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REPORT TO
THE CONGRESS OF THE UNITED STATES



AUDIT OF
FINANCIAL STATEMENTS OF
TENNESSEE VALLEY AUTHORITY

FISCAL YEAR 1963



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

FEBRUARY 1964

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-114850

FEB 20 1964

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

Herewith is our report on the audit of the financial statements of the Tennessee Valley Authority for the fiscal year ended June 30, 1963. Our audit was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

The Tennessee Valley Authority is a wholly owned Government corporation created by the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831) for the general purpose of providing for the unified development of the Tennessee River system, including flood control in the Tennessee River and Mississippi River basins; promotion of navigation on the Tennessee River; generation of power consistent with flood control and navigation; reforestation and the proper use of marginal lands; agricultural and industrial development of the Tennessee Valley; operation of Government power and chemical properties at and near Muscle Shoals, Alabama; and the economic and social well-being of the people living in the Tennessee drainage basin and adjoining territory. The act does not specify the life of the Authority nor otherwise place a time limit on its existence.

Power operations of the Tennessee Valley Authority during the year were highlighted by (1) revenues of \$268.8 million, (2) energy sales of 63.8 billion kilowatt hours, and (3) net income of \$55.1 million.

During the year the Authority issued short-term notes to the Treasury Department, totaling \$50 million, pursuant to Public Law 86-137 dated August 6, 1959 (16 U.S.C. 831n-4, supp. IV), which authorizes the issue and sale of bonds, notes, and other evidences of indebtedness to construct, acquire, enlarge, improve or replace power plants. Additional notes totaling \$25 million were sold to the public in July 1963 and are commented upon in the notes to the financial statements. Under this same legislation the Authority paid into the United States Treasury \$38.9 million as a return on the Government's

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net appropriation investment in power facilities and \$10 million as a repayment of the appropriation investment. No revenue bonds were issued by the Authority during fiscal year 1963.

Our examination of the balance sheets of the Authority as of June 30, 1962 and 1963, and the related statements of power and nonpower programs and of source and disposition of funds for the years then ended (exhibits I through IV) was made in accordance with generally accepted auditing standards. As provided by Public Law 86-137, the Authority employed a firm of certified public accountants to audit its accounts and financial statements for the fiscal year ended June 30, 1963, to facilitate execution of the Authority's plans to issue and sell revenue bonds. This audit does not take the place of that required of our Office under the Government Corporation Control Act. However, in view of the fact that a firm of certified public accountants was employed by the Authority, our audit was limited to observations and tests of their audit work and such other auditing procedures as we considered necessary in the circumstances. The financial statements and supporting schedules prepared by the Authority are incorporated in this report together with the opinion of the firm of certified public accountants employed by the Authority.

The Authority purchases power, generated at the Corps of Engineers' Wolf Creek, Center Hill, and Dale Hollow projects, from the Southeastern Power Administration in accordance with a long-term agreement dated December 18, 1948. Section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s) authorizes the sale of electric power and energy, generated at reservoir projects under the control of the Department of the Army and not required for operations of that Department, by the Secretary of the Interior. The section further provides that rate schedules prepared by the Secretary of the Interior for the disposition of the electric power and energy shall become effective upon confirmation and approval of such schedules by the Federal Power Commission. A similar requirement for the confirmation and approval of the rate schedules by the Federal Power Commission before the rate schedules become effective was contained in the aforementioned agreement with the provision that the approved rate

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schedule shall apply retroactively to the date of the agreement. In May 1958, the Commission concluded that the rate schedules submitted by the Department of the Interior would not return the cost of the projects as required by the Flood Control Act of 1944 and, accordingly, disapproved the rate schedules. We believe that the unapproved rate schedules now in effect may be regarded as a tentative rate only and that a rate schedule approved by the Federal Power Commission in a higher amount could have a significant effect on the financial position of the Authority.

In our report to the Congress (B-125032 dated October 31, 1961), on our audit of the Southeastern Power System and Related Activities of the Corps of Engineers (Civil Functions), Department of the Army, and the Southeastern Power Administration of the Department of the Interior, for the fiscal years 1959 and 1960, we recommended that the President of the United States resolve the matter of selling power at disapproved rates by directing the Secretary of the Interior to submit for Federal Power Commission approval revised rates designed to comply with the Federal Power Commission's interpretation of the requirements of controlling legislation. The difference between the annual charges to amortize the costs allocated to power, as computed under the contract terms and as estimated by the Corps of Engineers in accordance with the criteria set forth in the ruling by the Commission, would amount to about \$1 million a year or a total of over \$14 million since the date of the contract. We believe that a contingent liability for a retroactive adjustment that may be material in relation to the Authority's current assets arises from a possible approval by the Federal Power Commission of a higher rate under the contract and should be appropriately disclosed as a footnote to the financial statements.

It is the Authority's view that the rates are not subject to retroactive adjustment and that the matters discussed above do not give rise to a contingent liability in any amount.

In our opinion the accompanying financial statements (exhibits I through IV) present fairly the financial position of the Tennessee Valley Authority at June 30, 1963, except for the lack of disclosure of the contingent liability discussed in the preceding paragraphs, and the results of its operations and the source and disposition of its funds

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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.

Copies of this report are being sent to the President of the United States and to the Chairman of the Board of Directors of the Tennessee Valley Authority.



Comptroller General
of the United States

TENNESSEE VALLEY AUTHORITY

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FINANCIAL STATEMENTS

TENNESSEE VALLEY AUTHORITY
 (A CORPORATION WHOLLY OWNED BY THE UNITED STATES OF AMERICA)
BALANCE SHEETS JUNE 30, 1963 AND 1962

