

Tennessee Valley Authority
Retirement System

2014 Annual Report

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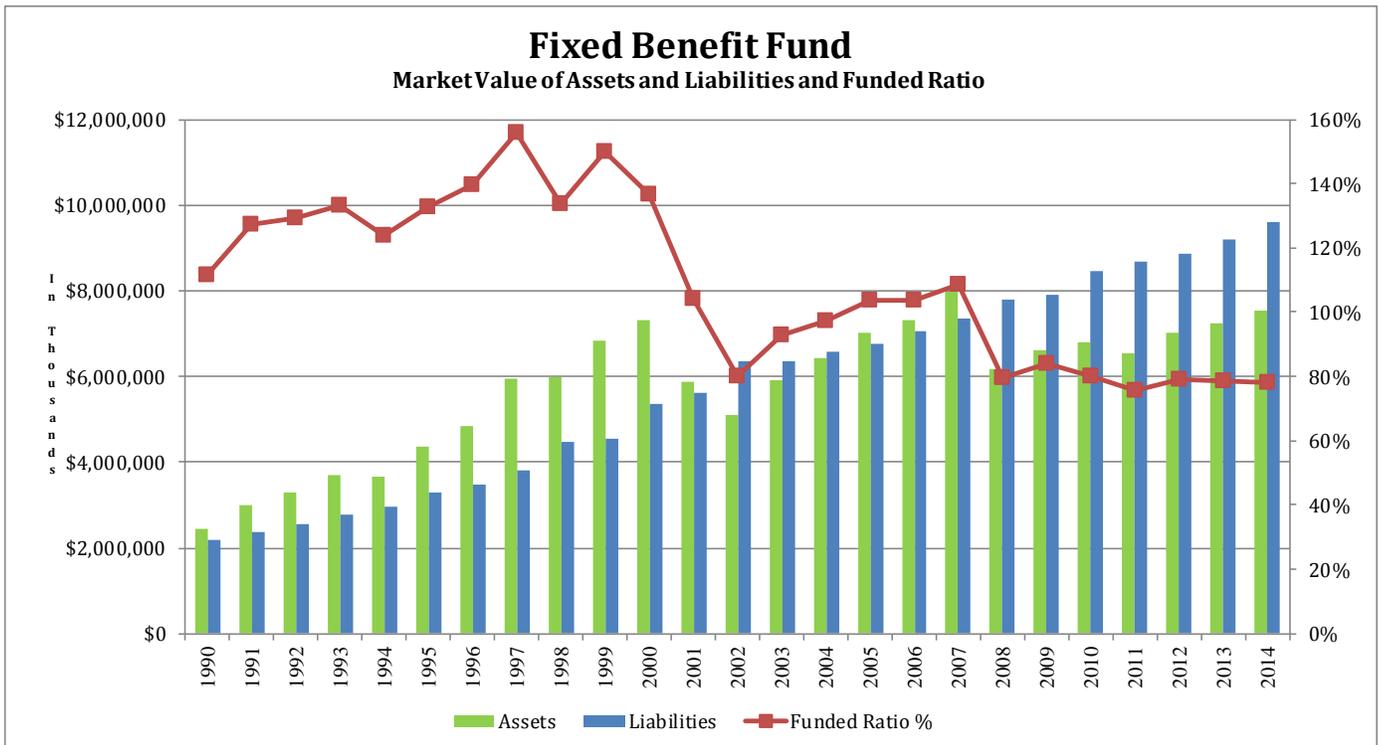
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Financial Highlights and Statistics

(Dollars in thousands)

	2014	2013	Change	% Change
Net Assets Available for Benefits				
TVA Retirement System (Fixed Benefit Fund and Variable Fund)	\$ 7,678,241	\$ 7,387,628	\$290,613	3.9%
TVA Savings & Deferral Retirement Plan [401(k) Plan]	<u>2,027,790</u>	<u>1,861,332</u>	<u>166,458</u>	<u>8.9%</u>
Total	\$ 9,706,031	\$ 9,248,960	\$457,071	4.9%
Net Assets Available for Benefits (Fixed Benefit Fund)	\$ 7,528,213	\$ 7,237,068	\$291,145	4.0%
Actuarial Present Value of Accumulated Plan Benefits (Fixed Benefit Fund)	\$ 9,617,100	\$ 9,194,600	\$422,500	4.6%
Contributions				
Employer (all funds)	\$ 285,567	\$ 35,062	\$250,505	714.5%
Employee (all funds)	\$ 121,144	\$ 119,002	\$ 2,142	1.8%
Benefits Paid (all funds)	\$ 802,578	\$ 743,699	\$ 58,879	7.9%
Number of Active Members	11,060	12,342	(1,282)	-10.4%
Number of Retirees	24,759	24,044	715	3.0%

This summary is intended for informational purposes only.



To Retirement System Members

The TVA Retirement System (System) Board of Directors is pleased to present the 2014 Annual Report for the year ended September 30, 2014. As of September 30, 2014, the net assets of the System's defined benefit plan totaled approximately \$7.7 billion. For the 12-month period ended September 30th, the System earned approximately \$682 million net of fees, with approximately \$659 million paid in benefits to approximately 23,400 retirees and beneficiaries. TVA contributed \$250 million with another \$41 million in contributions and transfers from employees. Net assets increased by approximately \$290 million from 2013 to 2014.

As the demographics of the System have shifted to a majority of Cash Balance participants, the assets of the 401(k) Plan have grown to more than \$2 billion with 96% of eligible participants contributing. Recognizing the importance of the 401(k) Plan to our participants as they plan for retirement, the TVARS Board is focusing on implementing a new menu of 401(k) Plan investment options. While still in the planning stages, the Board anticipates implementation of a smaller and improved investment menu with much lower investment fees in 2015.

The TVARS Board also approved a 1.68 percent cost-of-living allowance increase in the monthly pension and the supplemental benefits payable to eligible retirees and beneficiaries in calendar 2015.

Other items of interest include the following:

- The TVARS Board recommended to TVA a contribution of \$350 million for fiscal year 2015. In August 2014, the TVA Board approved a \$215 million contribution for fiscal year 2015 and authorized the TVA Chief Executive Officer to make an additional discretionary contribution of up to \$60 million to the System for fiscal year 2015
- The TVARS Board and TVA approved amendments where employees who become members of the Retirement System on or after July 1, 2014 will be eligible for a defined contribution retirement benefit as participants in the 401(k) Plan only
- Anthony L. Troyani, Jr. was re-elected by the System's active members to serve as a director for a three-year term ending October 31, 2017
- Allen Stokes was elected Chair and Anthony L. Troyani, Jr. was elected Vice Chair
- The System launched a new and more user-friendly version of www.tvvars.com
- In calendar year 2014, TVARS' staff supported TVA's reorganization by processing 1,336 retirements, providing approximately 7,400 estimates, 1,500 appointments and answering over 14,000 telephone calls

On November 1, 2014, the System celebrated its 75th anniversary. TVARS' long history helps the Board and staff stay focused on their important role in serving the retirement needs of TVA employees, retirees and beneficiaries. TVA employees and retirees worked hard to earn their retirement and deserve the security of knowing their benefits will be there for them and their beneficiaries. The TVARS board and staff are responsible for providing that security and we take that duty very seriously. Our sole focus is on administering the system in the best interest of members and beneficiaries. The Board and staff are honored to work on your behalf and are pleased to report on the status of the System.

For the Board



Allen E. Stokes
Chair, Board of Directors
TVA Retirement System

Board of Directors

Elected by Members

James W. Hovious

Elected November 1, 2013

Leonard J. Muzyn

Elected November 1, 2003

Anthony L. Troyani, Jr.

Elected November 1, 2008

Appointed by TVA

Brian M. Child

Appointed September 23, 2013

John M. Hoskins

Appointed July 28, 2003

Tammy W. Wilson

Appointed May 10, 2010

Selected by Other Directors

Allen E. Stokes

Selected March 8, 2011



James Hovious



Leonard J. Muzyn



Anthony L. Troyani, Jr.



Allen E. Stokes



Brian Child



John M. Hoskins



Tammy W. Wilson

Standing Committees

Audit

Tammy W. Wilson, Chair
Brian M. Child
Anthony L. Troyani, Jr.

Election

James W. Hovious, Chair
Leonard J. Muzyn
Tammy W. Wilson

Retirement

Brian M. Child, Chair
James W. Hovious
Anthony L. Troyani, Jr.

Investment

Leonard J. Muzyn, Chair
John M. Hoskins, Vice Chair
Michael Brakebill, Nonvoting
Brian M. Child
James W. Hovious
Allen E. Stokes
Anthony L. Troyani, Jr.
Tammy W. Wilson

Board Officers

Allen E. Stokes
Chair

Anthony L. Troyani, Jr.
Vice Chair

Patrick D. Brackett
Executive Secretary

Pamela K. Ramsey
Assistant Secretary and Assistant Treasurer

Sally R. Weber
Treasurer

W. Colby Carter
Assistant Treasurer

Courtney L. Hammontree
Assistant Treasurer

T. Justin Vineyard
Assistant Treasurer

Professional Advisors and Investment Managers

Professional Advisors

Actuary

Mercer Human Resource Consulting, Atlanta

Auditors

Crowe Horwath LLP, South Bend, Indiana
E.H. Johnson & Company, P.C., Knoxville

Investment Advisor

Michael Brakebill, Chief Investment Officer,
Tennessee Consolidated Retirement System

Investment Consultant - Pension Plan

Wilshire Associates Incorporated, Pittsburgh

Investment Consultant – 401(k) Plan

Hewitt EnnisKnupp, Inc.

Legal Counsel

W. Colby Carter, Senior Counsel, TVARS, Knoxville
Bradley Arant Boult Cummings LLP, Nashville

Master Trustee

The Bank of New York Mellon, Pittsburgh

Trustee – 401(k) Plan

Fidelity Management Trust Company, Boston

Medical Advisor

Jon Parham, M.D., Knoxville

Medical Board

Advanced Medical Reviews, Los Angeles

Cash Balance Pension Plan Recordkeeping

Aon Hewitt

Investment Managers

Fixed Benefit Fund

Abbott Capital Management LP
Adams Street Partners, LLC
AQR Capital Management, LLC
Baillie Gifford Overseas Limited
Bridgewater Associates, Inc.
CoreCommodity Management, LLC
Dimensional Fund Advisors LP
Fisher Investments
Franklin Templeton Institutional, LLC
Guggenheim Partners Asset Management
HarbourVest Partners, LLC
Harvest Fund Advisors, LLC
Hancock Natural Resource Group, Inc.
J.P. Morgan Investment Management, Inc.
Kennedy-Wilson Holdings, Inc.
Landmark Realty Advisors, LLC
Lazard Asset Management, LLC
MacKay Shields, LLC
Mellon Capital Management
Neuberger Berman, LLC
Oaktree Capital Management, LP
Pacific Investment Management Company
The Prudential Insurance Company of America
Prudential Investment Management, Inc.
Pyramis Global Advisors, LLC
Siguler Guff Advisors, LLC
Standish Mellon Asset Management, LLC
Stone Harbor Investment Partners, LP
TCW Asset Management Company
Tortoise Capital Advisors, LLC
Vedanta Capital, LLC
Wellington Management Company, LLP
Western Asset Management Company
Wilshire Associates Incorporated
WRH Partners, LLC

Variable Fund

Fidelity Investments
Mellon Capital Management

Plan Summary

Established in 1939, the Tennessee Valley Authority Retirement System (System) administers a defined benefit plan (Plan) covering most full-time and part-time annual employees of the Tennessee Valley Authority (TVA). The System is a separate legal entity from TVA and is governed by an independent, seven-member Board of Directors (System Board). Three of the directors are appointed by TVA, and three are elected by and from the membership. A seventh director is selected by the other six. The System Board also has responsibility for administration of a defined contribution plan, the TVA Savings and Deferral Retirement Plan [401(k) Plan].

TVA contributes to the System such amounts as are necessary on an actuarial basis to provide the System with assets sufficient to meet TVA-funded benefit obligations to be paid to members. TVA made a \$250 million contribution to the System in fiscal year 2014. In August 2014, the TVA Board approved a \$215 million contribution to the System for fiscal year 2015 and authorized the TVA Chief Executive Officer to make an additional discretionary contribution of up to \$60 million to the System for fiscal year 2015. While members are not required to make contributions to the System, members are eligible to make voluntary contributions to the System's Fixed and/or Variable Funds unless they have transferred their funds to the 401(k) Plan after May 1, 2005. Members can also contribute to the 401(k) Plan, and TVA makes matching and non-elective contributions to that plan.

Actuarial Liability Measurement

Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC) 960, *Plan Accounting-Defined Benefit Pension Plans*, establishes generally accepted accounting principles for defined benefit pension plans and is applicable to the System's financial accounting and reporting. Per ASC 960, accumulated plan benefits are to be presented as the present value of future benefits attributable, under the System's provisions, to service rendered to the date as of which the actuarial present value of accumulated plan benefits is presented. FASB ASC 715, *Compensation – Retirement Benefits*, establishes standards of financial accounting and reporting for an employer that sponsors a defined benefit pension plan, such as TVA. Per FASB ASC 715, the projected benefit obligation is measured considering service rendered to date and assumptions as to future compensation levels when the pension benefit formula is based upon future compensation levels. The differences in the objectives and provisions of FASB ASC 960 and FASB ASC 715 result in different measurement bases with respect to the employer's defined benefit pension obligation and the plan's accumulated plan benefits, including potential differences in actuarial assumptions used in the measurement of these obligations. Accordingly, these differences in applicable accounting standards result in differences between the present value of accumulated plan benefits as reported in the financial statements of System and the projected benefit obligation reported in TVA's financial statements.

