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Fast Facts

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Number of Employees: 42
 Marketing Area: Georgia, Florida, Alabama, Mississippi,
 Tennessee, Kentucky, Virginia, North Carolina,
 South Carolina, southern Illinois, and West Virginia

Customers:	Electric Cooperatives	198
	Public Bodies	292
	Investor-Owned Utilities	1
	TOTAL	491

(Southeastern’s wholesale customers serve more than 12 million consumers.)

Nameplate Generating Capacity:3,392 MW

Financial Data (2008): Total Revenues\$277 million
 (includes Corps of Engineers’ revenues)
 Total Capital Investment\$2.3 billion

(Term of repayment is 50 years from on-line date of each project.)

Investment Repaid..... \$ - 32 million
 Cumulative Investment Repaid.....\$747 million
 Cumulative Interest Paid on Investment.\$1.6 billion

(Power sales repay an average of 63% of the total cost of each multi-purpose project.)

Letter to the Secretary



Dear Secretary Chu:

I am pleased to submit Southeastern Power Administration's (Southeastern's) fiscal year (FY) 2008 Annual Report for your review. The information included in this document reflects our agency's programs, accomplishments, operational and financial activities for the 12-month period beginning October 1, 2007 and ending September 30, 2008.

Southeastern marketed more than 4.5 billion kilowatt-hours of energy to 491 wholesale customers in ten southeastern states this past year. Revenues from the sale of this power totaled approximately \$263 million.

Drought conditions persisted in the southeastern region of the United States during FY 2008 placing strains on our natural and financial resources. Power purchases for FY 2008 totaled \$91 million. Approximately \$44 million of this amount was for replacement power which is paid only during adverse water conditions in order to meet our customers' contract requirements.

With the continued financial assistance and support of our Federal power customers, funding for capitalized equipment purchases and replacements at U.S. Army Corps of Engineers' (Corps) hydroelectric projects provided much needed repairs and maintenance for these aging facilities.

Southeastern's cyber and physical security programs continued to be reviewed and updated to meet Department of Energy (DOE), Homeland Security, and North American Electric Reliability Corporation (NERC) standards and requirements.

In the coming year, Southeastern will continue open communication and cooperation with DOE, the Federal power customers, and the Corps to maximize the benefits of our region's water resources. Although competing uses of water and the prolonged drought conditions will present another challenging year for our agency, Southeastern's employees will meet these challenges and continue to provide reliable hydroelectric power to the people in the southeast.

Sincerely,

A handwritten signature in black ink that reads "Ken Legg". The signature is written in a cursive, flowing style.

Kenneth E. Legg

Administrator

Report of Activities

Customer Funding

Southeastern and the Corps realize that the aging hydroelectric projects have a negative impact on the production of hydropower. Southeastern continues to seek ways to optimize the efficiency and energy production and increase the capacity of these facilities. Due to the Corps' budget, funding has not been available for non-routine maintenance and rehabilitation work. Under Section 212 (Hydroelectric Power Project Funding) of the Water Resources Development Act of 2000, the Corps has the authority to use funds provided by preference customers to carry out the operation, maintenance, rehabilitation, and modernization of a hydroelectric power generating facility at water resources projects under the jurisdiction of the Department of the Army. From that public law, support from preference customers, the Corps and Southeastern, customer funding was initiated in three of Southeastern's four systems.

Georgia-Alabama-South Carolina System Funding

During FY 2008 the Funding Agreement for the Georgia-Alabama-South Carolina System continued to be successful. There were two work items approved by the Project Review Committee (PRC). The first work item for FY 2008 was the realignment of Unit 2 at the Russell Powerhouse for a total funding of \$401,000. The second work item consisted of seven work packages. They are: West Point Powerhouse – install excitation system for Units 2 & 3; Allatoona Powerhouse – transformer supply, new switchyard supply/plans and specifications; Walter F. George Powerhouse – transformer plans and specifications/supply; Carters Powerhouse – Unit 4 excitation system repair; Hartwell Powerhouse – Unit 5 rotor rim repair; Russell Powerhouse – install unit circuit breakers for Units 1 - 4. The total funding for the second work item was \$13,060,000 million. This brings the total customer funding for the Georgia-Alabama-South Carolina System from beginning to present to over \$20 million.

Kerr-Philpott System Funding

Customer funding for the Kerr-Philpott System was established this year. Nominations were mailed and the PRC was elected for the Kerr-Philpott System. We anticipate the PRC will vote on the first work item for customer funding in the near future. There are 48 preference customers choosing to participate in the funding of the first work item.

Cumberland System Funding

During FY 2008, the Project Coordinating Committee, the Corps, and Southeastern drafted a multi-year Memorandum of Agreement (MOA) anticipating that the final version would be signed in early FY 2009. This MOA will provide funding for non-routine maintenance, rehabilitation or modernization activities at the Cumberland River hydroelectric facilities. The parties agreed on at least three consecutive sub-agreements for FY 2008 and 2009.

The first sub-agreement will be for \$8 million, and the second is estimated to be \$12 million. Customer funding for the Cumberland System was established in 2004. Total funding to date is approximately \$20 million.

Energy Efficiency and Renewable Energy Program

In FY 2008, Southeastern's Energy Efficiency and Renewable Energy Program (EERE) continued to support the National Energy Policy Act by promoting energy efficiency and renewable energy education and training among preference customers in the southeast. In addition, Southeastern also sponsored the Bonbright Energy Conference with other utilities located in the southeast. This event is one of the nation's premier energy conferences that promotes dialog among energy suppliers, regulators, and transmission providers.

Southeastern's EERE Program actively leveraged DOE's wind, solar, biomass, and geothermal programs to enhance the energy services that we currently deliver to our customers. Also, EERE continued to support efforts to reduce emissions and promote the President's and DOE's energy efficiency and renewable energy initiatives by providing educational opportunities that address technologies to slow the growth of CO₂ emissions.

Cumberland System Dam Safety Issues

Wolf Creek Project

During FY 2008, Southeastern continued to work with the Corps regarding the Wolf Creek Dam safety issue. Over the course of last year, Cumberland System river basin operations were severely impacted by the operational restrictions necessary due to dam safety concerns at the project. In January 2007, Corps officials elected to lower the elevation of the Wolf Creek Project in response to numerous studies conducted by dam safety experts which concluded that the dam was at high risk of failure. The Corps has undertaken a grouting program at the project in an effort to fill all the cavities and voids under the foundation which are providing paths for seepage. The decrease in the lake elevation of the Wolf Creek Project caused a significant reduction in the quantity of water stored in the Cumberland System. Due to the large volume of system storage normally provided by Wolf Creek, virtually all in-lake and in-stream purposes were dramatically impacted by the reduced storage and corresponding reduction to flows which occurred during the year. The impact to Southeastern's hydropower program was very significant. Southeastern implemented an interim marketing strategy for system generation in order to provide a method of sharing all remaining system generation benefits among Southeastern's customers on a ratable basis. Southeastern will continue this interim strategy until normal operations resume.

Center Hill Project

Since the 1960s, Center Hill has experienced serious seepage problems as a result of the Karst limestone features which comprise the project's foundation. Through the years, the foundation features have allowed water to seep under the dam. This has eroded material and created voids and cavities under the structure. All previous attempts at remedying foundation conditions with grouting material have been ineffective, as the methods previously used did not meet current standards for grouting based on the findings of the External Peer Review Panel for Dam Safety (the Panel). The situation at Center Hill has been classified as Corps' Class I designation (Urgent and Compelling) under the Corps' Dam Safety Action Classification System. The Panel recommended the reservoir elevation at Center Hill be lowered. As a result, the Corps has implemented a revised operating plan for Center Hill which will maintain a lower reservoir level at the project to relieve pressure and stress on the foundation. The Panel also recommended a comprehensive grouting program for the project and installation of a cutoff wall as soon as practicable. Southeastern will continue to work with the Corps as they implement their operational plan for the Center Hill Project.

Cyber and Physical Security

Southeastern's cyber and physical security programs continued to be upgraded as mandated by DOE and NERC in 2008. Also, Southeastern continued its compliance on each of the NERC Cyber Security Standards.

Physical security at Southeastern continued to be reviewed and upgraded. All equipment installations and upgrades are in compliance with DOE, NERC, and the Homeland Security Presidential Directive (HSPD-12). The agency is working toward implementing the hardware and software required to begin using HSPD-12 identification cards for logical and physical access.

Drought Conditions in the Southeast

The southeastern United States continued to experience severe drought conditions during FY 2008. The drought resulted in restricted amounts of water available for hydropower generation; therefore, Southeastern had to continue purchasing power to fulfill its contractual obligations. Southeastern activated its continuing fund in order to purchase this replacement power. Staff members from Southeastern continued to participate in numerous meetings involving the Corps, State and Federal agencies, and Federal power customer groups to discuss the drought conditions and to plan for operational impacts to the hydropower in the southeast.

Marketing Objectives

Southeastern Power Administration was created in 1950 by the Secretary of the Interior to carry out the functions assigned to the Secretary by the Flood Control Act of 1944. In 1977, Southeastern was transferred to the newly created Department of Energy. Headquartered in Elberton, Georgia, Southeastern markets hydroelectric power and energy in the states of Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, and southern Illinois, from reservoir projects operated by the U.S. Army Corps of Engineers. Southeastern has the authority to market power in 11 states – the above ten plus West Virginia.

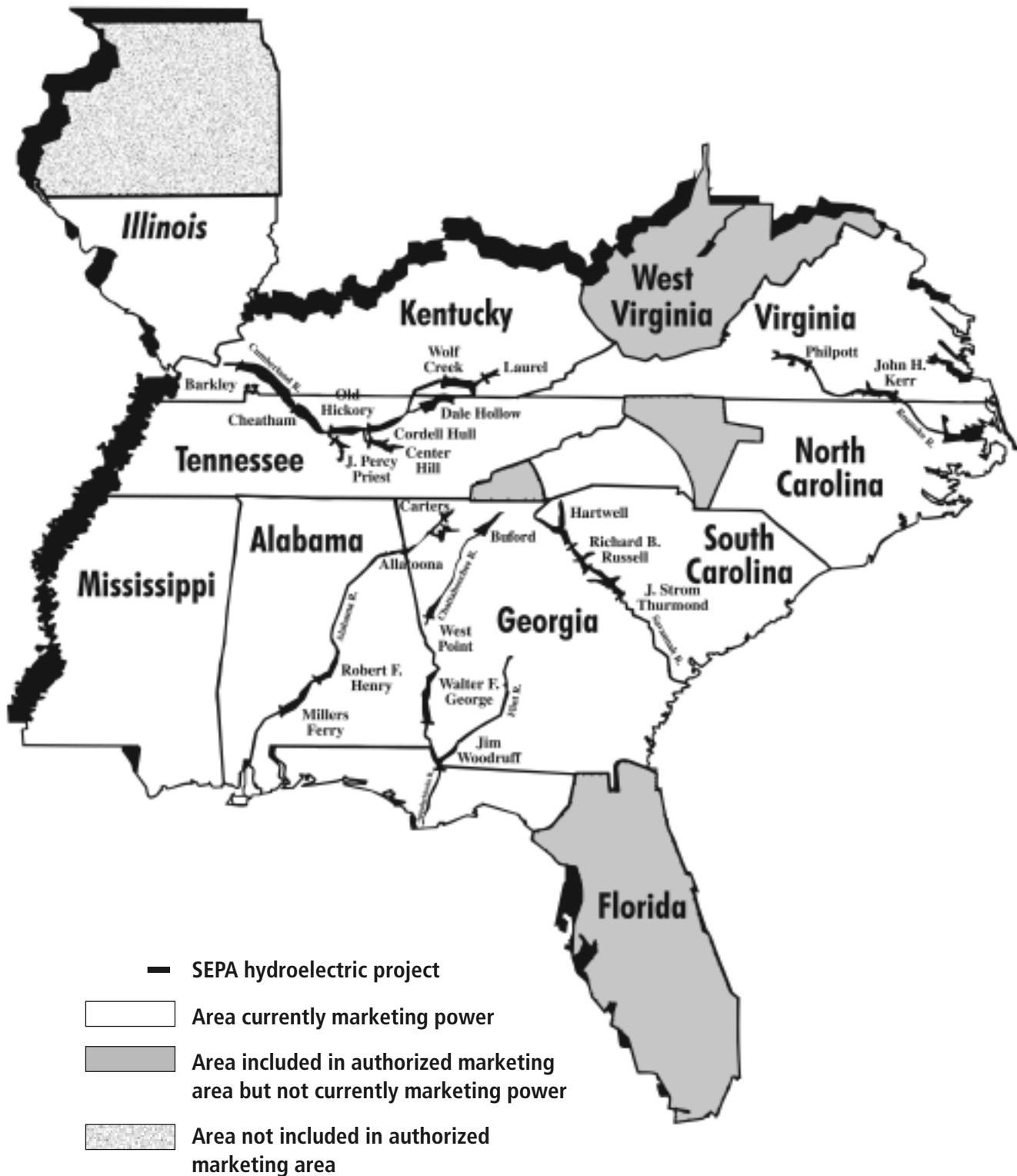
The objectives of Southeastern are to market the electric power and energy generated by the Federal reservoir projects and to encourage widespread use of the power at the lowest possible cost to consumers. Power rates are formulated based on sound financial principles. Preference in the sale of power is given to public bodies and cooperatives, referred to as preference customers. Southeastern does not own transmission lines and must contract with other utilities to provide transmission service for the delivery of Federal power.

Southeastern's responsibilities include negotiating, preparing, executing and administering contracts for the sale of electric power. Southeastern also prepares wholesale rates and repayment studies for the southeast's interconnected reservoir projects, supporting deliveries made to serve contractual loads. Southeastern is also responsible for scheduling hydropower generation at Corps' facilities within its marketing area to ensure and maintain continuity of electric service to its customers.

Section 5 of the Flood Control Act of 1944

“Electric power and energy generated at reservoir projects under the control of the Department of the Army not required in the operation of such projects shall be delivered to the Secretary of Energy, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Secretary of Energy. Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years. Preference in the sale of such power and energy shall be given to public bodies and cooperatives. The Secretary of Energy is authorized, from funds to be appropriated by Congress, to construct or acquire, by purchase or other agreement, only such transmission lines and related facilities as may be necessary in order to make the power and energy generated at said projects available in wholesale quantities for sale on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, cooperatives, and privately owned companies. All monies received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts.”

Marketing Area



Rates and Repayments

One of the major responsibilities of Southeastern is to design, formulate, and justify rates. Repayment studies prepared by the agency determine revenue requirements and appropriate rate levels.

Repayment studies for each of Southeastern's four power marketing systems are updated annually and demonstrate the adequacy of the rates for each system. Rates are considered to be adequate when revenues are sufficient to repay all costs associated with power production and transmission costs. Power production and transmission costs include the amortization of Federal investment allocated to power. An outline of the status of repayment is included in the table below.

