Texas Municipal Gas Acquisition and Supply Corporation I

(A Texas Public Facility Corporation)

Financial Statements as of and for the
Years Ended December 31, 2019 and 2018, and
Independent Auditors' Report

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
(A Texas Public Facility Corporation)

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INDEPENDENT AUDITORS' REPORT

To the Board of
Texas Municipal Gas Acquisition and Supply Corporation I
Houston, Texas

We have audited the accompanying financial statements of Texas Municipal Gas Acquisition and Supply Corporation I (a Texas Public Facility Corporation) (the "Company"), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 controls relevant to the Company'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 Company'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 Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3–6 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 audits 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.

Deloitte & Touche LLP

April 27, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This narrative is provided by the management of Texas Municipal Gas Acquisition and Supply Corporation I (the "Company" or "TexGas I") as an overview of the financial activities of the Company for the years ended December 31, 2019 and 2018. The information provided in this overview should be read in conjunction with the accompanying financial statements and footnotes.

Formation and Business Purpose

The Company, a Texas Public Facility Corporation, was organized under the laws of the State of Texas by the City of La Grange, Texas (the "Sponsor") to, along with other affiliates similarly organized by the Sponsor, procure and supply natural gas ("gas") under a municipal gas purchasing program (the "Program") to participating municipal utility systems ("Municipal Buyers"). The Company serves as one of three upstream affiliates in the overall program. As such, in December 2006, the Company issued long-term bonds and acquired a 20-year gas supply contract (the "Prepaid Contract") from Merrill Lynch Commodities, Inc. The Company, in turn, sells all scheduled gas volumes under the Prepaid Contract to its downstream affiliate, Municipal Gas Acquisition and Supply Corporation ("MuniGas"), under a gas supply contract (the "Resale Contract") extending through October 2026. In July 2008, the Company completed an exchange transaction, whereby a portion of the then-outstanding floating-rate bonds issued in December 2006 were exchanged or purchased with the proceeds of fixed-rate bonds, Series 2008D.

In order to facilitate the 2006 financing and Prepaid Contract, the Company entered into related interest rate swaps and commodity price swaps. The cumulative effect of the Prepaid Contract, Resale Contract, and the interest rate and commodity price swaps is intended to enable the Company to receive stable monthly cash flows, regardless of changes in gas prices and interest rates, which are expected to be adequate to pay the debt service requirements on the Company's bond indebtedness and other expenses. In addition, the Company passes through an operating margin to MuniGas and, in turn, from MuniGas to Municipal Buyers, in the form of monthly gas discounts and later anticipated rebates. The Company has engaged Municipal Energy Resources Partners, Ltd. to manage and administer the Company's operations.

Condensed Statements of Net Position

	Years Ended December 31		
	2019	2018	2017
Assets and deferred outflows:			
Current assets	$ 347,761,080	$ 324,309,721	$ 320,966,326
Noncurrent assets	1,541,937,879	1,713,467,252	1,917,618,030
Deferred outflow of resources	18,189,681	16,067,037	21,184,288
Total assets and deferred outflows	1,907,888,640	2,053,844,010	2,259,768,644
Liabilities:			
Current liabilities	278,467,187	246,423,278	235,517,800
Noncurrent liabilities	1,856,540,164	2,028,482,396	2,228,000,614
Deferred inflow of resources	128,696,013	147,182,454	165,668,894
Total liabilities and deferred inflows	2,263,703,364	2,422,088,128	2,629,187,308
Net position - restricted	$ (355,814,724)	$ (368,244,118)	$ (369,418,664)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31		
	2019	2018	2017
Net operating revenues	$ 188,711,604	$ 185,050,576	$ 181,877,553
Operating expenses	128,186,630	128,082,514	128,010,406
Operating income	60,524,974	56,968,062	53,867,147
Nonoperating expenses—net	(48,095,580)	(55,793,516)	(61,438,418)
Change in net position	12,429,394	1,174,546	(7,571,271)
Beginning net position	(368,244,118)	(369,418,664)	(361,847,393)
Ending net position	$ (355,814,724)	$ (368,244,118)	$ (369,418,664)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Company's financial statements, which are composed of basic financial statements and the accompanying notes to the financial statements. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—State and Local Governments*, TexGas I is considered a special-purpose governmental entity engaged only in business-type activities.

Financial Highlights

Gas deliveries from the Company's Prepaid Contract commenced on January 1, 2007. Since that time, 100% of scheduled deliveries (or the equivalent cash value of scheduled deliveries related to force majeure events) have occurred as initially contracted. Since inception, the Company has been timely paid for 100% of its resulting gas sales to MuniGas, and in turn, to Municipal Buyers. The Company's interest rate and commodity price swaps, along with its investments of funds maintained under its Amended and Restated

Indenture of Trust and Security Agreement (the “Amended and Restated Indenture”), have all performed in accordance with the underlying agreements. Furthermore, at December 31, 2019, the account balances and related changes from 2018 were consistent with the Company’s expectations and underlying agreements.

Other financial highlights for the year ended December 31, 2019, include:

1. Current assets increased by $23.5 million to $347.8 million, primarily due to an increase in the derivative valuation of the current portion of the price swap and an increase in the restricted cash and cash equivalents largely due to a net gain of $1.7 million from the investment contracts replacement.

2. Noncurrent assets decreased by $171.5 million to $1,541.9 million, driven by the amortization of the Prepaid Contract and the decrease in the derivative valuation of the noncurrent portion of the price swap.

3. Current liabilities increased by $32.0 million to $278.5 million, primarily driven by the increase in the derivative valuation of the Prepaid Contract, and the increase in the current portion of debt. The current portion of debt increased to $128.3 million, representing bonds to be paid in 2020. See Note 4 for more information on outstanding bonds.

4. Noncurrent liabilities decreased by $171.9 million to $1,856.5 million, primarily due to decreases in both the long-term debt and the derivative valuation of the noncurrent portion of the Prepaid Contract.

5. Operating revenues, net of municipal discounts and rebates, increased by $3.7 million to $188.7 million. These revenues, in the aggregate, approximate the value of scheduled gas deliveries at the hedged price levels established in 2006.

6. Operating expenses remained relatively unchanged from 2018. As a result, operating income increased by $3.6 million to $60.5 million.

7. Nonoperating expenses—net decreased by $7.7 million to $48.1 million, largely due to reduced interest expense in 2019 relative to 2018, and a net gain of $1.7 million resulting from the replacement of an investment contract. See Note 3 for more information.

