The Tennessee Energy Acquisition Corporation

MARCH 31, 2018

FINANCIAL STATEMENTS

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

INDEX

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Tennessee Energy Acquisition Corporation
Clarksville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of The Tennessee Energy Acquisition Corporation (the Corporation) which comprise the balance sheets as of March 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tennessee Energy Acquisition Corporation as of March 31, 2018 and 2017, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Jackson Thornton & Co. PC

Montgomery, Alabama
June 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is intended to provide an understanding of various factors related to the operations and financial condition of The Tennessee Energy Acquisition Corporation (the Corporation). This information should be read in conjunction with the financial statements and related notes. This information focuses on significant changes in financial condition during the fiscal year ended March 31, 2018, and highlights certain events that occurred during the year.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Corporation's financial condition and performance. Summary financial statement data, key financial and operational indicators, bond indentures, and other management tools were used for this analysis.

The financial statements report information about the Corporation using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include balance sheets, statements of revenues, expenses, and changes in net position, statements of cash flows and notes to the financial statements. While the balance sheets provide information about the nature and amount of resources and obligations at year end, the statements of revenues, expenses, and changes in net position present results of the Corporation's business activities over the course of the fiscal years presented and information as to how the net position of the entity changed during those periods.

ASSETS, LIABILITIES, AND DEFERRED INFLOWS

The assets of the Corporation consist primarily of cash and investments, accounts receivable, short and long-term prepaid gas supplies, derivative instruments, costs recoverable from future billings under the natural gas supply contracts between the Corporation and its Members and Project Participants and regulatory assets, which represents unamortized debt expense relating to the gas projects. Total assets were $3,411,644,635, $2,926,652,845, and $3,184,942,450 as of March 31, 2018, 2017, and 2016, respectively.

The liabilities of the Corporation consist primarily of the current and long-term portions of the bonds issued to finance the Corporation's prepaid gas supplies, accounts payable, and accrued interest payable on the long-term debt. The deferred inflows consist of the accumulated increase in the fair value of the gas price swaps related to the Corporation's prepaid gas supply. Principal paid on bonds during 2018, 2017, and 2016 was $174,330,000, $132,580,000, and $107,440,000, respectively. Total liabilities, deferred inflows, and net position were $3,411,644,635, $2,926,652,845, and $3,184,942,450 as of March 31, 2018, 2017, and 2016, respectively.

Fiscal Year 2018. The $485 million increase in total assets and total liabilities and deferred inflows in fiscal year 2018 was primarily attributable to the issuance of the Series 2017A Bonds in November 2017 to finance the Corporation's 2017 gas project.

Current and restricted assets increased $36.3 million. There was a $7.8 million decrease in scheduled deliveries of 2006 project short-term prepaid gas for current operations which was offset by a $17.3 million increase in scheduled deliveries of 2017 project short-term prepaid gas, a $4.7 million increase in required deposits to 2006 project debt service funds for current maturities, a $19.2 million increase in 2017 project debt service and reserve funds, a $2.1 million increase in cash, and a $0.8 million increase in accounts receivable as a result of increased deliveries at the end of the period.

Prepaid gas supplies increased $543.8 million. 2006 project prepaid gas supplies reclassified to current for delivery in fiscal year 2019 were $152.6 million and 2017 project prepaid gas supplies acquired during the period were $713.7 million, of which $17.3 million was reclassified to current for delivery in fiscal year 2019.

Derivative instruments decreased $78.6 million. The total notional amount relating to the 2006 project commodity swaps which are presented at fair value was reduced 37.6 million MMBtu as a result of current operations and the value decreased $155 million. The 2017 project increased the total notional amount by 281 million MMBtu with deliveries beginning April 2018 through March 2048, and the fair value at the end of the period was $77.6 million. The 2006 projects delivery period ends in December 2026 and the 2017 project delivery period ends in March 2048. Despite the overall increase in notional amount, the forward curve prices during the period from December 2026 through March 2048 are higher and resulted in lower overall swap fair value at the end of the period.

Costs recoverable from future billings decreased $20.9 million. Costs recoverable from future billings of the 2006 projects decreased $27.6 million, all of which resulted from current operations. Costs recoverable from future billings of the 2017 project increased $6.7 million during the period.

The Corporation's regulatory asset increased $4.3 million and is the unamortized debt expense relating to the 2006 and 2017 projects. The 2006 project related asset decreased $1.2 million, all of which resulted from current operations. Costs of the 2017 project totaled $6 million, and current operations resulted in a decrease to the original amount of $0.5 million.

Other current liabilities increased $11 million. Accrued interest payable on the 2017 project bonds issued during the year was $10.9 million.

Long-term debt increased $542 million. Long-term debt relating to the 2006 projects decreased $192 million, all of which was due to scheduled maturities and reclassification of maturities for the coming year. Long-term debt related to the 2017 project increased $734 million as a result of issuance of the 2017 gas project bonds in November 2017.

Fiscal Year 2017. The $258 million decrease in total assets and total liabilities and deferred inflows in fiscal year 2017 was primarily attributable to the decrease in long-term prepaid gas supplies of $160 million, due to reclassification of scheduled deliveries for the next period to current assets, which will be amortized as the gas is delivered.

Current and restricted assets increased $32.4 million. There was a $9.1 million increase in scheduled deliveries of short-term prepaid gas for current operations, an $18.6 million increase in required deposits to debt service funds for current maturities, a $0.3 million increase in cash, and a $4.4 million increase in accounts receivable as a result of increased deliveries and higher prices at the end of the period.

Prepaid gas supplies decreased $160 million. 2006 project prepaid gas supplies reclassified to current for delivery in fiscal year 2018 were $160 million.

Derivative instruments decreased $114 million. The total notional amount relating to the 2006 project commodity swaps which are presented at fair value was reduced 35.5 million MMBtu as a result of current operations, which resulted in a lower swap fair value at the end of the period.

Costs recoverable from future billings decreased $14.8 million, all of which resulted from current operations of the 2006 projects.

The Corporation's regulatory asset is the unamortized debt expense relating to the gas projects, which decreased $1.2 million, all of which resulted from current operations.

Other current liabilities decreased $3.6 million. Accrued interest payable on the 2006 gas project bonds decreased $.7 million and rebate payments related to the 2006 gas projects totaling $2.2 million was paid during the fiscal year.

Long-term debt decreased $183 million, all of which was due to scheduled maturities and reclassification of maturities for the coming year.

SUMMARY OF BALANCE SHEETS

	2018	2017	2016
ASSETS:			
Current and Restricted assets	$ 519,248,794	$ 482,901,448	$ 450,402,111
Prepaid Gas Supplies	1,546,956,724	1,003,158,857	1,163,514,704
Derivative Instrument-Commodity Swaps	1,037,825,629	1,116,445,929	1,230,897,015
Costs recoverable from future billings	291,977,718	312,845,609	327,660,833
Regulatory Asset	15,603,360	11,258,853	12,448,819
Capital assets, net	32,410	42,149	18,968
Total assets	$ 3,411,644,635	$ 2,926,652,845	$ 3,184,942,450
LIABILITIES:			
Current Maturities on Long-Term Debt	$ 183,435,000	$ 174,330,000	$ 132,580,000
Other current liabilities	30,584,319	19,098,754	22,755,336
Long-Term Debt	2,145,691,699	1,602,981,457	1,785,982,795
DEFERRED INFLOWS:			
Accumulated increase in fair value of hedging derivatives	1,037,825,629	1,116,445,929	1,230,897,015
Total liabilities	$ 3,397,536,647	$ 2,912,856,140	$ 3,172,215,146
NET POSITION			
Invested in capital assets	$ 32,410	$ 42,149	$ 18,968
Unrestricted	14,075,578	13,754,556	12,708,336
Total net position	14,107,988	13,796,705	12,727,304
Total liabilities, deferred inflows, and net position	$ 3,411,644,635	$ 2,926,652,845	$ 3,184,942,450

GAS REVENUES AND EXPENSES

During fiscal years 2018, 2017 and 2016 the Corporation sold gas to Members under long-term gas supply contracts and Natural Gas Supply and Transportation, Storage, and Load Management Agreements (Management Agreements) and to the 2006 Project Participants under long-term gas supply contracts, and to others under short-term arrangements. Under the long-term gas supply contracts with the Members and the 2006 Project Participants, the Members and Project Participants purchase monthly quantities specified in the contracts at prices based upon the first-of-the month Index price of gas reported in *Inside FERC's Gas Market Report,* a publication of Platts, a division of McGraw-Hill Financial, for specified delivery points (Index). Under the Management Agreements, the Members purchase the remaining natural gas required for the operation of their local gas distribution utilities at prices based upon Index and other supply and transportation related services. Sales to others are also made at prices based upon Index.

The Corporation's gas supplies during each of the three years consisted of gas delivered under the Corporation's 2006 prepaid gas supply transactions with J. Aron & Co., purchases from the Public Energy Authority of Kentucky (PEAK) under the PEAK Gas Sale Contract which expired June 30, 2016, purchases from Black Belt Energy (BBE) under the BBE Gas Sale Contract which began July 1, 2016, and gas purchased from various suppliers under short-term arrangements.

The following table summarizes the gas supplies and sales for fiscal years 2018, 2017, and 2016.