EXHIBIT I

| | | A S S E T S | | L I A B I L I T I E S | |
|--|----|--------------------|--------------------|-----------------------|--------------------|
| | | Power program | | All programs | |
| | | 1963 | 1962 | 1963 | 1962 |
| | | [Thousands] | | [Thousands] | |
| FIXED ASSETS; note 1 | | | | | |
| Completed plant; schedule A and note 2 | | | | | |
| Multiple-use dams; note 3 | \$ | 436,966 | \$ 420,554 | \$ 834,756 | \$ 799,938 |
| Single-use dams | | 60,538 | 60,531 | 60,538 | 60,531 |
| Steam production plants | | 1,161,554 | 1,065,587 | 1,161,554 | 1,065,587 |
| Other electric plant | | 577,237 | 537,428 | 577,237 | 537,428 |
| Other plant | | - | - | 68,014 | 65,450 |
| Less accumulated depreciation; note 4 | | 2,236,295 | 2,084,100 | 2,702,099 | 2,528,934 |
| | | 514,082 | 463,895 | 601,507 | 546,493 |
| Construction and investigations in progress; schedule B and note 5 | | 1,722,213 | 1,620,205 | 2,100,592 | 1,982,441 |
| | | 247,732 | 287,974 | 279,462 | 318,053 |
| Total fixed assets | | 1,969,945 | 1,908,179 | 2,380,054 | 2,300,494 |
| CURRENT ASSETS | | | | | |
| Cash | | 6,283 | 609 | 24,157 | 18,139 |
| Temporary investments, at amortized cost | | - | 9,897 | - | 9,897 |
| U. S. Treasury securities | | - | - | - | 12,960 |
| Certificates of deposit | | - | 12,960 | - | 40,936 |
| Total cash and investments | | 6,283 | 23,466 | 24,157 | 23,642 |
| Accounts receivable; note 6 | | 22,669 | 21,004 | 26,605 | 41,362 |
| Inventories, principally at average cost | | 32,763 | 35,736 | 37,830 | 88,592 |
| Total current assets | | 61,715 | 80,206 | 88,592 | 106,000 |
| DEFERRED CHARGES | | | | | |
| Unamortized debt discount and expense | | 982 | 1,024 | 982 | 1,024 |
| Total assets | | <u>\$2,032,642</u> | <u>\$1,989,409</u> | <u>\$2,469,628</u> | <u>\$2,407,518</u> |
| Notes 1 through 9 following the exhibits are an integral part of the financial statements. | | | | | |
| PROPRIETARY CAPITAL; note 7 | | | | | |
| Appropriation investment | | | | | |
| Total Congressional appropriations; note 8 | | | | | |
| Transfers of property from other Federal agencies | | 20,127 | 19,863 | 47,802 | 46,813 |
| Less repayments to General Fund of the U. S. Treasury | | 1,388,970 | 1,388,455 | 2,117,792 | 2,081,732 |
| Appropriation investment | | 215,059 | 205,059 | 256,586 | 246,586 |
| Retained earnings of power program; exhibit II | | 1,173,911 | 1,183,396 | 1,861,206 | 1,835,146 |
| Accumulated net expense of nonpower programs; exhibit III | | 616,375 | 600,147 | 616,375 | 600,147 |
| Total proprietary capital | | 1,790,286 | 1,783,543 | 2,215,048 | 2,189,603 |
| LONG-TERM DEBT; note 9 | | | | | |
| SHORT-TERM NOTES PAYABLE TO U. S. TREASURY; note 9 | | 145,000 | 145,000 | 145,000 | 145,000 |
| OTHER CURRENT LIABILITIES | | | | | |
| Accounts payable | | 37,800 | 51,811 | 43,089 | 57,195 |
| Employees' accrued leave | | 5,983 | 5,606 | 11,841 | 11,271 |
| Payrolls accrued | | 1,774 | 1,719 | 2,851 | 2,719 |
| Interest accrued | | 1,188 | 1,119 | 1,188 | 1,119 |
| Total other current liabilities | | 46,745 | 60,255 | 58,969 | 72,304 |
| CONTRIBUTIONS IN AID OF CONSTRUCTION | | | | | |
| COMMITMENTS; note 5 | | 611 | 611 | 611 | 611 |
| Total liabilities | | <u>\$2,032,642</u> | <u>\$1,989,409</u> | <u>\$2,469,628</u> | <u>\$2,407,518</u> |

*Deduct

TENNESSEE VALLEY AUTHORITY
POWER PROGRAM
NET INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1963 AND 1962

| | <u>1963</u> | | <u>1962</u> | |
|---|-------------------|------------------|-------------------|------------------|
| | <u>Kwh</u> | <u>Amount</u> | <u>Kwh</u> | <u>Amount</u> |
| | [Thousands] | | [Thousands] | |
| OPERATING REVENUES | | | | |
| Sales of electric energy | | | | |
| Municipalities and cooperatives | 25,530,449 | \$110,565 | 22,815,165 | \$ 98,290 |
| Federal agencies | 25,211,368 | 100,171 | 25,891,295 | 101,726 |
| Industrials | 12,228,367 | 52,438 | 10,950,713 | 47,841 |
| Electric utilities | 181,560 | 1,247 | 65,248 | 335 |
| Total outside sales | 63,151,744 | 264,421 | 59,722,421 | 248,192 |
| Interdivisional | 666,164 | 2,551 | 598,753 | 2,265 |
| Total sales of electric energy | <u>63,817,908</u> | <u>266,972</u> | <u>60,321,174</u> | <u>250,457</u> |
| Rents and other revenues | | 1,794 | | 1,641 |
| Total operating revenues | | <u>268,766</u> | | <u>252,098</u> |
| OPERATING EXPENSES; schedule C | | | | |
| Production | | 129,614 | | 116,312 |
| Transmission | | 11,802 | | 10,950 |
| Customer accounts | | 243 | | 227 |
| Demonstration of power use | | 794 | | 750 |
| Administrative and general | | 10,215 | | 9,437 |
| Payments in lieu of taxes | | 7,323 | | 6,740 |
| Social security taxes | | 923 | | 784 |
| Provision for depreciation | | 52,747 | | 52,131 |
| Other | | - | | 80 |
| Total operating expenses | | <u>213,661</u> | | <u>197,411</u> |
| Operating income | | 55,105 | | 54,687 |
| INTEREST INCOME | | | | |
| Total income | | <u>328</u> | | <u>1,989</u> |
| Total income | | <u>55,433</u> | | <u>56,676</u> |
| INTEREST CHARGES | | | | |
| Interest on long-term debt | | 6,538 | | 5,286 |
| Other interest expense | | 217 | | |
| Amortization of debt discount and expense | | 42 | | 39 |
| Interest charged to construction--credit | | 6,467* | | 4,809* |
| Total interest charges | | <u>330</u> | | <u>516</u> |
| Net income | | 55,103 | | 56,160 |
| Retained earnings at beginning of period | | 600,147 | | 580,529 |
| Payment of return on appropriation investment; note 7 | | 655,250 | | 636,689 |
| Retained earnings at end of period | | <u>38,875</u> | | <u>36,542</u> |
| Retained earnings at end of period | | <u>\$616,375</u> | | <u>\$600,147</u> |

Notes 1 through 9 following the exhibits are an integral part of the financial statements.

*Deduct

TENNESSEE VALLEY AUTHORITY
NONPOWER PROGRAMS
NET EXPENSE AND ACCUMULATED NET EXPENSE
FOR THE YEARS ENDED JUNE 30, 1963 AND 1962

| | <u>1963</u> | <u>1962</u> |
|--|------------------|------------------|
| | [Thousands] | |
| NAVIGATION OPERATIONS | | |
| Studies and investigations | \$ 451 | \$ 384 |
| Operation and maintenance of facilities | 1,652 | 1,552 |
| Maintenance of traffic during rehabilitation of Wheeler lock | 12* | 2,118 |
| Gain on sale of Knoxville terminal | 91* | - |
| Provision for depreciation | <u>1,872</u> | <u>1,835</u> |
| Net expense of navigation operations | <u>3,872</u> | <u>5,889</u> |
| FLOOD CONTROL OPERATIONS | | |
| Studies and investigations | 463 | 431 |
| Operation and maintenance of facilities | 1,600 | 1,506 |
| Local flood control improvements | 145 | - |
| Provision for depreciation | <u>1,236</u> | <u>1,236</u> |
| Net expense of flood control operations | <u>3,444</u> | <u>3,173</u> |
| FERTILIZER, AGRICULTURAL, AND MUNITIONS DEVELOPMENT | | |
| Production and distribution | | |
| Distribution of products | | |
| Sales | 16,431 | 15,835 |
| Used in other TVA programs | <u>1,549</u> | <u>1,308</u> |
| | 17,980 | 17,143 |
| Cost of products distributed, including depreciation and depletion of \$1,162,000 in 1963, \$1,114,000 in 1962 | <u>19,762</u> | <u>18,935</u> |
| Net expense before general expenses | 1,782 | 1,792 |
| General expenses; note below | <u>1,316</u> | <u>1,574</u> |
| Net expense of production and distribution | 3,098 | 3,366 |
| Research on products and processes | 2,254 | 2,078 |
| Fertilizer testing and demonstrations and agricultural development | <u>1,802</u> | <u>1,695</u> |
| Net expense of fertilizer, agricultural, and munitions development | <u>7,154</u> | <u>7,139</u> |
| COOPERATIVE VALLEY DEVELOPMENT | | |
| Forestry projects | 748 | 653 |
| Tributary area development | 1,429 | 883 |
| Mineral resources investigations | 67 | 14 |
| Net expense of cooperative valley development | <u>2,244</u> | <u>1,550</u> |
| TOPOGRAPHIC MAPPING | | |
| | <u>97</u> | <u>144</u> |
| OTHER EXPENSE OR INCOME*, NET | | |
| | <u>32</u> | <u>30*</u> |
| Net expense; schedule D | 16,843 | 17,865 |
| Accumulated net expense at beginning of period | <u>245,690</u> | <u>227,825</u> |
| Accumulated net expense at end of period | <u>\$262,533</u> | <u>\$245,690</u> |

Note: In 1963, after refunds of \$366,000 on purchases of natural gas in prior years.