8. Net position increased by $12.4 million due to net operating income exceeding net nonoperating expenses.

Other financial highlights for the year ended December 31, 2018, include:

1. Current assets increased by $3.3 million to $324.3 million, primarily due to an increase in the derivative valuation of the current portion of the price swap.

2. Noncurrent assets decreased by $204.2 million to $1,713.5 million, driven by the amortization of the Prepaid Contract and the decrease in the derivative valuation of the noncurrent portion of the price swap.

3. Current liabilities increased by $10.9 million to $246.4 million, primarily driven by the increase in the derivative valuation of the Prepaid Contract, and the increase in the current portion of debt. The current portion of debt increased to $117.3 million, representing bonds to be paid in 2019. See Note 4 for more information on outstanding bonds.

4. Noncurrent liabilities decreased by $199.5 million to $2,028.5 million, primarily due to decreases in long-term debt and the derivative valuations of both the noncurrent portion of the Prepaid Contract and the noncurrent portion of the interest rate swap.

5. Operating revenues, net of municipal discounts and rebates, increased by $3.2 million to $185.1 million. These revenues, in the aggregate, approximate the value of scheduled gas deliveries at the hedged price levels established in 2006.

6. Operating expenses remained relatively unchanged from 2017. As a result, operating income increased by $3.1 million to $57.0 million.

7. Nonoperating expenses—net decreased by $5.6 million to $55.8 million, largely due to reduced interest expense in 2018 relative to 2017.

8. Net position increased by $1.2 million due to net operating income exceeding net nonoperating expenses.

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
(A Texas Public Facility Corporation)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Restricted cash and cash equivalents	$ 3,012,958	$ 1,147,118
Accounts receivable:		
Sales to affiliate	5,510,823	11,517,041
Settled price risk management derivatives	14,402,910	8,036,750
Short-term investments—restricted	55,172,917	54,849,019
Current portion of prepaid natural gas contract	126,167,885	125,774,780
Prepaid expenses and other assets	55,346	58,798
Current portion of price swap	143,438,241	122,926,215
Total current assets	347,761,080	324,309,721
NONCURRENT ASSETS:		
Prepaid natural gas contract (net of accumulated amortization of $1,481,751,952 and $1,355,977,172 in 2019 and 2018, respectively)	732,040,479	858,208,364
Price swap	809,897,400	855,258,888
Total noncurrent assets	1,541,937,879	1,713,467,252
Total assets	1,889,698,959	2,037,776,973
DEFERRED OUTFLOW OF RESOURCES—		
Deferred outflow from derivative instruments	18,189,681	16,067,037
TOTAL	$ 1,907,888,640	$ 2,053,844,010

(Continued)

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
(A Texas Public Facility Corporation)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 224,799	$ 183,814
Bond interest payable	2,658,740	2,980,693
Current portion of long-term bonds	128,275,000	117,300,000
Current portion of derivative component of prepaid natural gas contract	143,438,241	122,926,215
Current portion of interest rate swap	3,870,407	3,032,556
Total current liabilities	278,467,187	246,423,278
NONCURRENT LIABILITIES:		
Long-term bonds	1,031,917,105	1,159,903,287
Tax arbitrage rebate	406,385	285,740
Derivative component of prepaid natural gas contract	809,897,400	855,258,888
Interest rate swap	14,319,274	13,034,481
Total noncurrent liabilities	1,856,540,164	2,028,482,396
Total liabilities	2,135,007,351	2,274,905,674
DEFERRED INFLOW OF RESOURCES—		
Deferred gain on exchange transaction (net of accumulated amortization of $212,264,855 and $193,778,414 in 2019 and 2018, respectively)	128,696,013	147,182,454
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET POSITION—Restricted	(355,814,724)	(368,244,118)
TOTAL	$ 1,907,888,640	$ 2,053,844,010

See notes to financial statements. (Concluded)

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
(A Texas Public Facility Corporation)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Gas sales to affiliate (net of discounts and rebates of $13,051,257 and $12,682,876 in 2019 and 2018, respectively)	$ 58,190,163	$ 71,132,944
Price risk management derivatives income	130,521,441	113,917,632
Total operating revenues	188,711,604	185,050,576
OPERATING EXPENSES:		
Gas management services	97,760	95,516
Amortization of prepaid natural gas contract	125,774,780	125,774,780
General and administrative	2,314,090	2,212,218
Total operating expenses	128,186,630	128,082,514
OPERATING INCOME	60,524,974	56,968,062
NONOPERATING REVENUES (EXPENSES):		
Interest income	5,662,111	5,474,818
Interest expense	(55,327,530)	(61,161,238)
Tax arbitrage rebate	(120,646)	(107,096)
Other gain from investment contracts replacement - net	1,690,485	-
Nonoperating expenses—net	(48,095,580)	(55,793,516)
CHANGE IN NET POSITION	12,429,394	1,174,546
BEGINNING—Net Position	(368,244,118)	(369,418,664)
ENDING—Net Position	$ (355,814,724)	$ (368,244,118)

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
(A Texas Public Facility Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from gas sales	$ 64,196,381	$ 66,762,548
Receipts from price risk management derivatives	124,155,281	117,930,737
Payments for gas management services	(97,802)	(95,137)
Payments for general and administrative expenses	(2,313,414)	(2,213,028)
Net cash provided by operating activities	185,940,446	182,385,120
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments—restricted	(323,898)	(286,000)
Receipts from termination of investment contract	24,485,694	-
Payments to replace investment contracts	(22,795,209)	-
Collection of interest	5,666,814	5,452,814
Net cash provided by investing activities	7,033,401	5,166,814
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest rate swap payments	(3,274,144)	(4,019,602)
Principal payments on bonds	(117,300,000)	(107,440,000)
Interest payments on bonds	(70,533,863)	(75,919,392)
Net cash used in noncapital and related financing activities	(191,108,007)	(187,378,994)
NET INCREASE IN RESTRICTED CASH AND CASH EQUIVALENTS	1,865,840	172,940
RESTRICTED CASH AND CASH EQUIVALENTS—Beginning of year	1,147,118	974,178
RESTRICTED CASH AND CASH EQUIVALENTS—End of year	$ 3,012,958	$ 1,147,118
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 60,524,974	$ 56,968,062
Amortization of prepaid natural gas contract	125,774,780	125,774,780
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable—sales to affiliates	6,006,218	(4,370,396)
(Increase) decrease in accounts receivable—settled price risk management derivatives	(6,366,160)	4,013,105
Increase in prepaid expenses and other assets	(1,250)	(210)
(Increase) decrease in accounts payable and accrued liabilities	1,884	(221)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 185,940,446	$ 182,385,120

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
(A Texas Public Facility Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Amortization of bond premium	$ 2,561,446	$ 2,979,800
Amortization of bond discount	(2,850,263)	(2,946,557)
Amortization of deferred gain on exchange	18,486,440	18,486,440
Change in value of interest rate swap	(2,122,644)	5,117,251

See notes to financial statements.