Retirement Benefits

The System administers three different benefit structures: the Original Benefit Structure (OBS), the Cash Balance Benefit Structure (CBBS), and the Employer Automatic Benefit Structure (EABS). For members in the OBS and CBBS, the retirement benefit consists of a pension benefit derived from TVA's contributions and earnings on Plan assets. A member's retirement benefit may also include an annuity and/or a lump-sum benefit derived from the member's contributions to the Fixed and/or Variable Funds and the 401(k) Plan. The pension plus the annuity, if applicable, compose the System's retirement allowance. In addition, the System provides a supplemental benefit to eligible retirees that may be used to help with the cost of medical insurance.

For members in the EABS, the retirement benefit consists of a 401(k) Plan benefit only.

Original Benefit Structure

The pension under the OBS is based on the member's years (to the nearest month) of creditable service, highest average compensation during any three consecutive years of creditable service, and a pension factor, less a Social Security offset.

Creditable service is the length of time spent as a member of the System. It also includes any annual leave forfeited after January 1, 1980, and, at the member's election, the total balance of any unused sick leave. Leave is counted hour for hour for the first 1,000 hours and two hours for each hour in excess of 1,000 hours (2,080 hours equates to one year of creditable service). Forfeited annual leave and unused sick leave may be used in determining both the eligibility for retirement and the amount of the benefit. Creditable service may also include previous periods of membership in the System, certain military service, and some periods of leave without pay.

Members with at least five years of creditable service who are at least attained age 55 are always eligible to receive an immediate benefit. Vested members less than attained age 55 may also receive an immediate benefit unless they are terminated for cause. Members who are at least actual age 45 at retirement and whose age plus creditable service equals 80 or more receive the maximum pension factor of 1.3. Vested members who are at least attained age 60 at the time they begin to receive their pension also receive the maximum pension factor even if their age plus creditable service does not equal 80.

Cash Balance Benefit Structure

The System implemented the CBBS for employees who became members on or after January 1, 1996, and prior to July 1, 2014, with no prior System membership. Employees rehired by TVA after a break in service of 180 or more consecutive days and who were vested participants in the OBS when they were last employed are given an opportunity to participate in the CBBS when they are rehired or at the time they become eligible for System membership.

The CBBS provides a pension benefit based on the balance of the cash balance account established for each member and a conversion factor based on the member's age (to the nearest month). This cash balance account receives pay credits each month equal to 6 percent of compensation, as well as monthly interest credits at the rate established by the System Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the Consumer Price Index-All Urban Consumers (CPI-U) for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The annual interest rate was 6 percent for calendar years 2014 and 2013. Cash balance service is the length of time spent as a member of the System. It does not include credit for unused sick leave, forfeited annual leave, or pre-TVA employment military service. Cash balance service may include previous periods of membership in the System and some periods of leave without pay. Members with at least five years of cash balance service who are at least age 55 are always eligible to receive an immediate benefit upon termination. Vested members who are less than age 55 may also receive an immediate benefit unless they are terminated for cause.

Employer Automatic Benefit Structure

The System implemented the EABS for employees who first become members on or after July 1, 2014, with no prior System membership. Members in the EABS are eligible for a defined contribution retirement benefit only as participants in the 401(k) Plan. These members are not eligible to participate in the CBBS. The EABS also covers any former TVA employees who are rehired and become members of the System again on or after July 1, 2014, and who were previously not vested or who previously received their pension benefit in a lump sum distribution. Please see the Note 1 General Plan Description of TVA Savings and Deferral Retirement Plan for a description of the EABS.

Supplemental Benefit

If upon retirement an OBS or CBBS member meets the eligibility criteria, the member will receive a supplemental benefit. This benefit is provided to eligible retirees and eligible surviving spouses to assist with the cost of their medical insurance, although it is not required to be used to pay for medical insurance.

Level Income Plan

The Level Income Plan (LIP) is an optional plan intended to provide the OBS or CBBS, retirees with approximately the same amount of monthly retirement income before and after Social Security benefits are payable, assuming the retiree begins receiving Social Security benefits at age 62. To be eligible for the optional LIP at retirement, a member must be in the OBS or CBBS, eligible for a future Social Security benefit, and younger than age 62.

OBS or CBBS members may choose the optional LIP at retirement to temporarily increase their TVA pension benefit until age 62 when they are first eligible to begin receiving Social Security benefits. Then at age 62, the TVA pension benefit is permanently reduced for life. The reduction normally begins the month after the retiree turns age 62, regardless of whether the retiree chooses to begin receiving Social Security benefits at that time. The exact date Social Security benefits begin is based on a schedule set by the Social Security Administration, which may differ by several weeks from the date the LIP reduction begins.

The LIP increase and reduction amounts are set at retirement based on an estimate of the member's age 62 Social Security benefit and actual age at retirement. The estimate is based on the assumption that the member does not work after retirement and does not make additional contributions to Social Security. If the member does work and receives a higher Social Security benefit at age 62 as a result, the higher Social Security benefit does not affect the amount of the reduction in the TVA pension benefit when the retiree turns age 62.

Any cost-of-living adjustments and survivor benefits are calculated using the retiree's base pension amount, without any LIP increase or reduction.

Fixed and Variable Funds and 401(K) Plan

During Employment

The Fixed and Variable Funds provide two after-tax investment options to OBS or CBBS members. Members who transfer their money in the funds to the 401(k) Plan after May 1, 2005, are no longer eligible to contribute to the Fixed and Variable Funds. The Fixed Fund earns a specified rate of interest set by the System's Board of Directors. The Variable Fund is invested in the Fidelity Spartan 500 Index Fund. Members participating in the Variable Fund purchase shares in the Fidelity Spartan 500 Index Fund, which is invested in the stocks of companies included in the S&P 500 Composite Stock Price Index.

Members are also permitted to transfer their contributions between the Fixed Fund and the Variable Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Prior to retirement, those who first became members before January 1, 1996, may transfer all or any portion of their after-tax balance(s) in the 401(k) Plan to the System to receive monthly annuity payments.

In addition, members in all benefit structures may elect to participate in the 401(k) Plan on a before-tax, after-tax, and/or Roth basis. TVA provides 401(k) Plan employer matching contributions for participating members. The amount of this match for CBBS and EABS participants is 75 cents on every dollar contributed up to a maximum of 4.5 percent of eligible compensation. The amount of this match for OBS participants is 25 cents on every dollar contributed up to a maximum of 1.5 percent of eligible compensation. TVA also provides EABS members an automatic, non-elective contribution equal to 4.5 percent of eligible compensation. Members are vested in the TVA matching and non-elective contributions after three years of

actual service. During employment, members are also permitted to roll over funds from certain other retirement plans and IRAs into the 401(k) Plan.

Investment options available through the 401(k) Plan have varying degrees of risk and potential return.

For calendar year 2014, contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions and TVA automatic, non-elective contributions, could not exceed the lesser of \$52,000 or 100 percent of calendar year-to-date compensation. Additionally, before-tax and/or designated Roth contributions could not exceed the annually published IRS maximum (\$17,500 for 2014). Employees who were age 50 or older were allowed to make additional before-tax and/or designated Roth contributions, allowing them to "catch up" on their retirement savings. For 2014, the maximum catch-up contribution amount was \$5,500 over and above contribution limits and could not begin until the before-tax and/or designated Roth contribution limit was reached. These IRS limits may increase annually according to the IRS cost-of-living adjustment rules. Contributions to the Fixed Fund and/or the Variable Fund are limited by the System's Rules and Regulations (Rules) to the lesser of \$10,000 per calendar year or 100 percent of calendar year-to-date compensation.

After Retirement

Those in the OBS and CBBS who first became members before January 1, 1996, may receive a monthly annuity payment from the Fixed Fund, the Variable Fund, or both. Annuity payments from the Fixed Fund are based on a specified rate of interest set by the System Board. Members who elect to receive an annuity payment from the Variable Fund will have their shares in the Fidelity Spartan U.S. Equity Index Fund redeemed and the proceeds used to purchase units in the Variable Fund. The monthly annuity payments will vary based on the value of these units. The investment strategy of the Variable Fund is the same as the Fidelity Spartan U.S. Equity Index Fund. Retired members may elect to transfer their entire fund balance(s) between the Fixed Fund and the Variable Fund once every 12 months.

Those who first became members on or after January 1, 1996, may not receive a monthly annuity payment from the Fixed and/or Variable Funds when their employment ends.

Survivor Options

At Retirement

An OBS or CBBS member decides whether to take the maximum monthly retirement allowance during the member's lifetime, with nothing payable after death, or to take a reduced amount and provide benefits for a survivor.

Each of the various survivor options is the actuarial equivalent of the maximum retirement allowance. Married members who first become members of the System after January 1, 1990, must designate their spouse as beneficiary to receive a survivor benefit as specified by the Rules governing the Plan or receive their spouse's written consent to select a different survivor option at retirement.

After Retirement

OBS or CBBS retirees who marry or remarry after commencement of their retirement allowance may elect to designate their new spouse for either a 50 percent or 100 percent survivor benefit. Retirees have 90 days from the date of such marriage or remarriage to elect this second survivor benefit. This election and actuarial reduction to the retirement benefit would be effective the first day of the month following the first anniversary of the marriage or remarriage. Previous survivor benefit elections remain in effect for any designated beneficiary whose life expectancy has been used as a factor in determining the amount of the retiree's benefit.

Disability Benefits

A vested OBS or CBBS member may be retired on disability retirement if it is determined that the member cannot continue to work in the member's present position because of a physical or mental disability that is likely to be permanent and there is no other TVA position available for which the member is qualified and can perform with the member's medical restrictions.

Death Benefits

During Employment

The designated beneficiary or the estate of an OBS or CBBS member who dies during employment will receive the member's accumulated contributions, if applicable, and a death benefit as set forth in the Rules.

After Retirement

Upon the death of an OBS or CBBS retiree, the benefits payable (if any) depend upon the survivor option selected.

Cost-of-Living Adjustments

Eligible OBS and CBBS retirees may receive cost-of-living adjustments (COLAs) on the pension benefit portion of the monthly retirement allowance (exclusive of level income plan) as determined in accordance with the Rules. The COLA was 1.53 percent in calendar year 2014 and 2.3 percent in calendar year 2013.

In calendar year 2014, the COLA was based on the increase in the 12-month average of the CPI-U when the CPI-U exceeds by as much as 1 percent the CPI-U average for the prior year for which an adjustment was made. The amount of the adjustment is capped at 5 percent in any one year. The System Board may, with the approval of the TVA, apply an increase greater than 5 percent.

Eligible OBS or CBBS retirees and beneficiaries on the retirement payroll on or before January 1 receive the COLA. If an OBS member retires after January 1, that member's pension will be at least as much as it would have been on January 1 with the COLA if the member was eligible to retire on January 1.

Eligible OBS and CBBS participants will receive COLAs on the supplemental benefit until they reach the maximum as specified in the Rules.

Administrative Expenses

The System's Fixed Benefit Fund assets are used to pay for all eligible administrative expenses.

Domestic Relations Order

The System honors a Domestic Relations Order (DRO) that assigns a portion of the member's benefits to a former spouse if the DRO complies with the System's DRO procedures as set forth in the Rules. DROs otherwise in compliance with those procedures are only effective if they are the result of a marriage that was terminated by a final order of divorce or annulment dated on or after January 1, 2003.

The DRO procedures allow a lump-sum distribution to a former spouse from a member's existing Fixed Fund, Variable Fund, and/or 401(k) Plan accounts. A DRO can also provide a recurring monthly benefit to a former spouse that begins upon the member's retirement and receipt of monthly retirement benefits. The payments continue only until the death of the retiree or former spouse. Survivor benefits are determined solely in accordance with the Rules and the member's beneficiary designations, and they cannot be affected in any way by a DRO.

Tax Status

The Internal Revenue Service (IRS) determined and informed the System in August 2014 that the Plan and the 401(k) Plan are designed in accordance with the applicable sections of the Internal Revenue Code (IRC).

The Plan and the 401(k) Plan have been amended subsequent to the receipt of the latest IRS determination letters. However, the Plan administrator and the Plan's tax counsel believe that the Plan and the 401(k) Plan are currently designed and being operated in compliance with the applicable requirements of the IRC.

Therefore, no provision for income taxes has been included in these financial statements.

As plans maintained for employees of an agency of the federal government, the Plan and the 401(k) Plan are governmental plans within the meaning of Section 3(32) of the Employee Retirement Income Security Act (ERISA). For the most part, governmental plans are excluded from ERISA, which governs private employer pension plans. The Plan and the 401(k) Plan are also governmental plans within the meaning of Section 414(d) of the IRC and, as a result, are exempt from the requirements of the IRC that parallel those contained in ERISA.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of September 30, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by the Internal Revenue Service, Tax Exempt and Government Entities Division; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to plan qualification examinations for years prior to 2008.

Plan Termination

Under the Rules, TVA has the right at any time in its discretion to discontinue or reduce contributions to the System or to terminate the System. No such termination of the System will affect the obligations of TVA with regards to employees' nonforfeitable rights to accrued benefits as set out in the Rules. In the event the System is terminated, the net assets of the System will be allocated generally to provide Plan benefits in the following order: (1) Fixed and Variable Fund benefits based upon members' contributions, (2) nonforfeitable benefits based upon TVA's contributions (defined benefit portion of the Plan), and (3) to the extent feasible, cost-of-living increases thereto. The Plan benefits are not guaranteed by the Pension Benefit Guaranty Corporation.