Notes 1 through 9 following the exhibits are an integral part of the financial statements.

*Deduct

TENNESSEE VALLEY AUTHORITY
SOURCE AND DISPOSITION OF FUNDS
FOR THE YEARS ENDED JUNE 30, 1963 AND 1962

EXHIBIT IV

| SOURCE | Power program | | All programs | |
|---|---------------|-----------|--------------|-----------|
| | 1963 | 1962 | 1963 | 1962 |
| | [Thousands] | | [Thousands] | |
| Net power proceeds | | | | |
| Power operations; exhibit II | | | | |
| Operating revenues | \$268,766 | \$252,098 | \$268,766 | \$252,098 |
| Interest income | 328 | 1,989 | 328 | 1,989 |
| | 269,094 | 254,087 | 269,094 | 254,087 |
| Less operating expenses, excluding depreciation of \$52,747,000 in 1963, \$52,131,000 in 1962 | 160,914 | 145,280 | 160,914 | 145,280 |
| | 108,180 | 108,807 | 108,180 | 108,807 |
| Sale of power facilities | 511 | 429 | 511 | 429 |
| Total net power proceeds | 108,691 | 109,236 | 108,691 | 109,236 |
| Gross proceeds from nonpower programs | | | | |
| Sales of fertilizer; exhibit III | - | - | 16,431 | 15,835 |
| Recoveries of operating expense | - | - | 1,783 | 1,319 |
| | - | - | 18,214 | 17,154 |
| Sale of nonpower facilities | - | - | 398 | 497 |
| Total nonpower proceeds | - | - | 18,612 | 17,651 |
| Sale of long-term bonds | - | 94,382 | - | 94,382 |
| Short-term borrowings | 50,000 | - | 50,000 | - |
| Appropriations by the Congress | 251 | 336 | 35,071 | 38,203 |
| Property transfers | 264 | 59 | 989 | 493 |
| Contributions in aid of construction | - | 37 | - | 37 |
| Total source | \$159,206 | \$204,050 | \$213,363 | \$260,002 |
| DISPOSITION | | | | |
| Expended for plant and equipment, excluding capitalized interest | \$111,530 | \$171,748 | \$135,994 | \$200,028 |
| Less salvage from plant transfers, and depreciation charged to construction and clearing accounts | 2,973 | 2,192 | 4,646 | 3,390 |
| | 108,557 | 169,556 | 131,348 | 196,638 |
| Payments to U. S. Treasury; note 7 | | | | |
| Return on appropriation investment | 38,875 | 36,542 | 38,875 | 36,542 |
| Repayment of appropriation investment | 10,000 | 10,000 | 10,000 | 10,000 |
| | 48,875 | 46,542 | 48,875 | 46,542 |
| Expense of nonpower programs, excluding depreciation of \$4,599,000 in 1963, \$4,150,000 in 1962 | - | - | 30,458 | 30,869 |
| Interest | 6,755 | 5,286 | 6,755 | 5,286 |
| Deferred debt expense | - | 42 | - | 42 |
| Decrease in current assets less other current liabilities | 4,981* | 17,376* | 4,073* | 19,375* |
| Total disposition | \$159,206 | \$204,050 | \$213,363 | \$260,002 |

Notes 1 through 9 following the exhibits are an integral part of the financial statements.

*Deduct

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1. Cost of fixed assets--The major portion of the fixed assets consists of properties constructed or developed by TVA and is stated at cost to TVA. The remaining properties were acquired from utility companies or transferred from other Federal agencies. Properties acquired from utility companies are stated on the basis of original cost when first devoted to public service; those transferred from other Federal agencies are recorded on the basis of reported cost or appraised values when determined to be of value to TVA's operations, and at nominal amounts when determined to be of negligible or no worth.

2. Nondepreciable property--At June 30, 1963, completed plant includes \$246,607,000 (of which amount, \$121,302,000 relates to power plant) representing nondepreciable land, land rights, and relocation and clearing costs. The corresponding amounts at June 30, 1962, were \$242,014,000 and \$116,669,000, respectively.

3. Allocation of cost of multiple-use facilities and distribution of common expense--Section 14 of the TVA Act requires TVA's Board of Directors to allocate the cost of completed multiple-use facilities to the various purposes served, 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 the particular purpose served; the cost of the portions of the projects which serve power, navigation, and flood control jointly is allocated to the three purposes on the basis of percentages applicable to all multipurpose investment. Under the latest allocation report, which was approved by the President on January 21, 1955, the multipurpose investment is allocated as follows: 42 percent to power, 27 percent to navigation, and 31 percent to flood control.

The total investment in completed multiple-use dams at June 30, 1963, is \$834,756,000, classified as follows:

| | <u>Power</u> | <u>Navigation</u> | <u>Flood control</u> | <u>Total</u> |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| Direct investment | \$263,537,000 | \$101,539,000 | \$ 56,754,000 | \$421,830,000 |
| Multipurpose investment | 173,429,000 | 111,490,000 | 128,007,000 | 412,926,000 |
| | <u>\$436,966,000</u> | <u>\$213,029,000</u> | <u>\$184,761,000</u> | <u>\$834,756,000</u> |

Expenses of maintenance and depreciation relating to the common property are distributed on the basis of the percentages applied in the allocation of common investment. Other common expenses are distributed 40 percent to power, 30 percent to navigation, and 30 percent to flood control, based on a study of the relationship of the common operations to the three primary programs.

4. Depreciation policy--Depreciation of limited-life assets, i.e., all fixed assets except land, land rights, and relocation and clearing costs, is provided for on a straight-line basis. Rates of depreciation are derived from engineering studies of useful life and are reviewed each year; changes in rates affect only future years. Accumulated depreciation is accounted for on a composite basis, and the costs of retirements less salvage are charged against these accumulations.

5. Estimates of cost to complete major construction projects, and commitments--The cost to complete the major projects under construction or authorized for construction at June 30, 1963, is estimated to be \$420,020,000, budgeted for expenditure during the following fiscal years:

| | <u>1964</u> | <u>1965-1968</u> | <u>Total</u> |
|--|----------------------|----------------------|----------------------|
| Power projects | \$139,680,000 | \$241,950,000 | \$381,630,000 |
| Multiple-purpose and nonpower projects | 24,100,000 | 14,290,000 | 38,390,000 |
| | <u>\$163,780,000</u> | <u>\$256,240,000</u> | <u>\$420,020,000</u> |

Purchase commitments outstanding at June 30, 1963, for the above projects were \$75,984,000 for power and \$2,979,000 for multiple-purpose and nonpower.

TVA and the City of Memphis, Tennessee, have entered into agreements under which (1) TVA will sell to the City all the power and energy requirements of its electric distribution system, and (2) the City will lease to TVA a steam-electric generating plant with an installed rated capacity of 750,000 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.

TENNESSEE VALLEY AUTHORITY
NOTES - CONTINUED

6. Accounts receivable from Federal agencies--At June 30, 1963, accounts receivable include receivables from other Federal agencies totaling \$9,434,000, of which \$8,419,000 relates to the power program. The corresponding amounts at June 30, 1962, were \$8,877,000 and \$8,525,000, respectively.