(Concluded)

1. ORGANIZATION AND NATURE OF OPERATIONS

Texas Municipal Gas Acquisition and Supply Corporation I ("TexGas I" or the "Company") was organized pursuant to and in accordance with the provisions of the Texas Public Facility Corporation Act, Chapter 303; Texas Local Government Code; and other applicable laws on August 30, 2005, under the laws of the State of Texas with the approval of the City of La Grange, Texas (the "Sponsor"). TexGas I began operations on December 20, 2006, as described below.

In December 2006, TexGas I issued bonds (the "Senior Lien Bonds and Subordinate Lien Bonds" or the "2006 Bonds") under an Indenture of Trust and Security Agreement (the "Original Indenture") and acquired a prepaid natural gas supply contract the ("Prepaid Contract") for approximately 20 years from Merrill Lynch Commodities, Inc. (MLCI). In July 2008, the Company completed an exchange transaction (the "Exchange Transaction"), whereby a portion of the then-outstanding variable-rate bonds issued in December 2006 were exchanged or purchased with the proceeds of fixed-rate, senior bonds (the "2008D Bonds"). In conjunction with the Exchange Transaction, the Original Indenture was replaced with an Amended and Restated Indenture of Trust and Security Agreement (the "Amended and Restated Indenture"). Under the Prepaid Contract, MLCI committed to deliver specific monthly volumes of natural gas to TexGas I at Henry Hub (H.H.). TexGas I agreed to sell all gas acquired under the Prepaid Contract through the Sponsor to Municipal Gas Acquisition and Supply Corporation ("MuniGas") under a gas supply contract ("Resale Contract") extending through October 2026. As a result, the Company serves as an upstream supplier of gas to the Sponsor's municipal gas purchasing program (the "Program"), while MuniGas serves as the Program's downstream marketing affiliate.

Under the Resale Contract, TexGas I agreed to sell all of the gas it receives under the Prepaid Contract to MuniGas at a discount from the applicable first of month (FOM) H.H. gas price. The discount is determined by TexGas I monthly and intended to be the maximum discount that enables TexGas I to receive sufficient net revenues to pay debt service on its bonds and expenses, while also maintaining required cash reserves.

TexGas I has engaged Municipal Energy Resources Partners, Ltd. (the "Administrator"), acting through its general partner, Municipal Energy Resources Corporation (MERC), to manage and administer the Company's operations. The president of MERC serves as executive director of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The Company follows enterprise fund accounting and reporting requirements using the accrual basis of accounting. Under this approach, revenues are recognized in the period earned, and expenses are recognized in the period incurred. The Company's financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB).

The Company distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from the sale of gas and all activities around the sale of gas including the settlement of the commodity swap, amortization of the prepaid gas contract, gas management fees, and related general and administrative expenses. Nonoperating items pertain to financing costs associated with the bonds issued including: interest expense, interest rate swap expense, and arbitrage rebate expense. Additionally, interest income is included as a non-operating item.

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results are not expected to be materially different from those estimates.

Income Taxes—The Company, as a Texas Public Facility Corporation, does not recognize federal or state taxes in its financial statements.

Accounts Receivable from Related Party—The Company sells its natural gas derived from the 2006 Prepaid Contract to MuniGas, a related party. At December 31, 2019 and 2018, MuniGas owed the Company $5,510,823 and $11,517,041, respectively. Both of the aforementioned amounts due from MuniGas were paid in January 2020 and 2019, respectively.

Prepaid Natural Gas Contract—The cost of the Prepaid Contract and related costs incurred in acquiring it are capitalized as an asset. This asset is amortized using the units-of-production method as gas is delivered by MLCI beginning on January 1, 2007. The Company’s financial statements reflect amortization expenses in 2019 and 2018 related to this asset of $125,774,780 and $125,774,780, respectively, under amortization of prepaid natural gas contract in the statements of revenues, expenses, and changes in net position.

Natural Gas Revenues—Gas revenues, which represent a portion of operating revenues, are recorded using the entitlements method, whereby the Company recognizes revenues based upon the amount of gas supplies it is entitled to receive from the Prepaid Contract.

Restricted Cash and Cash Equivalents—Pursuant to GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, all cash on hand and highly liquid investments (including restricted cash and cash equivalents) on deposit with financial institutions having original maturities of three months or less when purchased are considered to be cash and cash equivalents for purposes of the statements of cash flows. Refer to Note 3 for further information on restricted cash and cash equivalents.

Investments—The Company accounts for its investments in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*; GASB Statement No. 40, *Deposit and Investment Risk Disclosure*—an amendment of GASB Statement No. 3, and GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 31 and Statement No. 72 require an entity to report investments at their cost or fair market values in the statements of net position. The investments held by the Company are reported at cost basis, as required. GASB Statements No. 3 and No. 40 require an entity to disclose legal or contractual provisions for deposits and investments; the types of investments authorized by legal or contractual provisions; significant violations during the period of legal or contractual provisions; the entity’s deposit or investment policy; and, for certain types of deposits and investments, the risks related to the deposits and investments held by the entity. Refer to Note 3 for further information on investments.

Deferred Gain on Exchange Transaction—As a result of the July 10, 2008, Exchange Transaction, the Company recorded a deferred gain from the extinguishment of the principal amount of the applicable 2006 Bonds as deferred gain on Exchange Transaction in the statements of net position. The amount at closing was $340,960,868, representing the difference between the carrying value of the bonds extinguished and the cash and/or bond value paid to extinguish the debt. The deferred gain on the Exchange Transaction is amortized on a straight-line basis until December 15, 2026, the remaining life of the bonds. For the years ended December 31, 2019 and 2018, the unamortized portion of the deferred gain on Exchange Transaction was $128,696,013 and $147,182,454, respectively. The gain is recorded, net of accumulated amortization of $212,264,855 and $193,778,414 in 2019 and 2018, respectively in the Statement of Net Position as a Deferred Inflow of Resources. The amortization amount is included as a reduction to interest expense in the statements of revenues, expenses, and changes in net position.

New Accounting Pronouncement—In March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for financial statement periods beginning after June 15, 2018. The statement establishes additional financial statement note disclosure requirements related to debt obligations. Refer to Note 4 for further information on the debt obligations.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for fiscal years beginning after June 15, 2020. The statement permits entities to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The Company is currently evaluating the impact of this guidance, if any, on its financial statements, given that the Company has interest rate swaps tied to the LIBOR index.

3. RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

Money Market Funds—The Company entered into the Original Indenture with The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), effective on December 20, 2006, in order to secure the 2006 Bonds. The Original Indenture was superseded by the Amended and Restated Indenture on July 10, 2008. The Amended and Restated Indenture permits the Company to invest excess cash on hand in certain investment-grade government and insured bank obligations. The Company's investment policy is to invest surplus cash in money market mutual funds (the "Money Market Funds") and to invest cash reserved for the principal and interest payments of the 2006 Bonds and other reserve requirements in investment contracts permitted under the Amended and Restated Indenture. All cash and cash equivalents and investments are restricted for the uses prescribed by the Amended and Restated Indenture. At December 31, 2019 and 2018, the Company had $3,012,958 and $1,147,118, respectively, on deposit with the Trustee in Money Market Funds that are included as restricted cash and cash equivalents in the statements of net position.

Risk Disclosures

Interest Rate Risk—The Money Market Funds maintain an average maturity of less than 90 days and seek to maintain a stable net asset value of $1. Further, the Money Market Funds are redeemable on same-day notice.

Credit Risk—The Money Market Funds hold only US dollar-denominated securities that present minimal credit risk. Further, the Money Market Funds are short-term investments with a "AAA" credit rating.

Custodial Credit Risk—The custodial credit risk for the Money Market Funds is that, in the event of failure of a counterparty, the Company will not be able to recover the full value of its investment or collateral securities in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the Company, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Company's name. At December 31, 2019 and 2018, none of the Company's Money Market Funds were subject to custodial credit risk.

Investments— The Trustee, on behalf of the Company, initially entered into a uncollateralized guaranteed investment contract (the "Investment Contract") with DEPFA Bank, Plc ("DEPFA") on December 20, 2006, in accordance with the terms of the Original Indenture, and with terms of the Amended and Restated Indenture, thereafter. The Investment Contract included the parameters for the investment of funds deposited by the Company to be used for payments of bond principal and bond interest, as well as for a debt service reserve, price swap reserve, and senior rate swap reserve. The Investment Contract provided a schedule for deposits and withdrawals and interest on the investments at fixed rates to be made over the term of the bonds. The Investment Contract also provided compliance standards and requirements in the event of the provider's credit deterioration.

In 2007, following the lowering of DEPFA's credit ratings, the initial uncollateralized Investment Contact was converted to a Master Repurchase Agreement (the "Original Repo") to provide improved credit comfort by collateralizing DEPFA's obligations as described in the original terms of the Investment Contract. As DEPFA's credit ratings faced continued pressures, the Original Repo was later amended (the "Amended Repo") to, among other credit beneficial results, grant the Company the right to assign all or portions of the Amended Repo to other credit-qualified providers.

In 2011, the debt service reserve fund, price swap reserve fund, senior rate swap reserve fund, and subordinate interest account of the Amended Repo were assigned (the "Assigned Repo") via competitive bidding to Deutsche Bank Securities, Inc. ("DBSI") whose ratings were then "A+/A-1," "Aa3/P-1," and "A+/F1+" by S&P, Moody's, and Fitch, respectively.

In late 2017, DEPFA notified the Company of its intention to fully wind down its business operations. Throughout the ensuing periods, including 2018 and much of 2019, the Amended Repo and the DBSI Assigned Repo remained in place, continuing to satisfy the reinvestment objectives of the Original Investment Contract. As a result, following extended discussions, in June 2019, the Company negotiated and the Trustee agreed to a termination agreement with DEPFA to terminate the Amended Repo on terms that allowed the Company to receive investment balances and accrued interest then on deposit with DEPFA in addition to a negotiated cash payment for the termination and related costs.

In conjunction with the pending termination, the Company successfully conducted a waiver solicitation of bondholders, in addition to seeking appropriate approvals from swap providers, in order to enter into a replacement uncollateralized investment contract with Bank of America, N.A. (BANA), a higher-rated provider. Effective June 28, 2019, the Company terminated the then outstanding Amended Repo with DEPFA and entered into the replacement investment agreement with BANA (the "*BANA Contract*"), under which the senior debt service accounts under the Amended and Restated Indenture are now invested with BANA at the same rate of return as previously provided through the Amended Repo until the final maturity of the Bonds.

At the time of entering into the BANA Contract and as of December 31, 2019, BANA maintained ratings from S&P and Moody's of "A+ (stable)/A-1" and "Aa2 (stable)/P-1," respectively. As a result of the replacement investment agreement, both Moody's and S&P confirmed the ratings on the Bonds, and the Company recorded a net nonoperating revenue gain.

Later in 2019, amidst much publicized credit concerns regarding DBSI and its parent company, the Company, upon receiving necessary ratings confirmations from Moody's and S&P, assigned the Assigned Repo from DBSI to Natixis Funding Corp. in conjunction with a competitive bidding process. The obligations of Natixis Funding Corp. are guaranteed by Natixis, a public limited corporation organized under the laws of France, with ratings at the time of the assignment and as of December 31, 2019, of "A+ (stable)/A-1" by S&P and "A1 (stable)/P-1" by Moody's. Natixis' obligations related to the investment of amounts on deposit in the debt service reserve fund, price swap reserve fund, senior rate swap reserve fund, and subordinate interest account remain collateralized. The Bank of New York Mellon (the "*Custodian*") acts as custodian for the collateral posted by Natixis.

Interest earned on the deposits under the Investment Contract throughout 2019 and 2018 is reflected in the statements of revenues, expenses, and changes in net position under interest income during the period that such interest is earned. The investments are recorded in the statements of net position using their cost values. At December 31, 2019 and 2018, $55,172,917 and $54,849,019, respectively, of the deposits were classified as short-term investments—restricted.

Through December 31, 2019, all of the providers, including BANA and Natixis, were in compliance with the terms of their respective investment agreements.

Risk Disclosures

Interest Rate Risk—The investments are fixed-rate investments with BANA and Natixis, each of whom obligated to pre-negotiated rates of interest on the investments.

Credit Risk—The investments in the Assigned Repo are collateralized with securities held by the Custodian. The market values of the collateral are maintained at least at the required levels of the par value of the deposits, and the collateral value is monitored on at least a weekly basis. The investments in the BANA Contract are uncollateralized.

Custodial Credit Risk—The custodial credit risk for the investments is the risk that, in the event of failure of the counterparty, the Company will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the Company, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Company's name. At December 31, 2019, the Company's only investments that were subject to custodial credit risk were the collateral securities for Natixis, held by the Custodian under a Custody Agreement.