This summary is intended to help members understand the System and its benefits under the Plan and the 401(k) Plan. The rules governing these plans, not this summary, are used to determine the benefits to which a member is entitled. For additional information about your Retirement System benefits, please contact the Retirement System at the location or numbers listed at the end of this report.

Certification of Financial Statements

Patrick D. Brackett and Pamela K. Ramsey individually certify that:

1. I have reviewed the Financial Statements of the Tennessee Valley Authority Retirement System.
2. Based on my knowledge, the information in the Financial Statements does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Financial Statements.
3. Based on my knowledge, the Financial Statements and other financial information included in the Annual Report fairly present in all material respects the financial condition, results of operations and cash flows of the Tennessee Valley Authority Retirement System as of, and for, the periods presented in the Financial Statements.
4. The other officer of the Tennessee Valley Authority Retirement System listed below and I are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority Retirement System and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Tennessee Valley Authority Retirement System is made known to us by others, particularly during the period in which these Financial Statements are being prepared; and
 - b. evaluated the effectiveness of the Tennessee Valley Authority Retirement System's disclosure controls and procedures as of a date within 90 days prior to the date of the Financial Statements.
5. I and the other officer of the Tennessee Valley Authority Retirement System listed below have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Tennessee Valley Authority Retirement System's auditors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the Tennessee Valley Authority Retirement System's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority Retirement System's internal control over financial reporting.

Date: April 21, 2015



Patrick D. Brackett
Executive Secretary



Pamela K. Ramsey
Assistant Secretary



Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Participants and Administrator of
Tennessee Valley Authority Retirement System
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Valley Authority Retirement System, which comprise the statements of net assets available for benefits as of September 30, 2014 and 2013, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Tennessee Valley Authority Retirement System as of September 30, 2014 and 2013, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP
Crowe Horwath LLP

South Bend, Indiana
April 21, 2015

TVA Retirement System

Statements of Net Assets Available for Benefits

September 30, 2014 and 2013

(Dollars in thousands)

	2014	2013
Assets		
Investments at fair value		
Commingled funds	\$ 2,446,529	\$ 2,341,951
Equity securities	1,763,436	1,772,549
Corporate debt securities	1,364,837	1,381,273
Private equity funds	491,477	538,832
Mortgage and asset-backed securities	455,526	537,583
Private real estate investments	445,938	391,419
Government debt securities	372,140	205,988
Cash equivalents and other short-term investments	368,570	298,282
Treasury bills, U.S. government notes and securities held as futures and other derivative collateral	34,509	38,838
Fair value of derivative assets	20,514	19,086
Securities lending commingled funds (see Note 4)	2,385	2,644
Total investments	<u>7,765,861</u>	<u>7,528,445</u>
Receivables		
Due from broker	65,739	181,519
Interest and dividends	25,273	27,094
Foreign currency forward receivable	8,113	5,512
Other	1,740	1,440
Total receivables	<u>100,865</u>	<u>215,565</u>
Total assets	<u>\$ 7,866,726</u>	<u>\$ 7,744,010</u>
Liabilities		
Due to broker	140,912	324,024
Fair value of derivative liabilities	22,078	7,604
Investment fees payable	9,337	10,299
Other	3,614	3,644
Disbursements payable	2,322	2,206
Total payables	<u>178,263</u>	<u>347,777</u>
Foreign currency forward payable	7,837	5,961
Liabilities to brokers for securities lending (see Note 4)	2,385	2,644
Total liabilities	<u>188,485</u>	<u>356,382</u>
Net Assets Available for Benefits	<u>\$ 7,678,241</u>	<u>\$ 7,387,628</u>

The accompanying notes are an integral part of the financial statements.

TVA Retirement System

Statements of Changes in Net Assets Available for Benefits

Fiscal Years Ended September 30, 2014 and 2013

(Dollars in thousands)

	2014	2013
Investment Income (Loss)		
Net appreciation (depreciation) in fair value of stocks, bonds, and other investments	\$514,766	\$606,733
Net appreciation (depreciation) in fair value of derivative investments	58,253	115,296
Net appreciation (depreciation) in fair value of investments	573,019	722,029
Interest	103,632	116,057
Dividends	46,121	43,060
	722,772	881,146
Less investment expenses	40,669	37,181
	682,103	843,965
Contributions		
TVA	250,176	150
Members	29,894	30,954
Transfers from 401(k) Plan	11,389	4,326
	291,459	35,430
Total increase	973,562	879,395
Benefits, Transfers, and Expenses		
Retirement benefits - Fixed Benefit Fund	647,578	624,543
Transfers to 401(k) Plan	17,524	10,705
Retirement benefits - Variable Fund	11,243	10,748
Administrative expenses	6,604	5,891
Total benefits, transfers, and expenses	682,949	651,887
Net increase (decrease)	290,613	227,508
Net Assets Available for Benefits		
Beginning of year	7,387,628	7,160,120
End of year	\$ 7,678,241	\$ 7,387,628

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Note 1

GENERAL PLAN DESCRIPTION

The Tennessee Valley Authority Retirement System (System) administers a defined benefit plan (Plan) covering most full-time and part-time annual employees of the Tennessee Valley Authority (TVA). The System is administered by an independent, seven-member Board of Directors (System Board) that also administers a defined contribution plan, the TVA Savings and Deferral Retirement Plan [401(k) Plan]. The System provides retirement, disability, and death benefits, and administers three different benefit structures: the Original Benefit Structure (OBS), the Cash Balance Benefit Structure (CBBS), and the Employer Automatic Benefit Structure (EABS). New members hired on or after January 1, 1996, and prior to July 1, 2014, with no prior System membership, must participate in the CBBS. Employees who were members of the System as of December 31, 1995, were given the opportunity to either participate in the CBBS or to remain in the OBS. Employees who become System members on or after July 1, 2014, participate in the EABS, receive a defined contribution retirement benefit only in the 401(k) Plan, and are not eligible for the OBS or CBBS. Please see Note 1 General Plan Description of TVA Savings and Deferral Retirement Plan for a description of the EABS.

There are two investment funds within the Plan: the Fixed Benefit Fund and the Variable Fund. TVA contributes to the Fixed Benefit Fund such amounts as are necessary on an actuarial basis to provide the System with assets sufficient to meet TVA-funded benefit obligations to be paid to members. TVA made a \$250 million contribution to the System in fiscal year 2014. Members have a choice of making contributions to the Fixed Fund within the Fixed Benefit Fund, the Variable Fund, or both, unless their money in the funds was transferred to the 401(k) Plan on or after May 1, 2005. Members who have elected to make this transfer on or after May 1, 2005, are not eligible to make contributions to the Fixed Fund or the Variable Fund.

TVA's contributions are deposited in the Fixed Benefit Fund. Effective January 1, 2010, the Plan was amended to pay the lesser of 6 percent interest rate or the actuarial assumed rate of return less 0.5 percent to members in the Fixed Fund. Members' contributions in the Fixed Fund were credited an annual rate of interest of 6 percent for calendar years 2014 and 2013. Members' contributions to the Variable Fund are invested in an S&P 500 Stock Index Fund.

Retirement benefits for OBS and CBBS members are provided in the form of a pension and, if eligible, an annuity derived from the members' contributions. The Fixed Benefit Fund contains assets for funding both the pension and fixed annuity with the Net Assets Available for Benefits being allocated between members' and TVA's contributions (see Note 7 on Employer Contributions). The Variable Fund is discussed in Note 14.

A more detailed description of contributions, benefits, vesting, and funding is available from the TVA Retirement System.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Adoption of New Accounting Standards

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-01 – *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU amends Accounting Standards Codification (ASC) 210, *Balance Sheet*, specifically the disclosure requirements created by ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, issued by the FASB in December 2011.

ASU 2013-01 clarifies that the intended scope of ASU 2011-11 was for derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The ASU does not apply to standard commercial contracts. The effective date of these ASUs was for annual reporting periods beginning on or after January 1, 2013, with retrospective application for comparative periods. TVARS has evaluated the provisions of these ASUs, has adopted certain qualitative disclosures, and has determined there is no material impact on the Plan's Statement of Net Assets Available for Benefits and Statement of Changes in Net Assets Available for Benefits.

Custody Relationships

The Bank of New York Mellon (BNY Mellon) serves as the Master Trustee (Trustee) of the Plan and accounts for the entire portfolio. The Plan has certain commingled fund investments where the investment advisor has contracted the custodial services to a financial institution other than BNY Mellon.

The holdings for private equity funds are investments in limited partnerships and not held at a custody bank. The private equity funds comprise 6.4 percent of the Net Assets Available for Benefits in fiscal year 2014 and 7.3 percent in fiscal year 2013. The holdings for the private real estate investments are investments in commercial real estate and also are not held at a custody bank. The private real estate investments comprise 5.8 percent of the Net Assets Available for Benefits in fiscal year 2014 and 5.3 percent in fiscal year 2013.

Investment Valuation and Income Recognition

The Plan's investments and derivative instruments are reported at fair value. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Fair value is viewed as the price that would be received by the Plan for an asset or paid by the Plan to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the Plan's principal or most advantageous market for the asset or the liability. There is a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements). The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets in active markets that the Plan has the ability to access at the measurement date.

Level 2 Inputs: Significant observable inputs other than Level 1 such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data such as matrix pricing, yield curves, and indices.

Level 3 Inputs: Significant unobservable inputs that reflect the Plan's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following descriptions of the valuation methods and assumptions used by the Plan to estimate the fair value of investments apply to investments held directly by the Plan. Third-party pricing vendors provide valuations for investments held by the Plan in most instances, except for commingled, private equity, and private real estate funds which are priced at net asset values established by the investment managers. In

instances where pricing is determined to be based on unobservable inputs, or where liquidity restrictions exist in the case of funds valued at net asset value, a Level 3 classification has been assigned.

Equities and Preferred securities: Investment securities, including common stock, mutual funds, and preferred securities listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System, are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the security is primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Equities and preferred securities priced by an exchange in an active market are classified as Level 1. Preferred securities classified as Level 2 may have been priced by dealer quote or using assumptions based on unobservable market data, such as yields on bonds from the same issuer or industry.

Corporate debt securities: Corporate bonds are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Residential mortgage-backed securities: Residential mortgage-backed securities consist of collateralized mortgage obligations (CMOs) and U.S. pass-through security pools related to government-sponsored enterprises (GSEs). CMO pricing is typically based on either a volatility-driven, multidimensional, single-cash-flow stream model or an option-adjusted spread model. These models incorporate available market data such as trade information, dealer quotes, market color, spreads, bids, and offers. Pricing for GSE securities, including the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Government National Mortgage Association, is typically based on quotes from the To Be Announced (TBA) market, which is highly liquid with multiple electronic platforms that facilitate the execution of trading between investors and broker/dealers. Prices from the TBA market are then compared against other live data feeds as well as input obtained directly from the dealer community. Most residential mortgage-backed securities are considered to be priced using Level 2 inputs because of the nature of their market-data-based pricing models.

U.S. Treasury and agency securities: For U.S. Treasury securities, fair values reflect the closing price reported in the active market in which the security is traded (Level 1 inputs). Agency securities are typically priced using evaluated pricing applications and models incorporating U.S. Treasury yield curves. Agency securities are classified as Level 2 because of the nature of their market-data-based pricing models.

Debt securities issued by foreign governments: These include foreign government bonds and foreign government inflation-linked securities. They are typically priced based on proprietary discounted cash flow models, incorporating option-adjusted spread features as appropriate. Debt securities issued by foreign governments are classified as Level 2 because of the nature of their market-data-based pricing models.

Asset-backed securities: Asset-backed securities are typically priced based on a single cash-flow stream model, which incorporates available market data such as trade information, dealer quotes, market color, spreads, bids, and offers. Because of the market-data-based nature of such pricing models, asset-backed securities are classified as Level 2.

Debt securities issued by state and local governments: Debt securities issued by state and local governments are typically priced using market-data-based pricing models, and are therefore classified as Level 2. These pricing models incorporate market data such as quotes, trading levels, spread relationships, and yield curves, as applicable.

Commercial mortgage-backed securities: Commercial mortgage-backed securities are typically priced based on a single-cash-flow stream model, which incorporates available market data such as trade

information, dealer quotes, market color, spreads, bids, and offers. Because of the market-data-based nature of such pricing models, commercial mortgage-backed securities are classified as Level 2.

Private equity funds: Private equity limited partnerships are reported at net asset values provided by the fund managers.

The private equity limited partnerships typically make longer-term investments in private companies and seek to obtain financial returns through long-term appreciation based on corporate stewardship, improved operating processes, and financial restructuring, which may involve a merger or acquisition. Significant investment strategies include venture capital; buyout; mezzanine, or subordinated debt; restructuring, or distressed debt; and special situations. Venture capital partnerships consist of two main groupings. Early-stage venture capital partnerships invest in businesses still in the conceptual stage where products may not be fully developed and where revenues and/or profits may be several years away. Later-stage venture capital partnerships invest in more mature companies in need of growth or expansion capital. Buyout partnerships provide the equity capital for acquisition transactions either from a private seller or the public, which may represent the purchase of the entire company or a refinancing or recapitalization transaction where equity is invested. Mezzanine or subordinated debt partnerships provide the intermediate capital between equity and senior debt in a buyout or refinancing transaction and typically own a security in the company that carries current interest payments as well as a potential equity interest in the company. Restructuring or distressed debt partnerships purchase opportunities generated by overleveraged or poorly managed companies. Special situation partnerships include organizations with a specific industry focus not covered by the other private equity subclasses or unique opportunities that fall outside the regular subclasses.