Status of Repayment as of September 30, 2008 - Table 1

System	Initial Year of Repayment Studies	Cumulative Revenue \$	Cumulative Expenses and Interest \$	Total Investment to be Repaid \$	Investment Repaid to Date \$	Unpaid Balance of Investment \$
Georgia-Alabama-S. Carolina	1950	3,271	2,908	1,692	363	1,329
Jim Woodruff	1957	174	151	68	23	45
Cumberland	1949	1,245	959	405	286	119
Kerr-Philpott	1953	465	371	149	94	55
TOTAL		5,155	4,389	2,314	766	1,548

(Dollars in Millions)

Georgia-Alabama-South Carolina System

The Georgia-Alabama-South Carolina System consists of ten projects located in Georgia, Alabama, and South Carolina. The power generated at these projects is sold to 176 preference entities that serve 204 preference customers in Georgia, Alabama, South Carolina, North Carolina, Mississippi, and Florida.

Generation

Generation for FY 2008 was 59% of average. Figure A illustrates the percent of average generation by project, and Figure B shows system generation for the years 1999 through 2008.

Financial Performance

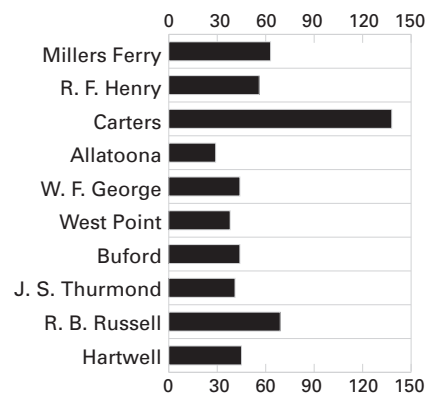
Total revenue for the Georgia-Alabama-South Carolina System in FY 2008 was \$223.6 million. Of this amount, \$215.3 million was derived from the sale of 2,612,436 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were \$151.8 million, interest charged to Federal investment was \$90.0 million. The Georgia-Alabama-South Carolina System incurred a repayment deficit of \$18.2 million in FY 2008. Figure C shows the revenue by source for this system, and Figure D shows the application of revenues.

Table 2 indicates the allocation of costs by project function for each project in the system, and Table 3 indicates the current rates. Current rates for the Georgia-Alabama-South Carolina System were approved on a final basis by FERC on April 18, 2008.

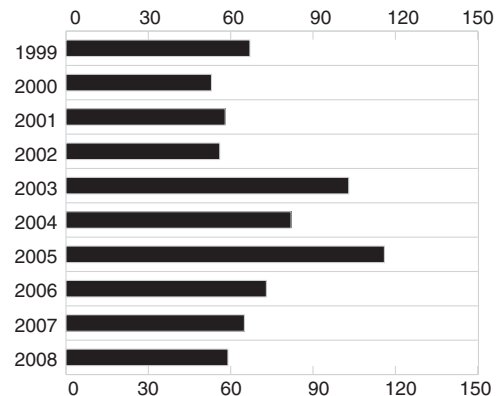
Project Rehabilitation

During FY 2008, major rehabilitation work continued at the Walter F. George Project.

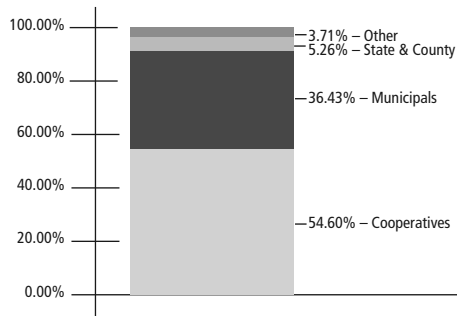
Actual Generation as a Percentage of Average Project Generation - Figure A



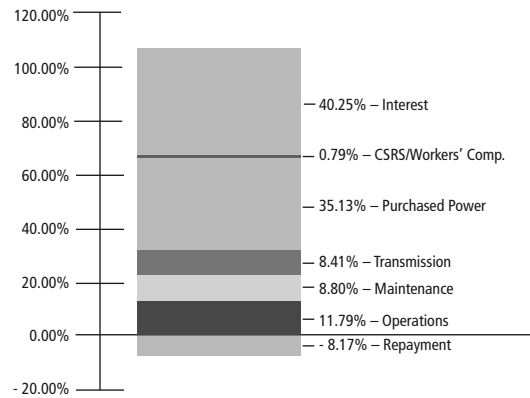
Actual Generation as a Percentage of Average System Generation - Figure B



FY 2008 Revenue by Source - Figure C



FY 2008 Application of Revenues - Figure D



Cost Allocation by Project Function as of September 30, 2008 - Table 2

Project	Total \$	Power %	Navigation %	Flood Control %	Fish and Wildlife %	Recreation %	Other %
Allatoona	61,776,864	70.14	—	14.98	—	14.51	0.38(a)
Buford	97,185,043	81.53	2.15	4.77	—	11.54	—
Carters	166,171,100	84.32	—	12.07	—	3.61	—
J. Strom Thurmond	171,902,820	88.12	2.68	2.47	—	6.73	—
Walter F. George	250,052,606	63.73	32.80	—	0.14	3.33	—
Hartwell	200,111,217	90.50	2.09	2.65	—	4.76	—
Robert F. Henry/Millers Ferry	197,608,401	63.42	29.54	—	—	7.04	—
West Point	157,275,614	46.30	1.71	13.66	8.77	29.56	—
Richard B. Russell	1,181,803,694	64.38	—	0.40	—	35.22	—
TOTAL-GA-AL-SC	2,483,887,359	68.99	6.20	2.80	0.57	21.43	0.01

(a) water supply

Basic Power Rate Schedule as of September 30, 2008 - Table 3

Preference Customers	Capacity \$/KW/ Month	Energy Mills/ KWh	Trans. \$/KW/ Month	Ancillary & Generation Svs. \$/KW/Month
Municipal Elec. Auth. of Georgia & City of Dalton	3.70	9.32	—	.25
Oglethorpe Power Corp. Area	3.70	9.32	—	.12
Southern Company	3.70	9.32	2.43	.36
*PowerSouth Off System	3.70	9.32	2.43	.23
PowerSouth Energy Cooperative	3.70	9.32	—	.12
So. Mississippi Electric Power Assoc.	3.70	9.32	2.40	.12
So. Carolina Public Service Authority Area				
So. Carolina Public Service Authority	3.70	9.32	—	.12
Preference Customers -SCPSA	3.70	9.32	1.23	.12
Duke Power Area				
Bundled	3.70	9.32	.90	.12
Self Scheduling and Self Transmitting	3.70	9.32	—	.12
So. Carolina Electric & Gas Area	3.70	9.32	.94	.12

*Effective January 2008, AEC became PowerSouth Energy Cooperative

Kerr-Philpott System

The Kerr-Philpott System consists of two projects – John H. Kerr on the Roanoke River and Philpott on the Smith River. Power generated at the projects is marketed to 76 preference customers in North Carolina and Virginia.

Generation

Generation for FY 2008 was 48% of average. Figure E illustrates the percent of average generation by project for the year. Figure F shows the system generation by year from 1999 through 2008.

Financial Performance

Total revenue for the Kerr-Philpott System in FY 2008 was \$14.7 million. Of this amount, \$13.1 million was derived from the sale of 211,999 megawatt-hours of energy and 196.5 megawatts of capacity.

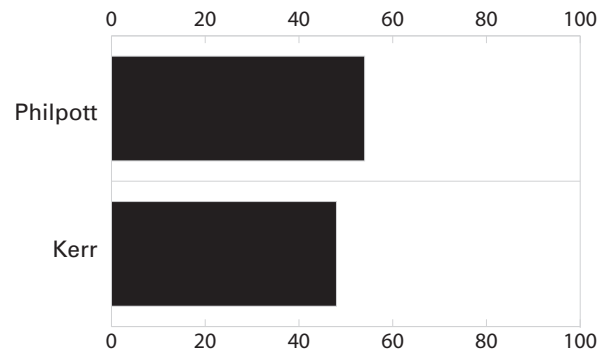
Total operating expenses, excluding depreciation, were \$13.8 million. Interest charged to Federal investment was \$2.1 million. The Kerr-Philpott System incurred a repayment deficit of \$1.3 million in FY 2008. Figure G shows the revenue by source for the Kerr-Philpott System, and Figure H shows the application of revenues.

Table 4 indicates the allocation of costs by project function for each project in the system. Table 5 indicates the current rates. Current rates for the Kerr-Philpott System were approved on a final basis by FERC on December 8, 2006.

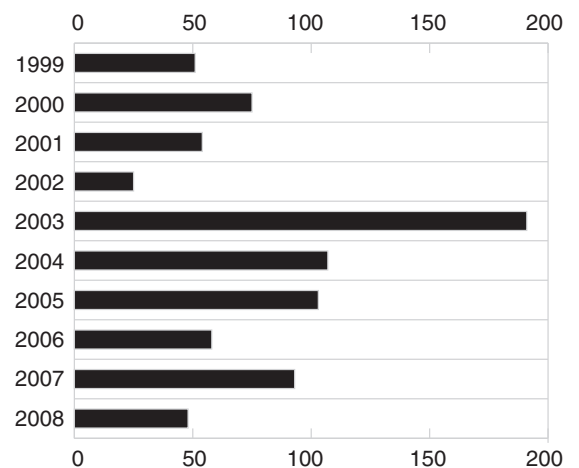
Rehabilitation

During FY 2008, major rehabilitation work continued at the John H. Kerr Project.

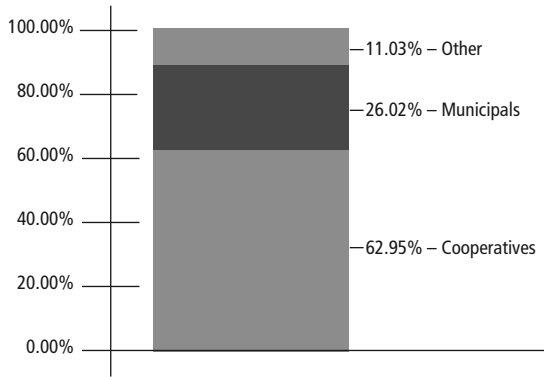
Actual Generation as a Percentage of Average Project Generation - Figure E



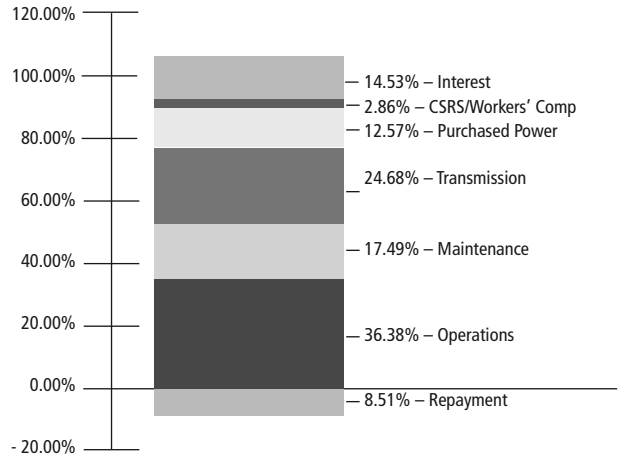
Actual Generation as a Percentage of Average System Generation - Figure F



FY 2008 Revenue by Source - Figure G



FY 2008 Application of Revenues - Figure H



Cost Allocation by Project Function as of September 30, 2008 - Table 4

Project	Total \$	Power %	Navigation %	Flood Control %	Fish and Wildlife %	Recreation %	Other %
John H. Kerr	180,007,206	82.87	–	14.05	–	2.88	0.21(a)
Philpott	23,250,832	50.30	–	35.84	–	13.86	–
TOTAL- Kerr-Philpott System	203,258,038	79.14	–	16.54	–	4.13	0.18

(a) water supply

Basic Power Rate Schedule as of September 30, 2008 - Table 5

Preference Customers	Capacity \$/KW/ Month	Energy Mills/ KWh	Trans. \$/KW/ Month	Ancillary & Generation Svcs. \$/KW/Month	Tandem Transmission \$/KW/Month
Virginia Power Co. Area					
Bundled	2.52	10.06	(6.56)	5.76	2.81
Self Scheduling	2.52	10.06	(6.56)	5.76	2.81
Self Scheduling and Self Transmitting	2.52	10.06	–	5.76	2.81
Scheduled by CP&L	2.52	10.06	(6.56)	5.76	2.81
American Electric Power Service Area	2.52	10.06	–	5.76	2.81
Carolina Power & Light Co. Area	2.52	10.06	1.10	5.76	2.81

Cumberland System

There are nine projects in the Cumberland System located in Tennessee and Kentucky. The power produced at these projects is delivered to 23 preference entities that serve 215 preference customers in Tennessee, Kentucky, Mississippi, North Carolina, Alabama, Georgia, and Virginia and southern Illinois.

Generation

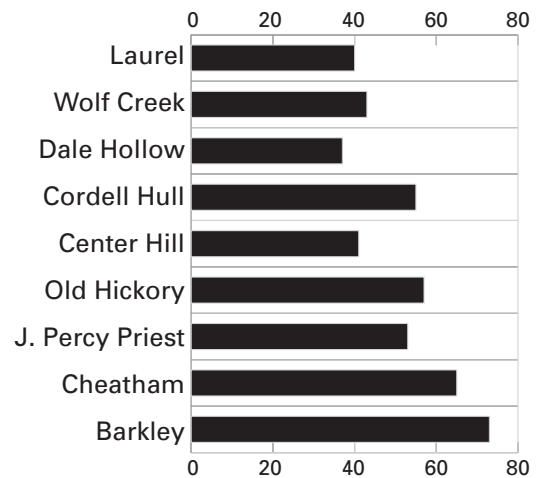
Generation for the system during FY 2008 was 53% of average. The percentage of average generation by project is shown in Figure I, and Figure J shows system generation for the years 1999 through 2008.

Financial Performance

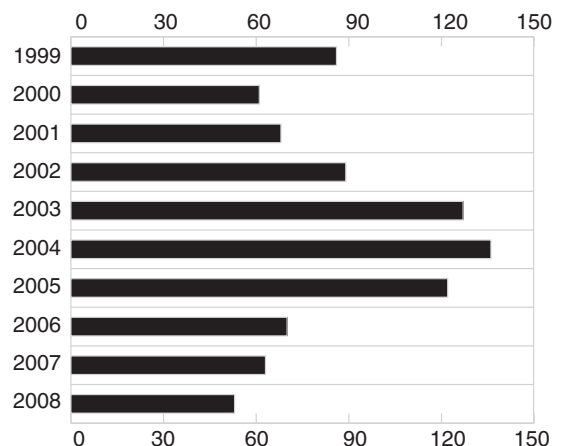
Total revenue for the Cumberland System in FY 2008 was \$30.9 million. Of this amount, \$27.3 million was derived from the sale of 1,456,215 megawatt-hours of energy. Total operating expenses, excluding depreciation, were \$34.4 million. Interest charged to Federal investment was \$3.1 million. The Cumberland System incurred a repayment deficit of \$6.6 million. Figure K shows the revenue by source for the Cumberland System, and Figure L shows the application of revenues for this system.

Table 6 indicates the allocation of costs by project function for each project in this system, and Table 7 indicates the current rates. Current rates for the Cumberland System were approved on a final basis by FERC on August 19, 2008.

