Municipal Gas Acquisition and Supply Corporation

(A Texas Public Facility Corporation)

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

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Municipal Gas Acquisition and Supply Corporation (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 3–5 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 Municipal Gas Acquisition and Supply Corporation (a Texas Public Facility Corporation) (the "Company" or "MuniGas") as an overview of the Company's financial activities 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 notes to the financial statements.

Formation and Business Purpose

The Company 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 under a municipal gas purchasing program (the "Program") to participating municipal utility systems ("Municipal Buyers"). The Program functions as a municipal cooperative in which MuniGas (the downstream affiliate) purchases gas each month at a discounted price on a take-and-pay basis from its municipal gas supply affiliates and, in turn, sells/delivers the gas at discounted prices to the Municipal Buyers. The Company receives scheduled natural gas volumes from supply affiliates through gas purchase contracts (the "Resale Contracts") and, in turn, sells such gas to Municipal Buyers who have entered into either: (1) the Joint Gas Purchase Contract (the "Cooperative Contract") to purchase some or, in many cases, all of the gas requirements of their utility systems at discounted prices or (2) Spot Gas Sales Contracts ("Flex Gas Contracts"), which generally represent shorter-term purchasing commitments. MuniGas utilizes an exchange and balancing agreement (the "Exchange and Balancing Agreement"), as amended in December 2010, with BP Energy Company to facilitate the balancing and delivery of scheduled gas to the Municipal Buyers.

The cumulative effect of the Resale Contracts, Cooperative Contract, Flex Gas Contracts, and the Exchange and Balancing Agreement allows MuniGas to purchase gas supplies at discounted prices from affiliates and, in turn, sell gas to Municipal Buyers at discounts to the prices such utilities would otherwise pay in the marketplace for delivered gas supplies.

The Company 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. During 2019, MuniGas had contracts with approximately 100 Municipal Buyers in 20 states under either the Cooperative Contract or Flex Gas Contracts.

Condensed Statements of Net Position

	Year Ended December 31		
	2019	**2018**	**2017**
Assets	$ 31,863,610	$ 43,550,629	$ 33,680,332
Liabilities	19,996,715	29,866,063	20,914,207
Net Position—Restricted for Municipal Buyers	$ 11,866,895	$ 13,684,566	$ 12,766,125

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

	Year Ended December 31		
	2019	**2018**	**2017**
Net Operating Revenues	$ 156,700,865	$ 189,384,355	$ 192,566,111
Operating Expenses	158,891,245	188,782,761	190,714,012
Operating Income	(2,190,380)	601,594	1,852,099
Nonoperating Income	372,709	316,847	120,037
Increase in Net Position	(1,817,671)	918,441	1,972,136
Beginning Net Position	13,684,566	12,766,125	10,793,989
Ending Net Position	$ 11,866,895	$ 13,684,566	$ 12,766,125

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*, MuniGas is considered a special-purpose governmental entity engaged only in business-type activities.

Financial Highlights

As the downstream affiliate of the Sponsor's municipal gas purchasing program, the Company maintains and manages significant amounts of long-term municipal demand for gas supplies. The Company has satisfied this demand with long-term supplies provided by its upstream supply affiliates, Texas Municipal Gas Acquisition and Supply Corp I (the "TexGas I"), Texas Municipal Gas Acquisition and Supply Corp II (the "TexGas II"), and Texas Municipal Gas Acquisition and Supply Corp III (the "TexGas III").

During 2019 and 2018, all scheduled gas deliveries to MuniGas from TexGas I, TexGas II, and TexGas III occurred in accordance with the respective Resale Contracts. Similarly, all of the gas deliveries were exchanged and/or balanced for gas at the respective delivery points of the Municipal Buyers. All of the gas delivered to MuniGas at municipal delivery points in conjunction with the Exchange and Balancing Agreement was sold by MuniGas to the Municipal Buyers for qualified municipal use. Furthermore, since inception, 100% of such MuniGas sales were paid in a timely manner by these Municipal Buyers.