The private equity funds have no investment withdrawal provisions prior to the termination of the partnership, and as such are classified as Level 3. The restricted investments of the private equity funds amounted to \$491.5 million as of September 30, 2014, and \$538.8 million as of September 30, 2013. Partnerships generally continue 10 to 12 years after the inception of the fund. The partnerships are subject to three to four one-year extensions at the discretion of the General Partner. The contractual maturities of private equity funds held in 2014 range from June 2015 to February 2024 before the extensions are applied. Partnerships can generally be dissolved by an 80 percent vote in interest by all limited partners, with some funds requiring the occurrence of a specific event.

Private real estate investments: The Plan's ownership in private real estate investments consists of a pro rata share and not a direct ownership of the underlying investments. The fair values of the Plan's private real estate investments are estimated utilizing net asset values provided by the investment managers. The methodologies utilized by the investment managers to calculate their net asset values are summarized as follows:

The Plan is invested in limited partnerships that invest in real estate securities, real estate partnerships, and in direct real estate properties. This includes investments in office, multifamily, industrial, and retail investment properties in the U.S. and international markets. The investment strategy focuses on distressed, opportunistic, and value-added opportunities. Partnership investments also include mortgage and/or real estate-related fixed-income instruments and related securities. Investments are diversified by property type and geographic location.

The Plan is invested in a commingled fund that develops, renovates, and re-leases real estate properties to create value. Investments are predominantly in top tier real estate markets that offer deep liquidity. Property types include residential, office, industrial, hotel, retail, and land. Properties are diversified by geographic region within the U.S. domestic market. The Plan is invested in a second commingled fund that invests primarily in core, well-leased, operating real estate properties with a focus on income generation. Investments are diversified by property type with a focus on office, industrial, apartment, and retail. Properties are diversified within the U.S. with an overweight to major market and coastal regions.

Fair value estimates of the underlying investments in these limited partnerships and commingled fund investments are primarily based upon property appraisal reports prepared by independent real estate appraisers within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. The appraisals are based on one or a combination of three methodologies: cost of reproduction analysis, discounted cash flow analysis, and sales comparison analysis. Pricing for certain investments in mortgage-backed and asset-backed securities is typically based on models that incorporate observable inputs.

The Plan is invested in a private real estate investment trust formed to make direct or indirect investments in commercial timberland properties. Pricing for these types of investments is based on comprehensive appraisals that are conducted shortly after initial purchase of properties and at three-year intervals thereafter. All appraisals are conducted by third-party timberland appraisal firms. Appraisals are based on either a sales comparison analysis or a discounted cash flow analysis.

The fair value hierarchy level classifications for the Plan's real estate investments are determined based on redemption terms. Investments which cannot be redeemed at the measurement date, but which can be redeemed at a future date, are evaluated based on the length of time until the investment will become redeemable in determining whether the investment should be reported in either Level 2 or Level 3 of the fair value hierarchy. The redemption provisions vary by fund and are detailed below:

Private Real Estate Investment Restrictions

<i>(Dollars in thousands)</i>	2014	2013
	Fair Market Value	Fair Market Value
Withdrawals available quarterly	\$343,766	\$305,279
Restricted - No withdrawals until partnership termination	\$ 73,406	\$ 59,469
Sale of shares permitted under prescribed guidelines	\$ 28,766	\$ 26,671

The contractual maturities of private real estate investments held in 2014 range from December 2015 to December 2022.

Derivatives: The Plan invests in a variety of derivative instruments. The valuation methodologies for these instruments are as follows:

Futures: The Plan enters into futures. The futures contracts are listed on either a national or foreign securities exchange and generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. The pricing is performed by third-party vendors. Since futures are priced by an exchange in an active market, they are classified as Level 1.

Net due to broker on futures: These transactions represent cash reconciliations of margin balances that are classified as Level 2.

Options: The Plan enters into purchased and written options. Options that are listed on either a national or foreign securities exchange are generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. These options are classified as Level 1. Options traded over the counter and not on exchanges are priced by third-party vendors and are classified as Level 2.

Swaps: The Plan enters into various types of swaps. Credit default swaps are priced at market using models that consider cash flows, credit curves, recovery rates, and other factors. The pricing is performed by third-party vendors. Interest rate swap contracts are priced at market using forward rates derived from the swap curve, and the pricing is also performed by third-party vendors. Other swaps such as equity index swaps, and variance swaps are priced by third-party vendors using market inputs such as spot rates, yield curves, and

volatility. The Plan's swaps are generally classified as Level 2 based on the observable nature of their pricing inputs.

Foreign currency forwards: The Plan enters into foreign currency forwards. All commitments are marked to market daily at the applicable translation rates, and any resulting unrealized gains or losses are recorded. Foreign currency forwards are priced by third-party vendors and are classified as Level 2.

See Note 3 for additional information regarding derivative financial instruments.

Commingled funds: The Plan invests in commingled funds, which include collective trusts, unit investment trusts, and similar investment funds that predominantly hold debt and/or equity securities as underlying assets. The Plan's ownership consists of a pro rata share and not a direct ownership of an underlying investment. These commingled funds are valued at their closing net asset values (or unit value) per share as reported by the managers of the commingled funds and as supported by the unit prices of actual purchases and sale transactions occurring as of or close to the financial statement date (Level 2 inputs).

The Plan is invested in equity commingled funds, which can be categorized as either passively managed index funds or actively managed funds. The equity index funds seek to track the performance of a particular index by replicating its capitalization and characteristics. Passive fund benchmark indices include the Russell 1000 index, the S&P 500 index, and the Morgan Stanley Capital International All Country World Index ex-U.S. The actively managed equity funds seek to outperform certain equity benchmarks through a combination of fundamental and technical analysis. Active funds select portfolio positions based upon their research.

The Plan is invested in debt commingled funds, which can be categorized as either passively managed index funds or actively managed funds. The plan's debt index fund invests in a diversified portfolio of fixed-income securities and derivatives of varying maturities to replicate the characteristics of the Barclays Capital U.S. Aggregate Bond index. The fund seeks to track the total return of the Barclays Capital U.S. Aggregate Bond Index. The actively managed debt funds seek to outperform certain fixed-income benchmarks through fundamental research and analysis. The funds invest in a diversified portfolio of fixed income securities and derivatives of varying maturities. The objective is to achieve a positive relative total return through active credit selection.

The plan is invested in commodity commingled funds, which can be categorized as actively managed funds. The funds seek to outperform certain commodity benchmarks through fundamental research and analysis. The funds invest in a diversified portfolio of commodity securities and derivatives of varying maturities. The objective is to achieve a positive relative return through active security selection.

The Plan is invested in commingled funds, which invest across multiple asset classes that can be categorized as blended. These funds seek to outperform a passive benchmark through active security selection. The funds invest in securities across equity, fixed income, currency and commodities. The portfolios employ fundamental, quantitative and technical analysis.

The Plan's investments in equity, debt, blended, and commodity commingled funds can generally be redeemed upon notification of the investment managers, with required notice periods varying from same-day to monthly. These investments do not have unfunded commitments.

Institutional mutual funds: Participation units of institutional mutual funds are stated at their quoted redemption values as reported by the investment managers based on their net asset values, which reflect the fair values of the underlying investments. These funds are traded at published net asset values in an active market (Level 1 inputs).

Cash collateral held under securities lending arrangements: Fair value has been determined to approximate the deposit account balances held in cash collateral pools (Level 2 inputs), as no discounts for credit quality or liquidity were determined to be applicable.

Cash equivalents and other short-term investments and certificates of deposit: Cash equivalents and other short-term investments are highly liquid securities with a maturity of less than three months and 12 months, respectively. These consist primarily of discount securities such as commercial paper, repurchase agreements, U.S. Treasury bills, and certain agency securities. These securities, as well as certificates of deposit, may be priced at cost, which approximates fair value due to the short-term nature of the instruments. Model based pricing which incorporates observable inputs may also be utilized. These securities are classified as Level 2. Active market pricing may be utilized for U.S. Treasury bills, which are classified as Level 1.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments and derivative instruments measured at fair value on a recurring basis are summarized on the following pages.

Assets and Liabilities at Fair Value

Investments and derivative instruments measured at fair value on a recurring basis at September 30, 2014, are summarized below:

Fair Value Measurements at September 30, 2014, Using

<i>(dollars in thousands)</i>	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments				
Equity securities				
Energy	\$486,850	\$486,850		
Financial services	275,955	275,869		\$86
Industrials	200,078	199,465		613
Consumer discretionary	187,799	187,405		394
Information technology	139,126	139,126		
Consumer staples	106,277	106,277		
Health care	115,578	115,578		
S&P 500 index fund	57,247	57,247		
Materials	65,711	65,711		
Telecommunication services	48,638	48,638		
Utilities	39,288	39,288		
Other	3,529	3,407		122
Preferred securities	37,360	5,376	\$31,717	267
Debt securities				
Corporate debt securities	1,364,837		1,348,985	15,852
Residential mortgage-backed securities	215,024		212,198	2,826
Debt securities issued by U.S. Treasury and other U.S. government securities	118,499	118,499		
Asset-backed securities	217,107		197,965	19,142
Debt securities issued by state/local governments	29,060		29,060	
Debt securities issued by foreign governments	224,581		224,581	
Commercial mortgage-backed securities	23,395		20,612	2,783
Commingled funds				
Equity	1,198,581		1,198,581	
Fixed income	660,173		660,173	
Commodity	331,670		331,670	
Blended	228,146		228,146	
Institutional mutual funds				
Cash equivalents and other short-term investments	27,959	27,959		
Certificates of deposit	354,370	6,259	347,956	155
Private equity funds	14,200		14,200	
Private real estate investments	491,477			491,477
Treasury bills, U.S. Government notes, and securities held as futures and other derivative collateral	445,938		343,766	102,172
Securities lending commingled fund	34,509	9,941	24,568	
	2,385		2,385	
Derivatives				
Futures	1,209	1,209		
Purchased options	17,773	123	17,646	4
Swaps	1,532		1,513	19
Total Investments	7,765,861	1,894,227	5,235,722	635,912
Foreign currency forward receivable	8,113		8,113	
Total Investments and Foreign Currency Forward Receivable at Fair Value	\$7,773,974	\$1,894,227	\$5,243,835	\$635,912
Liabilities				
Derivatives				
Futures	11,915	11,915		
Written options	6,896	74	6,814	8
Swaps	3,267		3,267	
Foreign currency forward payable	7,837		7,837	
Total Derivative Liabilities at Fair Value	\$29,915	\$11,989	\$17,918	\$8

Assets and Liabilities at Fair Value

Investments and derivative instruments measured at fair value on a recurring basis at September 30, 2013, are summarized below:

<i>(dollars in thousands)</i>	Fair Value Measurements at September 30, 2013, Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments				
Equity securities				
Energy	\$448,734	\$448,734		
Financial services	283,437	283,437		
Industrials	216,515	216,089		\$426
Consumer discretionary	188,264	188,264		
Information technology	164,132	164,063		69
Consumer staples	124,232	124,232		
Health care	111,957	111,957		
S&P 500 index fund	64,826	64,826		
Materials	61,430	61,430		
Telecommunication services	49,765	49,765		
Utilities	29,879	29,879		
Other	6,879	6,729		150
Preferred securities	22,499	17,948		4,551
Debt securities				
Corporate debt securities	1,381,273		\$1,368,343	12,930
Residential mortgage-backed securities	368,906		366,263	2,643
Debt securities issued by U.S. Treasury and other U.S. government securities	138,444	138,444		
Asset-backed securities	147,850		137,833	10,017
Debt securities issued by state/local governments	36,437		36,437	-
Debt securities issued by foreign governments	31,107		30,283	824
Commercial mortgage-backed securities	20,827		18,101	2,726
Commingled funds				
Equity	1,267,718		1,267,718	
Fixed income	784,528		784,528	
Blended	263,378		263,378	
Institutional mutual funds	26,327	26,327		
Cash equivalents and other short-term investments	298,282	1,092	297,035	155
Private equity funds	538,832			538,832
Private real estate investments	391,419		305,279	86,140
Treasury bills, U.S. Government notes, and securities held as futures and other derivative collateral	38,838	7,736	31,102	
Securities lending commingled fund	2,644		2,644	
Derivatives				
Futures	8,100	8,100		
Purchased options	6,187		6,187	
Swaps	4,799		4,791	8
Total Investments	7,528,445	1,949,052	4,919,922	659,471
Foreign currency forward receivable	5,512		5,512	
Total Investments and Foreign Currency Forward Receivable at Fair Value	\$7,533,957	\$1,949,052	\$4,925,434	\$659,471
Liabilities				
Derivatives				
Foreign currency forward payable	\$5,961		\$5,961	
Futures	4,514	4,514		
Written options	1,379		1,379	
Swaps	1,711		1,711	
Total Derivative Liabilities at Fair Value	\$13,565	4,514	\$9,051	-

The table below presents a reconciliation of Plan investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2014 and 2013, including the reporting classifications for the applicable gains and losses included in the Statements of Changes in Net Assets Available for Benefits.

Summary of Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Transactions

The table below presents a reconciliation of Plan investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2014.