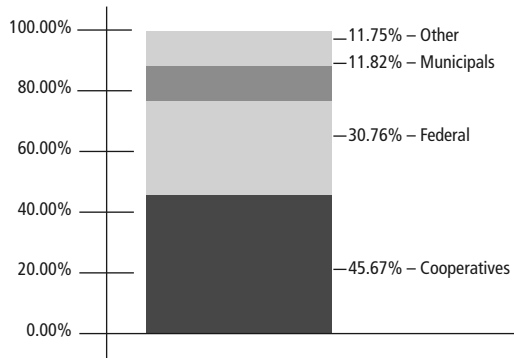
Actual Generation as a Percentage of Average Project Generation - Figure I



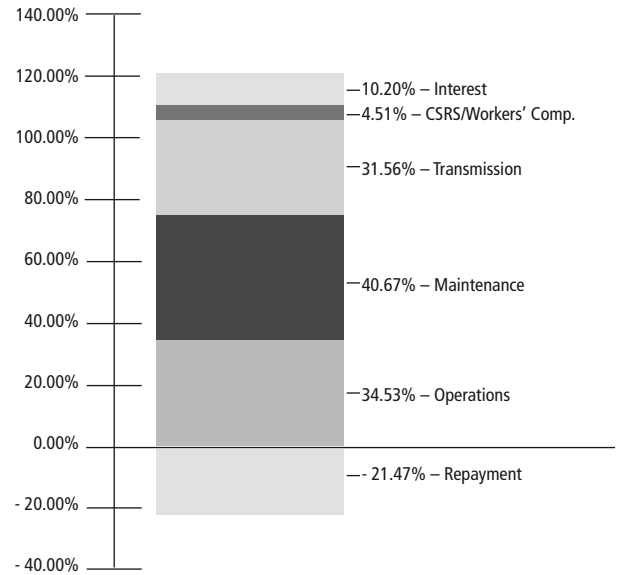
Actual Generation as a Percentage of Average System Generation - Figure J



FY 2008 Revenue by Source - Figure G



FY 2008 Application of Revenues - Figure H



Cost Allocation by Project Function as of September 30, 2008 - Table 6

Project	Total \$	Power %	Navigation %	Flood Control %	Fish and Wildlife %	Recreation %	Other %
Barkley	197,423,041	25.35	59.05	11.71	—	3.88	—
J. Percy Priest	66,529,356	17.49	—	39.28	—	43.22	—
Cheatham	52,253,032	41.85	49.75	—	—	8.40	—
Cordell Hull	89,872,643	47.73	19.59	—	—	25.28	7.40 (b)
Old Hickory	73,079,115	55.42	38.59	—	—	5.98	—
Center Hill	96,604,456	50.76	—	41.20	—	7.32	0.72 (a)
Dale Hollow	36,062,110	61.49	—	32.95	—	5.56	—
Wolf Creek	331,225,135	57.33	—	36.84	—	5.75	0.07 (a)
Laurel	51,293,942	53.58	—	—	—	34.08	12.34 (b)
TOTAL- Cumberland System	994,342,830	45.81	18.95	22.42	—	11.42	1.40

(a) World War II Suspension Costs
 (b) Area Redevelopment

Basic Power Rate Schedule as of September 30, 2008 - Table 7

Preference Customers	Capacity \$/KW/ Month	Energy Mills/ KWh	Trans. \$/KW/ Month
Tennessee Valley Authority	—	11.92	—
Carolina Power & Light Co. Area	—	12.94	1.10
Kentucky Utility Area	—	12.16	—
East Kentucky Power Cooperative	—	12.16	—
Other Preference Customers	—	12.16	—

Jim Woodruff System

The Jim Woodruff System is a one-project system located in the northern panhandle of Florida near the Georgia-Florida border. This system has six customers located in the northern part of Florida and one investor-owned utility.

Generation

Generation during FY 2008 was 73% of average. Figure M illustrates the project's generation for the years 1999 through 2008.

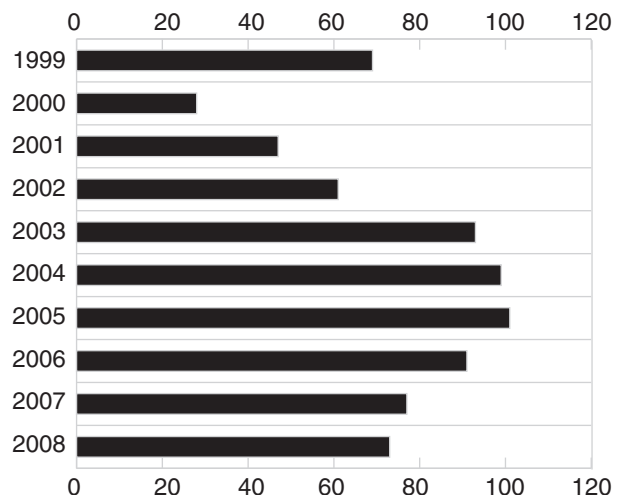
Financial Performance

Total revenue from the Jim Woodruff System was \$7.9 million in FY 2008. Of this amount, \$7.8 million was derived from the sale of 230,323 megawatt-hours of energy and 36 megawatts of capacity.

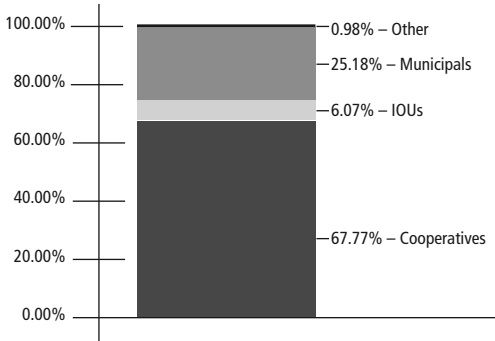
Total operating expenses, excluding depreciation, were \$8.8 million. Interest charged to the Federal investment was \$2.4 million. The Jim Woodruff Project incurred a repayment deficit of \$3.2 million. Figure N shows the revenue by source for the system, and Figure O shows the application of revenues.

Table 8 indicates the allocation of costs by project function for the project in the system, and Table 9 indicates the current rates. Current rates for the Jim Woodruff System were approved on a final basis on April 18, 2005. On June 17, 2005, FERC issued an order granting rehearing for further consideration. On July 20, 2006, FERC issued an order denying rehearing.

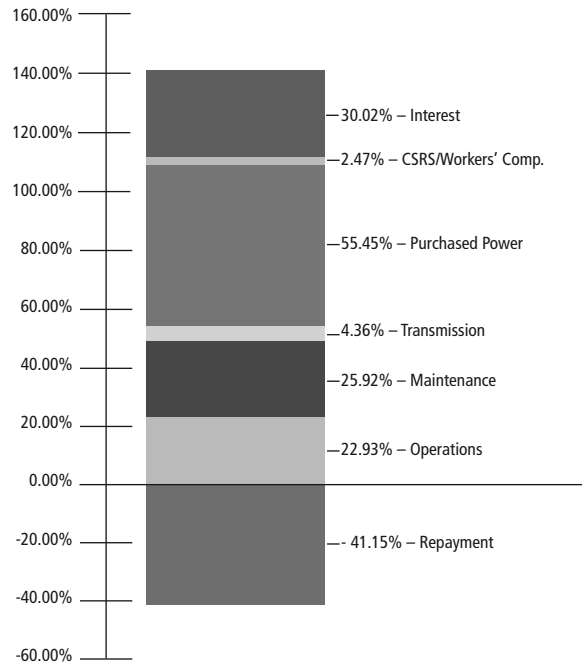
Actual Generation as a Percentage of Average System Generation - Figure M



FY 2008 Revenue by Source - Figure N



FY 2008 Application of Revenues - Figure O



Cost Allocation by Project Function as of September 30, 2008 - Table 8

Project	Total \$	Power %	Navigation %	Flood Control %	Fish and Wildlife %	Recreation %	Other %
Jim Woodruff	103,060,392	63.46	31.58	–	–	4.97	–
TOTAL- Jim Woodruff System	103,060,392	63.46	31.58	–	–	4.97	–

Basic Power Rate Schedule as of September 30, 2008 - Table 9

Preference Customers	Capacity \$/KW/ Month	Energy Mills/ KWh
Preference Customers	6.95	19.95
Investor Owned Utility*	–	22.89

*Rate determined at 90% of Investor Owned Utility avoided cost

Customer	KW	ENERGY	REVENUE
South Carolina			
Blue Ridge EC	18,399	25,155,218	1,850,169.13
Broad River EC	5,570	7,566,933	558,036.28
Central Electric Power Coop	129,088	173,425,757	15,019,205.94
Laurens EC	13,843	18,911,095	1,391,378.24
Little River EC	5,272	7,105,523	533,966.55
York EC	9,050	12,277,153	905,938.26
City of Abbeville	2,959	4,803,271	328,645.24
City of Clinton	2,975	1,856,427	215,131.68
City of Easley	8,656	13,148,514	954,607.51
City of Gaffney	6,986	10,617,826	770,692.20
City of Georgetown	5,300	6,882,099	599,540.54
City of Greenwood	11,404	17,456,120	1,260,533.90
City of Greer	9,159	13,970,526	1,012,538.53
City of Laurens	5,891	8,976,253	650,854.92
City of Newberry	3,277	2,044,445	236,951.95
City of Orangeburg	13,779	15,806,809	1,465,878.03
City of Rock Hill	19,115	29,035,255	2,108,032.23
City of Seneca	2,688	1,661,610	193,949.55
City of Union	3,484	2,174,599	251,962.38
City of Westminster	678	422,629	49,009.44
Town of Bamberg	2,300	2,949,469	258,611.32
Town of Due West	285	183,405	23,824.16
Town of McCormick	522	583,470	55,632.80
Town of Prosperity	602	949,581	74,123.73
Town of Winnsboro	1,366	1,517,016	145,143.41
South Carolina PSA	135,000	133,704,200	11,749,419.72
South Carolina Total	417,648	513,185,203	42,663,777.64

Georgia-Alabama-South Carolina System Total	2,184,232	2,612,436,475	215,260,987.70
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Kerr-Philpott System

Customer	KW	ENERGY	REVENUE
North Carolina			
Albemarle EMC	2,593	1,962,098	231,703.08
Brunswick EMC	3,515	4,507,235	368,209.65
Carteret-Craven EMC	2,735	3,477,791	285,708.68
Central EMC	1,239	1,588,754	129,790.13
Edgecombe-Martin County EMC	4,155	3,182,953	372,382.17
Four County EMC	4,198	5,383,036	439,756.40
Halifax EMC	2,606	2,296,598	242,359.24
Jones-Onslow EMC	5,184	6,647,368	543,043.67
Lumbee River EMC	3,729	4,781,642	390,626.97
Pee Dee EMC	2,968	3,805,825	310,909.27
Piedmont EMC	1,086	1,401,540	113,878.85
Pitt & Greene EMC	1,580	2,026,013	165,511.07
Randolph EMC	3,608	4,626,489	377,953.03
Roanoke EMC	5,528	4,207,335	494,656.94
South River EMC	6,119	7,846,305	640,988.60
Tideland EMC	3,098	2,722,088	287,878.16
Tri-County EMC	3,096	3,969,957	324,317.64
Wake EMC	2,164	2,774,868	226,687.31
City of Elizabeth City	2,073	1,582,441	48,466.71
City of Kinston	1,466	1,119,083	132,930.04
City of Laurinburg	415	316,791	37,630.21
City of Lumberton	895	683,205	81,154.43
City of New Bern	1,204	919,084	109,173.20
City of Rocky Mount	2,538	1,937,403	230,133.92
City of Washington	2,703	2,063,357	245,095.35
City of Wilson	2,950	2,251,906	267,492.14
Fayetteville Public Works Comm.	5,431	4,145,801	492,457.62
Greenville Utilities Commission	7,534	5,751,143	683,147.70
Town of Apex	145	110,690	13,147.95
Town of Ayden	208	158,779	18,860.49
Town of Belhaven	182	138,932	4,255.13
Town of Benson	120	91,603	10,880.98
Town of Clayton	161	122,904	14,598.68
Town of Edenton	775	591,601	18,119.51
Town of Enfield	259	196,250	14,603.26
Town of Farmville	237	180,917	21,490.04
Town of Fremont	60	45,801	5,440.47
Town of Hamilton	40	30,532	935.18
Town of Hertford	203	154,962	4,746.13
Town of Hobgood	46	35,113	1,075.45
Town of Hookerton	30	22,898	2,720.30
Town of La Grange	93	70,993	8,432.77
Town of Louisburg	857	1,102,576	90,159.04
Town of Pikeville	40	30,532	3,627.00
Town of Red Springs	117	89,313	10,609.06
Town of Robersonville	232	177,099	5,424.14
Town of Scotland Neck	304	232,061	7,107.51
Town of Selma	183	139,696	16,593.58
Town of Smithfield	378	288,551	34,275.23
Town of Tarboro	2,145	1,637,406	50,150.09

Customer	KW	ENERGY	REVENUE
Town of Wake Forest	149	113,741	13,510.63
Town of Windsor	331	248,473	7,947.71
North Carolina Total	93,705	93,989,532	8,652,752.51

Virginia

B-A-R-C EC	3,740	4,560,380	144,300.56
Central Virginia EC	7,956	9,795,077	309,247.71
Community EC	4,230	5,165,095	163,373.69
Craig-Botetourt EC	1,692	2,095,378	66,188.36
Mecklenburg EMC	11,344	13,964,376	440,744.06
Northern Neck EC	3,944	4,792,397	152,099.76
Northern Virginia EC	3,268	4,022,886	126,970.12
Prince George EC	2,530	3,074,221	97,366.17
Rappahannock EC	22,427	27,427,554	867,179.52
Shenandoah Valley EMC	9,938	12,213,433	385,650.29
Southside EC	14,575	17,851,332	564,183.18
City of Bedford	1,200	912,416	97,497.06
City of Danville	5,600	4,257,949	454,986.37
City of Franklin	1,003	752,925	24,083.25
City of Martinsville	1,600	1,216,557	129,996.10
City of Radford	1,300	996,644	105,681.65
City of Salem	2,200	1,686,627	178,845.86
Harrisonburg Electric Comm.	2,691	2,046,466	65,079.31
Town of Blackstone	389	292,013	9,340.39
Town of Culpepper	391	297,347	9,455.95
Town of Elkton	171	128,365	4,105.90
Town of Richlands	500	380,174	40,623.79
Town of Wakefield	106	79,569	2,545.15
Virginia Total	102,795	118,009,181	4,439,544.20
Kerr-Philpott System Total	196,500	211,998,713	13,092,296.71

Jim Woodruff System

Florida

Central Florida EC	2,300	11,247,453	416,206.70
Suwannee Valley EC	4,800	32,622,701	1,051,142.89
Talquin EC	13,500	89,717,078	2,915,755.72
Tri-County EC	5,200	26,326,520	958,894.08
City of Chattahoochee	1,800	10,611,558	361,820.59
City of Quincy	8,400	46,262,892	1,623,504.69
Florida Power Corporation	-	13,534,411	478,465.60
Jim Woodruff System Total	36,000	230,322,613	7,805,790.27

Cumberland System

Southern Illinois Power Coop	-	33,570,000	900,811.81
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Kentucky