Summary of Gas Supplies and Sales

	2018	2017	2016
Gas Supplies	(bcf)	(bcf)	(bcf)
2006A&B Supplies	23.1	22.6	21
2006C Supplies	14.9	13.5	8.9
PEAK/BBE Supplies	1.1	1.4	2.7
Short-term Supplies	7.5	4.9	4.3
Total Gas Supplies	46.6	42.4	36.9
Gas Sales	(bcf)	(bcf)	(bcf)
Members	15.1	12.6	12.9
2006 Project Participants	31.5	29.8	23.7
Others	0	0	0.3
Total Gas Sales	46.6	42.4	36.9

Under the 2006 prepaid gas supply transactions and the related Index-to-fixed gas price swaps, the Corporation made a fixed price prepayment for specified quantities of gas to be delivered each month through July 2026 with the proceeds from the Series 2006A&B Bonds, and a separate fixed price prepayment for specified quantities of gas to be delivered each month through December 2026 with the proceeds from the Series 2006C Bonds. In each transaction, the Corporation pays (receives) monthly amounts to (from) the swap counterparties based on the net difference between the Index price of gas and a specified fixed price. The swap payments are recorded as adjustments to operating revenues, effectively converting the sales price under the gas supply contracts to the fixed price relating to the transactions. During the fiscal years ending 2018, 2017, and 2016, the Corporation received payments from the swap counterparties of $169 million, $162 million, and $149 million, respectively.

Under the 2006 PEAK Gas Sale Contract and the BBE Gas Sale Contract, the Corporation purchases firm gas supplies at prices based on Index, and the gross amount of payments made and receipts from the purchase and sale of this gas are included in gas operations costs and gas sale revenues. The Corporation's short-term gas purchase arrangements are also based on Index prices, and the gross amounts of payments and receipts from this gas are also included in gas operations costs and gas sale revenues.

Operating revenues includes revenues from the prepaid gas supply transactions and other operating revenues. As explained earlier, the revenues from the prepaid gas supply transactions are affected mainly by the amount of gas scheduled for delivery during the fiscal year, as determined at the time the transaction is entered into or as amended, and the fixed price relating to the transaction. Revenues from prepaid gas supply transactions increased during fiscal year 2018 as a result of increases to scheduled deliveries. Revenues from prepaid gas supply transactions increased during fiscal year 2017 as a result of increases to scheduled deliveries. Other operating revenues are affected by changes in Index prices and sales volumes from year to year and costs associated with transportation of the gas to the Members. Other operating revenues for fiscal year 2018 increased 25% due to higher Index prices during the year and increased sales volumes. During fiscal year 2018, the Index price of gas averaged 9% more than in fiscal year 2017. Other operating revenues for fiscal year 2017 increased 7% due to higher Index prices during the year. During fiscal year 2017, the Index price of gas averaged 13% more than in fiscal year 2016.

Gas operations expenses are also affected by changes in Index prices and sales volumes from year to year. Gas operations expense in fiscal year 2018 increased 27% due to higher Index prices during the year and increased volumes. Gas operations expense in fiscal year 2017 increased 7% due to higher Index prices during the year.

For further information regarding changes in sales volume, see "WEATHER AND PRICES."

SUMMARY OF REVENUES, EXPENSES, AND NET POSITION

	2018	2017	2016
OPERATING REVENUES:			
Revenues-Prepaid Gas Supply Transactions	$ 233,677,446	$ 226,325,930	$ 205,796,685
Other Operating Revenues	41,541,261	33,122,997	30,870,723
Total Operating Revenues	$ 275,218,707	$ 259,448,927	$ 236,667,408
NONOPERATING REVENUES:			
Investment Income	$ 14,190,302	$ 12,683,277	$ 12,248,416
Total nonoperating revenues	$ 14,190,302	$ 12,683,277	$ 12,248,416
TOTAL REVENUES	$ 289,409,009	$ 272,132,204	$ 248,915,824
OPERATING EXPENSES:			
Gas operations	$ 40,757,973	$ 31,994,328	$ 29,995,135
Depletion of prepaid gas supplies	160,355,847	151,272,119	125,195,721
General and administrative	2,270,787	2,028,442	2,240,247
Total operating expenses	$ 203,384,607	$ 185,294,889	$ 157,431,103
NONOPERATING EXPENSE:			
Interest and amortization	$ 85,713,119	$ 85,767,914	$ 91,119,758
Total nonoperating expense	$ 85,713,119	$ 85,767,914	$ 91,119,758
TOTAL EXPENSES	$ 289,097,726	$ 271,062,803	$ 248,550,861
CHANGE IN NET POSITION	$ 311,283	$ 1,069,401	$ 364,963

WEATHER AND PRICES

Differences in the Corporation's sales volumes to Members from year to year are to be expected as most of the Members' retail service customers use natural gas for space heating and are very heating degree day-sensitive. The weather in the Members' Tennessee service areas is variable from heating season to heating season, and from month to month within a heating season. The following table summarizes population-weighted heating degree day averages and market price information for the last two winter heating seasons in the Corporation's service area. The 2017 and 2018 winter heating season as a whole was close to normal in the service area of the Corporation's Members and much colder than the 2016 and 2017 winter heating season. Due to the increase in heating degree days, sales to Members increased from 12.6 billion cubic feet to 15.1 billion cubic feet. Sales to Project Participants represent only a portion of their total requirements and will vary only with the volumes specified in the long-term gas supply contracts and, therefore, weather will not affect those sales volumes.

Heating Degree Days and Pricing Comparison

		2017 - 2018			2016 - 2017		
	Average Heating Degree Days	2017 - 2018 Heating Degree Days	Deviation From Average*	Index Pricing	2016 - 2017 Heating Degree Days	Deviation From Average*	Index Pricing
November	502	481	-4.20%	$2.66	406	-19.10%	$2.70
December	782	855	9.30%	$3.00	807	3.20%	$3.17
January	889	995	11.90%	$2.66	649	-27.00%	$3.87
February	683	516	-24.50%	$3.57	459	-32.80%	$3.31
March	505	538	6.50%	$2.56	456	-9.70%	$2.53
Totals	3,361	3,385	0.70%		2,777	-17.40%	
Average				$2.89			$3.12

**(Negative deviation = warmer than normal; Positive deviation = colder than normal)*

OTHER OPERATING INCOME AND EXPENSES

Interest expense on long-term debt, amortization of bond issue costs, and investment income during the three periods reflect the amortization schedules of the 2006 Bond issues, and beginning in November 2017, the amortization schedule of the 2017 Bond issue. Deliveries under the 2017 Bond issue are not scheduled to begin until April 1, 2018, so during the year ended March 31, 2018, there were no Operating Income and Expenses relating to the transaction.

Under the Management Agreements, the Corporation charges a management fee which is designed to offset the costs of running the Corporation. Based on the proposed budget for the year, which is approved by the Board of Directors, a management fee is established by dividing the dollar amount of the budget by the estimated sales volume to Members. This management fee is assessed to the Members on each monthly invoice and applied to actual purchase volumes. If the total amount assessed is ever insufficient because of warmer than normal weather or budget overages, the Board may address the shortage in establishing the management fee for the next fiscal year. If the total amount assessed is more than anticipated because of cooler than normal weather or budget savings, the Board may likewise adjust the next fiscal year's management fee to reflect that. For the fiscal years 2018, 2017, and 2016, the management fee was two cents per MMBtu. Total management fee revenues for fiscal years 2018, 2017, and 2016 totaled $381,000, $320,000, and $333,000, respectively. At its March 21, 2018 meeting, the Board set the management fee for fiscal year 2019 at two cents per MMBtu.

Under the Management Agreements, the Corporation agreed on a best efforts basis to assist its Members with short-term cash flows financing to pay the cost of their storage injections. Only one Member requested this assistance and entered into a separate agreement for fiscal year 2016 with the Corporation under which the Corporation funded the cost of its storage injections out of available cash and the Member repaid the Corporation as the gas was withdrawn during the winter heating season. The Member made all required payments to the Corporation. None of the Corporation's Members entered into such an agreement with the Corporation for fiscal year 2017, 2018, or 2019.

DERIVATIVE INSTRUMENT - COMMODITY SWAPS

As explained in "GAS REVENUES AND COSTS", the settlements of the Index to fixed (fixed receiver) gas price swaps relating to the prepaid gas supply transactions during the current period are reflected in the summary of revenues, expenses, and changes in net position. At the end of each fiscal period, the Corporation is required to mark the remaining notional volumes of all commodity swaps to fair market value and report them as a derivative instrument on the balance sheet. At March 31, 2018, 2017, and 2016, the remaining volumes relating to the 2006 prepaid gas supply transactions were 235 million MMBtu, 273 million MMBtu, and 309 million MMBtu, respectively. At March 31, 2018, the total volumes relating to the 2017 prepaid gas supply transaction was 281 million MMBtu. At March 31, 2018, 2017, and 2016, the market price of gas was markedly lower than the fixed prices at which the 2006 fixed-receiver gas price swaps were executed and resulted in derivative instrument assets of $961 million, $1.12 billion, and $1.23 billion, respectively, relating to the commodity swaps as yet unsettled as of those dates. At March 31, 2018, the market price of gas was lower than the fixed price at which the 2017 fixed-receiver gas price swap was executed and resulted in derivative instrument assets of $77.6 million.