<i>(Dollars in thousands)</i>	October 1, 2013	*Transfers in and/or out of Level 3	Purchases	Sales	Net realized/ unrealized appreciation/ (depreciation)	September 30, 2014	Net change in unrealized appreciation (depreciation) relating to investments still held at September 30, 2014
Private equity funds	\$538,832		\$20,000	(\$102,193)	\$34,838	\$491,477	(\$12,925)
Private real estate investments	86,140		18,590	(16,741)	14,183	102,172	13,703
Asset-backed securities	10,017	(\$3,002)	13,388	(1,404)	143	19,142	107
Corporate debt securities	12,930	379	5,096	(2,885)	332	15,852	1,054
Residential mortgage-backed securities	2,643	(1,587)	1,901	(134)	3	2,826	3
Preferred securities	4,551		250	(6,430)	1,896	267	1,896
Debt securities issued by foreign governments	824		2		(826)		
Commercial mortgage-backed securities	2,726		999	(877)	(65)	2,783	(66)
Cash equivalents and short-term investments	155					155	
Equity securities - Information technology	69	(69)					
Equity securities - Industrials	426				187	613	187
Equity Securities - Financial services		69		(68)	85	86	85
Equity Securities - Consumer discretionary		376			18	394	18
Equity securities - Other	150				(28)	122	(28)
Swaps	8				11	19	11
Purchased options			5		(1)	4	(1)
Written options			(8)			(8)	
Totals	\$659,471	(\$3,834)	\$60,223	(\$130,732)	\$50,776	\$635,904	\$4,044

Summary of Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Transactions

The table below presents a reconciliation of Plan investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2013.

<i>(Dollars in thousands)</i>	October 1, 2012	*Transfers in and/or out of Level 3	Purchases	Sales	Net realized/ unrealized appreciation/ (depreciation)	September 30, 2013	Net change in unrealized appreciation (depreciation) relating to investments still held at September 30, 2013
Private equity funds	\$506,128		\$32,413	(\$83,533)	\$83,824	\$538,832	\$44,189
Private real estate investments	70,954		7,851	(3,207)	10,542	86,140	11,542
Asset-backed securities	17,729	(\$5,732)	1,694	(4,253)	579	10,017	152
Corporate debt securities	14,544	(1,325)	6,073	(4,509)	(1,853)	12,930	(420)
Residential mortgage-backed securities	4,776	(2,428)	1,662	(1,421)	54	2,643	(3)
Preferred securities	4,792				(241)	4,551	(241)
Debt securities issued by foreign governments	2,991		786		(2,953)	824	38
Commercial mortgage-backed securities	2,039		1,029	(205)	(137)	2,726	(129)
Debt securities issued by state/local governments	1,365	(400)	2	(1,014)	47		
Equity securities - Other	489				(339)	150	(339)
Cash equivalents and short-term investments	131		28	(28)	24	155	125
Equity securities - Information technology	69					69	
Equity securities - Industrials	64	371			(9)	426	55
Equity Securities - Financial services	2				(2)		
Swaps	16		8		(16)	8	
Written options	(6)		2		4		
Totals	\$626,083	(\$9,514)	\$51,548	(\$98,170)	\$89,524	\$659,471	\$54,969

* It is the Plan's policy to recognize transfers between fair value hierarchy levels at the beginning of the month for transfers identified by the custodian, and at the beginning of the reporting period for transfers identified by the Plan. In most cases, transfers between levels are the result of the custodian's and/or the Plan's evaluation of pricing information.

Valuation Control Processes — Plan management has control processes that are designed to ensure that fair value measurements used by the Trustee are appropriate and reliable and that the valuation approaches are consistently applied. The Audit Committee of the System Board is responsible for reviewing the adequacy of the organization's system of internal control.

Management's valuation controls include:

- Reviewing annually the valuation and fair value hierarchy policies and practices of the Trustee
- Reviewing annually the valuation policies and methodologies of major third-party pricing vendors utilized by the Trustee
- Reviewing quarterly the pricing and position reconciliations performed by investment managers and the Trustee. Tolerance thresholds by investment type are set by both the investment managers and the Trustee. Discrepancies are investigated by both parties.
- Reviewing the quarterly statements and annual audited financial statements of all commingled and limited partnership funds. Reconciliations are performed verifying the Trustee records match the fund records. Audit opinions are read and any qualifications or disclaimers trigger further inquiry.
- Reviewing semi-annually the pricing sources, investment type categorizations, and fair value hierarchy classifications of all investment positions. Non-vendor pricing sources are inquired upon via the Trustee and/or the investment manager as appropriate. Trustee investment type categorizations are reviewed and Management may make reclassifications based on investment descriptions or other available information. Trustee fair value hierarchy classifications are reviewed and management may make reclassifications based upon available pricing information.
- Reviewing monthly investment manager guideline compliance and performance relative to applicable investment management agreements and benchmarks, respectively.
- A SOC1 Type 2 examination, which includes testing of TVARS controls over investment valuation and financial reporting, is performed annually upon TVARS. The resulting report is distributed to the TVARS Board, TVARS Management, TVARS's independent auditor, TVA, and TVA's independent auditor. Control testing exceptions are reviewed by the TVARS Board and corrective action is taken as appropriate.

Asset Allocation —Over the long-term, asset allocation is expected to be the single greatest contributor of risk and return to the System's investments. The asset allocation policy embodies the System Board's decisions about what proportions of the Retirement System's assets will be invested in various asset classes. Based on an asset-liability analysis conducted periodically by the investment consultant and the System's actuaries, and the return objectives, risk tolerance, and liquidity needs of the System an asset allocation policy was approved on September 12, 2013.

The recommended long-term asset allocation policy is identified by strategic target weights to each of the major asset classes. In addition, minimum and maximum allocations are provided to serve as guidelines for the range of the asset classes. The asset classes may fluctuate within the bands established by the minimum and maximum allocation ranges before the Investment Staff considers reallocating from one asset class to another.

The asset allocation policy is designed to be dynamic in nature and responsive to changes in the funded status of the System consistent with the de-risking objective to reduce the volatility of the funded status over time. This asset allocation policy may be reviewed when there is a meaningful change in the financial

condition of the System; the return objectives, risk tolerance, and liquidity needs of the System; or a change in capital market conditions.

The dynamic policy predetermines changes to the strategic target asset class weights in response to changes in the funded status of the System, either through improvement in the asset value, reduction in liability value, or a combination of the two. The objective of the dynamic policy is to reduce the volatility of the funded status of the System as the funded status improves. As the funded status of the System improves, the target asset allocation will follow a glide path on a forward moving basis. If market conditions cause the funded ratio to fall below the most recently adopted policy from the glide path, the policy will not shift backward along the glide path to previous policies but rather will maintain the newest adopted policy until the funded status exceeds the newest adopted policy targets. Initial target allocations are as follows:

Asset Category	Target Allocation
Global public equity	31.7%
Private equity	10%
Low volatility global public equity	5%
Cash	2%
Core fixed income	5%
Long-term core fixed income	5%
Investment grade credit	6.3%
International emerging markets fixed income	5%
High yield fixed income	5%
Global TIPS	5%
Private real assets	10%
Commodities	5%
Master Limited Partnerships	5%
Total	100%

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risks. Due to the level of risk associated with certain investment securities and the sensitivity of certain fair value estimates to changes in valuation, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Benefits and participants' individual account balances.

Plan contributions are made and the actuarial present value of accumulated plan benefits is reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

Tax Status

The Internal Revenue Service (IRS) determined and informed the System in August 2014 that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been

amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in these financial statements.

As plans maintained for employees of an agency of the federal government, the Plan is a governmental plan within the meaning of Section 3(32) of ERISA. For the most part, governmental plans are excluded from ERISA, which governs private employer pension plans. The Plan is also a governmental plan within the meaning of Section 414(d) of the IRC and, as a result, is exempt from the requirements of the IRC that parallel those contained in ERISA.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of September 30, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by the Internal Revenue Service, Tax Exempt and Government Entities Division; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to plan qualification examinations for years prior to 2008.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Management also uses estimates and assumptions in determining the actuarial present value of accumulated Plan benefits and the changes in actuarial present value of accumulated Plan benefits. Actual results could differ materially from those estimates.

Reclassification

Certain amounts included in the prior year financial statements have been reclassified to conform to the current year's presentation.

Note 3

DERIVATIVE FINANCIAL INSTRUMENTS

The Plan is party to derivative financial instruments in its normal course of business. Interest rate futures, options, and swaps, forward volatility options, and inflation rate floor options may be utilized for managing duration and yield curve risk. Credit default swaps and options may be utilized to obtain credit default protection or as a substitute for the bond, but not to employ leverage. Foreign currency forwards, options, and futures may be utilized to hedge risks associated with short-term exchange rate fluctuations or implement active management decisions via the currency markets. Equity futures and options, total return swaps, and variance swaps may be used in the implementation of various active management strategies. Derivatives are not to be used to effectively leverage the portfolio. Net exposures resulting from derivatives transactions must be covered by holdings within the portfolio. Under the investment management agreements, investment managers may not use derivative financial instruments to fundamentally change the risk/return profile of their portfolios relative to their benchmarks. Additionally, these managers cannot

invest in asset classes that are inconsistent with the benchmarks of their strategies. The derivative strategies employed by the managers in their individual portfolios can expose the Plan to market and credit risk.

The Plan has counterparty exposure in the derivative instruments of certain currency forwards, options, and swaps. Such contracts and agreements have been executed with creditworthy counterparties. Thus, the Plan considers the risk of nonperformance to be remote. The credit risks associated with these instruments are controlled through the evaluation and continual monitoring of the creditworthiness of the counterparties. The Plan also reviews the credit ratings of counterparties on a regular basis. In the event that a counterparty fails to meet the terms of a contract or agreement, the Plan's exposure should be limited to the currency rate differential or contract differential.

The right of set-off generally exists in the event of default for TVARS derivatives, which would be applied based on contract terms. Typically set-off would be permitted by counterparty to each investment manager. The total market value exposure will normally also be set-off against collateral exchanged to date, which would result in a net receivable/(payable) that would be due from/to the counterparty.

A summary of derivatives is presented below.

	Fair Values of Derivative Instruments on Statements of Net Assets Available for Benefits				Effect of Derivative Instruments on the Statement of Changes in Net Assets for the year ended September 30, 2014
	as of September 30, 2014		as of September 30, 2013		Net Appreciation (Depreciation)
	Notional Amount	Fair Value	Notional Amount	Fair Value	
<i>(Dollars in thousands)</i>					
Futures contracts					
Assets					
Equity futures	\$ 6,113	\$ 466	\$ 234,265	\$ 4,798	
Foreign currency futures			583,246	1,626	
Interest rate futures	<u>(166,675)</u>	<u>743</u>	<u>105,335</u>	<u>1,676</u>	
Total futures contract assets	<u>\$ (160,562)</u>	<u>\$ 1,209</u>	<u>\$ 922,846</u>	<u>\$ 8,100</u>	
Liabilities					
Equity futures	\$ 726,191	\$ (10,868)	\$ 429,289	\$ (1,679)	
Foreign currency futures	84,911	(451)	54,191	(151)	
Interest rate futures	<u>77,118</u>	<u>(596)</u>	<u>(170,901)</u>	<u>(2,684)</u>	
Total futures contract liabilities	<u>\$ 888,220</u>	<u>\$ (11,915)</u>	<u>\$ 312,579</u>	<u>\$ (4,514)</u>	
Total Futures	<u>\$ 727,658</u>	<u>\$ (10,706)</u>	<u>\$ 1,235,425</u>	<u>\$ 3,586</u>	<u>\$ 91,949</u>
Option contracts *					
Assets					
Purchased options					
Equity options	2,498	\$ 17,650	2,500	\$ 6,187	
Interest rate options	22	50			
Credit default swap options	11,600	1			
Foreign currency options	<u>379</u>	<u>72</u>			
Total purchased option assets	<u>14,499</u>	<u>\$ 17,773</u>	<u>2,500</u>	<u>\$ 6,187</u>	
Liabilities					
Written options					
Equity options	(1,120)	\$ (6,717)	(2,500)	\$ (1,125)	
Interest rate options	(47,824)	(126)	(100,300)	(246)	
Credit default swap options	(15,400)	(22)	(200)	-	
Foreign currency options	(462)	(28)			
Inflation rate floor options	<u>(13,900)</u>	<u>(3)</u>	<u>(13,900)</u>	<u>(9)</u>	
Total written option liabilities	<u>(78,706)</u>	<u>\$ (6,896)</u>	<u>(116,900)</u>	<u>\$ (1,380)</u>	
Total Options	<u>(64,207)</u>	<u>\$ 10,877</u>	<u>(114,400)</u>	<u>\$ 4,807</u>	<u>\$ (29,141)</u>
Swaps					
Assets					
Interest rate swap contracts	\$ 24,507	\$ 1,006	\$ 106,121	\$ 4,329	
Total return swap contracts			(4,525)	13	
Credit default swap contracts	<u>39,146</u>	<u>526</u>	<u>41,675</u>	<u>458</u>	
Total swap contract assets	<u>\$ 63,653</u>	<u>\$ 1,532</u>	<u>\$ 143,271</u>	<u>\$ 4,800</u>	
Liabilities					
Interest rate swap contracts	\$ 59,479	\$ (2,308)	\$ 31,028	\$ (361)	
Total return swap contracts	(12,945)	-			
Credit default swap contracts	<u>39,733</u>	<u>(959)</u>	<u>37,469</u>	<u>(1,350)</u>	
Total swap contract liabilities	<u>\$ 86,267</u>	<u>\$ (3,267)</u>	<u>\$ 68,497</u>	<u>\$ (1,711)</u>	
Total Swaps	<u>\$ 149,920</u>	<u>\$ (1,735)</u>	<u>\$ 211,768</u>	<u>\$ 3,089</u>	<u>\$ (4,803)</u>
Forwards **					
Forward foreign currency contracts - receivable		\$ 8,113		\$ 5,512	
Forward foreign currency contracts - payable		(7,837)		(5,961)	
Total Forwards		<u>\$ 276</u>		<u>\$ (449)</u>	<u>\$ 248</u>

* Notional reflects number of contracts for options (in thousands)

** Number of forward foreign currency contracts outstanding as of September 30, 2014 and September 30, 2013 were 343 and 404, respectively

Note 4

SECURITIES LENDING

In fiscal year 2009, the System Board moved to discontinue the securities lending program as collateral securities mature. Loans are secured by collateral at least equal to 102 percent of the fair value of the securities loaned for securities of United States issuers denominated in United States dollars. The required collateral percentage is also 102 percent for loans of securities of non-United States issuers for which the collateral is denominated in the same currency as the loaned securities. The required collateral percentage is 105 percent for the loan of securities of non-United States issuers for which the collateral is not denominated in the same currency as the loaned securities. The Plan generally receives cash as collateral for securities lending, but it may also receive investment grade securities or interest in tri-party accounts containing investment grade securities. The cash collateral received for securities lending is recorded both as an asset and a liability in the Statement of Net Assets Available for Benefits. Cash received is invested in commingled funds of various short-term investments where the maximum weighted average maturity of the fund is 90 days and is organized and managed by Mellon Global Securities Services (MGSS), which is limited to investment activities incidental to, or in support of, the securities lending program organized and managed by MGSS. The Plan does not have the right to sell or repledge securities or interest in tri-party accounts received as collateral. The Plan receives a portion of the income earned on the collateral and also continues to earn income on the loaned securities. Any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Plan. The lending agent provides the Plan with indemnification against losses due to borrower default. The Plan bears the risk of loss only with respect to the investment of any cash collateral. A summary of securities currently out on loan and the related collateral is provided below.