Big Rivers Electric Corporation	-	221,385,000	5,823,286.44
East Kentucky Power Coop	-	181,305,000	5,195,170.54
City of Barboursville	-	3,279,315	78,609.57
City of Bardstown	-	3,349,371	80,228.39
City of Bardwell	-	807,903	19,315.62
City of Benham	-	369,668	8,905.40
City of Corbin	-	3,872,570	92,822.33
City of Falmouth	-	879,450	21,048.56
City of Frankfort	-	23,284,612	557,915.80
City of Henderson	-	14,491,000	387,325.12
City of Madisonville	-	11,631,127	278,726.02
City of Nicholasville	-	3,809,966	91,294.15
City of Owensboro	-	37,264,919	892,915.50
City of Paris	-	2,033,174	48,691.84
City of Providence	-	1,834,925	43,980.25
Kentucky Total	-	509,598,000	13,620,235.52

Mississippi

South Mississippi EPA	-	63,095,000	1,664,424.08
Mississippi Delta Energy Agency	-	13,208,000	357,917.96
Municipal Energy Agency of Miss.	-	22,919,000	609,172.76
Mississippi Total	-	99,222,000	2,631,514.80

North Carolina

French Broad EMC	-	10,781,173	409,539.29
Haywood EMC	-	3,155,464	119,830.07
Town of Waynesville	-	2,235,123	85,139.86
North Carolina Total	-	16,171,760	614,509.22

Tennessee Valley Authority	-	797,653,000	9,508,023.75
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Cumberland System Total	-	1,456,214,760	27,275,095.10
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Grand Total	2,416,732	4,510,972,561	263,434,169.78
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A Closer Look

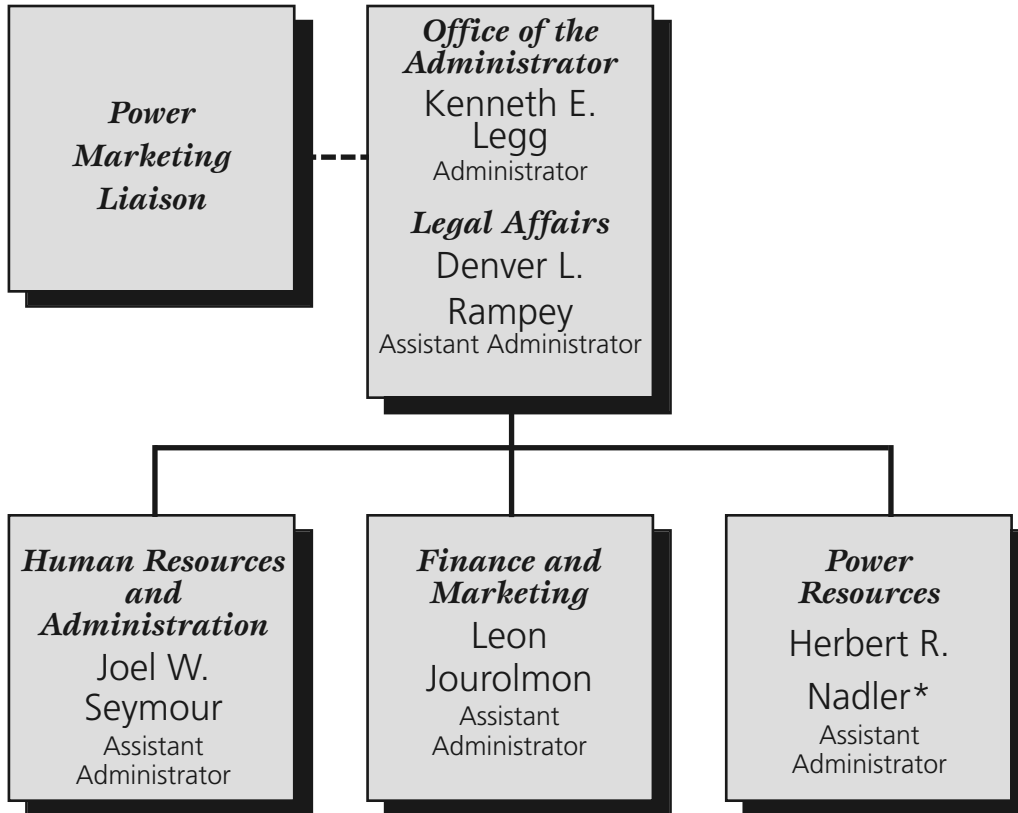
Mission Statement

Southeastern's mission is to market Federal hydroelectric power at the lowest possible cost to public bodies and cooperatives in the southeastern United States in a professional, innovative, customer oriented manner, while continuing to meet the challenges of an ever-changing electric utility environment through continuous improvements.

Vision Statement

Southeastern Power Administration will foster a well-trained, flexible workforce in an open and rewarding workspace. Southeastern's employees will practice integrity and honesty with all partners, nurture creativity, and achieve results in a rapidly changing electric utility industry.

Organizational Chart



*Herb Nadler was named Assistant Administrator, Power Resources, effective July 5, 2009.



2008 Financial Overview and Financial Statements

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2008 Financial Overview & Financial Statements

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Description

The Southeastern Federal Power Program (Power Program) consists of all activities associated with the production, transmission and disposition of Federal power marketed under Section 5 of the Flood Control Act of 1944 in 11 states. These states are: Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, and southern Illinois. The Power Program includes the accounts of two separate Federal government agencies - the Southeastern Power Administration (Southeastern), an agency of the United States Department of Energy, and the United States Army Corps of Engineers (Corps). Southeastern purchases, transmits, and markets power within four separate power systems (each including one or more Corps generating projects for which rates are set). These systems are: Georgia-Alabama-South Carolina System, Jim Woodruff System, Cumberland System, and Kerr-Philpott System.

The Corps operates 22 Federal hydroelectric generating projects in commercial service as of September 30, 2008, for which Southeastern is the power marketing agency. The Corps and Southeastern are separately managed and financed; however, the financial statements are combined under the Power Program title.

Costs of multiple purpose Corps projects are allocated to individual purposes (e.g., power, recreation, navigation, and flood control) through a cost allocation process. Specific and joint-use costs allocated to power are included in the attached statements of assets, Federal investment, and liabilities, under utility plant and cash.

The accounts of the Power Program are maintained in conformity with accounting principles generally accepted in the United States and with the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission. The Power Program's accounting policies also reflect requirements of specific legislation and executive directives issued by the applicable government agencies.

Southeastern and the Corps receive Congressional appropriations through the Department of Energy and the Department of Defense to finance their operations. The Corps also receives Congressional appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act of 1944, Southeastern is responsible for repayment, with interest, of its appropriations, as well as Corps construction and operation appropriations allocated to power.

Program Performance

During FY 2008, Southeastern marketed 4.5 billion kilowatt-hours of energy to 491 wholesale customers. Southeastern's revenues totaled \$277 million, which was \$47 million more than in FY 2007.

Financial Performance

Debt Service Coverage Ratio

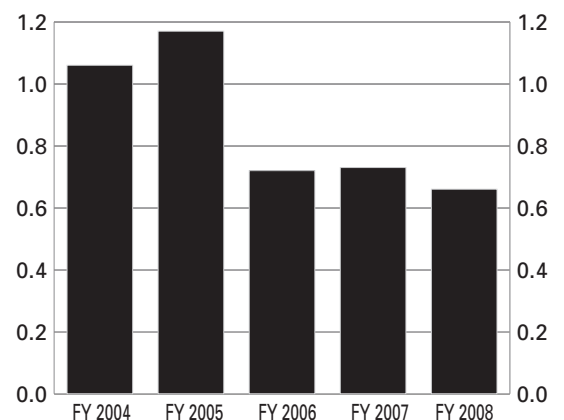
The debt service coverage ratio measures the adequacy of a utility's cash flow to cover debt service cash, both principal and interest.

Specifically, the debt service coverage ratio measures revenues in excess of operating expenses requiring cash, or cash flow from operations available to make debt service payments of principal and interest.

A ratio of 1.0 would generally indicate just enough cash flow to make principal and interest payments on outstanding debt, in addition to meeting all other cash expenses. A ratio of 1.5 would indicate sufficient cash flow to pay 1.5 times the amount of debt service actually due. Debt service coverage is an important measure of financial health, particularly for public power systems with no significant surplus or equity as a cushion. Since the revenues of a power marketing administration are applied to operating expenses and debt service requirements with typically no return built into rates, the level of debt service coverage is viewed as an important means of determining the revenue shortfalls that could be sustained before debt service payments were adversely affected. A balance exists between maintaining a sound financial condition and maintaining the lowest rates consistent with the not-for-profit orientation of power marketing agencies.

Over the last five years, Southeastern's debt service ratio has ranged from about 0.664 to 1.166. Southeastern's debt service ratio for FY 2006, FY 2007 and FY 2008 was below normal due to adverse water conditions. Southeastern's debt service coverage ratio for fiscal years 2004-2008 is illustrated in Figure P.

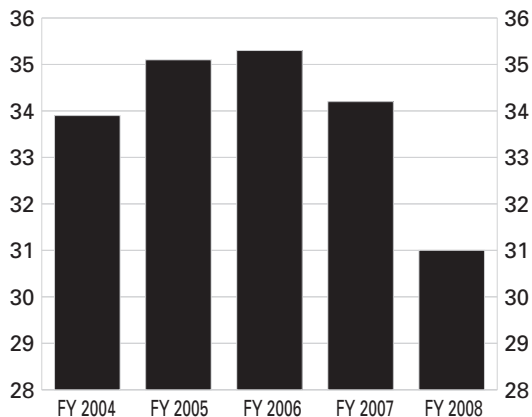
Debt Service Coverage Ratio - Figure P



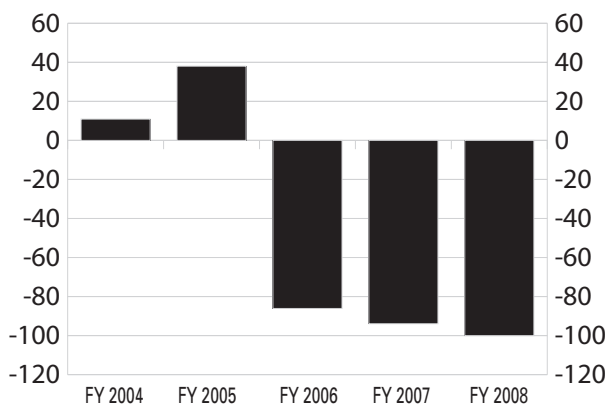
Cumulative Principal as a Percentage of Total Federal Investment (Plant-in-Service)

This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature system. Thus, a system with little time remaining in its repayment period would be expected to have a ratio of cumulative principal payments relative to total Federal investment that approaches 100%. This indicator provides useful information by showing the relationship between the cumulative amount of principal paid to date by Southeastern, as well as the progress made over the period studied. While analysis of this indicator does not necessarily provide conclusive information without further analysis of additional factors, such as the average age of the system, the measure nevertheless provides valuable information on the status of repayment. Over the last five years, Southeastern's principal payments as a percentage of total investment have ranged from 31% to 35%. Payments as a percent of total investment are illustrated in Figure Q.

Cumulative Principal Payments as a Percentage of Total Investment - Figure Q



Percent Variance of Actual From Planned Principal Payments - Figure R



Percent Variance of Actual from Planned Principal Payment

Each of the power marketing administrations shows relatively large fluctuations between actual and planned revenues due to the high variability of water over the years analyzed. A negative number means that actual repayment is not as large as expected. A positive number means that actual repayment is larger than expected.

Southeastern's -86.1% ratio in 2006, -93.9% ratio in 2007 and -100% in 2008, were the result of below average streamflow conditions, as illustrated in Figure R.

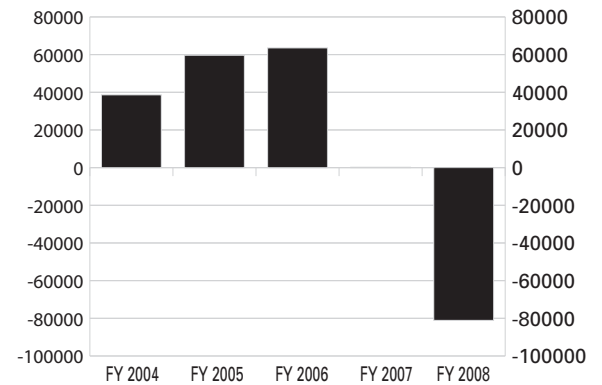
Net Cash to the Treasury

Net cash flow to the Treasury measures the actual net cash flow, both inflows and outflows, to the U.S. Treasury, excluding revenue from the Tennessee Valley Authority. This indicator focuses on cash flows as opposed to accrual accounting results.

Because of its cash nature, this indicator is negatively influenced during years of large capital expenditures. Even in years of favorable financial performance, small or negative cash flow to the U.S. Treasury may result. In addition, the variability of water levels explains some of the fluctuation of this measure.

This indicator provides valuable financial information related to the annual effect of the power marketing administrations on the cash position of the U.S. Treasury. The measure should be used only in combination with other financial indicators to assess Southeastern's financial performance. Net cash flow to the U.S. Treasury is illustrated in Figure S. FY 2007 net cash flow to the Treasury was \$195,000.

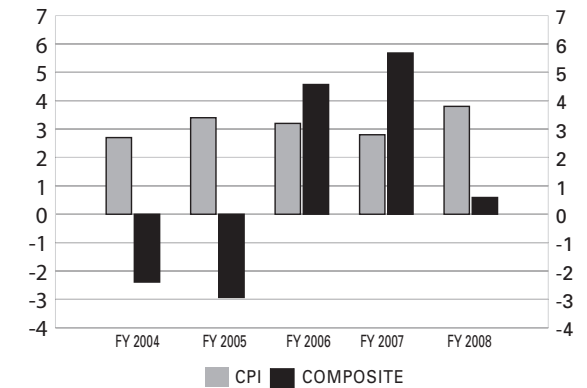
Net Cash Flow to the Treasury – Figure S (in thousands)



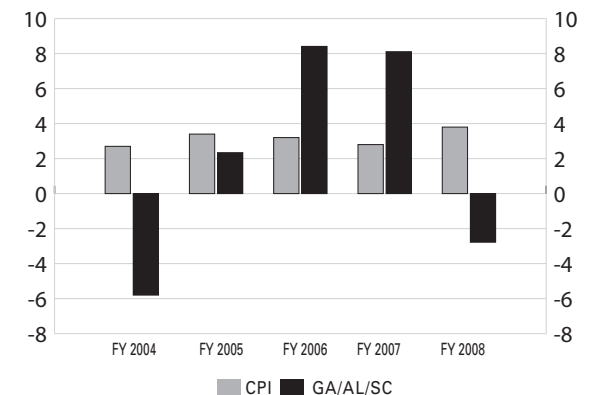
Rate Performance

Performance indicators were prepared separately for transmission costs and generation rates. Cumulative year-to-year percentage increases in costs and rates were compared to cumulative percentage increases in the Consumer Price Index starting with 2004 as the base year.