The Corporation also enters into fixed-payer commodity swaps from time to time at the request of its Members and Project Participants to hedge against variability of cash flows related to gas supply and provide rate stability. The requesting Member or Project Participant enters into a corresponding agreement to pay the costs and receive the benefits of these fixed-payer commodity swaps. At March 31, 2018, 2017, and 2016, the remaining volumes relating to fixed-payer swaps entered into on of the Corporation's Members and Project Participants was 7.4 million MMBtu, 4.4 million MMBtu, and 1.7 million MMBtu, respectively. At March 31, 2018, the market price of gas was lower than the fixed prices at which these swaps were executed and resulted in derivative instrument liabilities of $.9 million. At March 31, 2017, the market price of gas was higher than the fixed prices at which these swaps were executed and resulted in derivative instrument assets of $.3 million. At March 31, 2016, the market price of gas was lower than the fixed prices at which these swaps were executed and resulted in derivative instrument liabilities of $1.7 million. For 2018 and 2017, these liabilities were offset against the derivative instrument assets.

With regard only to the amounts relating to the 2006 and 2017 prepaid gas supply transactions, none of the amounts would have been owed to the Corporation by the Corporation's commodity swap counterparties had the swaps terminated as of that date, as the swaps are "tear up" swaps under which neither party makes any mark-to-market payment to the other in the event of early termination of the swap.

MOODY'S ISSUER CREDIT RATING

As of December 20, 2016, Moody's Investors Service assigned the issuer rating of "A2" to the Corporation, with a stable outlook. The issuer rating is intended to be used as an assessment of the Corporation's financial and operational strength and the credit strength of the Corporation's Members with Management Agreements.

According to Moody's, the "A2" rating incorporates the "A2" weighted average credit quality assessment of the Corporation's Members; the sound provisions of the Management Agreements between the Corporation and its Members; the Corporation's ability to pass all gas costs through to the Members which have unregulated rate setting capabilities; sound record of payments by the Members to the Corporation without default; the generally diversified customer base of the Corporation's Members; and the Corporation's good record as a joint-action agency in the acquisition, management and financing of natural gas supplies, including natural gas prepayment projects on behalf of its Members.

2006 AND 2017 BOND ISSUES

In order to be able to provide economical, reliable service to its Members, the Corporation entered into two 20-year Prepaid Gas Purchase Agreements and financed the lump-sum prepayments to the supplier as required in the agreements through the issuance of its revenue bonds with maturities matching the term of the agreements. The Series 2006A Bonds were issued in the amount of $1,994,475,000, the Series 2006B Bonds were issued in the amount of $132,545,000, and both Series were issued in July 2006. The Series 2006C Bonds were issued in the amount of $1,060,220,000 and were issued in December 2006. All of the Series 2006 Bonds are fixed-interest rate revenue bonds and will be repaid from the revenues derived from the sale of the gas to the Corporation's Members and Project Participants, all of which are located in the Southeastern United States.

Since the 2006 Projects were entered into, the Corporation has continued to add Members, and its Members' requirements for natural gas supply have grown. The 2006 Project deliveries end in 2026, so to continue to provide economical, reliable service to its Members beyond the expiration of the 2006 Projects, the Corporation entered into a 30-year Prepaid Gas Purchase Agreement and financed the lump-sum prepayment to the supplier as required in the agreements through the issuance of its revenue bonds with maturities matching the term of the agreement. The Series 2017A Bonds were issued in the amount of $678,250,000 in November 2017 and bear interest at fixed rates through May 1, 2023, including term bonds in the amount of $673,255,000 with a maturity date of May 1, 2048. The Series 2017A Bonds are subject to optional redemption and extraordinary mandatory redemption through May 1, 2023 and the term bonds are required to be tendered for purchase on May 1, 2023. Under the bond indenture, the Corporation will enter into a bond purchase agreement, firm remarketing agreement, or similar agreement with respect to the remarketing or refunding of the bonds by the last day of the second calendar month preceding May 1, 2023. If the Corporation is unable to do so, there may be an early termination of the gas purchase agreement and the extraordinary redemption of the bonds at that time. Like the 2006 Bond Issues, the 2017 Bonds will be repaid from the revenues derived from the sale of the gas to the Corporation's Members and Project Participants, which are located in the Central and Southeastern United States. Deliveries from the 2017 Project began on April 1, 2018.

The following Project Participants table shows the average daily quantity (ADQ) delivered to each Project Participant during the fiscal years ending 2018, 2017, and 2016. There were no deliveries scheduled to the 2017 Project Participants until April 1, 2018.

Project Participants

Project Participant	Project	ADQ FYE 2018	ADQ FYE 2017	ADQ FYE 2016
Bedford County Utility District	2006A&B	14	14	14
City of Bolivar	2006A&B,2017A	763	763	764
Bridgeport Utilities	2006A&B	373	371	369
Town of Centerville	2006A&B	389	389	389
Clarke-Mobile Counties Gas District	2017A	0	0	0
City of Clifton	2017A	0	0	0
Greater Dickson Gas Authority	2006A&B,2017A	4,161	4,029	3,837
Natural Gas Utility Dist. of Hawkins County	2006A&B	790	790	791
City of Henderson	2017A	0	0	0
City of Hohenwald	2006A&B,2017A	214	207	198
City of Lexington	2006A&B,2017A	1,272	1,272	1,274
Town of Linden	2006A&B,2017A	116	113	107
The Lower Alabama Gas District	2006A&B	12,929	13,248	13,283
Marion Natural Gas System	2006A&B	324	324	325
Metropolitan Utilities District of Omaha	2017A	0	0	0
City of Munford	2017A	0	0	0
Municipal Gas Authority of Georgia	2006A&B,2017A	7,217	7,006	6,981
Oak Ridge Utility District	2006A&B	2,462	2,462	2,373
Patriots Energy Group	2006A,B,C,2017A	8,150	8,134	8,096
Poplar Grove Utility District	2017A	0	0	0
Public Energy Authority of Kentucky, Inc.	2006A&B	12,250	11,118	7,109
City of Ridgetop	2006A&B	42	42	42
Rockwood Water and Gas System	2006A&B	324	324	325
City of Savannah	2006A&B,2017A	523	523	524
Scottsboro Water Works, Sewer & Gas Bd	2006A&B	500	500	500
Town of Selmer	2006A&B,2017A	233	225	214
The Southeast Alabama Gas District	2006A&B,2017A	3,500	3,500	3,500
Springfield Gas System	2006A&B,2017A	1,767	1,767	1,769
Stevenson Utilities	2006A&B	28	28	28
City of Tallahassee	2006A&B,2017A	3,458	3,315	3,106
City of Waynesboro	2006A&B	94	94	93
West Tennessee Public Utility District	2006A&B,2017A	4,038	3,911	3,724
Memphis Light, Gas & Water	2006C	30,017	27,523	15,877
Harriman Utility Board	2006C	400	249	200
Huntsville Utility Board	2006C	4,308	3,164	2,174
City of Cartersville	2006C	3,660	3,660	3,664

COUNTERPARTY DOWNGRADES AND SERIES 2006 BONDS RATING CHANGES

Upon the issuance of each of the Series 2006 Bonds, the Corporation entered into guaranteed investment contracts with various counterparties for the investment of debt service deposits and certain reserves required under the trust indentures. The Corporation is exposed to the risk of nonperformance by the counterparties. The contracts provided that if certain financial credit ratings of the counterparties were not maintained the counterparty would provide credit support to secure its continued performance. Since the Series 2006 Bonds were issued, several of the counterparties were downgraded by Standard & Poor's (S&P), Moody's, and Fitch, such that the counterparties were required to provide credit support to the Corporation. Each of the affected counterparties has posted collateral or entered into replacement repurchase agreements with the Corporation.

The ratings on the Series 2006 Bonds are dependent on a variety of factors, including the credit ratings of the prepaid gas supplier, J. Aron & Company, LLC (J. Aron) and its guarantor The Goldman Sachs Group, Inc. (GSG), the commodity swap counterparties, the counterparties under the guaranteed investment contracts, and with respect to the Series 2006C Bonds, the surety bond provider (MBIA Insurance Corporation reinsured by National Public Finance Guarantee Corporation). Since their issuance, the ratings assigned to the Series 2006 Bonds have changed from time to time due to a variety of factors, including changes in the ratings of GSG and other transaction counterparties. The Series 2006A and 2006C Bonds are currently rated "A3", "BBB+" and "A" by Moody's, Standard & Poor's, and Fitch, respectively.

The Corporation's Series 2006B Bonds are subordinate to the Series 2006A Bonds, and were originally issued without a rating. In January 2009, Fitch Ratings assigned the 2006B Bonds a rating of BBB, and no other rating agency has rated the Series 2006B Bonds. The Series 2006B Bonds are currently rated BBB by Fitch.

The ratings changes on the Corporation's Series 2006 Bonds have been reported as material events under its continuing disclosure undertakings to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website at www.emma.msrb.org. Notwithstanding the ratings changes, the 2006 prepaid gas supply projects have been operating as anticipated. All Members and Project Participants have made all required payments under their Gas Supply Contracts, J. Aron has made timely performance of its gas delivery obligations under the Prepaid Gas Purchase Agreements, and all of the Corporation's counterparties in the prepaid gas supply transactions have made timely payment of all required amounts. The Corporation has made all required deposits to the debt service funds and all required debt service payments as and when required by the trust indentures.