SECURITIES LENDING

As of September 30, 2014 and 2013, the Plan loaned securities having a fair value of approximately \$2.3 million and \$2.5 million, respectively, and received \$2.4 million and \$2.6 million, respectively, of collateral in the form of cash.

The following tables summarize the securities loaned and the related collateral:

<i>(Dollars in thousands)</i>	Fair Value of		Total	Collateral	Fair Value of
September 30, 2014	Securities on		Collateral	Percent	Collateral -
	Loan				Cash
Common stocks - domestic	\$ 1,105	\$	1,145	103.6%	\$ 1,145
Corporate bonds	836		855	102.3%	855
Common stocks - international	371		385	103.7%	385
	\$ 2,312	\$	2,385	103.2%	\$ 2,385

September 30, 2013

Corporate bonds	\$ 1,549	\$	1,585	102.3%	\$ 1,585
Common stocks - domestic	673		723	107.5%	723
Common stocks - international	228		236	103.3%	236
U.S. government	99		100	102.0%	100
	\$ 2,549	\$	2,644	103.7%	\$ 2,644

Note 5

COMMITMENTS AND CONTINGENCIES

The Plan has made commitments to various limited partnerships and private real estate investments. A summary is provided below.

<i>(Dollars in thousands)</i>	2014			2013		
	Number of Funds	Fair Market Value	Unfunded Commitments	Number of Funds	Fair Market Value	Unfunded Commitments
Private Equity Funds	23	\$ 491,477	\$ 80,481	23	\$ 538,832	\$ 99,292
Private Real Estate Funds	9	\$ 445,938	\$ 88,935	8	\$ 391,419	\$ 35,478

Note 6

MEMBER CONTRIBUTIONS

Eligible members may voluntarily contribute to either the Fixed Fund, the Variable Fund, or both. Federal income tax is deferred on earnings until annuity payments start or withdrawals are made. Members are also permitted to transfer their contributions between the Fixed Fund and the Variable Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Members who transfer their balance to the 401(k) Plan on or after May 1, 2005, are no longer eligible to contribute to the Fixed Fund or the Variable Fund. Upon retirement, those who first became members before January 1, 1996, may transfer all or any portion of their after-tax balance in the 401(k) Plan to the Fixed Fund and/or Variable Fund to receive monthly payments.

Note 7

EMPLOYER CONTRIBUTIONS

In fiscal year 2014, TVA made a \$250 million contribution to the System. In August 2014, the TVA Board approved a \$215 million contribution to the System for fiscal year 2015 and authorized the TVA Chief Executive Officer to make an additional discretionary contribution of up to \$60 million to the System for fiscal year 2015.

The funding method for the Plan is established solely under the System's Rules and Regulations (Rules). The minimum required funding method calls for TVA's rate of contribution in a fiscal year to be not less than the sum of the normal contribution (the long-term annual weighted average cost of benefits excluding cost-of-living adjustments [COLAs]), the accrued liability contribution (an amortized portion of the Plan's deficit or surplus based on the value of benefits excluding COLAs), and a cost-of-living contribution (an amount to fund COLAs paid during the year).

Under the Rules, TVA may utilize a portion of a reserve account, which consists of contributions made by TVA for past years in excess of the minimum required under the Rules, to offset the cost-of-living contribution component of the minimum required funding method. In addition, TVA's contribution rate for a fiscal year may be reduced or eliminated, upon the System Board's recommendation, if the market value of the Plan's assets exceeds the present value of accrued Plan benefits on the Plan's last valuation date.

Note 8

AMENDMENTS TO THE RULES AND REGULATIONS/PLAN-RELATED RESOLUTIONS

In April 2014, the Rules were amended to close the Plan to new employees who first become members of the System on or after July 1, 2014, as well as former TVA employees who are rehired and become members again on or after July 1, 2014, but who were previously not vested or previously took a lump sum distribution from the Plan. These members are participants in the EABS and receive a defined contribution retirement benefit only in the 401(k) Plan.

In fiscal year 2014 and 2013, the Board made housekeeping amendments to the Rules for compliance with IRS regulations to maintain favorable tax-qualified status.

Effective April 2014 through a Board resolution, partial month payments were no longer made when a retiree or beneficiary receiving a monthly retirement allowance dies during the middle of a month and there is no continuing or lump sum benefit payable to a designated beneficiary.

Note 9

ACTUARIAL ASSUMPTIONS

Accumulated benefits are those future periodic payments, including single-sum payments, that are attributable under the Plan to the service members have rendered and contributions members have made. Accumulated benefits include benefits expected to be paid to (1) retired or terminated members or to their beneficiaries, (2) beneficiaries of members who have died, and (3) current members or their beneficiaries.

Pension benefits under the Plan's OBS are based on members' years (to the nearest month) of creditable service, highest average compensation during any three consecutive years of creditable service, and a pension factor, less a Social Security offset. Calculations of the accumulated pension benefits for active employees are based on their average compensation during the last three years ending on the valuation date.

Pension benefits under the Plan's CBBS are based on pay credits and interest credits that accumulate over the members' cash balance service. Pay credits accumulate at a rate equal to 6 percent of members' compensation, and interest is credited each month at the rate established by the System Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the CPI-U for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The interest rate was 6 percent for calendar years 2014 and 2013. Benefits payable under all circumstances – retirement, death, disability, and termination of employment – are included to the extent they are deemed attributable to members' service rendered to the valuation date.

The actuarial present value of accumulated benefits is determined by the System's actuary, Mercer Human Resource Consulting, and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of September 30, 2014 and 2013, were:

- A. Life expectancy of participants – the Combined Healthy RP-2000 Mortality table projected to 2022 for 2014 and 2013.
- B. Interest rate – 7.00 percent for 2014 and 7.25 percent for 2013.
- C. Retiree cost-of-living increases – 2.5 percent annually for 2014 and 2013.
- D. Annual rates of retirements – the assumptions for fiscal years 2014 and 2013 were:

Fiscal Year 2014		Fiscal Year 2013	
Attained Age	Annual Rates of Retirement	Attained Age	Annual Rates of Retirement
45-49	2%	45-49	2%
50-54	6%	50-54	6%
55	15%	55	15%
56-59	12.5%	56-59	12.5%
60-61	20%	60-61	20%
62	30%	62	30%
63-64	25%	63-64	25%
65	30%	65	30%
66-69	25%	66-69	25%
70	100%	70	100%

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were terminated, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

Accumulated Benefits

The estimated actuarial present value of accumulated benefits for the System payable from the Fixed Benefit Fund is as follows:

<i>(Dollars in thousands)</i>	September 30	
	2014	2013
Vested benefits		
Participants currently receiving benefits	\$7,773,500	\$6,991,500
Active participants	1,717,800	2,066,700
Deferred benefit participants	71,000	69,700
Total	9,562,300	9,127,900
Nonvested benefits	54,800	66,700
Total estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund	<u>\$ 9,617,100</u>	<u>\$ 9,194,600</u>

The calculations presented in this section are solely for purposes of fulfilling plan accounting and reporting requirements in accordance with the *Plan Accounting - Defined Benefit Plans* topic of the FASB codification.

The changes in the estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund are as follows:

<i>(Dollars in thousands)</i>	<i>September 30</i>	
	2014	2013
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at beginning of year	\$ 9,194,600	\$ 8,856,000
Increase during the year attributable to:		
Additional benefits accumulated and actuarial gains and losses	192,500	152,000
Interest due to decrease in the discount period	643,000	619,200
Benefits paid to participants	(651,200)	(630,400)
Change in assumptions	238,200	64,400
Programming changes for participants who selected the interest only option	0	133,400
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at end of year	<u>\$ 9,617,100</u>	<u>\$ 9,194,600</u>

Note 10

NET APPRECIATION (DEPRECIATION) OF INVESTMENTS

During 2014 and 2013, the Plan's investments (including investments bought and sold, as well as held during the year) appreciated (or depreciated) in value as follows:

<i>(Dollars in thousands)</i>	2014	2013
Equity securities	\$235,495	\$289,695
Commingled funds	141,101	243,160
Private equity, private real estate & other	96,635	138,631
Derivatives	58,253	115,296
Debt securities	41,535	(64,753)
Net appreciation (depreciation)	<u>\$573,019</u>	<u>\$722,029</u>

INVESTMENT HOLDINGS OF FIVE PERCENT OR MORE

During 2014 and 2013, the Plan's investments representing Five percent or more of the Net Assets Available for Benefits were as follows:

<i>(Dollars in thousands)</i>	2014	2013
Bank of New York Mellon EB Daily Valued Large Capital Fund	\$430,812	\$364,810 *
Bank of New York Mellon EB Daily Valued, All Country World Index excluding the United States	400,717	522,596
Bridgewater TVARS, LLC	391,469	522,633

* Shown for comparative purposes only as these funds are not greater than Five percent of Net Assets Available for Benefits at September 30, 2013.

Note 11

INVESTMENT EXPENSES AND RELATED PARTY TRANSACTIONS

The Plan paid investment managers \$ 40.7 million in fiscal year 2014 and \$ 37.2 million in fiscal year 2013 for fees related to the management of Plan investments. The increase in investment managers' fees was primarily due to market performance and negotiating with managers to convert certain performance fee accounts into fixed fee accounts, which should also reduce the volatility of investment expenses. In the Statements of Changes in Net Assets Available for Benefits, the investment expenses are netted against the investment income.

BNY Mellon is the Trustee of the Plan, and therefore plan investments that are managed by BNY Mellon and its subsidiaries and affiliates qualify as related party transactions. The investment management and trustee fees paid to BNY Mellon were \$2.4 million in fiscal year 2014 and \$2.2 million in fiscal year 2013.

Note 12

ADMINISTRATIVE EXPENSES

The Plan incurred administrative expenses of \$6.6 million in fiscal year 2014 and \$5.9 million in fiscal year 2013. The administrative expenses include the System staff operations, actuarial services, investment consulting services, legal fees, auditing fees, and other administrative services.

The System staff are TVA employees, and the System utilizes other TVA resources in the administration of the Plan. The System reimburses TVA for expenses incurred on behalf of the Plan. The System paid TVA \$4.1 million in fiscal year 2014 and \$3.9 million in fiscal year 2013.

Note 13

TERMINATION

Under the Rules, TVA has the right at any time in its discretion to discontinue or reduce contributions to the System or to terminate the System. No such termination of the System will affect the obligations of TVA with regards to employees' nonforfeitable rights to accrued benefits as set out in the Rules. In the event the System is terminated, the net assets of the System will be allocated generally to provide Plan benefits in the following order: (1) Fixed and Variable Fund benefits based upon members' contributions, (2) nonforfeitable benefits based upon TVA's contributions (defined benefit portion of the Plan), and (3) to the extent feasible, cost-of-living increases thereto. The Plan benefits are not guaranteed by the Pension Benefit Guaranty Corporation.

Note 14

VARIABLE FUND

The Variable Fund is an investment option for eligible members of the Plan. The Employee Account was transferred to the Fidelity Spartan 500 Index Fund held by Fidelity Investments on August 1, 2006. The Employee Account had been previously invested in the Dreyfus Basic S&P 500 Stock Index Fund. Members' contributions purchase shares at the net asset value of the fund on the date of contribution. If members, upon retirement or termination from employment, elect to withdraw the balance in their accounts, the shares in the mutual fund will be redeemed and the proceeds will be paid. Eligible retired members who elect to receive a monthly annuity benefit redeem shares in the Fidelity Spartan 500 Index Fund, and the proceeds are used to purchase units in the Retiree Account. This account is invested in a commingled trust fund with the underlying investment in stocks included in the S&P 500 Stock Index. The value of the members' units fluctuates with the value of the net assets in the Retiree Account. The value of the retiree units is also updated monthly for interest accruals and annually by an actuarial valuation.