Composite Transmission Cost Indicator - Figure T

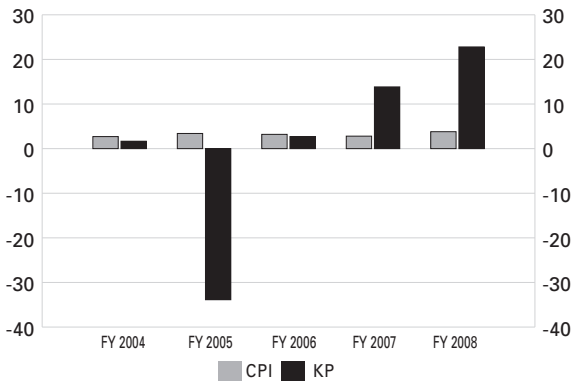


Georgia-Alabama-South Carolina Transmission Cost Indicator - Figure U

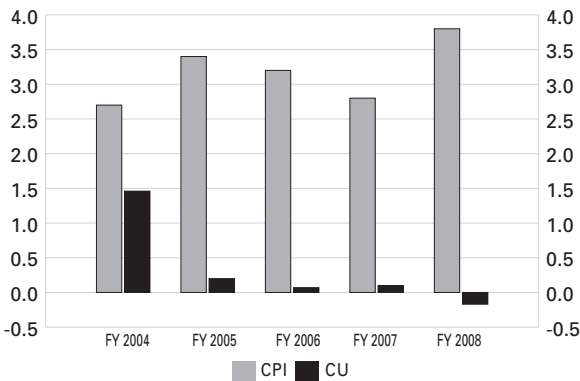


Transmission Performance Indicator – Composite Transmission Cost Indicator

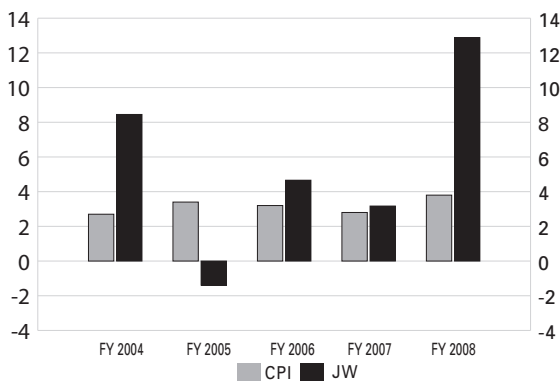
Kerr-Philpott Transmission Cost Indicator - Figure V



Cumberland Transmission Cost Indicator - Figure W



Jim Woodruff Transmission Cost Indicator - Figure X



The transmission cost indicator is a measure of the change in the capacity based on weighted average transmission rates paid by Southeastern from year to year. The FY 2004 decrease was the result of decreases in the transmission rates in the Georgia-Alabama-South Carolina and Kerr-Philpott Systems. The FY 2005 decrease was the result of decreases in transmission rates in the Kerr-Philpott System. The FY 2006 increase was the result of increases in transmission rates in the Georgia-Alabama-South Carolina and Cumberland Systems. The FY 2007 increase was the result of increases in transmission rates in the Georgia-Alabama-South Carolina and Kerr-Philpott Systems. The FY 2008 increase was the result of increases in transmission rates at the Kerr-Philpott System. Composite transmission indicators are illustrated in Figure T.

System Transmission Cost Indicator

The FY 2004 5.8% decrease in the Georgia-Alabama-South Carolina was the result of reductions in transmission rates. The FY 2005 33.9% decrease in the Kerr-Philpott System was the result of a decrease in transmission rates. The FY 2006 8.41% increase in the Georgia-Alabama-South Carolina System was the result of an increase in transmission rates. FY 2007 8.11% increase in the Georgia-Alabama-South Carolina System was the result of an increase in transmission rates. The FY 2008 increase of 22.80% in the Kerr-Philpott System was the result of an increase in transmission rates. System transmission indicators are illustrated in Figures U, V, W, and X.

Generation Performance Indicator - Composite Generation Rate Indicator

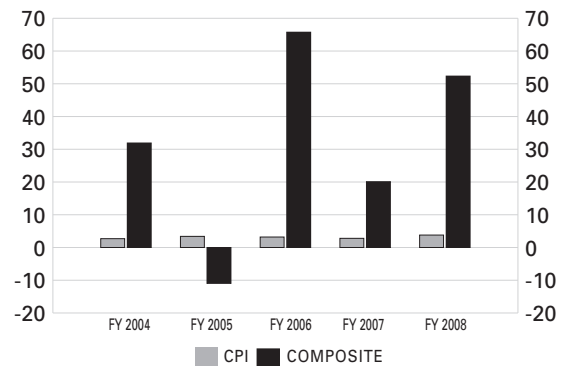
The composite generation indicator is a measure of the annual change in the average costs of energy charged by Southeastern from year to year.

The FY 2004 increase was the result of rate increases in the Georgia-Alabama-South Carolina and Cumberland Systems. The FY 2005 decrease was the result of decreases in transmission rates in the Kerr-Philpott System and in an increase in energy produced in the Georgia-Alabama-South Carolina System. The FY 2007 and FY 2008 increases were the result of below normal water conditions. Composite generation rate indicator is illustrated in Figure Y.

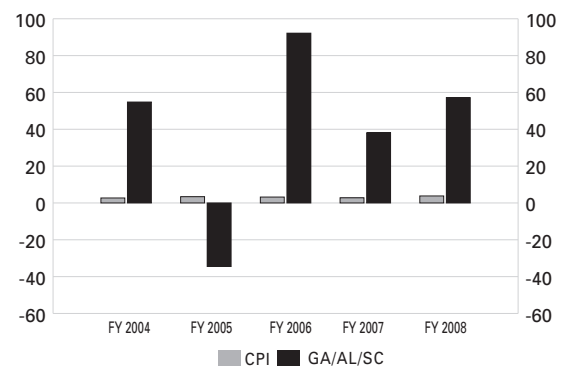
System Generation Rate Indicator

The FY 2004 increase in the Georgia-Alabama-South Carolina System was a result of an 11% increase in rates. The FY 2004 increase in the Cumberland System was a result of 15% increase in rates. The FY 2005 decrease in the Georgia-Alabama-South Carolina System was the result of an increase in energy produced. The FY 2005 increase in the Jim Woodruff System was the result of a 22% increase in rates. The FY 2006 increases in the Cumberland, Georgia-Alabama-South Carolina, and Kerr-Philpott Systems were the results of below average streamflow conditions. The FY 2007 increase in the Georgia-Alabama-South Carolina System was the result of below average streamflow conditions. The FY 2008 increase in the Kerr-Philpott System was the result of below normal water conditions. System generation rate indicators are illustrated in Figures Z, AA, BB, and CC.

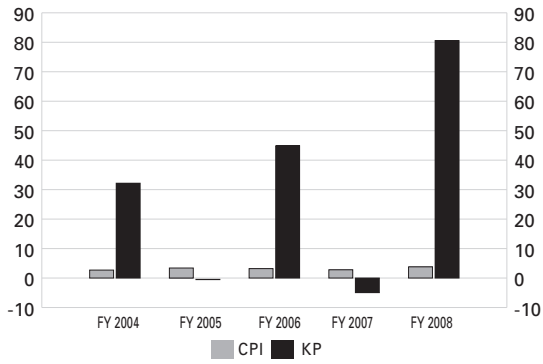
Composite Generation Cost Indicator - Figure Y



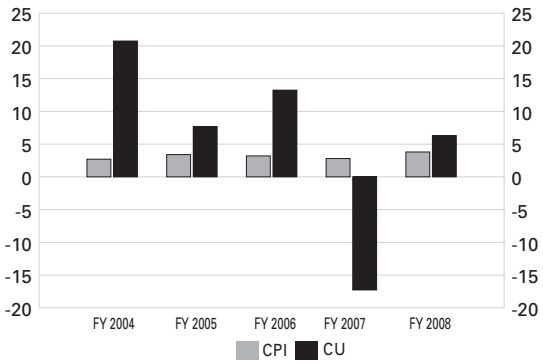
Georgia-Alabama-South Carolina Generation Cost Indicator - Figure Z



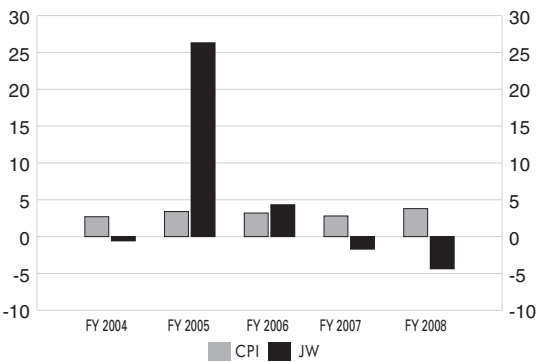
Kerr-Philpott Generation Cost Indicator - Figure AA



Cumberland Generation Cost Indicator - Figure BB



Jim Woodruff Generation Cost Indicator - Figure CC



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2008 Financial Statements

**Southeastern
Federal Power
Program**

Combined Financial Statements and Supplementary Information

September 30, 2008 and 2007



PricewaterhouseCoopers LLP
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Suite 1400
Atlanta, GA 30309-3851
Telephone (678) 419 1000
Facsimile (678) 419 1239
www.pwc.com

Report of Independent Auditors

To the Administrator of
Southeastern Power Administration
United States Department of Energy

We have audited the accompanying combined statements of assets, federal investment, and liabilities of the Southeastern Federal Power Program ("the Program") as of September 30, 2008 and 2007, and the related combined statements of revenues, expenses, and accumulated net revenues and of cash flows for the years then ended. These combined financial statements are the responsibility of the Program's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program at September 30, 2008 and 2007, and the results of its operations and changes in accumulated net revenues and its cash flow for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information presented in management's financial overview and program performance is not a required part of the basic combined financial statements. This information is the responsibility of the Program's management. We did not audit or apply limited procedures to such information, and accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements of the Program taken as a whole. The accompanying supplementary information, contained in Exhibit I through VI is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The information is the responsibility of the Program's management. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the combined financial statements taken as a whole. The information contained in Exhibit VI has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

July 31, 2009

Southeastern Federal Power Program
Combined Statements of Assets, Federal Investment, and Liabilities
September 30, 2008 and 2007

<i>(in thousands of dollars)</i>	2008	2007
Assets		
Utility plant (Notes 2 and 6)		
Plant in service	\$ 2,271,831	\$ 2,141,877
Less: Accumulated depreciation	<u>(804,516)</u>	<u>(763,994)</u>
Plant in service - net	1,467,315	1,377,883
Construction work in progress	<u>124,625</u>	<u>105,167</u>
Net utility plant	<u>1,591,940</u>	<u>1,483,050</u>
Current assets		
Cash/unexpended appropriations (Note 2)	100,926	80,781
Accounts receivable	38,595	28,442
Other	<u>4,811</u>	<u>5,290</u>
Total current assets	144,332	114,513
Deferred workers' compensation (Note 5)	<u>7,533</u>	<u>11,851</u>
Total assets	<u>\$ 1,743,805</u>	<u>\$ 1,609,414</u>
Federal Investment and Liabilities		
Federal investment (Note 3)		
Congressional appropriations (Note 2)	\$ 4,061,401	\$ 3,908,999
U.S. Treasury transfers to continuing fund	146,587	83,487
Transfers from other federal agencies	51,868	57,742
Accumulated interest on federal investment (Notes 3 and 6)	1,893,121	1,713,954
Funds returned to U.S. Treasury (Note 2)	<u>(4,336,671)</u>	<u>(4,155,315)</u>
Investment of U.S. government	1,816,306	1,608,867
Accumulated net deficit	<u>(100,136)</u>	<u>(30,515)</u>
Total federal investment	<u>1,716,170</u>	<u>1,578,352</u>
Current liabilities		
Accounts payable	19,578	18,609
Accrued liabilities	<u>524</u>	<u>602</u>
Total current liabilities	20,102	19,211
Accrued workers' compensation (Note 5)	<u>7,533</u>	<u>11,851</u>
Commitments and contingencies (Note 6)		
Total federal investment and liabilities	<u>\$ 1,743,805</u>	<u>\$ 1,609,414</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program
Combined Statements of Revenues, Expenses, and Accumulated Net Revenues
Years Ended September 30, 2008 and 2007

<i>(in thousands of dollars)</i>	2008	2007
Operating revenues		
Sales of electric power (Notes 2 and 4)	\$ 263,434	\$ 218,892
Other	13,631	11,466
Total operating revenues	<u>277,065</u>	<u>230,358</u>
Operating expenses		
Operations	44,199	45,499
Maintenance	36,854	32,703
Transmission services charged by others	32,538	32,242
Purchase power	91,464	49,203
Pension and related expenses	3,763	3,980
Total operating expenses - excluding depreciation	<u>208,818</u>	<u>163,627</u>
Depreciation (Note 2)	40,222	37,165
Total operating expenses	<u>249,040</u>	<u>200,792</u>
Net operating revenues	<u>28,025</u>	<u>29,566</u>
Interest expense		
Interest of federal investment (Note 3)	106,652	72,978
Less: Interest charged to construction (Note 2)	<u>(9,006)</u>	<u>(7,950)</u>
Net interest expense	<u>97,646</u>	<u>65,028</u>
Net deficit	(69,621)	(35,462)
Accumulated net (deficit) revenues (Note 2)		
Beginning of year	<u>(30,515)</u>	<u>4,947</u>
End of year	<u>\$ (100,136)</u>	<u>\$ (30,515)</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program
Combined Statements of Cash Flows
Years Ended September 30, 2008 and 2007

<i>(in thousands of dollars)</i>	2008	2007
Cash flows from operating activities		
Net deficit	\$ (69,621)	\$ (35,462)
Adjustments to reconcile net deficit to net cash provided by operating activities		
Depreciation	40,222	37,165
Net interest on federal investment	97,646	65,028
(Increase) decrease in assets		
Accounts receivable	(10,153)	(4,833)
Other assets	480	(242)
(Decrease) increase in liabilities		
Accounts payable	969	3,443
Accrued liabilities	(78)	294
Net cash provided by operating activities	<u>59,465</u>	<u>65,393</u>
Cash flows from investing activities		
Cash used in investing activities - investment in utility plant	<u>(67,592)</u>	<u>(63,777)</u>
Cash flows from financing activities		
Congressional appropriations	152,402	143,228
U.S. Treasury Transfers to Continuing Fund	63,099	35,969
Transfers from other federal agencies	(5,874)	1,756
Funds returned to U.S. Treasury	<u>(181,355)</u>	<u>(170,581)</u>
Net cash provided by financing activities	<u>28,272</u>	<u>10,372</u>
Net increase in cash	20,145	11,988
Cash and cash equivalent		
Beginning of year	<u>80,781</u>	<u>68,793</u>
End of year	<u>\$ 100,926</u>	<u>\$ 80,781</u>
Supplemental disclosure of noncash investing and financing activities		
Interest charged to construction	\$ 9,006	\$ 7,950
Cash repaid during the period for interest	97,646	65,028

Southeastern Federal Power Program

Notes to Combined Financial Statements

September 30, 2008 and 2007

1. Organization and Basis of Presentation

The Southeastern Federal Power Program (the "Program") consists of all activities associated with the production, transmission, and disposition of all federal power marketed under Section 5 of the Flood Control Act of 1944 (the "Flood Control Act") in the 10 states of Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, and Kentucky. The accompanying combined financial statements of the Program include the accounts of two separate federal government agencies—the Southeastern Power Administration ("Southeastern"), a unit of the United States Department of Energy ("DOE"), and the accounts of the Southeastern marketed hydroelectric generating plants and power operations of the United States Army Corps of Engineers (the "Corps of Engineers" or the "Corps"), a unit of the United States Department of Defense ("DOD"). Southeastern and the Corps are separately managed and financed, and each maintains its own accounting records. For purposes of financial and operational reporting, the facilities and related operations of Southeastern and the Corps are combined as the Program.