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

1. Assets decreased by $11.7 million, to $31.9 million, due principally to the decrease in receivables for natural gas sales resulting from lower natural gas prices in December 2019, relative to December 2018. Natural gas purchases and sales are settled the month following deliveries (i.e., December gas sales are settled in January, thereby creating a receivable as of December 31, 2019).

2. Liabilities decreased by $9.9 million, to $20.0 million, due principally to the decrease in payables for natural gas purchased from MuniGas' upstream gas supply affiliates. The decrease in payables was driven by lower natural gas prices in December 2019 relative to December 2018.

3. Net operating loss was $2.2 million in 2019 relative to a net operating income of $0.6 million in 2018. The loss was largely driven by discounts to Municipal Buyers as a result of higher natural gas demand in 2019 relative to 2018.

4. Net nonoperating income was $0.4 million in 2019 relative to a net nonoperating income of $0.3 million in 2018, driven by higher interest earnings on cash deposits.

5. The Company's net position decreased by $1.8 million, to $11.9 million.

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

1. Assets increased by $9.9 million, to $43.6 million, due principally to the increase in receivables for natural gas sales resulting from higher natural gas prices and higher demand from Municipal Buyers in December 2018, relative to December 2017.

2. Liabilities increased by $9.0 million, to $29.9 million, due principally to the increase in payables for natural gas purchased from MuniGas' upstream gas supply affiliates. The increase in payables was driven by higher natural gas prices in December 2018 relative to December 2017.

3. Net operating income was $0.6 million in 2018 relative to a net operating income of $1.9 million in 2017. The smaller income was mainly driven by increased discounts to Municipal Buyers as a result of higher demand in 2018 relative to 2017.

4. Net nonoperating income was $0.3 million in 2018 relative to a net nonoperating income of $0.1 million in 2017, driven by higher interest earnings on cash deposits.

5. The Company's net position increased by $0.9 million, to $13.7 million.

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

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

	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	$ 818,538	$ 801,961
Restricted cash and cash equivalents	11,896,361	13,752,169
Accounts receivable—natural gas sales	19,112,478	28,942,127
Prepaid expenses and other assets	36,233	54,372
Total assets	31,863,610	43,550,629
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	1,069,414	1,091,555
Natural gas imbalance—Exchanger Balancer	6,172,586	1,881,229
Purchased natural gas payable	12,754,715	26,893,279
Total liabilities	19,996,715	29,866,063
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION—RESTRICTED FOR PROGRAM USE	$ 11,866,895	$ 13,684,566

See notes to financial statements.

MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION

(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:		
Natural gas deliveries	$ 178,759,491	$ 209,632,060
Discounts to Municipal Buyers	(22,058,626)	(20,247,705)
Net operating revenues	156,700,865	189,384,355
OPERATING EXPENSES:		
Purchased natural gas	146,049,614	176,787,407
Gas management services and brokerage	2,896,082	3,030,850
Exchange and balancing	3,374,000	3,376,950
General and administrative	6,571,549	5,587,554
Total operating expenses	158,891,245	188,782,761
OPERATING INCOME	(2,190,380)	601,594
TOTAL NONOPERATING INCOME—Net interest	372,709	316,847
NET INCREASE IN NET POSITION FROM OPERATIONS	(1,817,671)	918,441
NET POSITION—Beginning of year	13,684,566	12,766,125
NET POSITION—End of year	$ 11,866,895	$ 13,684,566

See notes to financial statements.

MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION
(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 natural gas deliveries	$ 188,871,666	$ 191,164,019
Payments for natural gas deliveries	(178,293,284)	(178,288,224)
Payments for operating expenses	(6,270,436)	(6,426,207)
Payments for general and administrative expenses	(6,538,025)	(5,616,504)
Net cash provided by operating activities	(2,230,079)	833,084
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of interest	390,848	291,381
Net cash provided by investing activities	390,848	291,381
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,839,231)	1,124,465
CASH AND CASH EQUIVALENTS—Beginning of year	14,554,130	13,429,665
CASH AND CASH EQUIVALENTS—End of year	$ 12,714,899	$ 14,554,130
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ (2,190,380)	$ 601,594
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable—natural gas sales	9,829,649	(8,719,857)
Increase in prepaid expenses and other assets	-	(509)
Decrease in accounts payable and accrued liabilities	(22,141)	(18,644)
Increase (decrease) in natural gas imbalance—Exchanger Balancer	4,291,357	(1,312,052)
Increase (decrease) in purchased natural gas payable	(14,138,564)	10,282,552
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (2,230,079)	$ 833,084

See notes to financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

Municipal Gas Acquisition and Supply Corporation ("MuniGas" 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 June 14, 2004, under the laws of the State of Texas, with the approval of the City of La Grange, Texas (the "Sponsor").