Public Funds Investment Act

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes the Company to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, and addresses investment diversification, yield, and maturity. The Company is in compliance with the requirements of the Act in the areas of investment practices, management reports, and establishment of appropriate policies.

4. SENIOR LIEN AND SUBORDINATE LIEN BONDS

On December 20, 2006, the Company issued two series of Senior Lien Bonds (Series A and B) and one series of Subordinate Lien Bonds (Series C) in the aggregate principal amount of $2,417,995,000. The Senior Lien Bonds were issued through one fixed-rate series ($485,000,000) and three variable-rate series (totaling $1,851,375,000), while the Subordinate Lien Bonds were issued through one variable-rate series (totaling $81,620,000). The fixed-rate, Senior Lien Bond series included $53,750,400 of original issue premium. The original issue premium, net of accumulated amortization of $44,301,366 and $41,739,920 at December 31, 2019 and 2018, respectively, is included under long-term bonds in the statements of net position. Premium amortization of $2,561,446 and $2,979,800 for the years ended December 31, 2019 and 2018, respectively, is included as a reduction of interest expense in the statements of revenues, expenses, and changes in net position.

On July 10, 2008, the Company entered into the Exchange Transaction, which consisted of the issuance by TexGas I of its fixed-rate Gas Supply Revenue Bonds, Senior Lien Series 2008D in the amount of $1,322,585,000 in exchange for a portion of its outstanding principal amount London InterBank Offered Rate (LIBOR)-based index rate Gas Supply Revenue Bonds; and cash totaling (1) $1,582,895,000 Senior Lien Series 2006B, (2) $42,555,000 Subordinate Lien Series 2006C, and (3) a $16,584,243 cash payment. The Exchange Transaction created material benefits for the Program, generally realized in the form of 1) unencumbered cash proceeds upon closing, while maintaining future net debt service requirements in each and every period equal to or lower than the requirements before the Exchange Transaction; 2) establishing the Funding Agreement which, in addition to efficiently replacing a portion of the debt service reserve, provides additional liquidity to the extent needed by the Company in future periods; and 3) creating further protections for the Company in the event of material defaults by MLCI.

The 2008D Bonds were composed of two fixed-rate serial bonds (totaling $11,900,000) and two fixed-rate term bonds (totaling $1,310,685,000). The 2008D Bonds included $49,581,833 of net original issue discount (net of any premiums). The net original issue discount, after accumulated amortization of $36,859,903 and $34,009,640 at December 31, 2019 and 2018, respectively, is included under long-term bonds in the statements of net position. Discount amortization of $2,850,263 and $2,946,557 for the years ended December 31, 2019 and 2018, respectively, is included as an increase in interest expense in the statements of revenues, expenses, and changes in net position. The 2008D Bonds are limited recourse bonds and are secured by the Amended and Restated Indenture. The Funding Agreement covers certain cash liquidity shortfalls, in order of priority, to the 1) 2008D Bonds and 2) other Senior Lien Bonds. The cash debt service reserve fund covers certain cash liquidity shortfalls, in order of priority, to the 1) other Senior Lien Bonds and 2) 2008D Bonds. At December 31, 2019, the Senior Lien Bonds and the 2008D Bonds were rated “A-” and “A2” by S&P and Moody’s, respectively.

The Bonds are limited recourse obligations, payable solely from and to the extent of revenues and funds pledged and secured under the Indenture by the Company’s trust estate, including the Prepaid Contract. Neither the Company’s sponsoring municipality, its other affiliates nor any Municipal Buyers are obligated or authorized to pay the principal of or interest on the Bonds.

At December 31, 2019 and 2018, the Company’s par value of long-term bonds consisted of the following:

Series	Rate	Due in 2020	December 31 2019	Principal Reduction	December 31 2018	Principal Reduction	December 31 2017
2006A	(1)	$ 30,000,000	$ 210,000,000	$ (30,000,000)	$ 240,000,000	$ (30,000,000)	$ 270,000,000
2006B	(2)	15,750,000	137,120,000	(14,345,000)	151,465,000	(13,070,000)	164,535,000
2006C	(3)		39,065,000		39,065,000		39,065,000
2008D	(4)	82,525,000	777,280,000	(72,955,000)	850,235,000	(64,370,000)	914,605,000
Total		$ 128,275,000	$ 1,163,465,000	$ (117,300,000)	$ 1,280,765,000	$ (107,440,000)	$ 1,388,205,000

(1) Remaining principal maturing between 2020 and 2026 accrues at an interest rate of 5.25%.

(2) The index rate, subject to a maximum rate of 15% per annum, for each period will be equal to:

(a) 67% of the three-month LIBOR for such period, plus

(b) the per annum spread equal to 0.70% for 2026 index rate term bonds ($137.1 million).

(3) The index rate, subject to a maximum rate of 15% per annum, for each period will be equal to:

(a) 67% of the three-month LIBOR for such period, plus

(b) the per annum spread equal to 1.45% for 2026 index rate term bonds ($39.1 million).

(4) Remaining principal maturing between 2020 and 2026 accrues at an interest rate of 6.25%.

At December 31, 2019, the Company's future debt service requirements through 2026, taking into account the interest rate swap transactions described in Note 6, were as follows:

Years Ending December 31	Series A Principal	Interest	Series B Principal	Interest
2020	$ 30,000,000	$ 11,025,000	$ 15,750,000	$ 5,591,094
2021	30,000,000	9,450,000	16,875,000	4,947,625
2022	30,000,000	7,875,000	18,190,000	4,260,261
2023	30,000,000	6,300,000	19,500,000	3,518,655
2024	30,000,000	4,725,000	20,955,000	2,723,986
2025–2026	60,000,000	4,725,000	45,850,000	2,830,627
Subtotal Series A and B	$ 210,000,000	$ 44,100,000	$ 137,120,000	$ 23,872,248

Years Ending December 31	Series C Principal	Interest	Series D Principal	Interest
2020	$ -	$ 1,893,331	$ 82,525,000	$ 48,580,000
2021	-	1,892,849	90,640,000	43,422,188
2022	-	1,893,090	100,165,000	37,757,188
2023	-	1,893,090	109,915,000	31,496,875
2024	-	1,893,331	120,850,000	24,627,188
2025–2026	39,065,000	3,785,939	273,185,000	25,947,188
Subtotal Series C and D	$ 39,065,000	$ 13,251,630	$ 777,280,000	$ 211,830,627

The Bonds are subject to optional redemption and mandatory redemption prior to maturity, as detailed in the Issuer's publicly available Official Statement. Extraordinary mandatory redemptions, either in whole or in part, may occur following a termination or reduction event under the Prepaid Contract, changes in certain laws that affect the treatment of the key transaction contracts, or certain specified uncured shortfalls in liquidity or reserves.