Southeastern purchases, transmits, and markets power within four separate power systems: Georgia-Alabama-South Carolina, Jim Woodruff, Cumberland Basin, and Kerr-Philpott. As of September 30, 2008, the four power systems include 22 hydroelectric generating projects owned and operated by the Corps of Engineers. The projects serve multiple purposes, including power, recreation, navigation, and flood control. However, these combined financial statements include only those expenses and net assets that are expected to be recovered through sales of power and other related income.

Costs of multipurpose Corps projects are allocated to power and nonpower purposes. The portion of total project costs allocated to power is included in the accompanying combined statements of assets, federal investment, and liabilities as utility plant and federal investment. An amount covering Corps employees' salaries, pensions, and other benefits allocated to power is included in operations and maintenance expenses.

2. Summary of Significant Accounting Policies

General

The accompanying combined financial statements are prepared in accordance with accounting principles and standards prescribed by the DOE including the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission ("FERC"). These practices integrate accounting principles generally accepted in the United States of America as established by the Financial Accounting Standards Board and Federal Accounting Standards Advisory Board with the accounting principles and standards prescribed by the Office of Management and Budget except where deviations there from are specifically authorized by federal statute or allowed by federal regulation. The Program's combined financial statements are presented in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of SFAS No. 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Congressional Appropriations/Financing

Southeastern and the Corps of Engineers receive congressional appropriations through the DOE and the DOD, respectively, to finance their operations. The Corps also receives appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act,

Southeastern Federal Power Program Notes to Combined Financial Statements September 30, 2008 and 2007

Southeastern is responsible for repayment to the federal government, with interest, of its appropriations and the portion of Corps appropriations allocated for construction and operation of the power projects.

Congressional appropriations received by the Corps are authorized and allocated to individual projects. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current-year expenses and to adjust the distribution as necessary within the limits of the Corps' transfer authority. Project costs which are not specific to a project purpose are distributed between power and nonpower purposes based on project cost allocation.

Operating Revenues

Operating revenues are recorded on an accrual basis as services are rendered. Rates are established under the requirements of the Flood Control Act, related legislation and executive departmental directives, and are intended to provide sufficient revenues to meet all required payments of Program costs. Such Program costs include operation and maintenance expenses less depreciation, wheeling fees to connecting utilities for transmission of power to customers, and payment to the U.S. Treasury for the federal investment in utility plant and interest thereon. The rates are also required to be low enough to encourage widespread use of electricity at the lowest possible cost to preference customers, primarily public bodies and cooperatives, consistent with sound business principles.

The rates required under present DOE policy make provision for recovery of the federal investment in generating facilities within the service lives of the assets, not to exceed 50 years from the date placed in service. Operation and maintenance costs and interest on federal investment are intended to be recovered annually. As discussed below, assets are being depreciated on the straight-line method over their estimated service lives, which currently average approximately 56 years for generating plant components. The Program matches these costs and revenues, as well as any other differences between estimated and actual costs by deferring the unmatched portion of the revenues as accumulated net revenue. Because the Program is a nonprofit federal power marketing agency, accumulated net revenues are committed to repayment of the federal investment.

Cash received is directly deposited with the U.S. Treasury and is reflected as "funds returned to U.S. Treasury" in the accompanying combined statements of assets, federal investment, and liabilities.

Since 2006, the majority of the southeastern United States has experienced much lower than average rainfall amounts. Over time, the conditions grew progressively worse with respect to the levels of rainfall and corresponding hydrologic flows. These adverse hydrological conditions have impacted hydropower as the U.S. Army Corps of Engineers has implemented its drought operational plans for the river basins. Thus, Southeastern has experienced reductions in the quantities of generation available, and as a result of this operation, replacement energy purchases have increased to meet contractual requirements.

Other revenue generally consists of water revenue, headwater benefit and other miscellaneous revenue.

Southeastern Federal Power Program

Notes to Combined Financial Statements

September 30, 2008 and 2007

Confirmation and Approval of Rates

Southeastern has established rate schedules for each of the four power systems. These rates generally may be adjusted at five-year intervals under the terms of Southeastern's current power sales contracts and DOE Order RA 6120.2.

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

The Secretary has delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis and to remand or to disapprove such rates. Refunds with interest, as determined by FERC, are authorized if final approved rates are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. At September 30, 2008, there were no revenues subject to refund.

Cash/Unexpended Appropriations

Cash consists of customer funding and the unexpended balance of funds appropriated by Congress for the Program-related activities of Southeastern and the Corps of Engineers and is maintained by the U.S. Treasury. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

Utility Plant

Plant in service and construction work in progress consist principally of generating facilities and is stated at cost, excluding contributions in aid of construction by entities outside the Program. Cost includes direct labor and materials, payments to contractor, indirect charge for engineering, supervision, and similar overhead items, and interest on federal funds used during construction. The costs of additions, replacements, and betterments are capitalized, while repairs and minor replacement costs are charged to operation and maintenance expenses. The cost of utility plant retired, together with removal costs less salvage, is included in accumulated depreciation when the property is removed from service. No material asset retirement obligations are noted.

Construction appropriations for power generating facilities have been authorized by Congress through fiscal year 2008. Delays or cancellations of these projects could result from congressional suspension or termination of appropriations.

Interest Charged to Construction

Interest on federal funds used during utility plant construction is included in the cost of completed projects.

Depreciation

Pursuant to executive directives of the Corps of Engineers, depreciation of utility plant is computed based on the estimated service lives of the various classes of property using the straight-line method. Service lives currently average approximately 56 years for utility plant components. Depreciation expense amounted to 1.8% and 1.7% of the original cost of generating plant in service during each of the years ended September 30, 2008 and 2007, respectively.

Retirement Benefits

Substantially all employees engaged in Program activities participate in either the Civil Service Retirement System ("CSRS") or the Federal Employees' Retirement System ("FERS"). Both are contributory defined benefit pension plans and are not covered under the Employee Retirement

Southeastern Federal Power Program

Notes to Combined Financial Statements

September 30, 2008 and 2007

Income Security Act of 1974. Pension benefit expense under CSRS is equivalent to 7.0% of eligible employee compensation. Contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (the "OPM"). The contribution levels as legislatively mandated do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations to the OPM, not Southeastern or the Corps. Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program and the Federal Employee Group Life Insurance Program.

Statement of Federal Financial Accounting Standards ("SFFAS") No. 5, *Accounting for Liabilities of the Federal Government*, requires the federal employer entity to recognize pension expense and other retirement benefit expense in its financial report equal to the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. In accordance with SFFAS No. 5, Southeastern has recorded \$309 and \$374 of annual pension and retirement benefits expense for the years ended September 30, 2008 and 2007, respectively. The Corps has recorded \$3,076 and \$3,237 of annual pension and retirement benefits expense for 2008 and 2007, respectively.

Use of Estimates

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

3. Federal Investment

The federal investment in each of the generating projects is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis.

Southeastern follows the provisions of DOE Order RA 6120.2 in setting priorities for repayment. Order RA 6120.2 requires that annual revenues be first applied to current-year operating expenses, excluding depreciation, and including interest expense on federal investment, net of interest charged to construction and interest credited on operating revenues deposited with the U.S. Treasury. All annual amounts for such expenses have been paid through fiscal year 2008, except for \$7,714 at the Jim Woodruff system and \$1,267 at the Kerr-Philpott system. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the federal investment. Annual net revenues available for repayment are generally applied first against investments in projects bearing the highest interest rates. To the extent that funds are not available for payment of such operating expenses and interest, such amounts become payable from the subsequent year's revenue prior to any repayment of the federal investment.

Interest is accrued annually on the unpaid balance of the federal investment. Such interest is reflected as an expense in the accompanying statements of revenues, expenses, and accumulated net revenues, with a corresponding increase in federal investment in the accompanying statements of assets, federal investment, and liabilities. Interest rates applied to the net outstanding federal investment range from 2.5% to 6.25%. The average rate was approximately 4.7% in fiscal 2008 and 4.6% in fiscal 2007. The rates have been set either by law, by administrative order pursuant to

Southeastern Federal Power Program

Notes to Combined Financial Statements

September 30, 2008 and 2007

law, or by administrative policies and have not necessarily been established to recover the interest costs to the U.S. Treasury to finance the investment.

The suit filed by the South Carolina Department of Wildlife and Marine Resources and other parties against the Secretary of the Army, in connection with the operation of the four reversible pump turbines at the Richard B. Russell Dam, was resolved in favor of the Secretary of the Army during the fiscal year ended September 30, 2002. The Program had used the 72.1% power purpose allocation percentage for the joint construction costs for the Richard B. Russell project, through FY 2007. On March 20, 2008, a final cost allocation was adopted for the Richard B. Russell, project. The new power cost allocation percentages are 71.82% for joint construction costs and 73.63% for joint operating and maintenance costs. Adjustments have been made in the accompanying statements for the updated percentage.

4. Major Customers

Revenues from two customers were approximately \$15,019 and \$11,380 which represents 6% and 5% of the total operating revenues for the years ended September 30, 2008 and 2007, respectively. There was \$1,385 and \$0 in accounts receivable from these customers as of September 30, 2008 and 2007, respectively.

5. Workers' Compensation

Workers' compensation consist of two elements: (i) the actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future ("future claims") and (ii) a liability for expenses associated with actual claims incurred and paid by the U.S. Department of Labor ("DOL"), the program administrator, to whom Southeastern and the Corps must reimburse. In conjunction with the adoption of SFFAS No.4, *Management Cost Accounting Concepts and Standards for the Federal Government*, and SFFAS No. 5, the DOL, the DOE, and the DOD determined the Program's actuarial liability associated with workers' compensation cases. The actuarial liability for future claims was determined using historical benefit payment patterns and the U.S. Treasury discount rates.

The recovery of these future claims will be deferred for purposes of the rate-making process until such time the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as deferred workers' compensation in the combined power systems statements of assets, federal investment, and liabilities in accordance with SFAS No. 71 to reflect the effects of the rate-making process. The Program's cumulative unpaid expenses associated with estimated future claims are approximately \$7,533 and \$11,851 as of September 30, 2008 and 2007, respectively.

6. Commitments And Contingencies

Southeastern and the Corps of Engineers are presently parties to certain claims and legal actions arising in the ordinary course of Program activities. However, in the opinion of management, such claims and actions will not have a material adverse impact on the Program's financial position, results of operations, or cash flows.

Program management has determined it improbable that interest capitalized during construction from 1993 through 2002 related to the Richard B. Russell dam project will be recovered through future rates. Capitalized interest in the amount of \$335 million was written off in FY 2002. Due to the adoption of the final cost allocation study, as discussed in Note 3, the write-off of interest during

Southeastern Federal Power Program

Notes to Combined Financial Statements

September 30, 2008 and 2007

construction has been adjusted to \$224 million. This treatment is subject to Administrative affirmation which is expected in the near term. The ultimate Administrative action could differ from this treatment.

Southeastern has entered into various agreements for power and transmission purchases that vary in length but generally do not exceed 7 years. Southeastern's long-term commitments for these power and transmission contracts, subject to the availability of federal funds and contingent upon annual appropriations from Congress, based on budgeted amounts, are as follows:

(in thousands of dollars)

Years Ending September 30	Purchased		Total
	Power	Transmission	
2009	\$ 895	\$ 35,173	\$ 36,068
2010	895	37,366	38,261
2011	895	38,151	39,046
2012	895	38,990	39,885
2013	895	39,946	40,841

In addition to these contracts, Southeastern maintains other long-term contracts which provide the ability to purchase unspecified quantities of transmission services within a contractually determined range and rate. To fulfill its contractual obligations to deliver power, Southeastern has historically had to purchase a certain level of transmission services under these arrangements. Southeastern fully intends to provide ongoing services to power customers and anticipates it will be necessary to acquire resources under these contracts.

**Southeastern Federal Power Program
Georgia Alabama South Carolina System
Supplemental Assets, Federal Investment, and Liabilities Information
September 30, 2008 and 2007**

Exhibit I

<i>(in thousands of dollars)</i>	2008	2007
Assets		
Utility plant		
Plant in service	\$ 1,675,489	\$ 1,569,055
Less: Accumulated depreciation	(504,730)	(468,638)
Plant in service - net	<u>1,170,759</u>	<u>1,100,417</u>
Construction work in progress	<u>39,172</u>	<u>49,538</u>
Net utility plant	<u>1,209,931</u>	<u>1,149,955</u>
Current assets		
Cash/unexpended appropriations	50,589	42,141
Accounts receivable	33,458	25,075
Other	<u>4,589</u>	<u>5,042</u>
Total current assets	88,636	72,258
Deferred workers' compensation	<u>319</u>	<u>2,058</u>
Total assets	<u>\$ 1,298,886</u>	<u>\$ 1,224,271</u>
Federal Investment and Liabilities		
Federal investment		
Congressional appropriations	\$ 2,560,327	\$ 2,508,407
U.S. Treasury transfers to continuing fund	132,537	71,724
Transfers from other federal agencies	22,577	30,712
Accumulated interest on federal investment	1,496,955	1,329,374
Funds returned to U.S. Treasury	<u>(2,749,241)</u>	<u>(2,601,678)</u>
Investment of U.S. government	1,463,155	1,338,539
Accumulated net deficit	<u>(177,097)</u>	<u>(126,984)</u>
Total federal investment	<u>1,286,058</u>	<u>1,211,555</u>
Current liabilities		
Accounts payable	12,174	10,272
Accrued liabilities	<u>335</u>	<u>386</u>
Total current liabilities	12,509	10,658
Accrued workers' compensation	<u>319</u>	<u>2,058</u>
Total federal investment and liabilities	<u>\$ 1,298,886</u>	<u>\$ 1,224,271</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program
Georgia Alabama South Carolina System
Supplemental Revenues, Expenses, and Accumulated Net Revenues Information
Years Ended September 30, 2008 and 2007 **Exhibit I**

<i>(in thousands of dollars)</i>	2008	2007
Operating revenues		
Sales of electric power	\$ 215,261	\$ 168,347
Other operating income	8,300	9,129
Total operating revenues	<u>223,561</u>	<u>177,476</u>
Operating expenses		
Operations	26,365	28,746
Maintenance	19,666	16,065
Transmission services charged by others	18,808	19,208
Purchase power	85,243	44,920
Pension and related expenses	1,752	1,783
Total operating expenses - excluding depreciation	<u>151,834</u>	<u>110,722</u>
Depreciation	<u>31,847</u>	<u>29,428</u>
Total operating expenses	<u>183,681</u>	<u>140,150</u>
Net operating revenues	<u>39,880</u>	<u>37,326</u>
Interest expense		
Interest of federal investment	95,066	65,281
Less interest charged to construction	<u>(5,073)</u>	<u>(6,479)</u>
Net interest expense	<u>89,993</u>	<u>58,802</u>
Net deficit	<u>(50,113)</u>	<u>(21,476)</u>
Accumulated net deficit		
Beginning of year	<u>(126,984)</u>	<u>(105,508)</u>
End of year	<u>\$ (177,097)</u>	<u>\$ (126,984)</u>

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Georgia Alabama South Carolina System
Supplemental Cash Flows Information
Years Ended September 30, 2008 and 2007**

Exhibit I

<i>(in thousands of dollars)</i>	2008	2007
Cash flows from operating activities		
Net deficit	\$ (50,113)	\$ (21,476)
Adjustments to reconcile net deficit to net cash provided by operating activities		
Depreciation	31,847	29,428
Net interest on federal investment	89,993	58,802
(Increase) decrease in assets		
Accounts receivable	(8,383)	(5,375)
Other assets	453	(155)
(Decrease) increase in liabilities		
Accounts payable	1,902	978
Accrued liabilities	(51)	188
Net cash provided by operating activities	<u>65,648</u>	<u>62,390</u>
Cash flows from investing activities		
Cash used in investing activities - investment in utility plant	<u>(14,235)</u>	<u>(19,882)</u>
Cash flows from financing activities		
Congressional appropriations	51,920	73,590
U.S. Treasury Transfers to Continuing Fund	60,813	32,268
Transfers from other federal agencies	(8,135)	(1,071)
Funds returned to U.S. Treasury	(147,563)	(133,311)
Net cash used in financing activities	<u>(42,965)</u>	<u>(28,524)</u>
Net increase in cash	8,448	13,984
Cash and cash equivalent		
Beginning of year	<u>42,141</u>	<u>28,157</u>
End of year	<u>\$ 50,589</u>	<u>\$ 42,141</u>
Supplemental disclosure of noncash investing and financing activities		
Interest charged to construction	\$ 5,073	\$ 6,479

See accompanying independent auditors' report.