SERIES 2017 BONDS RATINGS

The ratings on the Series 2017 Bonds are dependent on a variety of factors, including the credit ratings of the prepaid gas supplier, J. Aron & Company, LLC (J. Aron) and its guarantor The Goldman Sachs Group, Inc. (GSG), the commodity swap counterparty, and the counterparty under the guaranteed investment contracts. Since their issuance, the ratings assigned to the Series 2017 Bonds have not changed and are currently rated "A3" and "A" by Moody's and Fitch, respectively.

NOVATION AGREEMENTS AND AMENDED AND RESTATED INVESTMENT AGREEMENTS

Series 2006A and B. Effective September 2, 2015, the Corporation executed an Amended and Restated Investment Agreement, dated as of September 2, 2015 with J. Aron. J. Aron replaced DEPFA BANK plc ("DEPFA") as the investment agreement provider for the Debt Service Reserve Fund and a portion of the Senior Subaccount of the Debt Service Reserve Account. The change resulted in a ratings confirmation on the Series 2006A Bonds by Moody's Investors Service, Inc. and reduced third-party credit risk to interest earnings and ratings in the future. In connection with the Amended and Restated Investment Agreement, each of J. Aron, DEPFA, the Corporation, and the Bank of New York Mellon Trust Company, N.A., as successor trustee, entered into a novation agreement which transferred certain of the rights and responsibilities of DEPFA to J. Aron. Information regarding this change has been posted as a voluntary filing to the EMMA website.

Series 2006C. Effective September 2, 2015, the Corporation executed an Amended and Restated Investment Agreement, dated as of September 2, 2015 with J. Aron. J. Aron replaced DEPFA BANK plc ("DEPFA") as the investment agreement provider for the Working Capital Account and the Early Termination Reserve subaccount. J. Aron also replaced DEPFA as the investment agreement provider for the Debt Service Account. The changes resulted in a ratings confirmation on the Series 2006C Bonds by Moody's Investors Service, Inc. and reduced third-party credit risk to interest earnings and ratings in the future. In connection with the Amended and Restated Investment Agreements, each of J. Aron, DEPFA, the Corporation, and the Bank of New York Mellon Trust Company, N.A., as successor trustee, entered into a novation agreement which transferred certain of the rights and responsibilities of DEPFA to J. Aron. Information regarding this change has been posted as a voluntary filing to the EMMA website.

Effective August 1, 2016, Royal Bank of Scotland plc, novated its half of the commodity swaps relating to the 2006C Revenue Bonds to Royal Bank of Canada, Europe Limited, which was the other commodity swap provider for the transaction. Royal Bank of Scotland plc was exiting the commodity swap business and requested the Corporation to allow the novation, which did not result in any rating change to the Bonds. Information regarding this change has been posted as a voluntary filing to the EMMA website.

BLACK BELT ENERGY

On May 24, 2016, the Corporation entered into the BBE Gas Sale Contract with the Black Belt Energy Gas District (BBE). Under the BBE Gas Sale Contract, BBE has agreed to sell and the Corporation has agreed to purchase natural gas with scheduled daily nominations ranging between 3,100 and 5,300 MMBtu and scheduled monthly nominations ranging between 86,800 and 164,300 MMBtu. Delivery of gas under the BBE Gas Sale Contract began July 1, 2016 and extends through May 31, 2046. This gas replaced the 2006 PEAK Gas Sale Contract quantities which expired at the end of June 2016.

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

BALANCE SHEETS AT MARCH 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,747,071	$ 7,651,447
Accounts receivable:		
Customers	10,391,132	9,878,977
Other	18,421,346	18,089,994
Prepaid gas supplies	169,933,881	160,355,847
Other current assets	20,050	221,744
Total current assets	206,513,480	196,198,009
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	155,840,314	129,808,439
Restricted investments	156,895,000	156,895,000
Total restricted assets	312,735,314	286,703,439
NONCURRENT ASSETS:		
Prepaid gas supplies	1,546,956,724	1,003,158,857
Derivative instrument - commodity swaps	1,037,825,629	1,116,445,929
Costs recoverable from future billings	291,977,718	312,845,609
Regulatory asset	15,603,360	11,258,853
Capital assets, net	32,410	42,149
Total noncurrent assets	2,892,395,841	2,443,751,397
Total assets	$ 3,411,644,635	$ 2,926,652,845

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

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	2018	2017
CURRENT LIABILITIES:		
Current liabilities, unrestricted:		
Accounts payable	$ 10,012,854	$ 8,398,172
Other accrued expenses	631,159	588,234
Total current liabilities, unrestricted	10,644,013	8,986,406
Current liabilities, restricted:		
Current maturities on long-term debt	183,435,000	174,330,000
Accrued interest payable	19,940,306	10,112,348
Total current liabilities, restricted	203,375,306	184,442,348
Total current liabilities	214,019,319	193,428,754
LONG-TERM DEBT:		
Gas revenue bonds, net of current maturities	2,050,480,000	1,555,665,000
Bond premium	95,211,699	47,316,457
Total long-term debt	2,145,691,699	1,602,981,457
DEFERRED INFLOWS:		
Accumulated change in fair value of hedging derivatives	1,037,825,629	1,116,445,929
Total liabilities and deferred inflows	3,397,536,647	2,912,856,140
NET POSITION:		
Invested in capital assets	32,410	42,149
Unrestricted	14,075,578	13,754,556
Total net position	14,107,988	13,796,705
Total liabilities, deferred inflows, and net position	$ 3,411,644,635	$ 2,926,652,845

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017

	2018		2017	
OPERATING REVENUES	$275,218,707	100.00%	$259,448,927	100.00%
OPERATING EXPENSES:				
Gas operations	40,757,973	14.81%	31,994,328	12.33%
Depletion of prepaid gas supplies	160,355,847	58.26%	151,272,119	58.31%
General and administrative	2,270,787	0.83%	2,028,442	0.78%
Total operating expenses	203,384,607	73.90%	185,294,889	71.42%
OPERATING INCOME	71,834,100	26.10%	74,154,038	28.58%
NONOPERATING REVENUES AND EXPENSES:				
Interest on long-term debt	(84,069,507)	(30.55%)	(84,577,948)	(32.60%)
Amortization	(1,643,612)	(0.60%)	(1,189,966)	(0.46%)
Investment income	14,190,302	5.16%	12,683,277	4.89%
Total nonoperating expense, net	(71,522,817)	(25.99%)	(73,084,637)	(28.17%)
CHANGE IN NET POSITION	311,283	0.11%	1,069,401	0.41%
NET POSITION AT BEGINNING OF YEAR	13,796,705		12,727,304	
NET POSITION AT END OF YEAR	$ 14,107,988		$ 13,796,705	

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

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017
Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Receipts from customers	$ 126,785,651	$ 108,998,942
Receipts from derivatives counterparties, net	168,469,925	160,844,962
Payments to suppliers	(753,935,443)	(36,258,216)
Payments to employees	(952,906)	(912,251)
Net cash from (used for) operating activities	(459,632,773)	232,673,437
CASH FLOWS FROM (USED FOR) NONCAPITAL RELATED FINANCING ACTIVITIES:		
Principal paid on bonds	(174,330,000)	(132,580,000)
Proceeds from issuance of bonds	738,719,867	
Bond issuance costs	(5,988,119)	
Interest paid	(86,816,174)	(93,967,307)
Net cash from (used for) noncapital related financing activities	471,585,574	(226,547,307)
CASH FLOWS USED FOR CAPITAL ACTIVITIES:		
Purchases of fixed assets	(3,119)	(35,789)
Net cash used for capital activities	(3,119)	(35,789)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	14,177,817	12,683,277
Net cash from investing activities	14,177,817	12,683,277
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,127,499	18,773,618
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	137,459,886	118,686,268
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 163,587,385	$ 137,459,886

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

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017
Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 71,834,100	$ 74,154,038
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,858	11,048
Depletion of prepaid gas supplies	160,355,847	151,272,119
Deferred member billings	20,867,891	14,815,224
Changes in assets and liabilities:		
Accounts receivable - customers	(512,155)	(3,081,207)
Accounts receivable - other	(318,867)	(1,339,040)
Prepaid gas purchase	(713,731,748)	
Other assets	201,694	(220,184)
Accounts payable	1,614,682	(2,981,457)
Other accrued expenses	42,925	42,896
Net cash from (used for) operating activities	$ (459,632,773)	$ 232,673,437
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Unrestricted	$ 7,747,071	$ 7,651,447
Restricted	155,840,314	129,808,439
	$ 163,587,385	$ 137,459,886

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Tennessee Energy Acquisition Corporation (the Corporation) is a nonprofit public corporation and an instrumentality of the State of Tennessee and certain municipalities created in March 1996 by actions of the Cities of Clarksville, Tennessee and Springfield, Tennessee pursuant to an act of the Tennessee State Legislature for the purpose of obtaining dependable and economical supplies of natural gas for the benefit of its Members. As of March 31, 2018, 26 cities, towns, utility districts, and authorities in the State of Tennessee (the Members) have contracted with the Corporation for gas supplies for resale to their customers. All Members are located in the State of Tennessee. The Corporation also sells natural gas under long-term contracts to various nonmembers and other entities (the Project Participants). The Project Participants are located in the southeastern United States.

The financial statements of the Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As provided for in the Codification of Governmental Accounting and Financial Reporting Standards, the Corporation applies all GASB statements.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The fair value of gas price swap agreements is a significant estimate.

Reclassification - Certain reclassifications have been made to the 2017 financial statements in order to conform to the 2018 presentation.

Cash and cash equivalents - The Corporation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Restricted cash held by the trustee is considered cash and cash equivalents for the purposes of the statements of cash flows.