7. Payments to the U. S. Treasury--Section 15d of the TVA Act, as added by Public Law 86-137 on August 6, 1959, requires the payment of a return on the net appropriation investment in power facilities plus annual repayments of such investment, beginning with fiscal year 1961. The amount of return payable during each fiscal year is based on the appropriation investment as of the beginning of that fiscal 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 fiscal years, \$15 million for each of the next five years, 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 |
|------------------------|---------------|--------------|---------------|
| Total to June 30, 1962 | \$ 77,974,000 | \$20,000,000 | \$ 97,974,000 |
| Fiscal year 1963 | 38,875,000 | 10,000,000 | 48,875,000 |
| | \$116,849,000 | \$30,000,000 | \$146,849,000 |

For fiscal year 1964 the required payments will be \$40,206,000 as return and \$10,000,000 as repayment, a total of \$50,206,000.

Prior to the enactment of Public Law 86-137, TVA paid \$185,059,000 of power proceeds and \$41,527,000 of nonpower proceeds to the General Fund of the U. S. Treasury pursuant to the provisions of Section 26 of the TVA Act and Title II of the Government Corporations Appropriation Act, 1948. In addition, \$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. The payment requirements of the 1948 law were repealed by Public Law 86-137 which substituted therefor the requirements described above. 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.

8. Appropriations by the Congress--Action on an additional appropriation of \$48,284,000 to become available as of July 1, 1963, is pending in the Congress.

9. Borrowing authority--Section 15d of the TVA Act authorizes TVA to issue bonds, notes, and other evidences of indebtedness up to a total of \$750 million 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 7.

Evidences of indebtedness issued under Section 15d and outstanding on June 30, 1963, consist of the following:

| | | |
|--|--|---------------|
| Long-term debt | | |
| 4.40% | Power Bonds 1960 Series A, due November 15, 1985 | \$ 50,000,000 |
| | 4-5/8% Power Bonds 1961 Series A, due July 1, 1986 | 50,000,000 |
| | 4-1/2% Power Bonds 1962 Series A, due February 1, 1987 | 45,000,000 |
| | Total long-term debt | 145,000,000 |
| Short-term notes payable to U. S. Treasury | | |
| | Due October 15, 1963 | 25,000,000 |
| | Due February 15, 1964 | 25,000,000 |
| | Total short-term notes payable | 50,000,000 |
| | | \$195,000,000 |

An issue of non-interest-bearing discount notes with a total face amount of \$25,000,000 was sold in July 1963; these notes mature November 29, 1963.

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

| | | |
|------------|--------------|--------------------|
| BALTIMORE | HOUSTON | PITTSBURGH |
| BIRMINGHAM | LOS ANGELES | PORTLAND, ME. |
| BOSTON | LOUISVILLE | PORTLAND, ORE. |
| CHICAGO | MINNEAPOLIS | ROCKFORD |
| CINCINNATI | NEW BEDFORD | ST. LOUIS |
| CLEVELAND | NEW HAVEN | SALT LAKE CITY |
| COLUMBUS | NEW YORK | SAN FRANCISCO |
| DALLAS | NILES | SEATTLE |
| DETROIT | OAKLAND | SPRINGFIELD, MASS. |
| FT. WAYNE | PHILADELPHIA | SYRACUSE |
| HARTFORD | PHOENIX | TULSA |
| | | WASHINGTON |

COOPERS & LYBRAND

IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

To the Board of Directors of
Tennessee Valley Authority:

We have examined the accompanying financial statements of TENNESSEE VALLEY AUTHORITY. 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 of the aforementioned financial statements present fairly:

- (1) the position of the Authority at June 30, 1963 and 1962, and the results of operations of its several programs for the years then ended; and
- (2) the assets and liabilities of the Authority at June 30, 1963 and 1962, relating to the power program, and the results of operations of that program for the years then ended,

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

Also, in our opinion, Schedules A to F, inclusive, present fairly the information therein.

Lybrand, Ross Bros. & Montgomery

New York, August 30, 1963.

SCHEDULES

TENNESSEE VALLEY AUTHORITY
COMPLETED PLANT
 JUNE 30, 1963

SCHEDULE A

| ASSETS | Power | Navigation | Flood control | Chemical | General | Total |
|-------------------------|------------------------|----------------------|----------------------|---------------------|---------------------|------------------------|
| Multiple-use dams | | | | | | |
| Direct investment | \$ 263,537,206 | \$101,538,578 | \$ 56,753,740 | \$ - | \$ - | \$ 421,829,524 |
| Multiple-use investment | <u>173,429,171</u> | <u>111,490,182</u> | <u>128,007,246</u> | - | - | <u>412,926,599</u> |
| | 436,966,377 | 213,028,760 | 184,760,986 | - | - | 834,756,123 |
| Single-use dams | 60,537,942 | - | - | - | - | 60,537,942 |
| Steam production plants | 1,161,553,763 | - | - | - | - | 1,161,553,763 |
| Other electric plant | 577,237,259 | - | - | - | - | 577,237,259 |
| Other plant | - | <u>381,098</u> | - | <u>44,071,468</u> | <u>23,561,574</u> | <u>68,014,140</u> |
| Total | <u>\$2,236,295,341</u> | <u>\$213,409,858</u> | <u>\$184,760,986</u> | <u>\$44,071,468</u> | <u>\$23,561,574</u> | <u>\$2,702,099,227</u> |

DEPRECIATION

Provision, year ended June 30, 1963

| | | | | | | |
|-------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Multiple-use dams | | | | | | |
| Direct | \$ 4,637,063 | \$ 1,062,143 | \$ 322,611 | \$ - | \$ - | \$ 6,021,817 |
| Multiple-use | <u>1,238,064</u> | <u>795,898</u> | <u>913,808</u> | - | - | <u>2,947,770</u> |
| | 5,875,127 | 1,858,041 | 1,236,419 | - | - | 8,969,587 |
| Single-use dams | 793,916 | - | - | - | - | 793,916 |
| Steam production plants | 29,878,947 | - | - | - | - | 29,878,947 |
| Other electric plant | 16,199,181 | - | - | - | - | 16,199,181 |
| Other plant | - | <u>13,647</u> | - | <u>1,508,759</u> | <u>1,689,696</u> | <u>3,212,102</u> |
| Total | <u>\$ 52,747,171</u> | <u>\$ 1,871,688</u> | <u>\$ 1,236,419</u> | <u>\$ 1,508,759</u> | <u>\$ 1,689,696</u> | <u>\$ 59,053,733</u> |

Accumulated balance, June 30, 1963

| | | | | | | |
|-------------------------|-----------------------|----------------------|----------------------|---------------------|---------------------|-----------------------|
| Multiple-use dams | | | | | | |
| Direct | \$ 84,459,809 | \$ 13,470,684 | \$ 6,157,138 | \$ - | \$ - | \$ 104,087,631 |
| Multiple-use | <u>25,187,655</u> | <u>16,192,064</u> | <u>18,590,888</u> | - | - | <u>59,970,607</u> |
| | 109,647,464 | 29,662,748 | 24,748,026 | - | - | 164,058,238 |
| Single-use dams | 17,898,495 | - | - | - | - | 17,898,495 |
| Steam production plants | 236,779,435 | - | - | - | - | 236,779,435 |
| Other electric plant | 149,756,710 | - | - | - | - | 149,756,710 |
| Other plant | - | <u>216,756</u> | - | <u>22,490,353</u> | <u>10,307,017</u> | <u>33,014,126</u> |
| Total | <u>\$ 514,082,104</u> | <u>\$ 29,879,504</u> | <u>\$ 24,748,026</u> | <u>\$22,490,353</u> | <u>\$10,307,017</u> | <u>\$ 601,507,004</u> |