5. FUNDING AGREEMENT

Simultaneously, with the delivery of the 2008D Bonds on July 10, 2008, TexGas I and MLCI entered into the Funding Agreement. Pursuant to the Funding Agreement, MLCI has the obligation to make advances to TexGas I, upon request, to fund certain liquidity deficiencies, as well as debt service deficiencies to holders of the 2008D Bonds on a first priority basis. The term of the Funding Agreement is co-terminus with the term of the Amended and Restated Indenture. The liquidity deficiency advances outstanding at any time may not exceed $5,000,000 without MLCI's consent. TexGas I is obligated to reimburse MLCI for advances under the Funding Agreement pursuant to the flow of funds of the

Amended and Restated Indenture. The obligation of TexGas I to reimburse MLCI for advances made under the Funding Agreement is secured by a lien on the trust estate of TexGas I. No such advances were made from MLCI to TexGas I during the years ended December 31, 2018 and December 31, 2019, respectively. TexGas I pays MLCI periodic fees in consideration of MLCI's obligations under the Funding Agreement. Such periodic fees are payable in arrears on a calendar-quarter basis. In 2019 and 2018, TexGas I paid $247,889 and $239,738, respectively, to MLCI in such fees. TexGas I has paid $2,658,375 in total fees through December 31, 2019. These fees were recorded in general and administrative in the statements of revenues, expenses, and changes in net position.

Overview and Risk Disclosures

Objective—The objective of the Funding Agreement is to provide an additional source of cash liquidity to support certain potential cash flow deficiencies of TexGas I related, on first priority basis, to the 2008D Bonds and, on second priority basis, to the 2006 Senior Lien Bonds.

Terms—MLCI shall fund expense deficiency advances and Series 2008D debt deficiency advances to TexGas I. The termination date of the Funding Agreement is the earlier of the redemption date of all bonds or December 15, 2026.

Credit Risk—At December 31, 2019, the Company was exposed to credit risk through the risk of potential nonperformance by MLCI under the Funding Agreement. MLCI's payment obligations under the Funding Agreement are guaranteed by Merrill Lynch & Co., Inc. Effective October 1, 2013, Bank of America Corp. assumed all of the obligations of Merrill Lynch & Co., Inc. At December 31, 2019, Bank of America Corp.'s long-term credit rating was "A-" from S&P and "A2" from Moody's.

Termination Risk—The Funding Agreement may not be terminated by either party, unless there is a specified event of default or misrepresentation, as such events are defined in the Prepaid Contract.

6. DERIVATIVES AND HEDGING TRANSACTIONS

Prepaid Contract and Price Risk Management Swaps—The Company acquired the Prepaid Contract, which has been recorded in the statements of net position, as prepaid natural gas contract and will be amortized using the units-of-production method. Under the terms of the Prepaid Contract, the Company will receive scheduled volumes of gas deliveries at H.H. over the contract's 20-year term. The purchase price paid for the Prepaid Contract considered future gas prices at the noted index point, in combination with the scheduled gas delivery volumes. In accordance with accounting principles generally accepted in the United States of America, the noted contract includes a derivative and, as a result, requires the derivative component to be adjusted to fair value for financial statements and disclosure purposes. The changes in fair value of the derivative component will fluctuate based upon the increases or decreases in future gas prices through the end of deliveries under the Prepaid Contract.

The notional volumes of the derivative in the Prepaid Contract are equal to the notional volumes under the Price Swap (as defined below), and the variable price indices of the two derivatives are also equal. As a result, the change in the fair values of the Prepaid Contract will offset the change in the fair values of the Price Swap presented below, unless the terms of the Prepaid Contract natural gas deliveries are amended without a corresponding amendment of the Price Swap.

In connection with the issuance of the 2006 Bonds and the acquisition of the Prepaid Contract, the Company entered into a gas commodity price swap agreement (the "Price Swap") with BP Corporation North America, Inc. (BPCNA). Pursuant to the terms of the Price Swap, the Company will pay a price equal to the FOM H.H. index and will receive a fixed price for gas quantities scheduled to be delivered to the Company under the Prepaid Contract in such month. The Price Swap extends through October 2026, the term of the gas deliveries under the Prepaid Contract.

Overview and Risk Disclosures

Objective—The objective of the Price Swap is to hedge against potential fluctuations in future gas prices related to the scheduled deliveries of gas under the Prepaid Contract. As a result, the Price Swap effectively hedges the change in the fair value of the Prepaid Contract from the initial commodity forward value.

Terms—The remaining notional amount of the Price Swap totaled 183,385,000 MMBtus, the total volume of remaining gas to be delivered pursuant to the Prepaid Contract used to determine the value of the derivative component. The Company will receive monthly fixed prices that vary from $7.048 per MMBtu to $9.101 per MMBtu, and the Company will pay the monthly floating FOM H.H. index gas price. The termination date of the Price Swap is October 31, 2026.

Fair Value— Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The fair values of the derivatives are categorized as hierarchy Level 2, calculated using the future net settlement payments required by the Price Swap, assuming that the current forward prices implied by an independent forward price quote obtained by the Company represent future spot prices. These net payments were then discounted using the spot forward curve of LIBOR through October 31, 2026.

As of December 31, 2019, forward gas prices had decreased from the prices embedded in the initial Price Swap. As a result, the Price Swap had positive fair values (asset) of $953,335,641 and $978,185,103 on December 31, 2019 and 2018, respectively. The current portion is recorded in the statements of net position as a current asset at December 31, 2019 and 2018, of $143,438,241 and $122,926,215, respectively. The long-term portion is recorded in the statements of net position as a noncurrent asset at December 31, 2019 and 2018, of $809,897,400 and $855,258,888, respectively. At December 31, 2019 and 2018, the fair value of the derivative component of the 2006 Prepaid Contract had a negative value (liability) of $953,335,641 and $978,185,103, respectively. The current portion is recorded in the statements of net position as a current liability at December 31, 2019 and 2018, of $143,438,241 and $122,926,215, respectively. The long-term portion is recorded in the statements of net position as a noncurrent liability at December 31, 2019 and 2018, of $809,897,400 and $855,258,888, respectively. The respective changes in the fair values are recorded in the statements of revenues, expenses, and changes in net position as nonoperating revenues and expenses. Since the changes in fair value of the Price Swap created an unrealized loss of $24,849,462 and $75,871,048 in 2019 and 2018, respectively, and the changes in fair value of the derivative component of the 2006 Prepaid Contract created an unrealized gain of $24,849,462 and $75,871,048 in 2019 and 2018, respectively, there was no impact to the statements of revenues, expenses, and changes in net position.