The Company was organized as part of a municipal natural gas ("gas") cooperative purchasing program (the "Program") through which the Sponsor has been supplying gas to participating municipal utility systems ("Municipal Buyers") since 2001. The Company was formed, along with other gas supply affiliates, to continue the Program under more efficient and flexible terms than initially practical when both upstream and downstream activities were conducted by just one entity, Texas Municipal Gas Corporation (TMGC). TMGC was created by the Sponsor in 1996, and its operations wound down in 2007, remaining dormant until dissolved by its board of directors in 2013. MuniGas now serves as the sole downstream affiliate for the Program, while the upstream activities are provided by its gas supply affiliates, Texas Municipal Gas Acquisition and Supply Corporation I ("TexGas I"), Texas Municipal Gas Acquisition and Supply Corporation II ("TexGas II"), and Texas Municipal Gas Acquisition and Supply Corporation III ("TexGas III").

As the downstream affiliate for the Program, the Company is party to a joint gas purchase contract (the "Cooperative Contract") with the Sponsor and Municipal Buyers who have contracted with the Company to purchase some or, in many cases, all of the qualified gas requirements of their municipal utility systems at discounted prices. The Company also is party with the Sponsor and certain Municipal Buyers to Spot Gas Sales Contracts ("Flex Gas Contracts"), which generally represent shorter-term purchasing commitments. In order to obtain gas supplies to satisfy its Municipal Buyers' demand, the Company has, thus far, entered into three separate gas supply contracts ("Resale Contracts") with its gas supply affiliates and the Sponsor that enable the Company to purchase and receive scheduled volumes of gas each month over the approximate 20-year terms of the gas supply contracts. The Company then transports or exchanges and markets the gas supplies to its Municipal Buyers.

The Company 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.

Between 2006 and 2012, the three gas supply affiliates each issued Gas Supply Revenue Bonds ("Bonds") and acquired a long-term prepaid contract to provide specified monthly quantities of gas to MuniGas for approximately 20-year terms:

- TexGas I issued Bonds in December 2006 and began gas flow in January 2007
- TexGas II issued Bonds in July 2007 and began gas flow in August 2007
- TexGas III issued Bonds in December 2012 and began gas flow in January 2013

To date, the Company has sold 100% of the delivered gas supplies to which it has been entitled under the gas supply contracts, in addition to deliveries of certain advance (balancing) sales of such gas supplies, to Municipal Buyers. These sales and related deliveries have been made in conjunction with the Exchange and Annual Balancing Agreement (the "Exchange and Balancing Agreement"), amended in December 2010, that the Company maintains with BP Energy Company (the "Exchanger Balancer").

All of the gas supplied to the Company from TexGas I, TexGas II, and TexGas III is purchased by the Company at a discount from the market value of the gas at the index points where the gas is delivered. The Company, in turn, sells its available gas (adjusted for specified balancing advances (the "Advance Sales") volumes, and balancing reversals, thereof) to the Municipal Buyers for qualified use at discounts to prevailing market prices at their delivery locations. Discounts and rebates provided by TexGas I, TexGas II, and TexGas III are used by the Company for (a) Program discounts to Municipal Buyers and (b) to pay the Company's operating and administration costs.