Prepaid gas supplies - Prepaid gas supplies represent the Corporation's secured prepayments for gas to be received by the Corporation at specified quantities per month through April 1, 2048. Capitalized acquisition costs are depleted using the units of production method.

Investments - The Codification of Governmental Accounting and Financial Reporting Standards Section I50, requires certain investments to be reported at fair value in the balance sheets, with the change in fair value reported as a component of investment income in the statements of revenues, expenses, and changes in net position. All investments are restricted and held by the trustee under the terms of the Gas Revenue Bond indentures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Property and equipment - Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

Vehicles	5 years
Office equipment	5 - 10 years

Capitalization - The Corporation's policy is to capitalize all purchases greater than $500.

Regulatory assets - As a rate regulated entity, the Corporation has ratemaking authority to allow recovery of its costs of operations. The regulatory assets reflect the expected future recovery through rates of bond issuance costs. Regulatory assets are amortized over the life of the associated bonds for the 2006A, 2006B, and 2006C issues. Regulatory assets created by the 2017A bonds are amortized over the 5-year period from issuance to the mandatory redemption date.

Costs recoverable from future billings - The long-term Gas Supply Contracts establish a pricing mechanism outlining the methods for billing Members and Project Participants for gas supply services provided under the contract. Expenses in excess of amounts currently billable to the Members and Project Participants will be recovered from future billings and are classified as noncurrent assets.

Amortization - Bond premiums are amortized using the interest method over the term of the related debt for the 2006A, 2006B, and 2006C issues. Bond premiums of the 2017A bonds are amortized using the interest method over the 5-year period from issuance to the mandatory redemption date.

Recognition of revenue - Revenue is recognized when gas is received by the customer at the delivery point. The Corporation considers all revenues and expenses associated with energy sales to be operating activities. Any revenues or expenses that do not meet the definition of operating activities are considered to be nonoperating activities.

Income tax status - As a public corporation, the Corporation is exempt from federal and state income taxes. Consequently, no provision for income taxes is reflected in the accompanying financial statements.

Derivatives - The Corporation bills its Members and Project Participants based on Index prices and, therefore, has entered into various commodity swap agreements to effectively adjust its gas revenues from a market price to the fixed price related to the prepaid gas transactions. The financial results of the gas price swap agreements are recorded as adjustments to revenues from gas operations.

Natural gas over the counter swap contracts are entered into primarily to fix short-term gas costs for the Members and Project Participants.

NOTE 2 - CASH AND INVESTMENTS:

Restricted cash - Restricted cash of $23,390,599, $122,890,776, and $9,558,940 at March 31, 2018 and $22,424,576, $98,993,380, and $8,390,483 at March 31, 2017, is held by a local government investment pool managed by the State of Tennessee, several restricted guaranteed investment contracts and repurchase agreements, and money market funds, respectively.

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Certain deposits in financial institutions are required by the laws of the State of Tennessee to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance.

Upon approval, financial institutions may collateralize public fund accounts by participating in the State of Tennessee's collateral pool. Participating banks determine the aggregate balance of their public fund accounts. Securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account.

The Members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. As of March 31, 2018 and 2017, all of the Corporation's deposits, except funds held by out of state institutions in a trustee capacity, were held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee.

Credit risk - The Board of Directors has authorized management to invest in securities which are allowable under the terms of the bond indentures and in accordance with the State of Tennessee's statutes governing investment of the Corporation's funds.

As of March 31, 2018 and 2017, the Corporation had the following investments and maturities:

INVESTMENT TYPE	FAIR VALUE	LESS THAN 1	1 - 5	6 - 10
March 31, 2018:				
Guaranteed investment contracts and repurchase agreements	$ 156,895,000	$ 156,895,000	$ -	$ -
March 31, 2017:				
Guaranteed investment contracts and repurchase agreements	$ 156,895,000	$ 156,895,000	$ -	$ -

NOTE 3 - LONG-TERM DEBT:
Long-term debt at March 31, 2018 and 2017 consists of the following:

	2018	2017
Gas project revenue bonds, Series 2006A	$ 895,529,850	$ 1,008,005,554
Gas project revenue bonds, Series 2006B.	111,705,000	111,705,000
Gas project revenue bonds, Series 2006C	587,592,381	657,600,903
Gas project revenue bonds, Series 2017A	734,299,468	
	2,329,126,699	1,777,311,457
Less: Unamortized premium	95,211,699	47,316,457
Less: Amounts due within one year	183,435,000	174,330,000
Totals	$ 2,050,480,000	$ 1,555,665,000

The bonds are payable solely from the revenues of the Corporation and certain amounts held under the bond indentures. The bonds are secured by the pledge of the trust estate under the bond indentures. The bond indentures require deposits into debt service accounts held by a corporate trustee to cover future principal and interest payments. As of March 31, 2018, all required deposits to the debt service accounts had been made.

Changes in long-term obligations for the years ended March 31, 2018 and 2017, respectively, are as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
March 31, 2018:				
Gas project				
Revenue bonds:				
Series 2006A	$ 984,510,000		$ 108,305,000	$ 876,205,000
Series 2006B	111,705,000			111,705,000
Series 2006C	633,780,000		66,025,000	567,755,000
Series 2017A		$ 678,250,000		678,250,000
Totals	$ 1,729,995,000	$ 678,250,000	$ 174,330,000	$ 2,233,915,000

NOTE 3 - LONG-TERM DEBT: (continued)

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
March 31, 2017:				
Revenue bonds:				
Series 2006A	$1,077,345,000		$ 92,835,000	$ 984,510,000
Series 2006B	111,705,000			111,705,000
Series 2006C	673,525,000		39,745,000	633,780,000
Totals	$1,862,575,000	$ -	$ 132,580,000	$1,729,995,000

Under the terms of the bond indentures, the debt service requirements are as follows:

	SERIES 2006A PRINCIPAL	SERIES 2006B PRINCIPAL	SERIES 2006C PRINCIPAL	SERIES 2017A PRINCIPAL	INTEREST	TOTAL DEBT SERVICE
2019	$ 114,070,000		$ 69,365,000		$ 104,355,414	$ 287,790,414
2020	110,135,000		60,365,000	$ 625,000	95,441,450	266,566,450
2021	99,155,000		51,120,000	780,000	86,901,237	237,956,237
2022	102,950,000		37,145,000	730,000	79,009,781	219,834,781
2023	75,285,000		63,220,000	1,460,000	72,430,062	212,395,062
2024 - 2027	374,610,000	$ 111,705,000	286,540,000	674,655,000	108,894,749	1,556,404,749
Totals	$ 876,205,000	$ 111,705,000	$ 567,755,000	$ 678,250,000	$ 547,032,693	$ 2,780,947,693

The bonds bear interest at rates ranging from 4.000% to 5.625%.

The Series 2017A Bonds are subject to optional redemption and extraordinary mandatory redemption through May 1, 2023 and the term bonds are required to be tendered for purchase on May 1, 2023. Under the bond indenture, the Corporation will enter into a bond purchase agreement, firm remarketing agreement, or similar agreement with respect to the remarketing or refunding of the bonds by the last day of the second calendar month preceding May 1, 2023. If the Corporation is unable to do so, there may be an early termination of the gas purchase agreement and the extraordinary redemption of the bonds at that time.

NOTE 4 - GAS SUPPLY:

The Corporation and its Members have entered into long-term or annually renewable gas supply and management contracts (the Gas Supply Contracts), which require the Members to take substantially all of their gas supply from the Corporation, and the Corporation is required to provide that supply.

NOTE 4 - GAS SUPPLY: (continued)

BBE gas - In May 2016, the Corporation entered into the BBE Gas Sale Contract with the Black Belt Energy Gas District (BBE). Under the BBE Gas Sale Contract, BBE has agreed to sell and the Corporation has agreed to purchase natural gas with scheduled daily nominations ranging between 3,100 and 5,300 MMBtu and scheduled monthly nominations ranging between 86,800 and 164,300 MMBtu. Delivery of gas under the BBE Gas Sale Contract began July 1, 2016 and extends through May 31, 2046. This gas replaced the 2006 PEAK Gas Sale Contract quantities which expired at the end of June 2016. The price of gas purchased by the Corporation under the BBE Gas Sale Contract is based on the first of the month Index of natural gas prices for the applicable delivery point at which such gas is delivered.

PGP gas - The Corporation is one of six gas and electric joint action agencies and large distribution systems that are Members of Public Gas Partners, Inc. (PGP), a Georgia nonprofit corporation. PGP acts as the instrumentality of its Members for the primary purpose of acquiring interests in gas producing properties to diversify and enhance each Member's gas supply portfolio. Each of PGP's gas supply acquisition programs is designated as a Supply Pool, and each Member may elect, but is not obligated, to participate under a separate Production Sharing Agreement (PSA) for each Supply Pool. To date, PGP has established Gas Supply Pool No. 1, Gas Supply Pool No. 2, and Gas Supply Pool No. 3 (collectively, the Supply Pools.)

The Corporation has elected to participate in Supply Pools No. 1 and No. 2. Under the PSA, the Corporation has a participation share of 2.02% in Gas Supply Pool No. 1 and 1.00% in Gas Supply Pool No. 2. The Production Sharing Agreements include a step up provision that could obligate the Corporation to increase its participation share in the pool by up to 125.00% in the event of default of another member. The Corporation is not a participant in Pool No. 3. Participation in these pools is for the life of the underlying projects, estimated to be at least 20 years from inception. Pool No. 1 began in 2004 and Pool No. 2 began in 2005.