Fair value of Price Swap and Prepaid Contract for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Fair value of Price Swap:	$ 953,335,641	$ 978,185,103
Current portion	143,438,241	122,926,215
Long-term portion	809,897,400	855,258,888
Fair value of Prepaid Contract:	(953,335,641)	(978,185,103)
Current portion	(143,438,241)	(122,926,215)
Long-term portion	(809,897,400)	(855,258,888)

Credit Risk—At December 31, 2019, the Company was exposed to credit risk since the Price Swap had positive fair value. At December 31, 2019, BPCNA held current long-term debt ratings of "A-" from S&P and "A2" from Moody's. MLCI's payment obligations under the 2006 Prepaid Contract are guaranteed by Merrill Lynch & Co., Inc. As noted above, this guarantee was assumed by Bank of America Corp. on October 1, 2013.

Basis Risk—The Company is not exposed to basis risk on the Price Swap since, pursuant to the terms of the Price Swap, the Company pays a floating price, which is equal to the floating price for gas deliveries pursuant to the terms of the Resale Contract between the Company and MuniGas (see Note 7 for further information on the Resale Contract). The Price Swap, combined with the Interest Rate Swaps (as defined below), essentially stabilizes the cash flows of the Company throughout the life of the Prepaid Contract and the Senior Lien and Subordinate Lien Bonds.

Termination Risk—Pursuant to the terms of the Price Swap, the Company and BPCNA may not terminate the Price Swap, unless there is a specified event of default or misrepresentation, as such events are defined in the Price Swap. Pursuant to the terms of the Prepaid Contract, the Company and MLCI may not terminate the Prepaid Contract, unless there is a specified event of default or misrepresentation, as such events are defined in the Prepaid Contract.

Interest Rate Swaps—In connection with the issuance of the 2006 Bonds, the Company entered into interest rate swap transactions (collectively, the "Interest Rate Swaps") with Merrill Lynch Capital Services, Inc. ("Merrill Capital"). The Interest Rate Swaps resulted in an effective fixed rate for 100% of the notional amount of the Company's variable-rate bonds. The last Interest Rate Swap extends through December 2026, the maturity date of the longest series of variable-rate bonds. In conjunction with the 2008 Exchange Transaction, the notional amount of the Interest Rate Swaps was proportionately reduced equal to the reduction in principal of the applicable variable-rate bonds. On October 21, 2011, as permitted under the terms of the Interest Rate Swaps between Merrill Capital and the Company, Merrill Capital assigned its rights and obligations to Bank of America, N.A. Merrill Capital's obligations under the Interest Rate Swaps were previously guaranteed by Merrill Lynch & Co., Inc. and, as required under the terms of the Interest Rate Swaps, Merrill Lynch & Co., Inc. guaranteed the obligations of Bank of America, N.A. Effective October 1, 2013, this guarantee has been assumed by Bank of America Corp.

Overview and Risk Disclosures

Objective—The objective of the Interest Rate Swaps is to hedge against the potential of increases in future variable interest rates related to the 2006 Bonds.

Terms—As of December 31, 2019 and 2018, the notional amount of the Interest Rate Swaps totaled \$176,185,000 and \$190,530,000, respectively, which equals the principal amount of the variable interest rate bonds outstanding. The Interest Rate Swaps contain scheduled notional amounts that take into account scheduled principal payments of the variable interest rate bonds during the years 2019 to 2026. Under the terms of the Interest Rate Swaps, the Company will pay fixed rates of 3.83% to 4.85% and receive floating rates equal to 67% of three-month, US dollar-denominated LIBOR, plus 55 to 145 basis points. All agreements were effective on December 20, 2006, the date of issuance of the 2006 Bonds and subsequently amended in conjunction with the Exchange Transaction. The termination date of the last swap transaction is December 15, 2026.

Fair Value—While interest rates generally rose in 2019 relative to 2018, the floating rates remained lower relative to the fixed rate paid under the Interest Rate Swaps. As a result, the Interest Rate Swaps had negative fair value (liability) of \$18,189,681 and \$16,067,037 at December 31, 2019 and 2018, respectively. At December 31, 2019, the liability was recorded in the statement of net position as a current liability of \$3,870,407 and a noncurrent liability of \$14,319,274. At December 31, 2018, the liability was recorded in the statement of net position as a current liability of \$3,032,556 and a noncurrent liability of \$13,034,481. The changes in fair value are recorded in the statements of net position as a deferred outflow of resources. At December 31, 2019 and 2018, deferred outflows of resources were \$18,189,681 and \$16,067,037, respectively. The fair values of the Interest Rate Swaps are categorized as hierarchy Level 2, calculated using the future net settlement payments required by the Interest Rate Swaps, assuming that the current forward prices implied by independent forward price quotes obtained by the Company represent future spot prices. These net payments were then discounted using spot LIBOR rates through December 15, 2026.

Fair value of the Interest Rate Swaps for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Fair value of Interest Rate Swaps	\$ (18,189,681)	\$ (16,067,037)
Current portion	(3,870,407)	(3,032,556)
Long-term portion	(14,319,274)	(13,034,481)
Deferred outflow of resources	\$ (18,189,681)	\$ (16,067,037)

Credit Risk—At December 31, 2019 and 2018, the Company was not exposed to credit risk since the Interest Rate Swaps had negative (liability) fair values. At December 31, 2019, Bank of America, N.A.'s, long-term credit ratings were "A+" and "Aa2" by S&P and Moody's, respectively. Bank of America N.A.'s payment obligations under the Interest Rate Swaps are guaranteed by Bank of America Corp.

Basis Risk—The Company is not exposed to basis risk on the Interest Rate Swaps since, pursuant to the terms of the Interest Rate Swaps, the variable interest rate that the Company pays on the Interest Rate Swaps equals the variable interest rate to be paid on the 2006 Bonds.

Termination Risk—Pursuant to the terms of the Interest Rate Swaps, the Company and Bank of America, N.A., may not terminate the Interest Rate Swaps, unless there is a specified event of default or misrepresentation as such events are defined in the Interest Rate Swaps.

7. TRANSACTIONS WITH SPONSOR AND DOWNSTREAM AFFILIATE

In order to accommodate the closing of the 2006 Bonds and the acquisition of the Prepaid Contract, the Company and MuniGas entered into a Resale Contract with the Sponsor. Facilitated by the Prepaid Contract's scheduled deliveries, the Company sold $71,241,420 and $83,815,820 of gas (prior to discounts and rebates) to MuniGas during 2019 and 2018, respectively.