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 purchase of gas, gas management fees, exchange and balancing fees and related general and administrative expenses. Non-operating items pertain to interest income and other miscellaneous income and expense items.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Natural Gas Revenues and Receivables—Natural gas revenues are recorded using the entitlements method, whereby the Company recognizes revenues based upon the applicable market price and quantity of scheduled gas it is entitled to receive from its affiliates (TexGas I, TexGas II, and TexGas III) each month through the respective Resale Contracts. As a result, the scheduled gas entitlements used in determining natural gas revenues are unaffected by balancing transactions facilitated by the Exchange and Balancing Agreement. Balancing transactions, nonetheless, can result in short-term receivables due from, or short-term payables due to the Exchanger Balancer.

The Company recorded $178,759,491 and $209,632,060 of operating revenues from scheduled gas deliveries under the entitlements method for the years ended December 31, 2019 and 2018, respectively. Discounts to Municipal Buyers are determined by the Company based on available and projected surplus cash. For the years ended December 31, 2019 and 2018, discounts on qualified-use sales of gas to Municipal Buyers were $22,058,626 and $20,247,705 , respectively. The Company had short-term receivables from Municipal Buyers of $19.1 million and $28.9 million at December 31, 2019 and 2018, respectively. The Company maintains established credit criteria for the Program's current and prospective Municipal Buyers. The Company has never experienced a collection default with any Municipal Buyer and, as a result, has not established an allowance for doubtful accounts at December 31, 2019 or 2018.

Purchased Natural Gas—The Company accounts for the scheduled gas entitlement deliveries it purchases from TexGas I, TexGas II, and TexGas III as an operating expense. The Company purchases this gas at a discount from the market value of the gas at the index points where the gas is delivered. Rebates are also paid to the Company by TexGas I, TexGas II, and TexGas III when their respective available cash surplus balances exceed desired levels. These rebates are available to offset MuniGas expenses and, therefore, serve to increase its surplus funds available for discounts or rebates to Municipal Buyers. See Notes 6 and 7 for further information on gas purchases by the Company.

Natural Gas Exchanges—All of the exchange transactions performed under the Exchange and Balancing Agreement have been recorded on a net basis in natural gas sales to Municipal Buyers in the statements of revenues, expenses, and changes in net position. Balancing transactions, be they for Advance Sales or reversals thereof, are paid by the appropriate party each month with a non-interest-bearing cash deposit (i.e., payment). Balancing deposits due and balancing deposits payable are paid in the month following delivery of the balancing gas volumes. They are reflected in the Company's financial statements under accounts receivable—Exchanger Balancer and as a liability under natural gas imbalance—Exchanger Balancer.

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 restricted 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.

3. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS

The Company entered into a Trust and Security Agreement (the "Trust and Security Agreement") with The Bank of New York Mellon Trust Company, N.A. (the "Trustee") on December 1, 2006, in order to secure its obligations to TexGas I related to the 2006 Bonds. The Trust and Security Agreement was amended in 2007 and 2012 to also secure the Company's obligations to TexGas II and TexGas III, respectively, related to the 2007 Bonds and 2012 Bonds. The Trust and Security Agreement 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 funds (the "Money Market Funds") permitted by the Trust and Security Agreement. At December 31, 2019 and 2018, the Company had $11,896,361 and $13,752,169, 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. At December 31, 2019 and 2018, the Company also had $818,538 and $801,961, respectively, invested in Certificates of Deposit with another qualified institution that are included as 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. Furthermore, 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. Furthermore, the Money Market Funds are short-term investments with an “AAA” credit rating.

Custodial Credit Risk—The custodial credit risk for the Money Market Funds is the risk that, in the event of failure of a 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. At December 31, 2019 and 2018, none of the Company’s Money Market Funds were subject to custodial credit risk.

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. EXCHANGE AND BALANCING AGREEMENT

The Company entered into the Exchange and Balancing Agreement with the Exchanger Balancer to enable it to exchange and balance gas the Company purchases at one or more delivery points for gas at other delivery points, including the delivery locations of Municipal Buyers. The obligations of the Exchanger Balancer are unconditionally guaranteed by BP Corporation North America Inc.