The Corporation's percentage participation levels represent daily production of approximately 500 MMBtu. Under each Production Sharing Agreement, the Corporation has agreed to pay its percentage share of all of PGP's costs of that Supply Pool on a take or pay basis. Certain of the Corporation's Members have elected to enter into gas supply agreements with the Corporation under which they have agreed to pay, on a take or pay basis, all of the costs, and receive all of the benefits, of the Corporation's participation in each of the Supply Pools until all related PGP or participant debt has been paid and the last volumes have been delivered. No associated municipality has elected to participate at a level in excess of approximately 10.00% of its annual requirements for gas supplies. Under the Production Sharing Agreements, PGP may deliver the benefits of each Supply Pool to its Members in gas or cash. Cash payments are being made by the Corporation and the other PGP Members. Separate audited financial statements of PGP as of June 30, 2017 are available from the Corporation.

NOTE 4 - GAS SUPPLY: (continued)

J. Aron I - In July 2006, the Corporation issued bonds to finance the cost of acquiring a fixed quantity of natural gas to be delivered over a 20-year period by J. Aron under the J. Aron I Purchase Agreement. Under the J. Aron I Purchase Agreement, J. Aron was to deliver approximately 486 billion cubic feet of natural gas in specified daily quantities each month over the 20-year period, which began on August 1, 2006, and ends on July 31, 2026. Scheduled daily quantities ranged from 26,000 to 94,000 MMBtu; scheduled monthly quantities ranged from 806,000 to 2,914,000 MMBtu. On February 8, 2013, an amendment to the J. Aron I Purchase Agreement was entered into by the Corporation reducing obligations of J. Aron to deliver approximately 395 billion cubic feet of natural gas in specified daily quantities each month over the 20-year period. Scheduled daily quantities now range from 14,000 to 88,500 MMBtu; scheduled monthly quantities now range from 420,000 to 2,743,500 MMBtu. J. Aron's obligations under the J. Aron I Purchase Agreement are unconditionally guaranteed by The Goldman Sachs Group (GSG). The Corporation has entered into Natural Gas Supply Agreements with certain of its Members and other public gas systems and joint action agencies (Project Participants) that provide for the sale of all of the natural gas to be delivered to the Corporation over the term of the J. Aron I Purchase Agreement.

In connection with the gas supply acquired by the Corporation under the J. Aron I Purchase Agreement, the Corporation entered into a commodity swap agreement covering the quantities of gas purchased under such agreement. Under that swap agreement, the Corporation will pay market price for natural gas over a 20-year period and receive a fixed natural gas price for notional quantities of natural gas at various pricing points that correspond to the quantities and related delivery points under the J. Aron I Purchase Agreement, as amended.

J. Aron II - In December 2006, the Corporation issued bonds to finance the cost of acquiring a fixed quantity of natural gas to be delivered over a 20-year period by J. Aron under the J. Aron II Purchase Agreement. Under the J. Aron II Purchase Agreement, J. Aron was to deliver approximately 262 billion cubic feet of natural gas in specified daily quantities each month over the 20-year period, which began on January 1, 2007, and ends on December 31, 2026. Scheduled daily quantities ranged from 21,500 to 62,700 MMBtu; scheduled monthly quantities ranged from 645,000 to 1,943,700 MMBtu. On August 29, 2013, an amendment to the J. Aron II Purchase Agreement was entered into by the Corporation reducing obligations of J. Aron to deliver approximately 210 billion cubic feet of natural gas in specified daily quantities each month over the 20-year period. Scheduled daily quantities now range from 13,500 to 57,200 MMBtu; scheduled monthly quantities now range from 405,000 to 1,773,200 MMBtu. Additionally, the amendment provides for J. Aron to sell to the Corporation on a pay-as-you-go basis specified quantities of gas at the discount in the corresponding gas sales agreements with the project participants. Scheduled daily quantities of pay-as-you-go gas range from 500 to 23,700 MMBtu; scheduled monthly quantities range from 15,000 to 735,000 MMBtu. J. Aron's obligations under the J. Aron II Purchase Agreement are unconditionally guaranteed by The Goldman Sachs Group (GSG). The Corporation has entered into Natural Gas Supply Agreements with certain of its Members and Project Participants that provide for the sale of all of the natural gas to be delivered to the Corporation over the term of the J. Aron II Purchase Agreement.

NOTE 4 - GAS SUPPLY: (continued)

In connection with the gas supply acquired by the Corporation under the J. Aron II Purchase Agreement, the Corporation entered into two commodity swap agreements covering the quantities of gas purchased under such agreement. Effective August 1, 2016, one of the commodity swap providers novated its half of the commodity swaps to the other commodity swap provider, as a result of their decision to exit the commodity swap business. Under the swap agreement, the Corporation will pay market price for natural gas over a 20-year period and receive a fixed natural gas price for notional quantities of natural gas at various pricing points that correspond to the quantities and related delivery points under the J. Aron II Purchase Agreement, as amended.

The amendment to the J. Aron II Purchase Agreement included converting prepaid gas deliveries to pay-as-you-go deliveries, which began in November 2013 and ends in December 2026. The price of gas purchased by the Corporation is based on the first of the month Index of natural gas prices for the applicable delivery point at which such gas is delivered. In 2018, the Corporation purchased 454,294 MMBtu of gas under the contract.

The Corporation has contracted to purchase the following volumes of gas from J. Aron through December 2026 at a discount to spot market pricing on a pay-as-you-go basis:

For the year ended March 31:	Volumes (MMBtu)
2019	1,155,848
2020	2,836,944
2021	5,408,652
2022	5,515,562
2023	2,555,998
Thereafter	16,940,380
Total	34,413,384

J. Aron 2017 - In November 2017, the Corporation issued bonds to finance the cost of acquiring a fixed quantity of natural gas to be delivered over a 30-year period by J. Aron under the J. Aron 2017 Purchase Agreement. Under the 2017 Purchase Agreement, J. Aron is to deliver approximately 281 billion cubic feet of natural gas in specified daily quantities each month over the 30-year period, which begins on April 1, 2018, and ends on March 31, 2048. Scheduled daily quantities range from 17,500 to 37,600 MMBtu; scheduled monthly quantities range from 525,000 to 1,165,600 MMBtu.

In connection with the gas supply acquired by the Corporation under the 2017 Purchase Agreement, the Corporation entered into a commodity swap agreement covering the quantities of gas purchased under such agreement. Under that swap agreement, the Corporation will pay market price for natural gas over a 30-year period and receive a fixed natural gas price for notional quantities of natural gas at various pricing points that correspond to the quantities and related delivery points.

NOTE 4 - GAS SUPPLY: (continued)
Spot market supply - The Corporation uses its prepaid gas supply and spot market purchases to meet the gas requirements of its Members. The Management Agreements between the Corporation and the Members that are parties thereto provide that the Corporation will use its best efforts to acquire additional long-term gas supplies to serve its Members. Because a significant portion of the customers served by its Members are residential users whose daily gas requirements increase on cold days, the Corporation regularly purchases supplies of gas in the spot markets to meet the actual supply requirements of the Members. During the years ended March 31, 2018 and 2017, short-term purchases of gas accounted for 16.0% and 11.6% of the Corporation's total gas deliveries, respectively.

Price of gas supply - The gas sold by the Corporation to its Members under the Management Agreements and to Project Participants is based upon monthly market Index. A Member that is a party to a Management Agreement with the Corporation has the option to fix the price of all or a portion of the Index priced gas supply it purchases from the Corporation in a future month or months under the terms of the Management Agreements. Revenues received by the Corporation under the Management Agreements are not pledged to the payment of the bonds.

NOTE 5 - GAS PRICE SWAP AGREEMENTS:
The Corporation employs hedging techniques utilizing over-the-counter derivative instruments to manage the gas commodity price exposure inherent in the purchase, storage, and sale of natural gas in its everyday service to Members and Project Participants. During the reporting period, the Corporation was party to two categories of hedging instruments:

1) Fixed-payer natural gas commodity swaps, to hedge the variability of cash flows related to Fixed Price Agreements with Members or Project Participants in which the Corporation is obligated to pay the NYMEX-Henry Hub monthly settlement price in exchange for a fixed price paid by the member utility, for an agreed upon term and based on predetermined monthly settlement volumes. The fixed-payer swaps are with various counterparties who are obligated to pay the NYMEX-Henry Hub monthly settlement prices in exchange for fixed prices paid by the Corporation, based on identical terms in the fixed price agreements.

2) Fixed-receiver natural gas commodity swaps, to hedge the fair value of Prepaid Natural Gas Sales Agreements, entered into in conjunction with the Series 2006 A, B, & C Gas Project Revenue Bonds and the Series 2017 A Gas Project Revenue Bonds, in which the Corporation has prepaid for certain volumes of natural gas at certain delivery points based on a fixed price. The fixed-receiver swaps are with a single counterparty who is obligated to pay fixed prices in exchange for payment by the Corporation of the first-of-the-month Index prices for gas at the various delivery points, based on identical terms in the J. Aron I, J. Aron II, and 2017 Purchase Agreements.