8. TRANSACTIONS WITH ADMINISTRATOR

The Company entered into two base administrative agreements with the Administrator in 2005, consisting of the Program Administration Agreement (PAA) and the Gas Management Agreement (GMA). These agreements describe the Administrator's responsibilities and compensation framework related to transactions and ongoing program management. In order to accommodate the closing of the 2006 Bonds and the acquisition of the Prepaid Contract, amendments to the PAA and GMA were agreed to through Letter Agreements related to the tenure, specific fee levels, deferrals, and contingencies (collectively, the "Letter Agreements" and individually, the "Letter Agreement"). However, the scope of base services provided by the Administrator under the PAA and GMA has remained materially unchanged from the base agreements. In addition, extraordinary services provided by the Administrator have the potential, with the approval of TexGas I, for creating expenses in future periods associated with such extraordinary services.

PAA

Under the PAA and related Letter Agreements, the Administrator assumed general responsibility for managing and administering the Company's role in the Program, including the negotiation of necessary contracts, coordinating the duties and activities of outside professionals/advisers and service providers, as well as providing the services of the president of MERC as executive director of TexGas I. Under the PAA, the Administrator also maintains program accounting and collection systems, arranges for required rebates of arbitrage earnings, prepares program budgets, provides continuing disclosures and other compliance-related activities, recommends price discounts, and provides office space and equipment. In the performance of its duties, the Administrator does not serve as an Independent Registered Municipal Advisor to the Company. The Administrator agreed that payment of approximately 60% of its ongoing PAA fees were conditional upon cash being available after payment of all respective senior obligations.

Through the 20-year base term of the PAA, the Company has agreed to pay specified fees to the Administrator for ongoing and extraordinary financial services and administration based on the value of acquired assets (unless otherwise agreed through amendment), along with specified cash services fees; such fees are generally adjusted for changes in the Consumer Price Index (CPI). The Company also agreed to reimburse the Administrator for out-of-pocket expenses incurred by the Administrator for the Company's benefit.

The Company executed Letter Agreements on December 1, 2006, and July 10, 2008, which specified the Administrator's compensation for ongoing, monthly financial services and administrative fees, in addition to program structuring and development fees payable at transaction closings. These fees are included under general and administrative in the statements of revenues, expenses, and changes in net position.

In connection with the Administrator's extraordinary efforts in managing the termination of the DEPFA Repo, the Bond holders' consent solicitation process, and reinvestment under the BANA Contract while maintaining the Company's credit ratings and cash flows, the Company agreed in a Letter Agreement dated June 19, 2019, to pay the Administrator for extraordinary services, pursuant to the PAA. In accordance with that Letter Agreement, the Company paid the Administrator an additional PAA fee of $1,191,765 in 2019. The line item, other gain from investment contracts replacement-net, in the statements of revenues, expenses, and changes in net position incorporates this extraordinary PAA fee net of the Company's gain associated with this replacement.

GMA

Under the GMA, the Administrator assumed general responsibility to employ and supervise overall gas management services to provide for, among other services:

(1) marketing and transportation of gas produced from mineral interests and other transactions;

(2) coordinating the exchange and, when necessary, gathering, processing, and transporting of gas to designated points of delivery;

(3) coordinating the delivery, receipt, and confirmation of all necessary gas nominations;

(4) coordinating and administering the Company's rights and obligations under all agreements;

(5) determining the amounts to be paid or received under commodity hedge agreements; and

(6) invoicing and collections for gas sales.

The Company executed a Letter Agreement on December 1, 2006, amending its GMA upon the closing of the TexGas I prepaid supply transaction. The Letter Agreement defines and amends (as necessary) the term and ongoing gas management fees paid to the Administrator, generally adjusted for changes in the CPI. The GMA Letter Agreement amended the Administrator's per unit of gas GMA fees, as well as subordinated 60% of such fees due to the Administrator to the payment of respective senior obligations of the Company related to gas purchases.

Under the terms of the Letter Agreement (and in accordance with federal tax code), the GMA has a five-year term, which automatically extends annually, unless either party provides written notice not to renew at least 45 days prior to each December 2nd. As of December 31, 2019, the term of the GMA with TexGas I extends until December 2, 2024. The GMA fees are included under gas management services in the statements of revenues, expenses, and changes in net position.

Based on the terms of the PAA, GMA, and Letter Agreements, the Company compensated the Administrator for the years ended December 31, 2019 and 2018, as summarized below.

	2019			2018
	Extraordinary fees	Ongoing fees	Total	Ongoing fees
PAA fees	$ 1,191,765	$ 1,814,998	$ 3,006,763	$ 1,772,459
GMA fees	-	97,760	97,760	95,516
Total	$ 1,191,765	$ 1,912,758	$ 3,104,523	$ 1,867,975

9. EXCHANGE TRANSACTION

In connection with the Exchange Transaction and the associated issuance of the 2008D Bonds, the Company entered into the Amended and Restated Indenture, Amended Repo, amended four interest rate swap transactions originally entered into under the Interest Rate Swaps, and entered into the Funding Agreement. Please refer to Notes 3, 5, and 6 for further information on the Amended Repo, Funding Agreement, and Interest Rate Swaps.

10. TAX ARBITRAGE REBATE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of certain tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Such interest rate arbitrage is rebated to the US Department of the Treasury ("Treasury") at least every five years.

For the years ended December 31, 2019 and 2018, the Company recorded an expense of $120,646 and $107,096, respectively. These amounts are recorded in the statements of revenues, expenses, and changes in net position under tax arbitrage rebate.

Based on the current calculations for tax arbitrage rebate, the Company deposits on a monthly basis, the estimated monthly tax arbitrage rebate to the Rebate Account (as such term is defined in the Amended and Restated Indenture). At December 31, 2019 and 2018, the Company had restricted cash of $504,612 and $383,966, respectively, in the Rebate Account.

11. COMMITMENTS AND CONTINGENCIES

The Company has not been served as a plaintiff or defendant in any pending or threatened legal proceedings. Furthermore, the Company does not have any financial guarantees, performance guarantees, or leases. In addition, the Company is obligated under the terms of the Resale Contract to deliver all volumes received from the Prepaid Contract to MuniGas for the term of the gas deliveries.

The Company is also required to maintain compliance with the terms of the Amended and Restated Indenture, other program documents, and various regulatory requirements. The Company is in compliance with all terms of the Amended and Restated Indenture, all program documents, and all regulatory requirements.

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