Southeastern Federal Power Program**Jim Woodruff System****Supplemental Assets, Federal Investment, and Liabilities Information****September 30, 2008 and 2007****Exhibit II***(in thousands of dollars)*

	2008	2007
Assets		
Utility plant		
Plant in service	\$ 63,441	\$ 63,440
Less: Accumulated depreciation	<u>(20,033)</u>	<u>(18,423)</u>
Plant in service - net	43,408	45,017
Construction work in progress	<u>1,989</u>	<u>1,630</u>
Net utility plant	<u>45,397</u>	<u>46,647</u>
Current assets		
Cash/unexpended appropriations	1,380	2,256
Accounts receivable	1,158	717
Other	<u>90</u>	<u>92</u>
Total current assets	2,628	3,065
Deferred workers' compensation	<u>169</u>	<u>1,398</u>
Total assets	<u>\$ 48,194</u>	<u>\$ 51,110</u>
Federal Investment and Liabilities		
Federal investment		
Congressional appropriations	\$ 151,319	\$ 147,281
U.S. Treasury transfers to continuing fund	2,642	2,642
Transfers from other federal agencies	3,234	3,084
Accumulated interest on federal investment	37,825	35,373
Funds returned to U.S. Treasury	<u>(146,216)</u>	<u>(143,804)</u>
Investment of U.S. government	48,804	44,576
Accumulated net revenues	<u>(1,364)</u>	<u>3,490</u>
Total federal investment	<u>47,440</u>	<u>48,066</u>
Current liabilities		
Accounts payable	575	1,634
Accrued liabilities	<u>10</u>	<u>12</u>
Total current liabilities	585	1,646
Accrued workers' compensation	<u>169</u>	<u>1,398</u>
Total federal investment and liabilities	<u>\$ 48,194</u>	<u>\$ 51,110</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program
Jim Woodruff System
Supplemental Revenues, Expenses, and Accumulated Net Revenues Information
Years Ended September 30, 2008 and 2007 **Exhibit II**

<i>(in thousands of dollars)</i>	2008	2007
Operating revenues		
Sales of electric power	\$ 7,806	\$ 7,503
Other operating income	77	91
Total operating revenues	<u>7,883</u>	<u>7,594</u>
Operating expenses		
Operations	1,807	2,448
Maintenance	2,044	1,519
Transmission services charged by others	344	305
Purchase power	4,371	2,259
Pension and related expenses	195	180
Total operating expenses - excluding depreciation	<u>8,761</u>	<u>6,711</u>
Depreciation	1,610	1,163
Total operating expenses	<u>10,371</u>	<u>7,874</u>
Net operating revenues	<u>(2,488)</u>	<u>(280)</u>
Interest expense		
Interest of federal investment	2,452	2,342
Less: Interest charged to construction	(86)	(83)
Net interest expense	<u>2,366</u>	<u>2,259</u>
Net deficit	(4,854)	(2,539)
Accumulated net revenue		
Beginning of year	3,490	6,029
End of year	<u>\$ (1,364)</u>	<u>\$ 3,490</u>

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Jim Woodruff System
Supplemental Cash Flows Information
Years Ended September 30, 2008 and 2007**

Exhibit II

<i>(in thousands of dollars)</i>	2008	2007
Cash flows from operating activities		
Net deficit	\$ (4,854)	\$ (2,539)
Adjustments to reconcile net deficit to net cash provided by operating activities		
Depreciation	1,610	1,164
Net interest on federal investment	2,366	2,259
(Increase) decrease in assets		
Accounts receivable	(441)	145
Other assets	2	(5)
(Decrease) increase in liabilities		
Accounts payable	(1,059)	727
Accrued liabilities	(2)	5
Net cash (used in) provided by operating activities	<u>(2,378)</u>	<u>1,756</u>
Cash flows from investing activities		
Cash used in investing activities - investment in utility plant	<u>(274)</u>	<u>(953)</u>
Cash flows from financing activities		
Congressional appropriations	4,038	5,233
U.S. Treasury transfers to continuing fund	-	(301)
Transfers from other federal agencies	150	149
Funds returned to U.S. Treasury	<u>(2,412)</u>	<u>(5,116)</u>
Net cash provided by (used in) financing activities	<u>1,776</u>	<u>(35)</u>
Net increase (decrease) in cash	(876)	768
Cash and cash equivalent		
Beginning of year	<u>2,256</u>	<u>1,488</u>
End of year	<u>\$ 1,380</u>	<u>\$ 2,256</u>
Supplemental disclosure of noncash investing and financing activities		
Interest charged to construction	\$ 86	\$ 83

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Cumberland Basin System
Supplemental Assets, Federal Investment, and Liabilities Information
September 30, 2008 and 2007**

Exhibit III

<i>(in thousands of dollars)</i>	2008	2007
Assets		
Utility plant		
Plant in service	\$ 395,148	\$ 389,494
Less: Accumulated depreciation	(229,528)	(224,799)
Plant in service - net	<u>165,620</u>	<u>164,695</u>
Construction work in progress	<u>60,168</u>	<u>27,917</u>
Net utility plant	<u>225,788</u>	<u>192,612</u>
Current assets		
Cash/unexpended appropriations	40,598	24,991
Accounts receivable	3,028	1,466
Other	63	79
Total current assets	<u>43,689</u>	<u>26,536</u>
Deferred workers' compensation	<u>5,950</u>	<u>7,329</u>
Total assets	<u>\$ 275,427</u>	<u>\$ 226,477</u>
Federal Investment and Liabilities		
Federal investment		
Congressional appropriations	\$ 952,643	\$ 879,940
U.S. Treasury transfers to continuing fund	4,644	3,694
Transfers from other federal agencies	21,718	20,005
Accumulated interest on federal investment	285,193	280,232
Funds returned to U.S. Treasury	(1,046,315)	(1,025,125)
Investment of U.S. government	<u>217,883</u>	<u>158,746</u>
Accumulated net revenues	<u>46,345</u>	<u>57,957</u>
Total federal investment	<u>264,228</u>	<u>216,703</u>
Current liabilities		
Accounts payable	5,134	2,312
Accrued liabilities	115	133
Total current liabilities	<u>5,249</u>	<u>2,445</u>
Accrued workers' compensation	<u>5,950</u>	<u>7,329</u>
Total federal investment and liabilities	<u>\$ 275,427</u>	<u>\$ 226,477</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program**Cumberland Basin System****Supplemental Revenues, Expenses, and Accumulated Net Revenues Information****Years Ended September 30, 2008 and 2007****Exhibit III***(in thousands of dollars)*

	2008	2007
Operating revenues		
Sales of electric power	\$ 27,275	\$ 29,768
Other operating income	3,630	1,496
Total operating revenues	<u>30,905</u>	<u>31,264</u>
Operating expenses		
Operations	10,673	10,034
Maintenance	12,570	13,453
Transmission services charged by others	9,755	9,771
Purchase power	-	948
Pension and related expenses	1,395	1,588
Total operating expenses - excluding depreciation	<u>34,393</u>	<u>35,794</u>
Depreciation	4,975	5,143
Total operating expenses	<u>39,368</u>	<u>40,937</u>
Net operating revenues	<u>(8,463)</u>	<u>(9,673)</u>
Interest expense		
Interest of federal investment	4,961	3,097
Less: Interest charged to construction	(1,812)	(429)
Net interest expense	<u>3,149</u>	<u>2,668</u>
Net deficit	<u>(11,612)</u>	<u>(12,341)</u>
Accumulated net revenue		
Beginning of year	57,957	70,298
End of year	<u>\$ 46,345</u>	<u>\$ 57,957</u>

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Cumberland Basin System
Supplemental Cash Flows Information
Years Ended September 30, 2008 and 2007**

Exhibit III

<i>(in thousands of dollars)</i>	2008	2007
Cash flows from operating activities		
Net deficit	\$ (11,612)	\$ (12,341)
Adjustments to reconcile net deficit to net cash provided by operating activities		
Depreciation	4,975	5,143
Net interest on federal investment	3,149	2,668
(Increase) decrease in assets		
Accounts receivable	(1,562)	626
Other assets	16	(53)
(Decrease) increase in liabilities		
Accounts payable	2,822	336
Accrued liabilities	(18)	64
Net cash used in operating activities	<u>(2,230)</u>	<u>(3,557)</u>
Cash flows from investing activities		
Cash used in investing activities - investment in utility plant	<u>(36,339)</u>	<u>(22,597)</u>
Cash flows from financing activities		
Congressional appropriations	72,703	44,171
U.S. Treasury transfers to continuing fund	950	2,220
Transfers from (to) other federal agencies	1,713	2,281
Funds returned to U.S. Treasury	(21,190)	(21,840)
Net cash provided by financing activities	<u>54,176</u>	<u>26,832</u>
Net increase in cash	15,607	678
Cash and cash equivalent		
Beginning of year	<u>24,991</u>	<u>24,313</u>
End of year	<u>\$ 40,598</u>	<u>\$ 24,991</u>
Supplemental disclosure of noncash investing and financing activities		
Interest charged to construction	\$ 1,812	\$ 429

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Kerr-Philpott System
Supplemental Assets, Federal Investment, and Liabilities Information
September 30, 2008 and 2007**

Exhibit IV

<i>(in thousands of dollars)</i>	2008	2007
Assets		
Utility plant		
Plant in service	\$ 137,753	\$ 119,888
Less: Accumulated depreciation	(50,225)	(52,134)
Plant in service - net	<u>87,528</u>	<u>67,754</u>
Construction work in progress	<u>23,297</u>	<u>26,081</u>
Net utility plant	<u>110,825</u>	<u>93,835</u>
Current assets		
Cash/unexpended appropriations	8,359	11,393
Accounts receivable	950	1,185
Other	<u>68</u>	<u>77</u>
Total current assets	9,377	12,655
Deferred workers' compensation	<u>1,095</u>	<u>1,066</u>
Total assets	<u>\$ 121,297</u>	<u>\$ 107,556</u>
Federal Investment and Liabilities		
Federal investment		
Congressional appropriations	\$ 397,112	\$ 373,371
U.S. Treasury transfers to continuing fund	6,763	5,427
Transfers from other federal agencies	4,339	3,941
Accumulated interest on federal investment	73,149	68,975
Funds returned to U.S. Treasury	<u>(394,899)</u>	<u>(384,708)</u>
Investment of U.S. government	86,464	67,006
Accumulated net revenues	<u>31,981</u>	<u>35,022</u>
Total federal investment	<u>118,445</u>	<u>102,028</u>
Current liabilities		
Accounts payable	1,694	4,390
Accrued liabilities	<u>63</u>	<u>72</u>
Total current liabilities	1,757	4,462
Accrued workers' compensation	<u>1,095</u>	<u>1,066</u>
Total federal investment and liabilities	<u>\$ 121,297</u>	<u>\$ 107,556</u>

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Kerr-Philpott System
Supplemental Revenues, Expenses, and Accumulated Net Revenues Information
Years Ended September 30, 2008 and 2007** **Exhibit IV**

<i>(in thousands of dollars)</i>	2008	2007
Operating revenues		
Sales of electric power	\$ 13,092	\$ 13,273
Other operating income	1,623	749
Total operating revenues	<u>14,715</u>	<u>14,022</u>
Operating expenses		
Operations	5,354	4,269
Maintenance	2,574	1,665
Transmission services charged by others	3,631	2,959
Purchased power	1,850	1,076
Pension and related expenses	421	429
Total operating expenses - excluding depreciation	<u>13,830</u>	<u>10,398</u>
Depreciation	<u>1,789</u>	<u>1,431</u>
Total operating expenses	<u>15,619</u>	<u>11,829</u>
Net operating revenues	<u>(904)</u>	<u>2,193</u>
Interest expense		
Interest of federal investment	4,173	2,258
Less: Interest charged to construction	<u>(2,036)</u>	<u>(959)</u>
Net interest expense	<u>2,137</u>	<u>1,299</u>
Net (deficit) revenue	<u>(3,041)</u>	<u>894</u>
Accumulated net revenue		
Beginning of year	<u>35,022</u>	<u>34,128</u>
End of year	<u>\$ 31,981</u>	<u>\$ 35,022</u>

**Southeastern Federal Power Program
Kerr-Philpott System
Supplemental Cash Flows Information
Years Ended September 30, 2008 and 2007**

Exhibit IV

<i>(in thousands of dollars)</i>	2008	2007
Cash flows from operating activities		
Net revenue (deficit)	\$ (3,042)	\$ 894
Adjustments to reconcile net revenue (deficit) to net cash provided by operating activities		
Depreciation	1,789	1,431
Net interest on federal investment	2,137	1,299
(Increase) decrease in assets		
Accounts receivable	235	(229)
Other assets	9	(29)
(Decrease) increase in liabilities		
Accounts payable	(2,696)	1,403
Accrued liabilities	(9)	35
Net cash (used in) provided by operating activities	<u>(1,577)</u>	<u>4,804</u>
Cash flows from investing activities		
Cash used in investing activities - investment in utility plant	<u>(16,743)</u>	<u>(20,345)</u>
Cash flows from financing activities		
Congressional appropriations	23,741	20,234
U.S. Treasury transfers to continuing fund	1,337	1,782
Transfers from other federal agencies	399	397
Funds returned to U.S. Treasury	<u>(10,191)</u>	<u>(10,314)</u>
Net cash provided by financing activities	<u>15,286</u>	<u>12,099</u>
Net decrease in cash	(3,034)	(3,442)
Cash and cash equivalent		
Beginning of year	<u>11,393</u>	<u>14,835</u>
End of year	<u>\$ 8,359</u>	<u>\$ 11,393</u>
Supplemental disclosure of noncash investing and financing activities		
Interest charged to construction	\$ 2,036	\$ 959

See accompanying independent auditors' report.