NOTE 5 - GAS PRICE SWAP AGREEMENTS: (continued)

Under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Corporation must adhere to guidelines addressing the recognition, measurement, and disclosure of information regarding derivative instruments. The Statement defines derivative instruments and items that may be hedged, provides criteria for "hedging derivative instruments" and "investment derivative instruments," prescribes methods for determining "effectiveness" as a hedging derivative instrument, and outlines accounting and financial statement reporting and disclosure requirements.

By applying the consistent critical terms methodology, the Corporation has determined that each of its hedge positions is "effective," and is thus a hedging derivative instrument under GASB 53. As such, the fair market value of derivative positions is recorded as a deferred inflow or deferred outflow on the balance sheet, depending on whether the value is positive or negative from the Corporation's perspective. The Corporation will continue to assess the effectiveness of each hedge, on an annual basis, applying one of the methodologies prescribed under GASB 53.

The fixed-payer commodity swap agreements contain a provision requiring the Corporation to post cash collateral or a letter of credit in the event the fair value of all hedging derivative instruments with that counterparty is in a liability position, exceeding a predetermined threshold. As of fiscal year end 2018, most of the fixed-payer commodity swap agreements were in a liability position but did not exceed the collateral threshold; therefore, no collateral has been posted.

The Corporation bills its Members and Project Participants based on Index prices and entered into fixed-receiver commodity swap agreements to ensure that the Corporation's total net revenues from the sale of the Project gas, including commodity swap revenues and commodity swap expenses, at all times will be sufficient to service the debt associated with the Projects. These agreements require periodic payments to be paid or received based on the difference between the Index price and the fixed contract price on the notional monthly quantity. The notional quantities match the delivery quantities in the prepaid agreements.

The agreements settle monthly as the related gas supplies are delivered with the final maturity in 2048. The Corporation intends to hold these agreements to maturity. The Corporation is exposed to market gas price risk for gas already delivered to its Members and Project Participants in the event of nonperformance by the counterparty to the gas price swap agreements. However, the Corporation does not anticipate nonperformance by the counterparty. The amounts due from the counterparty were $18,408,861 and $18,089,994 March 31, 2018 and 2017, respectively.

NOTE 5 - GAS PRICE SWAP AGREEMENTS: (continued)

At March 31, 2018 and 2017, the fair value of the commodity swap agreements was an asset and a deferred inflow of $1,037,825,629 and $1,116,445,929, respectively. The fair values of the natural gas commodity swaps are estimated by an independent pricing service using observable market-based inputs, unobservable inputs corroborated by market data, and unobservable inputs not corroborated by market data. The values are based on the present value of each swap's future cash flows based on the contractual fixed price and both market-based, forward price curves for the next 72 months going forward and on the estimated forward price curve for periods thereafter for the underlying delivery points, as of the reporting date, and discounted using the LIBOR yield curve.

INSTRUMENT TYPE	OBJECTIVE	TOTAL NOTIONAL VOLUME	EFFECTIVE DATE	MATURITY DATE	TERMS	COUNTERPARTY CREDIT RATING	FAIR VALUE AS OF MARCH 31, 2018
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	50,000 MMBtu	11/1/2018	3/31/2019	TEAC pays 3.055/MMBtu; receives NYMEX-HH	Baa2/A-/A-	$ (2,595)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	200,000 MMBtu	8/1/2018	11/30/2018	TEAC pays 2.935/MMBtu; receives NYMEX-HH	Baa2/A-/A-	(16,014)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	540,000 MMBtu	1/1/2018	12/31/2018	TEAC pays 2.965/MMBtu; receives NYMEX-HH	Baa2/A-/A-	(54,891)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utilities	170,000 MMBtu	1/1/2019	10/31/2019	TEAC pays 2.905/MMBtu; receives NYMEX-HH	Baa2/A-/A-	(12,311)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	120,000 MMBtu	1/1/2018	12/31/2018	TEAC pays 2.64/MMBtu; receives NYMEX-HH	Baa2/A-/A-	16,769
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	210,000 MMBtu	1/1/2019	12/31/2019	TEAC pays 2.75/MMBtu; receives NYMEX-HH	Baa2/A-/A-	5,729
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	180,000 MMBtu	3/1/2018	11/30/2018	TEAC pays 2.685/MMBtu; receives NYMEX-HH	Baa2/A-/A-	19,126
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	340,000 MMBtu	1/1/2019	12/31/2019	TEAC pays 2.785/MMBtu; receives NYMEX-HH	Baa2/A-/A-	2,829
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	200,000 MMBtu	3/1/2018	6/30/2018	TEAC pays 2.655/MMBtu; receives NYMEX-HH	Baa2/A-/A-	11,773

NOTE 5 - GAS PRICE SWAP AGREEMENTS: (continued)

INSTRUMENT TYPE	OBJECTIVE	TOTAL NOTIONAL VOLUME	EFFECTIVE DATE	MATURITY DATE	TERMS	COUNTERPARTY CREDIT RATING	FAIR VALUE AS OF MARCH 31, 2018
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	270,000 MMBtu	4/1/2018	9/30/2018	TEAC pays 2.829/MMBtu; receives NYMEX-HH	A1/AA-/AA	(14,478)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	1,470,000 MMBtu	10/1/2018	8/31/2019	TEAC pays 3.065/MMBtu; receives NYMEX-HH	A1/AA-/AA	(157,279)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	40,000 MMBtu	9/1/2019	9/30/2019	TEAC pays 2.75/MMBtu; receives NYMEX-HH	A1/AA-/AA	(2,648)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	2,500,000 MMBtu	11/1/2017	3/31/2022	TEAC pays $3.137 per MMBtu; receives NYMEX-Henry Hub	A3/BBB+/A	(324,748)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	1,300,000 MMBtu	11/1/2017	3/31/2022	TEAC pays $3.212 per MMBtu; receives NYMEX-Henry Hub	A3/BBB+/A	(226,115)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	640,000 MMBtu	1/1/2018	12/31/2018	TEAC pays $3.036 per MMBtu; receives NYMEX-Henry Hub	A3/BBB+/A	(117,204)
Fixed-Payer Nat Gas Swap	Hedge variability of cash flows in Fixed Price Agreement with member utility	300,000 MMBtu	1/1/2019	12/31/2019	TEAC pays $2.903 per MMBtu; receives NYMEX-Henry Hub	A3/BBB+/A	(33,615)
Fixed-Receiver Nat Gas Swap	Hedge fair value of Prepaid Natural Gas Contract - Series 2006 A&B Gas Project Revenue Bonds	395,135,179 MMBtu	8/1/2006	7/31/2026	TEAC receives 7.451/MMBtu; pays basket of indices	A1/AA-/AA	583,650,038
Fixed-Receiver Nat Gas Swap	Hedge fair value of Prepaid Natural Gas Contract - Series 2006 C Gas Project Revenue Bonds	209,502,902 MMBtu	1/1/2007	12/31/2026	TEAC receives 7.22/MMBtu; pays basket of indices	A1/AA-/AA	377,456,303
Fixed-Receiver Nat Gas Swap	Hedge fair value of Prepaid Natural Gas Contract - Series 2017 Gas Project Revenue Bonds	281,058,400 MMBtu	4/1/2018	3/31/2048	TEAC receives 4.325/MMBtu; pays basket of indices	A1/AA-/AA	77,624,960

The effect of marking the commodity swap agreements to market during fiscal years 2018 and 2017 had no impact on net revenues or expenses in the accompanying statements of revenues and expenses and changes in net position.

NOTE 5 - GAS PRICE SWAP AGREEMENTS: (continued)
Due to the long tenor of the fixed-receiver swaps considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Corporation could realize upon liquidation. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

During fiscal year 2018, the Corporation made payments of $732,000 to swap counterparties in association with the cash flow hedges and received payments of $168,767,152 from swap counterparties in association with the fair value hedges. During fiscal year 2017, the Corporation made payments of $1,058,410 to swap counterparties in association with the cash flow hedges and received payments of $162,176,537 from swap counterparties in association with the fair value hedges. Payments are recorded as adjustments to operating revenues and expenses and are reflected in the statements of revenues, expenses, and changes in net position.

The aggregate fair value for hedging derivative instruments is classified in the Corporation's balance sheets as follows for the years ended March 31, 2018 and 2017:

	2018	2017
Fair value of gas price swap agreements	$ 1,037,825,629	$ 1,116,445,929
Change in fair value from prior year	(78,620,300)	(114,451,086)
Statements of net position:		
Derivative instrument - commodity swaps	1,037,825,629	1,116,445,929
Deferred inflow - accumulated change in fair value of hedging derivatives	1,037,825,629	1,116,445,929

The Corporation is exposed to counterparty credit risk on derivative instruments that are in asset positions. To minimize the risk of loss due to counterparty credit risk the Corporation's hedge policy states that derivative instruments with a duration of less than one year must be transacted with a counterparty that has a credit rating of Baa3/BBB- or better. Derivative instruments with a duration longer than one year must be transacted with a counterparty that has a credit rating of A3/A- or better. The Corporation currently has contracts with counterparties (and guarantors) bearing credit ratings of Baa2/A-/A-, A3/BBB+/A, and A1/AA-/AA.

To further mitigate counterparty credit risk, the terms of the fixed-receiver swap agreements include a ratings-based termination right of the Corporation in the event the counterparty is downgraded below A2/A. The terms of the fixed-payer swap agreements provide for the posting of liquid collateral by the counterparty based on credit-rating and market value thresholds or other metrics. Under the fixed-payer swap agreements, the Corporation may also set-off any settlement amounts owed to the Corporation against collateral posted by the counterparty or settlement amounts owed by the Corporation to the counterparty.