The exchange feature of the Exchange and Balancing Agreement facilitates efficient delivery of the Company’s scheduled gas deliveries to Municipal Buyers in multiple locations throughout the country. The balancing feature, on the other hand, enables the Company to deliver more or less gas to Municipal Buyers than the Company’s scheduled supply for particular periods, while facilitating balancing reversals of previous Advance Sales. Gas imbalances can occur for two intended reasons. First, they can result from Advance Sales in which the Company, in a particular month, provides Municipal Buyers with a greater value of gas deliveries than the value of scheduled deliveries that the Company exchanged with the Exchanger Balancer at Henry Hub. This was the case at year-end in both 2019 and 2018 due to seasonal spikes in Municipal Buyer demand. Second, imbalances occur when the Company reverses prior Advance Sales made to Municipal Buyers. This was the case for specified portions of scheduled gas deliveries during the course of 2019 and 2018.

Under the Exchange and Balancing Agreement, the dollar value of any monthly imbalance is offset by a non-interest-bearing cash deposit by the underdelivering party to the overdelivering party. Such deposits take place on the last business day of the month immediately following the month of delivery. As a result, the financial statements reflect an imbalance payable to the Exchanger Balancer of $6,172,586 and $1,881,229 at December 31, 2019 and 2018, respectively.

The Exchanger Balancer is compensated for its services through monthly fees stipulated in its agreement. Such fees are based upon the amount of the Company’s scheduled entitlement volumes to which each organization is allocated/assigned by the Company. For the years ended December 31, 2019 and 2018, $3,374,000 and $3,376,950, respectively, of fees were recorded as exchange and balancing expense in the statements of revenues, expenses, and changes in net position.

As of December 31, 2019, the current term of the base Exchange and Balancing Agreement extends until December 31, 2022. Under the terms of the agreement, unless notice is provided by either the Company or the Exchanger Balancer, the term of the agreement automatically evergreens annually; however, the Company retains the ability to terminate the agreement at the end of the second year of each contract term extension, currently, December 31, 2021.

5. BROKERAGE FEES

In 2007 the Company entered into agreements with various gas supply organizations to initially assist in identifying, contracting with, and monitoring additional qualified Municipal Buyers. Such gas organizations receive from the Company volume-based fees each month related to the applicable Municipal Buyers. The brokerage agreements have two-year terms. In addition, unless notice is provided by the Company or the applicable broker, the agreements are automatically renewed annually; however, the Company retains the ability to terminate the agreements at the end of the first year of each contract term. For the years ended December 31, 2019 and 2018, brokerage fees of $196,692 and $391,175, respectively, were incurred by the Company. The decrease in fees resulted from amendments to existing brokerage agreements that resulted in reduced brokerage rates beginning in 2019. Such fees are included in gas management services and brokerage in the statements of revenues, expenses, and changes in net position.

6. TRANSACTIONS WITH SUPPLY AFFILIATES

The Company entered into Resale Contracts with the Sponsor, TexGas I, TexGas II, and TexGas III. Under the provisions of the Resale Contracts, each supply affiliate sells and delivers all of the gas delivered to it under its respective prepaid contract to the Company each month at the applicable index prices where the gas is delivered, minus a discount or rebate. The Company pays the supply affiliates the aggregate price for the gas in the month subsequent to delivery. The table below reflects the value of gas purchased by the Company from each of its supply affiliates for the years ended December 31, 2019 and 2018. These costs are included as purchased natural gas in the statements of revenues, expenses, and changes in net position.

	Value of Purchased Gas	
	2019	**2018**
TexGas I (2006 Resale Contract)	$ 58,458,923	$ 71,401,704
TexGas II (2007 Resale Contract)	41,959,490	49,741,034
TexGas III (2012 Resale Contract)	45,631,201	55,644,669
Total	$ 146,049,614	$ 176,787,407

7. TRANSACTIONS WITH SPONSOR

The Company entered into the Cooperative Contract with the Sponsor effective January 1, 2006. Under the provisions of the Cooperative Contract, the Sponsor, acting as agent, purchases gas from the Company and resells this gas to the Municipal Buyers at discounts from the prices such Municipal Buyers would have paid for like quantities of gas from their physical suppliers. At December 31, 2019, 92 Municipal Buyers were parties to the Cooperative Contract for terms ranging from five to 20 years with the Sponsor, acting as an agent, and the Company. Under the Cooperative Contract, the Sponsor is entitled to a monthly fee in consideration for the services provided by the Sponsor in approving the creation of the Company and the purchasing, selling, and delivering of gas under the Cooperative

Contract. The fee is calculated on a cents-per-unit-of-gas basis multiplied by the volume of scheduled deliveries purchased by the Company in such period. For the years ended December 31, 2019 and 2018, $1,349,600 and $1,350,780, respectively, of Sponsor fees were included as general and administrative expenses in the statements of revenues, expenses, and changes in net position.