TENNESSEE VALLEY AUTHORITY
CONSTRUCTION AND INVESTIGATIONS IN PROGRESS
 JUNE 30, 1963

SCHEDULE B

| | <u>Power program</u> | <u>All programs</u> |
|---|-----------------------|----------------------|
| <u>Construction in progress</u> | | |
| Generating facilities | | |
| Paradise Steam Plant | \$ 67,584,376 | \$ 67,584,376 |
| Bull Run Steam Plant | 29,688,367 | 29,688,367 |
| Additional generating units | | |
| Widows Creek Steam Plant | 44,698,985 | 44,698,985 |
| Colbert Steam Plant | 63,053,756 | 63,053,756 |
| Wheeler Dam | 3,800,287 | 3,800,287 |
| Total generating facilities | <u>208,825,771</u> | <u>208,825,771</u> |
| Transmission lines, substations, and other additions to power facilities | <u>18,476,814</u> | <u>18,476,814</u> |
| Navigation facilities | | |
| New lock at Guntersville Dam | | 2,245,430 |
| New lock at Wheeler Dam | | 834,151 |
| Other navigation facilities | | 21,171 |
| Total navigation facilities | <u>-</u> | <u>3,100,752</u> |
| Multipurpose facilities | | |
| Melton Hill Dam and Reservoir | 19,105,204 | 34,137,912 |
| Beech River water control system | - | 2,669,962 |
| Other; 42% allocated to power, see note 3 | 409,078 | 973,994 |
| Total multipurpose facilities | <u>19,514,282</u> | <u>37,781,868</u> |
| Chemical plant | <u>-</u> | <u>6,908,274</u> |
| General plant | | |
| General construction equipment and materials | | 1,896,793 |
| Other additions to general plant | | 73,580 |
| Total general plant | <u>-</u> | <u>1,970,373</u> |
| Total construction in progress | <u>246,816,867</u> | <u>277,063,852</u> |
| <u>Investigations for future projects</u> | | |
| Power facilities | 915,512 | 915,512 |
| Flood control facilities | - | 416,887 |
| Multipurpose facilities | - | 1,065,527 |
| Total investigations for future projects | <u>915,512</u> | <u>2,397,926</u> |
| Total construction and investigations in progress | <u>\$ 247,732,379</u> | <u>\$279,461,778</u> |

TENNESSEE VALLEY AUTHORITY
DETAILS OF POWER EXPENSE
FOR THE YEAR ENDED JUNE 30, 1963

| Summary | Total | Provision for depreciation | Total before depreciation (exhibit II) | Operation | Maintenance | Other |
|-------------------------------------|----------------------|----------------------------------|--|----------------------|---------------------|---------------------|
| Production | | | | | | |
| Multiple-use dams | | | | | | |
| Direct | \$ 9,157,681 | \$ 4,637,063 | \$ 4,520,618 | \$ 2,848,680 | \$ 1,671,938 | \$ - |
| Common; schedule E | 3,266,447 | 1,238,064 | 2,028,383 | 1,935,121 | 93,262 | - |
| Single-use dams | 1,926,264 | 793,916 | 1,132,348 | 702,400 | 429,948 | - |
| Cumberland Basin projects; note a | 5,263,012 | - | 5,263,012 | - | - | 5,263,012 |
| Steam plants | 145,147,172 | 29,878,947 | 115,268,225 | 103,794,119 | 11,474,106 | - |
| Total generation | 164,760,576 | 36,547,990 | 128,212,586 | 109,280,320 | 13,669,254 | 5,263,012 |
| Interchange power received | 52,506 | - | 52,506 | - | - | 52,506 |
| Interchange power delivered | 2,216,004* | - | 2,216,004* | - | - | 2,216,004* |
| System control and load dispatching | 944,614 | - | 944,614 | - | - | 944,614 |
| Other | 2,620,021 | - | 2,620,021 | - | - | 2,620,021 |
| Total production | 166,161,713 | 36,547,990 | 129,613,723 | 109,280,320 | 13,669,254 | 6,664,149 |
| Transmission | 26,821,930 | 15,019,745 | 11,802,185 | 7,051,670 | 4,750,515 | - |
| Customer accounts | 243,142 | - | 243,142 | 243,142 | - | - |
| Demonstration of power use | 794,243 | - | 794,243 | 794,243 | - | - |
| Payments in lieu of taxes; note b | 7,323,419 | - | 7,323,419 | - | - | 7,323,419 |
| Social security taxes | 922,580 | - | 922,580 | - | - | 922,580 |
| Administrative and general | | | | | | |
| Direct | 11,288,609 | 1,179,436 | 10,109,173 | 10,105,572 | 3,601 | - |
| Common | 105,779 | - | 105,779 | 105,779 | - | - |
| Total operating expense | <u>\$213,661,415</u> | <u>\$ 52,747,171</u> | <u>\$160,914,244</u> | <u>\$127,580,726</u> | <u>\$18,423,370</u> | <u>\$14,910,148</u> |

| System statistics | Kwh generated less station use (thousands) | Production expense Per kwh (mills) | Installed rated capacity at June 30, 1963 (kilowatts) | Ratio of average gross generation to installed rated capacity (percent) |
|--|--|--|--|--|
| Generation | | | | |
| Multiple-use dams | | | | |
| Direct | 11,656,373 | \$ 9,157,681 .786 | 2,718,300 | 50.77 |
| Common; schedule E | - | 3,266,447 .280 | - | - |
| Total multiple-use dams | 11,656,373 | 12,424,128 1.066 | 2,718,300 | 50.77 |
| Single-use dams | 1,188,307 | 1,926,264 1.621 | 250,200 | 54.97 |
| Cumberland Basin projects; note a | 1,698,971 | 5,263,012 3.098 | 595,000 | 33.86 |
| Alcoa dams; note c | 1,783,101 | - | 423,715 | 47.97 |
| Total hydro generation | 16,326,752 | - | 3,987,215 | 48.18 |
| Steam plants | 52,221,650 | 145,147,172 2.779 | 8,724,000 | 76.73 |
| Total generation; note d | 68,548,402 | - | 12,711,215 | 67.42 |
| Interchange power received | 2,643,832 | 52,506 | - | - |
| System control and load dispatching | - | 944,614 | - | - |
| Other | - | 2,620,021 | - | - |
| Total system input | 71,192,234 | - | - | - |
| Delivered under Alcoa agreement | 2,049,381* | - | - | - |
| Interchange power delivered | 3,441,267* | 2,216,004* | - | - |
| Net energy supply | 65,701,586 | 166,161,713 2.529 | - | - |
| Shop and internal uses | 4,067* | - | - | - |
| Transmission and transformation losses | 1,879,611* | - | - | - |
| Total kwh sales and production expense | <u>63,817,908</u> | <u>\$166,161,713</u> | <u>2.604</u> | |

Notes:

- a. TVA purchases the output of five hydro plants in the Cumberland River Basin, with a total installed capacity of 595,000 kilowatts. 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 the 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, having a total installed capacity of 423,715 kilowatts, 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 rated capacity increased 712,555 kilowatts during fiscal year 1963. Two generating units, each rated 32,400 kilowatts, were placed in operation at the Wheeler Hydro Plant on December 21, 1962, and on June 5, 1963; and one generating unit, rated 650,000 kilowatts, was placed in operation at the Paradise Steam Plant on May 19, 1963. Effective January 1, 1963, three small generating plants with a total rated capacity of 2,245 kilowatts were excluded from the Alcoa agreement referred to in note c above.