Members can transfer their Variable Fund balance to the Fixed Benefit Fund at various times to provide members with the ability to choose a fixed benefit structure. The Variable Fund benefits are paid entirely from the Variable Fund assets, and the Fixed Benefit Fund assets are not legally available to the Variable Fund. The Variable Fund assets are restricted entirely to the Variable Fund benefits and are not legally available for the funding of Fixed Fund annuity benefits or pension benefits. Key financial data of the Variable Fund at September 30, 2014 and 2013 are as follows:

<i>(Dollars in thousands)</i>	2014	2013
Assets		
Commingled funds	\$ 92,820	\$ 85,906
S&P 500 Stock Index Fund	57,247	64,758
Total investments at fair value	<u>150,067</u>	<u>150,664</u>
Net receivable from the Fixed Benefit Fund	10	1
Due from broker	6	69
Liabilities		
Net payable from the Fixed Benefit Fund	55	174
Net Assets	<u>\$ 150,028</u>	<u>\$ 150,560</u>
Investment Income		
Net appreciation		
in fair value of investments	\$ 26,699	\$ 24,475
Dividends	1,271	1,368
Total investment income	<u>27,970</u>	<u>25,843</u>
Members' Contributions	<u>2,112</u>	<u>2,102</u>
Net Transfers for:		
Net transfers to Fixed Benefit Fund	16,882	9,964
Retirement benefits, withdrawals and death benefits	11,243	10,748
Net transfers to 401(k) Plan	2,489	490
Net transfers	<u>30,614</u>	<u>21,202</u>
Net increase (decrease)	<u>\$ (532)</u>	<u>\$ 6,743</u>

Note 15

PENDING LITIGATION

In March 2010, a group of eight current and former participants in and beneficiaries of the System filed a complaint asserting a purported class-action lawsuit against the six then-current members of the System Board of Directors concerning the amendments to the System Rules that became effective January 1, 2010. In September 2010, the Federal District Court dismissed the complaint, after which the plaintiffs filed an amended complaint against the System and TVA. The amended complaint (Duncan et. al. v. TVA and TVARS) challenges the actions by the System and TVA to (1) reduce the calculation for cost of living adjustment (COLA) benefits for calendar years 2010 through 2013, (2) reduce the interest crediting rate for the System's Fixed Fund accounts, (3) increase the eligibility age to receive COLAs to age 60, and (4) suspend the TVA contribution requirements for fiscal years 2010 through 2013. In the amended complaint, the plaintiffs allege that the January 1, 2010, amendments (1) breached the System's Rules and Regulations, (2) violated the Administrative Procedures Act, (3) violated the Sunshine Act, (4) violated the plaintiffs' constitutional rights, (5) breached the System Board's fiduciary duty to the plaintiffs, and (6) breached TVA's duty to make contributions to the System. The plaintiffs are seeking injunctive relief to rescind the amendments and money damages.

The parties filed a joint mediation report on April 20, 2012, and engaged in mediation in the fall and winter of that year. No settlement was reached. The mediation had removed the case from the Court's active docket, and the Court returned the case to the active docket on July 8, 2013, at the request of Plaintiffs. Since then, the parties have been actively involved in litigation, although they continue to discuss settlement.

TVA filed a Motion for Summary Judgment on November 18, 2013, and the Plaintiffs filed a Motion for Summary Judgment on February 6, 2015. On March 6, 2015, TVARS, TVA, and the Plaintiffs each filed a Response to the Motions for Summary Judgment. On March 20, 2015, TVARS, TVA, and the Plaintiffs each filed Reply Briefs.

The System has retained Bradley Arant Boult Cummings LLP to represent it in the lawsuit. The System has incurred legal fees concerning the litigation of \$473 thousand in fiscal year 2014 and \$270 thousand in fiscal year 2013. Loss contingencies, including claims and legal actions, are recorded as liabilities when the likelihood of loss is probable and an amount or range of probable loss can be reasonably estimated. Plan management has not concluded that any loss is probable as of September 30, 2014.

Note 16

SUBSEQUENT EVENTS

Plan management has evaluated subsequent events for recognition and disclosure through April 21, 2015, which is the date the financial statements were available to be issued.



Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Participants and Administrator of
Tennessee Valley Authority Savings and Deferral Retirement Plan
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Valley Authority Savings and Deferral Retirement Plan, which comprise the statements of net assets available for benefits as of September 30, 2014 and 2013, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Tennessee Valley Authority Savings and Deferral Retirement Plan as of September 30, 2014 and 2013, and the changes in net assets available for benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
April 21, 2015

TVA Savings and Deferral Retirement Plan 401(k) Plan

Statements of Net Assets Available for Benefits

September 30, 2014 and 2013

(Dollars in thousands)

	2014	2013
Assets		
Investments at fair value		
Life Cycle/Blended Funds	\$ 795,760	\$ 705,375
Domestic Equity Funds	622,593	566,940
Bond Funds	178,406	174,423
Stable Value Funds	162,676	166,066
Brokerage Link Funds	138,439	128,875
International Equity Funds	93,671	86,030
Total investments at fair value	1,991,545	1,827,709
Due From Fidelity	463	462
Notes Receivable		
Participant Loans	38,049	35,825
Total assets	\$ 2,030,057	\$ 1,863,996
Liabilities		
Payable to TVARS Pension Plan	39	
Net Assets reflecting all investments at fair value	2,030,018	1,863,996
Adjustment from fair value to contract value for fully benefit-responsive contracts	(2,228)	(2,664)
Net Assets Available for Benefits	\$ 2,027,790	\$ 1,861,332

The accompanying notes are an integral part of the financial statements.

TVA Savings and Deferral Retirement Plan 401(k) Plan

Statements of Changes in Net Assets Available for Benefits

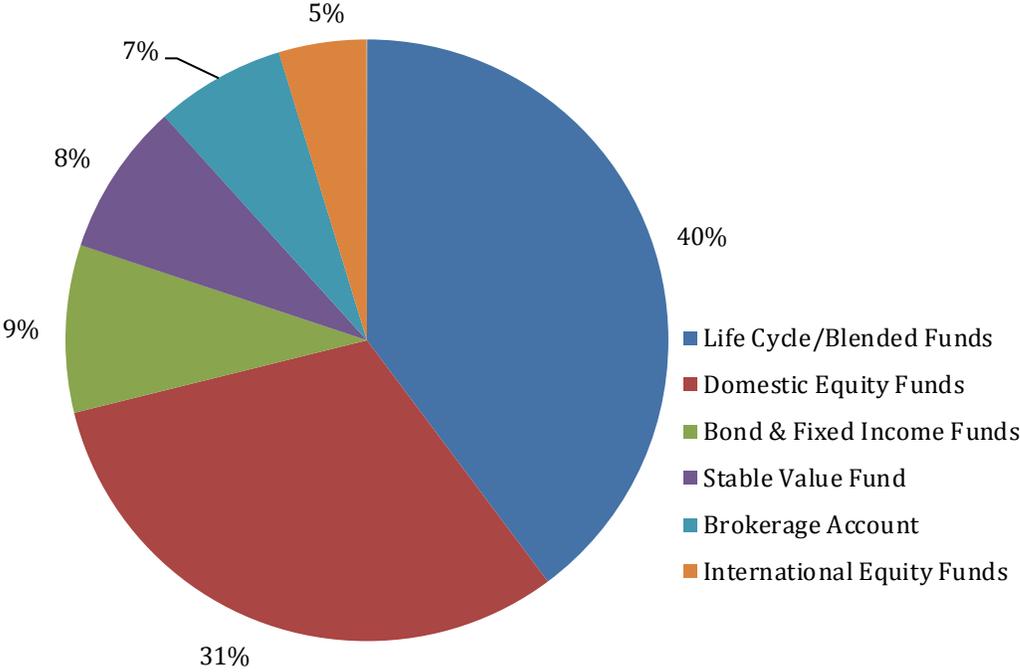
Fiscal Years Ended September 30, 2014 and 2013

(Dollars in thousands)

	2014	2013
Investment Income		
Net appreciation	\$ 66,824	\$ 139,627
Dividends and interest	108,860	60,632
Total Investment Income	175,684	200,259
Contributions		
Members	91,250	88,048
TVA	35,391	34,912
Transfers from annuity funds	17,524	10,705
Total Contributions	144,165	133,665
Other Income		
Revenue Credit	2,100	1,900
Total increase	321,949	335,824
Benefits, Withdrawals, and Transfers		
Benefits and withdrawals	143,757	108,408
Transfers to annuity funds	11,389	4,326
Administrative Expenses-Consultant and Audit Fees	345	175
Total Benefits, Withdrawals, and Transfers	155,491	112,909
Net increase (decrease)	166,458	222,915
Net Assets Available for Benefits		
Beginning of year	1,861,332	1,638,417
End of year	\$ 2,027,790	\$ 1,861,332

The accompanying notes are an integral part of the financial statements.

401(k) Plan Asset Allocation
(September 30, 2014, unaudited and for informational purposes only)



Notes to Financial Statements

Note 1

GENERAL PLAN DESCRIPTION

The Tennessee Valley Authority Savings and Deferral Retirement Plan [401(k) Plan] is a defined contribution plan for members of the System funded by participants' after-tax contributions and before-tax salary deferrals. Additionally, participants may receive employer matching and non-elective contributions provided by the Tennessee Valley Authority (TVA). Investment options for the after-tax, before-tax, Roth, matching, and non-elective contributions consist of 71 eligible funds. A detailed description of the 401(k) Plan and the various investment options offered is available from the TVA Retirement System.

Original Benefit Structure

Members in the Original Benefit Structure (OBS) who contribute to the 401(k) Plan receive employer matching contributions from TVA equal to 25 cents on every dollar contributed, with maximum matching contributions of 1.5 percent of eligible compensation.

Cash Balance Benefit Structure

The System implemented the Cash Balance Benefit Structure (CBBS) for employees who became members on or after January 1, 1996, and prior to July 1, 2014, with no prior System membership. Employees rehired by TVA after a break in service of 180 or more consecutive days and who were vested participants in the OBS when they were last employed are given an opportunity to participate in the CBBS when they are rehired or at the time they become eligible for System membership.

Members in the CBBS who contribute to the 401(k) Plan receive employer matching contributions from TVA equal to 75 cents on every dollar contributed to the 401(k) Plan, with maximum matching contributions of 4.5 percent of eligible compensation.

Employer Automatic Benefit Structure

The System implemented the Employer Automatic Benefit Structure (EABS) for employees who first become members of the System on or after July 1, 2014. Members in the EABS are eligible for a defined contribution retirement benefit only as participants in the 401(k) Plan. These members are not eligible to participate in the CBBS. The EABS also covers any former TVA employees who are rehired and become members of the System again on or after July 1, 2014, but who were previously not vested or who previously received their pension benefit in a lump sum distribution.

For those members in the EABS, TVA provides an automatic, non-elective contribution equal to 4.5 percent of eligible compensation. In addition, TVA contributes 75 cents to a matching account for each dollar contributed on a before- and/or after-tax basis, with maximum matching contributions of 4.5 percent of eligible compensation.

Vesting

Participants who contribute to the 401(k) Plan are immediately vested in their own contributions and become vested in TVA matching and non-elective contributions upon completion of three years of actual service. Actual service is defined as the length of time spent as a member of the TVA Retirement System, not including credit for unused sick leave, forfeited annual leave, or pre-TVA employment military service. Upon completion of this service requirement, a member may withdraw matching and non-elective contributions only upon retirement, disability, or termination of TVA employment. Upon death, matching and non-elective contributions may be withdrawn without regard to the vesting requirement.

Forfeitures

If a participant ceases to be an employee for any reason other than death prior to completing three years of actual service, the entire amount of that participant's matching and non-elective contributions account is forfeited as of the termination date. Forfeitures are used to reduce TVA's matching contributions to the 401(k) Plan and for 401(k) Plan administrative expenses. The amount of forfeitures used to reduce TVA's matching contributions totaled \$819 thousand in fiscal year 2014 and \$739 thousand in fiscal year 2013. The amount of forfeitures used for administrative expenses totaled \$56 thousand in fiscal year 2014 and \$50 thousand in fiscal year 2013.

Termination

In the event the 401(k) Plan is terminated: 1) any unvested matching contributions in participant accounts will become vested, 2) the net assets will be distributed to participants in proportion to their respective accounts in the 401(k) Plan, and 3) payment of nonforfeitable benefits based on contributions and gains and losses thereon to participants' accounts will be assured.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Financial Statements are prepared on the accrual basis of accounting. Benefits are recognized at the time of payment.

Investment Valuation and Income Recognition

The 401(k) Plan's investments are reported at fair value. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the 401(k) Plan's gains and losses on investments bought and sold as well as held during the year.

Fair value is viewed as the price that would be received by the 401(k) Plan for an asset or paid by the 401(k) Plan to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the 401(k) Plan's principal or most advantageous market for the asset or the liability. There is a fair value hierarchy which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 inputs) and gives the lowest priority to unobservable inputs (Level 3 inputs). The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets in active markets that the 401(k) Plan has the ability to access at the measurement date.

Level 2 Inputs: Significant observable inputs other than Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data such as matrix pricing, yield curves and indices.

Level 3 Inputs: Significant unobservable inputs that reflect the 401(k) Plan's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following descriptions of the valuation methods and assumptions used by the 401(k) Plan to estimate the fair value of investments apply to investments held directly by the 401(k) Plan.

Mutual funds: A mutual fund is an investment company that pools the capital of many investors and invests it in stocks, bonds, short-term money market instruments, and other securities. The 401(k) Plan offers members mutual funds managed by Fidelity and other investment companies. The 401(k) Plan's investments in any mutual funds are valued at quoted market prices based on their closing net asset values (or unit value) per share.

Since mutual fund holdings are priced by an exchange in an active market, they are classified as Level 1.

Self-directed brokerage link (BrokerageLink): BrokerageLink allows participants to purchase Fidelity funds, other mutual funds not offered by Fidelity, or other investment securities. Participating members open a brokerage account with Fidelity. Each member selects the specific holdings for their account. The System reviews and categorizes the holdings of the BrokerageLink. The BrokerageLink comprises primarily stocks, mutual funds, bonds, certificates of deposit, and exchange-traded options. The fair value hierarchy classification is determined by the category pricing methodologies.