8. TRANSACTIONS WITH ADMINISTRATOR

The Company entered into two base agreements with the Administrator in 2005 consisting of the Program Administration Agreement (PAA) and the Gas Management Agreement (GMA). In order to accommodate the closing of its gas supply transactions with TexGas I, TexGas II, and TexGas III, along with other beneficial financing or restructuring transactions by those affiliates, the Company agreed to various transaction-specific letter agreements with the Administrator related to 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 approval of the Company, for creating expenses in future periods associated with such extraordinary services.

Under the PAA and related Letter Agreements, while reporting to the board, the Administrator assumed general responsibility for managing and administering the Company's role in the Program, including, subject to board authorization, the negotiation of necessary contracts and coordinating the duties and activities of outside professionals/advisors and other service providers, as well as providing the services of the president of MERC, as executive director of MuniGas. Under the PAA, the Administrator also maintains program accounting and collection systems, 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 PAA fees was conditional upon cash being available after payment of respective senior obligations.

The Company has agreed to pay the Administrator specified fees upon transaction closings to the extent of available funds. These fees are referred to as Program Structuring and Development (PSD) fees. Some or all of these PSD fees, subject to the agreement of the Company and the Administrator, are payable on a deferred and subordinate basis, subject to the occurrence of future conditions. Through the 20-year base term of the PAA, the Company has also agreed to pay the Administrator specified fees for ongoing services and administration based on the value of acquired assets (unless otherwise agreed through amendment); such fees are generally adjusted for changes in the Consumer Price Index (CPI). The Company has also agreed to reimburse the Administrator for all reasonable out-of-pocket expenses incurred by it for the Company's benefit. As of December 31, 2019, the term of the PAA with MuniGas extends through the 20-year life of the most recent gas supply contract, the TexGas III transaction.

Under the GMA, the Administrator assumed, subject to board authorization, 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; and

(5) invoicing and collections for gas sales.

The Administrator agreed that payment of approximately 60% of its GMA fees was conditional upon cash being available after payment of respective senior obligations.

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 extend at least 45 days prior to each December 2. As of December 31, 2019, the term of the GMA with MuniGas 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 its services in 2019 and 2018 as summarized below:

	PAA and GMA Fees for the Years Ended			
	December 31, 2019		December 31, 2018	
	PAA Ongoing Fees	GMA GMA Fees	PAA Ongoing Fees	GMA GMA Fees
TexGas I	$ 1,778,698	$ 1,140,206	$ 1,737,009	$ 1,114,136
TexGas II	1,311,418	814,975	1,280,682	796,284
TexGas III	896,703	744,209	875,687	729,255
Total	$ 3,986,819	$ 2,699,390	$ 3,893,378	$ 2,639,675

The ongoing PAA fees are included in general and administrative expenses in the statements of revenues, expenses, and changes in net position. The GMA fees are included in gas management services and brokerage expense in the statements of revenues, expenses, and changes in net position.

9. 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. The Company is obligated, under the terms of the 2006 prepaid contract, the 2007 prepaid contract, and the 2012 prepaid contract, to purchase all volumes of gas received by TexGas I, TexGas II, and TexGas III at a discount under their respective long-term prepaid gas contracts, and to deliver the associated gas volumes to Municipal Buyers. The Company is also required to maintain compliance with the terms of the Trust and Security Agreement, other Program documents, and various regulatory requirements. The Company is in compliance with all terms and restrictions of the Trust and Security Agreement, all Program documents, and all regulatory requirements.

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