Southeastern Federal Power Program
Combining Assets, Federal Investment, and Liabilities Information
September 30, 2008

Exhibit V

<i>(in thousands of dollars)</i>	Corps of Engineers	Southeastern Power Administration	Total
Assets			
Utility plant			
Plant in service	\$ 2,270,246	\$ 1,585	\$ 2,271,832
Less: Accumulated depreciation	(803,276)	(1,240)	(804,516)
Plant in service - net	1,466,970	345	1,467,316
Construction work in progress	124,625	-	124,625
Net utility plant	1,591,595	345	1,591,940
Current assets			
Cash/unexpended appropriations	79,481	21,445	100,926
Accounts receivable	514	38,081	38,595
Other	4,643	168	4,811
Total current assets	84,638	59,694	144,331
Deferred workers' compensation	7,533	-	7,533
Total assets	<u>\$ 1,683,766</u>	<u>\$ 60,039</u>	<u>\$ 1,743,805</u>
Federal Investment and Liabilities			
Federal investment			
Congressional appropriations	\$ 3,667,224	\$ 394,177	\$ 4,061,401
U.S. Treasury transfers to continuing fund	-	146,586	146,586
Transfers from other federal agencies	88,626	(36,758)	51,868
Accumulated interest on federal investment	1,892,261	860	1,893,121
Funds returned to U.S. Treasury	(3,881,602)	(455,069)	(4,336,671)
Investment of U.S. government	1,766,509	49,796	1,816,305
Accumulated net revenues	(100,136)	-	(100,136)
Total federal investment	1,666,373	49,796	1,716,169
Current liabilities			
Accounts payable	9,860	9,719	19,579
Accrued liabilities	-	524	524
Total current liabilities	9,860	10,243	20,103
Accrued workers' compensation	7,533	-	7,533
Commitments and contingencies	-	-	-
Total federal investment and liabilities	<u>\$ 1,683,766</u>	<u>\$ 60,039</u>	<u>\$ 1,743,805</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program
Combining Assets, Federal Investment, and Liabilities Information
September 30, 2007

Exhibit V

<i>(in thousands of dollars)</i>	Corps of Engineers	Southeastern Power Administration	Total
Assets			
Utility plant			
Plant in service	\$ 2,140,347	\$ 1,530	\$ 2,141,877
Less: Accumulated depreciation	(762,880)	(1,114)	(763,994)
Plant in service - net	1,377,467	416	1,377,883
Construction work in progress	105,167	-	105,167
Net utility plant	1,482,634	416	1,483,050
Current assets			
Cash/unexpended appropriations	62,951	17,830	80,781
Accounts receivable	158	28,284	28,442
Other	5,290	-	5,290
Total current assets	68,399	46,114	114,513
Deferred workers' compensation	11,609	242	11,851
Total assets	<u>\$ 1,562,642</u>	<u>\$ 46,772</u>	<u>\$ 1,609,414</u>
Federal Investment and Liabilities			
Federal investment			
Congressional appropriations	\$ 3,521,161	\$ 387,838	\$ 3,908,999
U.S. Treasury transfers to continuing fund	-	83,487	83,487
Transfers from other federal agencies	81,413	(23,671)	57,742
Accumulated interest on federal investment	1,713,112	842	1,713,954
Funds returned to U.S. Treasury	(3,743,923)	(411,392)	(4,155,315)
Investment of U.S. government	1,571,763	37,104	1,608,867
Accumulated net deficit	(30,515)	-	(30,515)
Total federal investment	1,541,248	37,104	1,578,352
Current liabilities			
Accounts payable	9,785	8,824	18,609
Accrued liabilities	-	602	602
Total current liabilities	9,785	9,426	19,211
Accrued workers' compensation	11,609	242	11,851
Commitments and contingencies	-	-	-
Total federal investment and liabilities	<u>\$ 1,562,642</u>	<u>\$ 46,772</u>	<u>\$ 1,609,414</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program**Combining Revenues, Expenses, and Accumulated Net Revenues Information****Year Ended September 30, 2008****Exhibit V**

<i>(in thousands of dollars)</i>	Corps of Engineers	Southeastern Power Administration	Total
Operating revenues			
Sales of electric power	\$ 133,917	\$ 129,518	\$ 263,434
Other operating income	13,602	29	13,631
Total operating revenues	<u>147,519</u>	<u>129,547</u>	<u>277,065</u>
Operating expenses			
Operations	39,152	5,046	44,199
Maintenance	36,809	46	36,854
Transmission services charged by others	-	32,538	32,538
Purchased power	-	91,464	91,464
Pension and related expenses	3,454	309	3,763
Total operating expenses - excluding depreciation	<u>79,415</u>	<u>129,403</u>	<u>208,818</u>
Depreciation	<u>40,096</u>	<u>126</u>	<u>40,222</u>
Total operating expenses	<u>119,512</u>	<u>129,529</u>	<u>249,040</u>
Net operating revenues	<u>28,007</u>	<u>18</u>	<u>28,025</u>
Interest expense			
Interest of federal investment	106,634	18	106,652
Less: Interest charged to construction	<u>(9,006)</u>	<u>-</u>	<u>(9,006)</u>
Net interest expense	<u>97,628</u>	<u>18</u>	<u>97,646</u>
Net deficit	<u>(69,621)</u>	<u>-</u>	<u>(69,621)</u>
Accumulated net revenue			
Beginning of year	<u>(30,515)</u>	<u>-</u>	<u>(30,515)</u>
End of year	<u>\$ (100,136)</u>	<u>\$ -</u>	<u>\$ (100,136)</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program**Combining Revenues, Expenses, and Accumulated Net Revenues Information****Year Ended September 30, 2007****Exhibit V**

<i>(in thousands of dollars)</i>	Corps of Engineers	Southeastern Power Administration	Total
Operating revenues			
Sales of electric power	\$ 131,512	\$ 87,380	\$ 218,892
Other operating income	11,453	13	11,466
Total operating revenues	<u>142,965</u>	<u>87,393</u>	<u>230,358</u>
Operating expenses			
Operations	40,125	5,374	45,499
Maintenance	32,648	55	32,703
Transmission services charged by others	-	32,242	32,242
Purchased power	-	49,203	49,203
Pension and related expenses	3,606	374	3,980
Total operating expenses - excluding depreciation	<u>76,379</u>	<u>87,248</u>	<u>163,627</u>
Depreciation	<u>37,044</u>	<u>121</u>	<u>37,165</u>
Total operating expenses	<u>113,423</u>	<u>87,369</u>	<u>200,792</u>
Net operating revenues	<u>29,542</u>	<u>24</u>	<u>29,566</u>
Interest expense			
Interest of federal investment	72,954	24	72,978
Less: Interest charged to construction	<u>(7,950)</u>	<u>-</u>	<u>(7,950)</u>
Net interest expense	<u>65,004</u>	<u>24</u>	<u>65,028</u>
Net deficit	<u>(35,462)</u>	<u>-</u>	<u>(35,462)</u>
Accumulated net revenue (deficit)			
Beginning of year	<u>4,947</u>	<u>-</u>	<u>4,947</u>
End of year	<u>\$ (30,515)</u>	<u>\$ -</u>	<u>\$ (30,515)</u>

See accompanying independent auditors' report.

Southeastern Federal Power Program
Combining Cash Flows Information
Year Ended September 30, 2008

Exhibit V

<i>(in thousands of dollars)</i>	Corps of Engineers	Southeastern Power Administration	Total
Cash flows from operating activities			
Net deficit	\$ (69,621)	\$ -	\$ (69,621)
Adjustments to reconcile net deficit to net cash provided by operating activities			
Depreciation	40,096	126	40,222
Net interest on federal investment	97,628	18	97,646
(Increase) decrease in assets			
Accounts receivable	(356)	(9,797)	(10,153)
Other assets	647	(168)	479
(Decrease) increase in liabilities			
Accounts payable	75	895	970
Accrued liabilities	-	(78)	(78)
Net cash provided by (used in) operating activities	<u>68,469</u>	<u>(9,003)</u>	<u>59,466</u>
Cash flows from investing activities			
Cash used in investing activities - investment in utility plant	<u>(67,537)</u>	<u>(55)</u>	<u>(67,592)</u>
Cash flows from financing activities			
Congressional appropriations	146,063	6,339	152,402
U.S. Treasury Transfers to Contingency Fund	-	63,099	63,099
Transfers from other federal agencies	7,213	(13,087)	(5,874)
Funds returned to U.S. Treasury	<u>(137,679)</u>	<u>(43,677)</u>	<u>(181,356)</u>
Net cash provided by financing activities	<u>15,597</u>	<u>12,674</u>	<u>28,271</u>
Net increase in cash	16,529	3,616	20,145
Cash and cash equivalent			
Beginning of year	<u>62,950</u>	<u>17,831</u>	<u>80,781</u>
End of year	<u>\$ 79,479</u>	<u>\$ 21,447</u>	<u>\$ 100,926</u>
Supplemental disclosure of noncash investing and financing activities			
Interest charged to construction	\$ 9,006	\$ -	\$ 9,006

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Combining Cash Flows Information
Year Ended September 30, 2007**

Exhibit V

<i>(in thousands of dollars)</i>	Corps of Engineers	Southeastern Power Administration	Total
Cash flows from operating activities			
Net deficit	\$ (35,462)	\$ -	\$ (35,462)
Adjustments to reconcile net deficit to net cash provided by operating activities			
Depreciation	37,044	121	37,165
Net interest on federal investment	65,004	24	65,028
(Increase) decrease in assets			
Accounts receivable	(31)	(4,802)	(4,833)
Other assets	(242)	-	(242)
(Decrease) increase in liabilities			
Accounts payable	956	2,487	3,443
Accrued liabilities	121	173	294
Net cash provided by (used in) operating activities	<u>67,390</u>	<u>(1,997)</u>	<u>65,393</u>
Cash flows from investing activities			
Cash used in investing activities - investment in utility plant	<u>(63,777)</u>	<u>-</u>	<u>(63,777)</u>
Cash flows from financing activities			
Congressional appropriations	137,626	5,602	143,228
U.S. Treasury Transfers to Contingency Fund	35,969	-	35,969
Transfers from other federal agencies	(31,107)	32,863	1,756
Funds returned to U.S. Treasury	<u>(140,683)</u>	<u>(29,898)</u>	<u>(170,581)</u>
Net cash provided by financing activities	<u>1,805</u>	<u>8,567</u>	<u>10,372</u>
Net increase in cash	5,418	6,570	11,988
Cash and cash equivalent			
Beginning of year	<u>57,532</u>	<u>11,261</u>	<u>68,793</u>
End of year	<u>\$ 62,950</u>	<u>\$ 17,831</u>	<u>\$ 80,781</u>
Supplemental disclosure of noncash investing and financing activities			
Interest charged to construction	\$ 7,950	\$ -	\$ 7,950

See accompanying independent auditors' report.

**Southeastern Federal Power Program
Amount and Allocation of Plant Investment (Unaudited)
Year Ended September 30, 2008**

Exhibit VI

	Total	Reimbursable Power	Navigation	Flood Control	Allocated to Nonreimbursable Fish and Wildlife	Recreation	Other	Percent of Total Plant Investment Power Revenues
Alatoona	\$ 61,776,864	\$ 43,329,882	\$ -	\$ 9,253,690	\$ -	\$ 8,961,276	\$ 232,016 (a)	70.1%
Buford	97,185,042	79,239,321	2,093,878	4,638,860	-	11,212,984	-	81.5%
Carriers	166,171,100	140,117,278	-	20,052,388	-	6,001,434	-	84.3%
J. Strom Thurmond	171,902,820	151,472,278	4,614,689	4,244,796	-	11,571,057	-	88.1%
Walter F. George	250,052,606	159,360,917	82,021,023	-	348,012	8,322,654	-	63.7%
Hartwell	200,111,217	181,091,525	4,169,825	5,306,941	-	9,519,926	-	90.6%
Millers Ferry/Robert F. Henry	197,608,401	125,330,678	58,371,318	-	-	13,908,406	-	63.4%
West Point	157,275,614	72,818,164	2,685,895	21,487,162	13,787,603	46,496,790	-	46.3%
Richard B. Russell	1,181,803,694	760,890,439	-	4,690,520	-	416,232,735	-	64.4%
Marketing facilities	1,014,626	1,014,626	-	-	-	-	-	100.0%
Contributions in aid of construction	(4,706)	(4,706)	-	-	-	-	-	100.0%
Total GA-ALA-SC System	2,484,897,277	1,714,660,403	153,976,626	69,667,357	14,135,615	532,225,261	232,016	69.0%
Jim Woodruff	103,060,392	65,398,260	32,542,661	-	-	5,119,471	-	63.5%
Marketing facilities	31,707	31,707	-	-	-	-	-	100.0%
Total Jim Woodruff System	103,092,099	65,429,967	32,542,661	-	-	5,119,471	-	63.5%
Bankley	197,423,040	50,047,079	116,896,122	23,120,616	-	7,689,224	-	25.4%
J. Percy Priest	66,529,356	11,837,643	-	26,136,034	-	28,755,679	-	17.5%
Cheatham	52,253,032	21,967,933	25,996,531	-	-	4,388,568	-	41.9%
Cordell Hull	89,872,643	42,897,270	17,605,867	-	-	22,715,904	6,653,602 (c)	47.7%
Old Hickory	73,078,115	40,503,156	28,203,886	-	-	4,372,073	-	55.4%
Centler Hill	96,604,456	49,038,878	-	30,790,560	-	7,069,468	606,550 (b)	50.8%
Dale Hollow	36,052,109	22,175,441	-	11,683,394	-	2,003,275	-	61.5%
Wolf Creek	331,226,135	189,904,869	-	122,027,327	-	19,047,239	245,700 (b)	57.3%
Laurel	51,283,942	27,480,928	-	-	-	17,483,066	6,329,960 (c)	53.6%
Marketing facilities	348,778	348,778	-	-	-	-	-	100.0%
Contributions in aid of construction	(586,162)	(586,162)	-	-	-	-	-	100.0%
Total Cumberland Basin System	994,105,445	455,315,811	188,392,407	222,968,931	-	113,504,464	13,925,811	45.8%
John H. Kerr	180,007,206	148,165,451	-	25,291,135	-	5,180,424	370,186 (a)	82.8%
Philpott	23,250,832	11,694,714	-	8,332,574	-	3,223,544	-	50.3%
Marketing facilities	190,242	190,242	-	-	-	-	-	100.0%
Total Kerr-Philpott System	203,448,280	161,050,407	-	33,623,709	-	8,403,968	370,186	79.2%
Total	\$ 3,785,543,101	\$ 2,396,456,588	\$ 374,911,694	\$ 326,257,997	\$ 14,135,615	\$ 659,253,165	\$ 14,528,023	63.3%

(a) Water Supply

(b) World War II Suspension Costs

(c) Area Redevelopment

See accompanying independent auditors' report.

Notes