720,

See notes to financial statements.

Variable Annuity Fund	Voluntary Retirement Savings and Investment Plan: Fidelity Trend Fund	Puritan Fund	Unit Fund	Supplement to Medicare Premium Reserve Fund
5,757,142	$ 544,928	$183,871	$ 699,886	
223,663				$ 3,149
878,033	45,512	54,305	11,887	
2,229,128				
		30,480	60,801	
(6,971,217)	(873,775)	(154,293)	(878,829)	
2,116,749	(283,335)	114,453	(106,255)	3,149
195,101	(233,824)	4,072	229,752	
2,311,850	($ 517,159)	$118,525	$ 123,497	$ 3,149
524,168	$ 452,158	$132,077	$ 111,930	
181,086				
1,047,078				
1,752,332	$ 452,158	$132,077	$ 111,930	
559,518	($ 969,317)	($ 13,552)	$ 11,567	$ 3,149
3,921,128	4,508,304	987,836	1,926,143	65,961
4,480,646	$3,538,987	$974,284	$1,937,710	$69,110

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY

NOTES to FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

A. Investments of the respective Funds set forth on the balance sheet are stated as follows:

Fixed Benefit Fund:

Bonds and notes - stated at cost adjusted, as applicable, for unamortized discounts and premiums. Discounts and premiums are amortized on a straight-line basis, approximately from date of purchase to maturity.

Real estate mortgages, common and preferred stocks, United States Government obligations - stated at cost, less, in the case of certain real estate mortgages, payments on principal.

Properties acquired under buy and leaseback agreements - stated at cost less amortization. Amortization is provided on a sinking fund basis over the periods of the leases.

Real property - land is stated at cost. Buildings are stated at cost less an allowance for depreciation. Depreciation on warehouse property is provided on a straight-line basis over a 40-year life. Depreciation on bank property is provided on a sinking fund basis over the life of the lease.

Variable Annuity Fund:

Bonds and notes and common stocks - stated at market valuations which are generally determined by the Trustee as follows: (a) last closing sale price in June for securities listed on national exchanges and (b) last bid price in June for securities traded over-the-counter.

Land - stated at cost.

Voluntary Retirement Savings and Investment Plan:

Shares in regulated investment companies - stated at market which is represented by the last bid price in June published by the respective companies.

Continued

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY

NOTES to FINANCIAL STATEMENTS, Continued

B. Investment income is recorded on the accrual basis. Average cost is the basis used in the determination of gain or loss on sales of securities. In accordance with the policy of stating the security investments of the variable annuity fund and the voluntary retirement savings and investment plan at market, net unrealized appreciation or depreciation is reflected for the year in the statement of changes in fund balances.

C. The Investment Reserve Account represents the amount reserved for possible losses of the Fixed Benefit Fund on the sale or redemption of securities (except on common stocks and other securities convertible into common stocks). This Account is charged or credited for realized losses or gains and is credited annually with interest of four per cent on the average balance.

2. On December 8, 1972, the Retirement System realized a gain of $107,329 upon the sale of its Unit Fund holdings in Smith, Barney Equity Fund Incorporated of 40,751.600 shares with a carrying value of $436,297. The proceeds were reinvested in 17,900.103 shares of Johnston Mutual Fund, Incorporated.

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