*Deduct

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1963

SCHEDULE D
Page 1

| | <u>Direct</u> | <u>Common (schedule E)</u> | <u>Total</u> |
|---|--------------------|--------------------------------|---------------------|
| NAVIGATION OPERATIONS | | | |
| Studies and investigations | | | |
| Navigation engineering and investigations | \$ 416,569 | \$ | \$ 416,569 |
| Administrative and general expenses; schedule F | <u>34,572</u> | | <u>34,572</u> |
| | <u>451,141</u> | <u>-</u> | <u>451,141</u> |
| Operation and maintenance of facilities | | | |
| Operation | 12,329 | 1,451,341 | 1,463,670 |
| Maintenance | 48,800 | 59,954 | 108,754 |
| Administrative and general expenses; schedule F | - | 79,334 | 79,334 |
| | <u>61,129</u> | <u>1,590,629</u> | <u>1,651,758</u> |
| Maintenance of traffic during rehabilitation of Wheeler lock | <u>11,986*</u> | <u>-</u> | <u>11,986*</u> |
| Gain on sale of Knoxville terminal | <u>90,855*</u> | <u>-</u> | <u>90,855*</u> |
| Provision for depreciation | <u>1,075,790</u> | <u>795,898</u> | <u>1,871,688</u> |
| Net expense of navigation operations | <u>\$1,485,219</u> | <u>\$ 2,386,527</u> | <u>\$ 3,871,746</u> |
| FLOOD CONTROL OPERATIONS | | | |
| Studies and investigations | | | |
| System studies and investigations | \$ 147,017 | \$ | \$ 147,017 |
| Local flood studies and cooperation with other agencies | 293,483 | | 293,483 |
| Administrative and general expenses; schedule F | <u>22,441</u> | | <u>22,441</u> |
| | <u>462,941</u> | <u>-</u> | <u>462,941</u> |
| Operation and maintenance of facilities | | | |
| Operation | | 1,451,341 | 1,451,341 |
| Maintenance | | 68,837 | 68,837 |
| Administrative and general expenses; schedule F | | 79,334 | 79,334 |
| | <u>-</u> | <u>1,599,512</u> | <u>1,599,512</u> |
| Local flood control improvements | <u>144,691</u> | <u>-</u> | <u>144,691</u> |
| Provision for depreciation | <u>322,611</u> | <u>113,808</u> | <u>436,419</u> |
| Net expense of flood control operations | <u>\$ 930,243</u> | <u>\$ 2,513,320</u> | <u>\$ 3,443,563</u> |
| FERTILIZER, AGRICULTURAL, AND MUNITIONS DEVELOPMENT | | | |
| <u>Production and distribution; note a</u> | | | |
| Distribution of products | | | |
| Sales; note b | | | \$16,430,632 |
| Used in farm test demonstrations and other TVA programs at rates comparable to the lower of sale prices or cost | | | <u>1,549,155</u> |
| Total distribution of products | | | <u>17,979,787</u> |

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1963

SCHEDULE D
Page 2

FERTILIZER, AGRICULTURAL, AND MUNITIONS
DEVELOPMENT - continued

Production and distribution; note a - continued

| | |
|---|-------------------|
| Cost of products distributed | |
| Materials used | \$ 5,472,751 |
| Direct manufacturing expense | 9,629,190 |
| Indirect manufacturing expense | 1,607,150 |
| Provisions for depreciation and depletion | 1,111,928 |
| Recoveries from byproducts and in-process materials | 182 |
| Cost of products manufactured | 17,821,201 |
| Finished inventory changes--Bulk product | 94,612* |
| | <u>17,726,589</u> |
| Direct shipping expense | 1,457,564 |
| Indirect shipping expense | 245,127 |
| Provision for depreciation | 49,730 |
| Finished inventory changes--Bagged product | 282,890 |
| | <u>282,890</u> |
| Total cost of products distributed | <u>19,761,900</u> |
| Net expense of production and distribution before general expenses | <u>1,782,113</u> |
| General expenses | |
| Administrative and general; schedule F | 459,143 |
| Fertilizer distribution, including provision for depreciation of \$6,888 | 814,493 |
| Technological studies of plant processes, including provision for depreciation of \$461 | 146,922 |
| Refunds on purchases of natural gas in prior years | 366,177* |
| Provision for depreciation of idle manufacturing plant and equipment | 72,261 |
| Retirements of manufacturing plant and equipment | 160,669 |
| Other general, including provision for depreciation of \$10 | 28,694 |
| | <u>28,694</u> |
| Total general expenses | <u>1,316,005</u> |
| Net expense of production and distribution | <u>3,098,118</u> |

Research on products and processes; note a

| | |
|---|------------------|
| Fundamental research | 434,803 |
| Applied research | 552,165 |
| Process engineering | 501,156 |
| General research expense including supervision, services, equipment and supplies, and other indirect expenses | 619,505 |
| Provision for depreciation | 58,441 |
| Administrative and general expenses; schedule F | 88,554 |
| | <u>88,554</u> |
| Net expense of research on products and processes | <u>2,254,624</u> |

TENNESSEE VALLEY AUTHORITY
 DETAILS OF NONPOWER NET EXPENSE
 FOR THE YEAR ENDED JUNE 30, 1963

SCHEDULE D
 Page 3

FERTILIZER, AGRICULTURAL, AND MUNITIONS
 DEVELOPMENT - continued

| <u>Fertilizer testing and demonstrations and agricultural development</u> | |
|---|---------------------|
| Farm test demonstrations | |
| Fertilizers used | \$ 1,188,788 |
| Income from farmer payments | 735,807* |
| Planning and supervision | <u>663,434</u> |
| | 1,116,415 |
| Basic agronomic research | 476,110 |
| Fertilizer marketing studies and demonstrations | 66,869 |
| Economic research on Valley agriculture | 57,912 |
| Research on commercial farming problems | 5,101 |
| Research on forage fertilization and utilization | 10,058 |
| Provision for depreciation | 21,319 |
| Administrative and general expenses; schedule F | <u>47,917</u> |
| Net expense of fertilizer testing and demonstrations and agricultural development | <u>1,801,701</u> |
| Net expense of fertilizer, agricultural, and munitions development | <u>\$ 7,154,443</u> |

COOPERATIVE VALLEY DEVELOPMENT

| | |
|---|------------------|
| Forestry projects--A program to promote increased production, protection, and utilization of the forest resources of the region | |
| Use of Valley forests | \$ 187,930 |
| Development of Valley forests | 525,337 |
| Provision for depreciation | 6,054 |
| Administrative and general expenses; schedule F | <u>28,507</u> |
| Net expense of forestry projects | <u>747,828</u> |
| Tributary area development--A program to improve use, conservation, and development of the natural resources in small tributary areas of the Valley | |
| Basic investigations | 290,195 |
| Beech River | 153,157 |
| Yellow Creek | 85,211 |
| Elk River | 266,887 |
| Duck River | 40,933 |
| Holston River | 8,539 |
| Upper French Broad River | 170,442 |
| Clinch-Powell Rivers | 74,402 |
| Bear Creek | 136,545 |
| Sequatchie River | 53,292 |
| Lower Hiwassee River | 25,309 |
| Provision for depreciation | 2,168 |
| Administrative and general expenses; schedule F | <u>122,519</u> |
| Net expense of tributary area development | <u>1,429,599</u> |

TENNESSEE VALLEY AUTHORITY
DETAILS OF NONPOWER NET EXPENSE
FOR THE YEAR ENDED JUNE 30, 1963

SCHEDULE D
Page 4

COOPERATIVE VALLEY DEVELOPMENT - continued

| | |
|---|---------------------|
| Mineral resources investigations--A program to assemble, evaluate, and supply information useful for the development of Valley mineral deposits | \$ 65,476 |
| Provision for depreciation | 83 |
| Administrative and general expenses; schedule F | <u>1,213</u> |
| Net expense of mineral resources investigations | <u>66,772</u> |
| Net expense of cooperative valley development | <u>\$ 2,244,199</u> |

TOPOGRAPHIC MAPPING

| | |
|--|------------------|
| Maps of areas in the Tennessee Valley prepared in cooperation with the U. S. Geological Survey | \$ 91,349 |
| Provision for depreciation | 796 |
| Administrative and general expenses; schedule F | <u>4,852</u> |
| Net expense of topographic mapping | <u>\$ 96,997</u> |

OTHER EXPENSE OR INCOME*

| | |
|---|---------------------|
| Nonmilitary defense activities | \$ 42,696 |
| Maintenance of bridges constructed on TVA dams under Public Law 562, approved July 29, 1946 | 32,388 |
| Gain on sale of Norris Village land | 9,055* |
| Interest income from purchasers of village properties | <u>33,640*</u> |
| Other expense, net | <u>\$ 32,389</u> |
| Net expense of nonpower programs | <u>\$16,843,337</u> |

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.