NOTE 5 - GAS PRICE SWAP AGREEMENTS: (continued)

The Corporation or its swap counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract or breaches certain contractual provisions. In addition, the fixed-receiver swap agreements which hedge the Purchase Agreements will automatically terminate if the associated Prepaid Natural Gas Purchase Agreement is terminated.

For 2006 transactions, the only amounts due upon termination would generally be previously accrued but unpaid amounts. However, if the fixed-receiver commodity swap is terminated as a result of the Corporation's default or as a result of the termination of the Prepaid Natural Gas Purchase Agreement, the Corporation would be obligated to pay a termination payment to the swap counterparty based on the net present value of the remaining notional quantities of gas during the remaining term multiplied by a fixed amount. The termination amounts are not based upon the marked to market value of the commodity swaps, and are payable solely out of the termination proceeds and reserve amounts available to the Corporation at the time of any early termination of the commodity swaps.

The Corporation does not currently have any hedging or investment derivative instruments to manage interest rate risk. However, the fair value of commodity swaps that are in an asset position may be reduced as interest rates rise.

The Corporation does not bear basis risk on any of its commodity swaps. Hedged items are matched with hedging derivative instruments that are indexed to the same price index/delivery point.

The Corporation is not exposed to rollover risk due to the fact that the maturities of the hedging derivative instruments and the underlying hedged item are matched.

All hedging derivative instruments and underlying hedged items are denominated in United States Dollars; thus, the Corporation is not exposed to foreign currency risk.

The table below presents the values of the commodity swaps in asset positions and those in liability positions at March 31, 2018 and 2017, respectively.

	2018	2017
FV of asset position swaps	$ 1,038,787,527	$ 1,116,510,445
FV of liability position swaps	(961,898)	(64,516)
Net commodity swap agreements	$ 1,037,825,629	$ 1,116,445,929

NOTE 6 - EMPLOYEE BENEFIT PLANS:

The Corporation has a defined contribution profit sharing plan, The Tennessee Energy Acquisition Corporation Excess Revenue 401(a) Plan, for eligible employees who have reached age 21 and completed one year of service prior to the semiannual sign up date. The Plan is noncontributory in that employees make no contribution to the Plan.

The Corporation's contributions to the Plan are made at the discretion of the Board of Directors. Plan provisions and contribution requirements are established and may be amended by the Board of Directors. As of March 31, 2018 and 2017, there were five plan members. The vesting terms of the Plan are: 6 Year Graded: 0 - 1 year - 0%; 2 years - 20%; 3 years - 40%; 4 years - 60%; 5 years - 80%; 6 years - 100%. Regardless of the vesting schedule, a participant will become fully vested upon death or total and permanent disability. Forfeitures will be allocated to all participants eligible to share in the allocations of employer contributions in the same proportion that each participant's compensation for the plan year bears to the compensation of all participants for such year.

The Corporation's contributions to the Plan are included in general and administrative expense in the accompanying statements of revenues, expenses, and changes in net position and also in other accrued expense as an outstanding liability in the accompanying balance sheets and amounted to $72,535 and $69,281 during the years ending March 31, 2018 and 2017, respectively. There were no forfeitures for the years ending March 31, 2018 and 2017.

The Corporation also has a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code (Section 457) which allows plan participants to defer and contribute to the plan, through the Corporation, a specified portion of their salary until future years. Plan participants' contributions are subject to limitations outlined within Section 457. Under the terms of the plan, the Corporation may contribute to the plan on behalf of the participants; however, no contributions were made by the Corporation during the years ended March 31, 2018 and 2017. The assets of the plan, including all deferred amounts, property, and rights purchased with deferred amounts and all income attributable to such deferred amounts, property, or rights are held in trust for the exclusive benefit of the plan participants, thus, the assets and liabilities of the plan are not reflected in the Corporation's balance sheets.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value amounts of instruments carried at fair value in the balance sheets have been determined by the Corporation using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Corporation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair market value.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS: (continued)
The Corporation measures and reports certain assets and liabilities at fair value. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are subject to fair value measurement.

The fair value of investments restricted for debt service is based on quoted market prices. The fair value of the gas price swap agreements is estimated by an independent pricing service using both Level 2 and Level 3 inputs as defined above.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2018 and 2017, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level at March 31, 2018.

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Investment restricted bond funds	$ 156,895,000	$ 156,895,000		
Gas price swap agreements	$ 1,037,825,629		$ 831,573,994	$ 206,251,635

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS: (continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level at March 31, 2017.

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Investment restricted bond funds	$ 156,895,000	$ 156,895,000		
Gas price swap agreements	$ 1,116,445,929		$ 795,447,763	$ 320,998,166

NOTE 8 - RISK MANAGEMENT AND INSURANCE ARRANGEMENTS:

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; illnesses or injuries to employees; and natural disasters. The Corporation carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. No significant reduction in insurance coverage has occurred since the prior year.

NOTE 9 - CAPITAL ASSETS:

Capital assets in service at March 31, 2018 are summarized as follows:

	BEGINNING BALANCES	INCREASES	DECREASES	ENDING BALANCES
Vehicles	$ 40,758			$ 40,758
Office equipment	72,927	$ 3,119	$ (1,205)	74,841
Totals	113,685	3,119	(1,205)	115,599
Less: Accumulated depreciation	(71,536)	(12,858)	1,205	(83,189)
Total capital assets, net	$ 42,149	$ (9,739)	$ -	$ 32,410

NOTE 9 - CAPITAL ASSETS: (continued)

Capital assets in service at March 31, 2017 are summarized as follows:

	BEGINNING BALANCES	INCREASES	DECREASES	ENDING BALANCES
Vehicles	$ 41,897	$ 20,329	$ (21,468)	$ 40,758
Office equipment	62,925	15,460	(5,458)	72,927
Totals	104,822	35,789	(26,926)	113,685
Less: Accumulated depreciation	(85,854)	(11,048)	25,366	(71,536)
Total capital assets, net	$ 18,968	$ 24,741	$ (1,560)	$ 42,149

NOTE 10 - SUBSEQUENT EVENTS:

The Corporation has evaluated subsequent events through June 27, 2018 which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2018 have been incorporated into these financial statements.

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

The Board of Directors
The Tennessee Energy Acquisition Corporation
Clarksville, Tennessee

We have audited the financial statements of The Tennessee Energy Acquisition Corporation as of and for the years ended March 31, 2018 and 2017, and have issued our report thereon dated June 27, 2018, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The schedules appearing on pages 42 and 43 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management.

The information on page 42 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The information on page 43 was obtained from company records. This nonaccounting information is the responsibility of management and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Jackson Thornton & Co. PC

Montgomery, Alabama
June 27, 2018

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

SCHEDULES OF DEBT SERVICE REQUIREMENTS
AS OF MARCH 31, 2018

FISCAL YEAR ENDING	2006 SERIES A BONDS		2006 SERIES B BONDS		2006 SERIES C BONDS		2017 SERIES A BONDS		TOTAL DEBT SERVICE
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2019	$ 114,070,000	$ 43,006,425		$ 6,283,406	$ 69,365,000	$ 28,387,750		$ 26,677,833	$ 287,790,414
2020	110,135,000	37,121,044		6,283,406	60,365,000	24,919,500	$ 625,000	27,117,500	266,566,450
2021	99,155,000	31,627,181		6,283,406	51,120,000	21,901,250	780,000	27,089,400	237,956,237
2022	102,950,000	26,321,925		6,283,406	37,145,000	19,345,250	730,000	27,059,200	219,834,781
2023	75,285,000	21,643,256		6,283,406	63,220,000	17,488,000	1,460,000	27,015,400	212,395,062
2024	98,545,000	17,080,219		6,283,406	70,900,000	14,327,000	674,655,000	13,493,100	895,283,725
2025	144,580,000	10,698,187		6,283,406	51,445,000	10,782,000			223,788,593
2026	59,050,000	5,352,900		6,283,406	63,030,000	8,209,750			141,926,056
2027	72,435,000	1,901,419	$ 111,705,000	3,141,706	101,165,000	5,058,250			295,406,375
	$ 876,205,000	$ 194,752,556	$ 111,705,000	$ 53,408,954	$ 567,755,000	$ 150,418,750	$ 678,250,000	$ 148,452,433	$ 2,780,947,693

See Independent Auditor's report on supplementary information.

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

DIRECTORY OF OFFICIALS
AS OF MARCH 31, 2018

Board of Directors

Name	Position
Greg Riddle	Chairman
Brent Dillahunty	Vice Chairman
Mark O'Neal	Secretary
Michael Harper	Member
Kyle Hamm	Member
Mike French	Member
Cliff Henson	Member
John Smith	Member
Jim Garland	Member

Management

Name	Position
Mark McCutchen	President/General Manager
Rhonda Wall	Treasurer/Controller/Asst Secretary

See Independent Auditor's report on supplementary information.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
The Tennessee Energy Acquisition Corporation
Clarksville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Tennessee Energy Acquisition Corporation (the Corporation), which comprise the balance sheet as of March 31, 2018, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jackson Thornton & Co. PC

Montgomery, Alabama
June 27, 2018

THE TENNESSEE ENERGY ACQUISITION CORPORATION
CLARKSVILLE, TENNESSEE

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED MARCH 31, 2018

There were no prior year findings reported.