Mutual funds, including money market mutual funds, are priced by an exchange in an active market and are therefore classified as Level 1. Stocks are priced based on quoted bid prices in active markets for identical assets and are therefore classified as Level 1.

Bonds in BrokerageLink consist primarily of corporate bonds and U.S. Treasury securities. Corporate bonds are valued based on recent bid prices or the average of recent bid and asked prices, when available (Level 2 inputs). If not available, the bonds are valued through matrix pricing, a mathematical technique commonly used to price debt securities that are not actively traded. This method values debt securities without relying exclusively on quoted prices for a specific security but rather by relying on the security's relationship to other benchmark-quoted securities (Level 2 inputs). The fair value of U.S. Treasury securities reflects the closing price reported in the active market in which the security is traded (Level 1 inputs).

Other investments in BrokerageLink consist primarily of certificates of deposit and exchange traded options. Certificates of deposit are typically priced using evaluated pricing applications and models that incorporate observable market data such as current interest rates and relative maturities (Level 2 inputs). Exchange-traded options are generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. These options are classified as Level 1.

Stable value fund: The fair values of interests in stable value funds are based upon the net asset values of such funds reflecting all investments at fair value, including direct and indirect interests in fully benefit-responsive contracts, as reported by the fund managers (Level 2 inputs).

The stable value fund's investment objective is to seek the preservation of capital and to provide a competitive level of income over time that is consistent with the preservation of capital. There are currently no redemption restrictions on this fund. The fund provides for daily redemptions at reported net asset values per share with no advance notification.

Investments measured at fair value on a recurring basis are summarized below.

INVESTMENTS AT FAIR VALUE

Investments measured at fair value on a recurring basis at September 30, 2014 and 2013, are summarized below:

(Dollars in thousands)	Fair Value Measurements at September 30, 2014, Using			Fair Value Measurements at September 30, 2013, Using		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2
Mutual Funds						
Life Cycle/Blended						
Life Cycle 5-24 year horizon	\$ 425,879	\$ 425,879		\$ 369,770	\$ 369,770	
Life Cycle 25-40 year horizon	153,671	153,671		123,453	123,453	
Life Cycle short term horizon	139,550	139,550		148,309	148,309	
Blended	76,660	76,660		63,843	63,843	
Domestic Equity Funds						
Large Cap	445,590	445,590		392,483	392,483	
Mid Cap	124,195	124,195		127,137	127,137	
Small Cap	52,808	52,808		47,320	47,320	
Bond & Fixed Income Funds	111,419	111,419		103,719	103,719	
International Equity Funds	93,671	93,671		86,030	86,030	
Money Market Funds	66,987	66,987		70,704	70,704	
Brokerage Link Fund						
Stocks	66,801	66,801		54,380	54,380	
Mutual Funds	41,787	41,787		38,679	38,679	
Money Market Funds	28,231	28,231		34,530	34,530	
Other	1,188	147	1,041	866	119	747
Bonds	432	88	344	420	87	333
Stable Value Fund	162,676		162,676	166,066		166,066
Total Investments	\$ 1,991,545	\$ 1,827,484	\$ 164,061	\$ 1,827,709	\$ 1,660,563	\$ 167,146

Fully Benefit-Responsive Investment Contracts

While the 401(k) Plan investments are presented at fair value in the Statements of Net Assets Available for Benefits, any material difference between the fair value of the 401(k) Plan's direct and indirect interests in fully benefit-responsive investment contracts and their contract value is presented as an adjustment line in the Statements of Net Assets Available for Benefits because contract value is the relevant measurement attribute for that portion of the 401(k) Plan's Net Assets Available for Benefits. Contract value represents contributions made to a contract, plus earnings, less participant withdrawals and administrative expenses. Participants in fully benefit-responsive contracts may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The 401(k) Plan holds an indirect interest in such contracts through its investment in a stable value fund.

Risks and Uncertainties

The 401(k) Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risks. Due to the level of risk associated with certain investment securities and the sensitivity of certain fair value estimates to changes in valuation, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Benefits and participants' individual account balances.

Tax Status

The Internal Revenue Service (IRS) determined and informed the System in August 2014 that the 401(k) Plan is designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The 401(k) Plan has been amended subsequent to the receipt of the latest IRS determination letter. However, the 401(k) Plan administrator and the 401(k) Plan's tax counsel believe that the 401(k) Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in these financial statements. .

As plans maintained for employees of an agency of the federal government, the 401(k) Plan is a governmental plan within the meaning of Section 3(32) of ERISA. For the most part, governmental plans are excluded from ERISA, which governs private employer pension plans. The 401(k) Plan is also a governmental plan within the meaning of Section 414(d) of the IRC and, as a result, is exempt from the requirements of the IRC that parallel those contained in ERISA.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The 401(k) Plan administrator has analyzed the tax positions taken by the 401(k) Plan, and has concluded that as of September 30, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The 401(k) Plan is subject to routine audits by the Internal Revenue Service, Tax Exempt and Government Entities Division; however, there are currently no audits for any tax periods in progress. The 401(k) Plan administrator believes it is no longer subject to plan qualification examinations for years prior to 2008.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

Note 3

AMENDMENTS TO THE RULES AND REGULATIONS/401(k) PLAN-RELATED RESOLUTIONS

In April 2014, the Rules and the 401(k) Plan Provisions were amended to implement the EABS for employees who first become members of the System on or after July 1, 2014. Members in the EABS are eligible for a defined contribution retirement benefit only as participants in the 401(k) Plan. These members are not eligible to participate in the CBBS. The EABS also covers any former TVA employees who are rehired and become members of the System again on or after July 1, 2014, but who were previously not vested or who previously received their pension benefit in a lump sum distribution.

In June 2014, the System Board selected Hewitt EnnisKnupp to serve as its investment consultant for the 401(k) Plan. Hewitt EnnisKnupp will provide consulting services to the System Board regarding the investment structure and administration of the 401(k) Plan.

As part of the ongoing review of the 401(k) Plan investments options, the following funds were removed from the investment menu effective September 2014: Janus Overseas Fund Class N, Perkins Mid Cap

Value Fund Class N, Mutual Shares Fund Class Z, Royce Low-Priced Stock Fund Investment Class, and Wells Fargo Advantage Small Cap Value Fund Institutional Class.

In fiscal years 2014 and 2013, the Board made housekeeping amendments to the 401(k) Plan Provisions for compliance with IRS regulations to maintain favorable tax-qualified status.

Note 4

COMMITMENTS AND CONTINGENCIES

The 401(k) Plan had no existing material commitments or contingencies at September 30, 2014 and 2013.

Note 5

CONTRIBUTIONS

After-tax

After-tax contributions, subject to certain limitations, may be made by payroll deductions or cash payment into the 401(k) Plan. Also, participants are permitted to transfer their money in the Fixed Fund and Variable Fund from the Plan into the 401(k) Plan, which are classified as Transfers from Annuity Funds on the Statement of Changes in Net Assets Available for Benefits. A participant may increase, decrease, transfer, or stop contributions at any time.

Before-tax and Roth

Salary deferrals are made through payroll deductions only. A participant may increase, decrease, transfer, or stop contributions at any time.

Matching

CBBS and EABS participants who contributed to the 401(k) Plan received employer matching contributions from TVA equal to 75 cents on every dollar contributed to the 401(k) Plan, with maximum matching contributions of 4.5 percent of eligible compensation. OBS participants who contributed to the 401(k) Plan received employer matching contributions from TVA equal to 25 cents on every dollar contributed, with maximum matching contributions of 1.5 percent of eligible compensation.

Automatic Non-elective Contribution

TVA provides an automatic, non-elective contribution equal to 4.5 percent of eligible compensation for participants in the EABS. Please see Note 1 General Plan Description and Note 3 Amendments and Resolutions to the Provisions of the 401(k) Plan for more information on the EABS.

For calendar year 2014 total contributions to the Fixed Fund and Variable Fund from the Pension Plan and 401(k) Plan, including TVA matching and automatic, non-elective contributions, could not exceed the lesser of \$52,000 (\$51,000 thousand in calendar year 2013) or 100 percent of calendar year-to-date compensation.

Note 6

REVENUE CREDIT PROGRAM

In fiscal year 2013, the TVARS Board adopted the Fidelity Investments Revenue Credit (RC) program on a participant level and a recordkeeping/administration expense level. Fidelity Investments RC program is an allocation of revenue where revenue earned in connection with Fidelity's plan services exceeds agreed-upon compensation.

On a participant level, the surplus revenue over negotiated Fidelity compensation is allocated to all eligible participants based on the size of their account balance in the 401(k) Plan. Any 401(k) participant with a balance greater than zero on the business day immediately preceding the quarterly crediting date is eligible to receive revenue credits. The RC amounts are paid quarterly on a pro-rata basis based on 401(k) Plan

balances and sources. The amount credited to participants' accounts for fiscal year 2014 was \$1.85 million and \$1.775 million in fiscal year 2013.

The Fidelity RC program is also used to pay administration fees of certain Fidelity consultants dedicated to the 401(k) Plan which totaled \$250 thousand in fiscal year 2014 and \$125 thousand in fiscal year 2013.

Note 7

WITHDRAWALS

After-tax contributions

Participants are permitted to withdraw from any or all of the after-tax funds in the 401(k) Plan at any time. Upon retirement, participants in the 401(k) Plan who first became members of the System prior to January 1, 1996, are also permitted to transfer their after-tax 401(k) funds to the System to receive monthly annuity payments, which are classified as Transfers to Annuity Funds on the Statement of Changes in Net Assets Available for Benefits.

Before-tax and Roth contributions

IRS rules restrict withdrawals from the 401(k) Plan while the member is still employed except for the following situations:

- If the member is over age 59½, salary deferral contributions may be withdrawn at any time.
- If the member is under age 59½, salary deferral contributions may be withdrawn only upon the System Board's approval and only upon a showing of hardship defined as an immediate and heavy financial need where there is a lack of other available resources. Generally, the only financial needs considered to meet the definition of hardship are (1) certain deductible medical expenses, (2) purchase of a principal residence, (3) post-secondary tuition and related educational fees, (4) payments necessary to prevent eviction from or foreclosure on the participant's principal residence, (5) payments for funeral or burial expenses for the participant's deceased family members, or (6) expenses to repair damage to the participant's principal residence resulting from casualty loss.

Participants may receive the full balance of their funds upon retirement, disability, death or termination, except that a retiree may defer distribution until no later than April 1 of the calendar year after the year in which he or she reaches age 70½. In addition, participants may choose, after termination, to receive periodic installment payments from their balance.

Note 8

ADMINISTRATIVE EXPENSES

The 401(k) Plan incurred \$345 thousand in administrative expenses in fiscal year 2014 and \$175 thousand in fiscal year 2013. As explained in Note 6, the Fidelity RC program provided funding for \$250 thousand of administration expenses in fiscal year 2014 and \$125 thousand in fiscal year 2013. As explained in Note 1, \$56 thousand of forfeiture credits were used to pay administrative fees in fiscal year 2014 and \$50 thousand in fiscal year 2013. Investment management fees are charged to the 401(k) Plan as a reduction of investment return and included in the investment income (loss) reported by the 401(k) Plan.

Note 9

RELATED PARTY TRANSACTIONS

Fidelity Management Trust Company is the Trustee of the 401(k) Plan, and therefore 401(k) Plan investments in shares of funds managed by the Trustee and certain subsidiaries and affiliates of the Trustee qualify as related party transactions. Investment management fees are paid from the participants' accounts to Fidelity Institutional Services Company, Inc., for their investments in Fidelity Funds under the 401(k) Plan.

Note 10

NOTES RECEIVABLE FROM PARTICIPANTS

With certain limits, the 401(k) Plan permits loans to participants. Participants may borrow a percentage of their vested account balance (maximum \$50,000) for up to five years, or 10 years if the loan is to be used to purchase a primary residence. The loan interest rate is the prime rate plus 1 percent at the beginning of the quarter, which was 4.25 percent at September 30, 2014 and September 30, 2013. Such interest is credited directly to the account of the participant.

Note 11

INVESTMENT INCOME

During 2014 and 2013, the 401 (k) Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

<i>(Dollars in thousands)</i>	<i>September 30</i>	
	2014	2013
401 (k) Plan Investments	\$ 66,824	\$ 139,627

Substantially all the net appreciation was derived from mutual fund investments. The 401 (k) Plan's investments also earned dividends and interest income of \$108.9 million and \$60.6 million for the years ended September 30, 2014 and 2013, respectively.

Note 12

INVESTMENT HOLDINGS 5 PERCENT OR MORE

As of September 30, 2014 and 2013, the Plan's investments 5 percent or more of the Net Assets Available for Benefits are as follows:

<i>(Dollars in thousands)</i>	2014	2013	
Fidelity Managed Income Pool II	\$ 162,676	\$ 166,066	
Mutual funds of Fidelity Investments			
Fidelity Freedom K 2020	141,649	129,181	
Fidelity Growth Company	133,619	122,465	
Fidelity Freedom K 2030	106,526	90,942	**
Fidelity Freedom K 2025	102,609	88,446	**
Fidelity Contrafund	99,025 *	95,239	

* Shown for comparison purposes only as these funds are not greater than 5 percent of Net Asset Available for Benefits at September 30, 2014.

** Shown for comparison purposes only as these funds are not greater than 5 percent of Net Asset Available for Benefits at September 30, 2013.

Note 13**SUBSEQUENT EVENTS**

401(k) Plan management has evaluated subsequent events for recognition and disclosure through April 21, 2015, which is the date the financial statements were available to be issued.

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