*Deduct

TENNESSEE VALLEY AUTHORITY
OPERATION OF MULTIPLE-USE FACILITIES
COMMON TO POWER, NAVIGATION, AND FLOOD CONTROL
FOR THE YEAR ENDED JUNE 30, 1963

| | <u>Total</u> | <u>Distributed to</u> | | |
|---|--------------------|-------------------------|------------------------------|---------------------------------|
| | | <u>Power operations</u> | <u>Navigation operations</u> | <u>Flood control operations</u> |
| Operation, exclusive of depreciation included below | | | | |
| Water dispatching | \$ 872,338 | | | |
| Water control investigations | 468,639 | | | |
| Vector control | 534,808 | | | |
| Plant protection and services to visitors | 1,304,078 | | | |
| Operation and upkeep of dam reservations | 637,924 | | | |
| Reservoir land management | 965,904 | | | |
| System improvement studies | 37,592 | | | |
| Other operating expense | <u>16,520</u> | | | |
| | 4,837,803 | \$1,935,121 | \$1,451,341 | \$1,451,341 |
| Administrative and general expenses; schedule F | <u>264,447</u> | <u>105,779</u> | <u>79,334</u> | <u>79,334</u> |
| Total operation; note a | 5,102,250 | 2,040,900 | 1,530,675 | 1,530,675 |
| Maintenance; note b | 222,053 | 93,262 | 59,954 | 68,837 |
| Provision for depreciation; note b | <u>2,947,770</u> | <u>1,238,064</u> | <u>795,898</u> | <u>913,808</u> |
| Total | <u>\$8,272,073</u> | <u>\$3,372,226</u> | <u>\$2,386,527</u> | <u>\$2,513,320</u> |

Notes:

- a. Distributed 40 percent to power, 30 percent to navigation, and 30 percent to flood control; see note 3
- b. Distributed 42 percent to power, 27 percent to navigation, and 31 percent to flood control; see note 3

TENNESSEE VALLEY AUTHORITY
ADMINISTRATIVE AND GENERAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 1963

SCHEDULE F

| Expenses | |
|---|---------------------------|
| Board of directors | \$ 124,123 |
| Office of the general manager | 154,242 |
| Budget staff | 145,681 |
| Washington office | 58,788 |
| Information office, including technical library service | 473,051 |
| Government relations and economics staff | 139,719 |
| Division of personnel | 1,137,208 |
| Division of finance | 2,010,061 |
| Division of law | 446,157 |
| Division of property and supply | 793,102 |
| Operation of medical and safety service units | 610,225 |
| Other administrative and general | <u>139,874</u> |
| Total | <u><u>\$6,232,231</u></u> |

Distribution

The following tabulation shows the distribution for the year:

| | <u>Amount</u> | <u>Percent of total</u> |
|---|---------------------------|-----------------------------|
| Construction | \$2,485,513 | 39.88 |
| Recovered through services billed to others at cost | 156,662 | 2.51 |
| Expense of programs | | |
| Power | 2,515,891 | 40.37 |
| Navigation | 34,572 | .55 |
| Flood control | 22,441 | .36 |
| Common operations | | |
| Power | 105,779 | 1.70 |
| Navigation | 79,334 | 1.27 |
| Flood control | 79,334 | 1.27 |
| Fertilizer, agricultural, and munitions development | | |
| Production and distribution | 459,143 | 7.37 |
| Research on products and processes | 88,554 | 1.42 |
| Fertilizer testing and demonstrations and agricultural development | 47,917 | .77 |
| Cooperative valley development | | |
| Forestry projects | 28,507 | .46 |
| Tributary area development | 122,519 | 1.97 |
| Mineral resources investigations | 1,213 | .02 |
| Topographic mapping | <u>4,852</u> | <u>.08</u> |
| Total | <u><u>\$6,232,231</u></u> | <u><u>100.00</u></u> |

APPENDIX

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 of the Authority and of its salaried employees. Administration of the system is vested in its own Board of Directors, and its funds are held and invested by a trustee. The Authority appoints three of the seven members of the Board of Directors, three are elected by the participants, and the seventh member is chosen by these six directors.

The operation of the retirement system is regarded as a Federal function in general and as an Authority function in particular. As authorized in section 301(b) of the Government Corporation Control Act (31 U.S.C. 866(b)), the General Accounting Office contracted for a firm of certified public accountants to make the audit of the system. The balance sheet of the system at June 30, 1963, and the related statements of change in the pension accumulation account under the fixed benefit fund and of change in the equity of participants under the variable annuity fund, together with the auditors' opinion, follow.

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

| | | |
|------------|--------------|--------------------|
| BALTIMORE | HOUSTON | PITTSBURGH |
| BIRMINGHAM | LOS ANGELES | PORTLAND, ME. |
| BOSTON | LOUISVILLE | PORTLAND, ORE. |
| CHICAGO | MINNEAPOLIS | ROCKFORD |
| CINCINNATI | NEW BEDFORD | ST. LOUIS |
| CLEVELAND | NEW HAVEN | SALT LAKE CITY |
| COLUMBUS | NEW YORK | SAN FRANCISCO |
| DALLAS | NILES | SEATTLE |
| DETROIT | OAKLAND | SPRINGFIELD, MASS. |
| FT. WAYNE | PHILADELPHIA | SYRACUSE |
| HARTFORD | PHOENIX | TULSA |
| | | WASHINGTON |

COOPERS & LYBRAND

IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

To the Comptroller General of the United States,
Washington, D. C.

We have examined the balance sheet of the RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY as of June 30, 1963 and the related statements of change in the pension accumulation account and the equity of participants in the variable annuity fund for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included confirmation from First National City Bank, Trustee, of cash and investments held as of June 30, 1963, and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Retirement System of the Tennessee Valley Authority at June 30, 1963, and the income, expenses and other changes in the pension accumulation account, and the equity of participants in the variable annuity fund, for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery

New York, August 29, 1963.

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY
BALANCE SHEET, June 30, 1963

| ASSETS: | |
|--|----------------------------|
| FIXED BENEFIT FUND: | |
| Investments: | |
| In securities, at cost (details annexed): | |
| Bonds (current redemption values or market quotations, \$78,298,510) | \$81,063,771 |
| Real estate mortgages (less principal payments received) | 6,346,467 |
| Preferred stocks (market quotations, \$6,098,887) | 6,441,976 |
| Common stocks (market quotations, \$54,157,085) | <u>41,102,772</u> |
| In properties acquired under buy and lease-back agreements, at cost, less amortization | \$134,954,986 2,012,076 |
| In real property, at cost: | |
| Buildings | 528,000 |
| Less, Allowance for depreciation | <u>57,157</u> |
| Land | 470,843 <u>472,000</u> |
| | <u>942,843</u> |
| | 137,909,905 |
| Cash: | |
| With Trustee | 100,896 |
| Treasurer's funds | <u>19,575</u> |
| | 120,471 |
| Receivables: | |
| Members' contributions due from Tennessee Valley Authority | 334,880 |
| Dividends, accrued interest, rents, etc. | <u>1,068,519</u> |
| | <u>1,403,399</u> |
| | <u>139,433,775</u> |
| VARIABLE ANNUITY FUND: | |
| Investments in securities, at market quotations (details annexed): | |
| Bonds (cost, \$64,689) | 64,839 |
| Common stocks (cost, \$6,584,254) | <u>7,021,137</u> |
| | 7,085,976 |
| Cash: | |
| With Trustee | 374 |
| Treasurer's fund | <u>559</u> |
| | 933 |
| Receivables: | |
| Members' contributions due from Tennessee Valley Authority | 81,221 |
| Dividends | <u>10,883</u> |
| | <u>92,104</u> |
| | <u>7,179,013</u> |
| | <u>\$146,612,788</u> |

| LIABILITIES and FUNDS: | |
|--|----------------------|
| FIXED BENEFIT FUND: | |
| Accounts payable: | |
| For securities | \$ 228,586 |
| Other | <u>95,813</u> |
| | 324,399 |
| Annuity savings account, comprising members' contributions and interest accrued thereon: | |
| Balance at beginning of the year | \$40,304,817 |
| Net additions during the year: | |
| Members' contributions | \$3,537,111 |
| Accrued interest | <u>1,585,807</u> |
| | <u>5,122,918</u> |
| | 45,427,735 |
| Less: | |
| Termination refunds, death or withdrawal | 589,038 |
| Transfer to Pension Accumulation Account | 1,270,525 |
| Transfer to Variable Annuity Fund | <u>615,873</u> |
| | <u>2,475,436</u> |
| | 42,952,299 |
| Pension accumulation account: | |
| Balance at beginning of year | 79,378,109 |
| Change for the year, as annexed | <u>8,832,768</u> |
| | 88,210,877 |
| Investment reserve account: | |
| Balance at beginning of the year | 6,924,135 |
| Net additions during the year: | |
| Contributions by Tennessee Valley Authority | 579,700 |
| Net profit on sales and redemptions of investments | <u>442,365</u> |
| | <u>1,022,065</u> |
| | <u>7,946,200</u> |
| | <u>139,433,775</u> |
| VARIABLE ANNUITY FUND: | |
| Equity of participants: | |
| Balance at beginning of year | 4,025,695 |
| Change for the year, as annexed | <u>3,153,318</u> |
| | <u>7,179,013</u> |
| | <u>\$146,612,788</u> |

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY
 INVESTMENTS in SECURITIES
 June 30, 1963

FIXED BENEFIT FUND:

Bonds:

Principal amount:

| | | |
|---|----------------|---------------|
| U. S. Government | \$ 4,897,665 | |
| Utility | 33,025,000 | |
| Industrial | 24,330,132 | |
| Financial | 12,857,200 | |
| Canadian | 3,981,000 | |
| Railroad | 1,827,147 | |
| Unamortized premiums and discounts, net | <u>145,627</u> | \$ 81,063,771 |

Real estate mortgages:

| | | |
|--------------------------------|------------------|-----------|
| Veterans Administration | 3,221,340 | |
| Federal Housing Administration | 1,401,025 | |
| Other | <u>1,724,102</u> | 6,346,467 |

Preferred stocks:

| | | |
|------------|----------------|-----------|
| Industrial | 1,606,469 | |
| Utility | 4,694,326 | |
| Railroad | <u>141,181</u> | 6,441,976 |

Common stocks:

| | | |
|-------------------------|------------------|------------|
| Industrial | 29,792,161 | |
| Utility | 8,621,642 | |
| Insurance and financial | <u>2,688,969</u> | 41,102,772 |

\$134,954,986

VARIABLE ANNUITY FUND:

| | | |
|------------------------|----|--------|
| U. S. Government bonds | \$ | 64,839 |
|------------------------|----|--------|

Common stocks:

| | | |
|-------------------------|----------------|-----------|
| Industrial | 5,038,949 | |
| Utility | 1,247,326 | |
| Insurance and financial | <u>734,862</u> | 7,021,137 |

\$ 7,085,976

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY
 FIXED BENEFIT FUND
 STATEMENT of CHANGE in the PENSION ACCUMULATION ACCOUNT
 for the year ended June 30, 1963

| | | | |
|--|------------------|---------------|---------------------|
| Income: | | | |
| Contributions by Tennessee Valley Authority | | | \$ 5,796,999 |
| Investment income: | | | |
| Interest on bonds | \$3,224,451 | | |
| Less, Amortization of bond premiums and discounts | <u>9,906</u> | \$3,214,545 | |
| Interest on real estate mortgages and lease agreements | 299,750 | | |
| Less, Agents' fees | <u>19,090</u> | 280,660 | |
| Dividends: | | | |
| Preferred stocks | 300,300 | | |
| Common stocks | <u>1,414,329</u> | 1,714,629 | |
| Rental on real estate | 184,304 | | |
| Less, Depreciation | <u>55,561</u> | 128,743 | |
| | | 5,338,577 | |
| Transfers: | | | |
| From Annuity Savings Account | 1,270,525 | | |
| From Variable Annuity Fund - interest forfeited on withdrawals | <u>1,158</u> | 1,271,683 | 6,610,260 |
| | | | 12,407,259 |
| Expenses: | | | |
| Salaries | | 112,452 | |
| Trustee's fee and expenses | | 71,990 | |
| Professional services | | 26,067 | |
| Rental of office space, etc. | | 10,999 | |
| Printing and office supplies | | 3,723 | |
| Travel | | 2,478 | |
| Telephone | | 1,680 | |
| Computer center and tabulating service | | 3,388 | |
| Other | | <u>2,951</u> | 235,728 |
| | | | 12,171,531 |
| Payments and charges: | | | |
| Interest on annuity savings account balances | | 1,601,607 | |
| Less, Interest forfeited on withdrawals | | <u>15,800</u> | |
| | | 1,585,807 | |
| Lump-sum settlements: | | | |
| Death in active service | | 179,202 | |
| Death of retired members | | 53,855 | |
| In lieu of deferred annuities | | 50,134 | |
| Annuity payments: | | | |
| Retirement | | 614,862 | |
| Pension | | 760,912 | |
| Beneficiaries | | <u>93,991</u> | 3,338,763 |
| Increase for the year | | | <u>\$ 8,832,768</u> |

RETIREMENT SYSTEM of the TENNESSEE VALLEY AUTHORITY
 VARIABLE ANNUITY FUND
 STATEMENT of CHANGE in the EQUITY of PARTICIPANTS
 for the year ended June 30, 1963

| | | |
|--|---------------|--------------------|
| Members' contributions: | | |
| Current year payroll deductions | | \$1,164,036 |
| Accumulations transferred from Fixed Benefit Fund, Annuity Savings Account | | <u>615,873</u> |
| | | 1,779,909 |
| Investment income | | 154,586 |
| Net unrealized appreciation of securities | | <u>1,337,017</u> |
| | | 3,271,512 |
| Payments and charges: | | |
| Termination refunds, death or withdrawal | \$54,575 | |
| Annuity payments to beneficiaries | 1,833 | |
| Interest forfeited on withdrawals, transferred to Fixed Benefit Fund | <u>1,158</u> | |
| | 57,566 | |
| Net realized loss on sales of securities | <u>60,628</u> | <u>118,194</u> |
| Increase for the year | | <u>\$3,153,318</u> |