Texas Municipal Gas Acquisition and Supply Corporation II

(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 II
(A Texas Public Facility Corporation)

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Texas Municipal Gas Acquisition and Supply Corporation II (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

This narrative is provided by the management of Texas Municipal Gas Acquisition and Supply Corporation II (the "Company" or "TexGas II") 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"), along with other affiliates similarly organized by the Sponsor, to 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 July 2007, the Company issued long-term bonds and acquired a 20-year gas supply contract (the "Prepaid Contract") from J.P. Morgan Ventures Energy Corporation. 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 July 2027.

In order to facilitate the 2007 financing and Prepaid Contract, the Company entered into related commodity price swaps and interest rate swaps (effectively fixing the Company's interest rate costs associated with the variable rates of its Series 2007A London InterBank Offered Rate (LIBOR)-based bonds and Series 2007B Securities Industry and Financial Markets Association (SIFMA)-based bonds). 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 subsequent rebates. The Company has engaged Municipal Energy Resources Partners, Ltd., to manage and administer the Company's operations.

On July 10, 2012, the Company issued $963,950,000 of Series 2012C LIBOR-based bonds in exchange for a similar par value of its Series 2007B SIFMA-based bonds (the "Exchange Transaction").

Condensed Statements of Net Position

	Years Ended December 31		
	2019	2018	2017
Assets and deferred outflows:			
Current assets	$ 316,265,992	$ 295,427,071	$ 290,550,701
Noncurrent assets	1,460,465,609	1,571,344,345	1,738,856,895
Deferred outflow of resources	157,304,158	141,396,675	184,344,606
Total assets and deferred outflows	1,934,035,759	2,008,168,091	2,213,752,202
Liabilities:			
Current liabilities	254,717,070	223,076,668	220,043,413
Noncurrent liabilities	2,027,678,154	2,132,825,495	2,331,725,837
Total liabilities	2,282,395,224	2,355,902,163	2,551,769,250
Net position - restricted	$ (348,359,465)	$ (347,734,072)	$ (338,017,048)

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

	Years Ended December 31		
	2019	2018	2017
Net operating revenues	$ 148,485,876	$ 143,546,801	$ 140,981,224
Operating expenses	96,449,262	96,383,797	96,297,680
Operating income	52,036,614	47,163,004	44,683,544
Nonoperating expenses—net	(52,662,007)	(56,880,028)	(60,654,506)
Change in net position	(625,393)	(9,717,024)	(15,970,962)
Beginning net position	(347,734,072)	(338,017,048)	(322,046,086)
Ending net position	$ (348,359,465)	$ (347,734,072)	$ (338,017,048)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Company’s financial statements that 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 II 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 August 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 both the Indenture of Trust and Security Agreement (the "Original Indenture") and the Amended and Restated Indenture of Trust and Security Agreement (the "Amended and Restated Indenture") (cumulatively, the "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 $20.8 million to $316.3 million, primarily due to an increase in the derivative valuation of the current portion of the price swap.

2. Noncurrent assets decreased by $110.9 million to $1,460.5 million, driven by the amortization of the Prepaid Contract.

3. Current liabilities increased by $31.6 million to $254.7 million, primarily driven by increases in the current portion of debt and an increase in the derivative valuations of both the Prepaid Contract and the current portion of interest rate swap. The current portion of debt increased to $100.4 million, representing bonds to be paid in 2020. See Note 4 for more information on outstanding bonds.

4. Noncurrent liabilities decreased by $105.1 million to $2,027.7 million, mainly due to the scheduled reduction in the long-term portion of bonds payable.

5. Operating revenues, net of municipal discounts and rebates, increased by $4.9 million to $148.5 million. These revenues, in the aggregate, approximate the value of scheduled gas deliveries at the hedged price levels established in 2007.

6. Operating expenses remained relatively unchanged from 2018. As a result, operating income increased by $4.9 million to $52.0 million.

7. Nonoperating expenses – net decreased by $4.2 million to $52.7 million in 2019, largely due to reduced interest expense in 2019 relative to 2018.

8. Net position decreased by $0.6 million due to net nonoperating expenses exceeding net operating income.

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

1. Current assets increased by $4.9 million to $295.4 million, primarily due to an increase in the derivative valuation of the current portion of the price swap and short-term investments - restricted.

2. Noncurrent assets decreased by $167.5 million to $1,571.3 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 $3.0 million to $223.1 million, primarily affected by increases in the current portion of debt and an increase in the derivative valuation of the Prepaid Contract, partially offset by a decrease in the derivative valuation of the current portion of interest rate swap. The current portion of debt increased to $91.0 million, representing bonds to be paid in 2019. See Note 4 for more information on outstanding bonds.

4. Noncurrent liabilities decreased by $198.9 million to $2,132.8 million, mainly due to the scheduled reduction in the long-term portion of bonds payable and decreases in the derivative valuations of the interest rate swap and the Prepaid Contract.

5. Operating revenues, net of municipal discounts and rebates, increased by $2.6 million to $143.5 million. These revenues, in the aggregate, approximate the value of scheduled gas deliveries at the hedged price levels established in 2007.

6. Operating expenses remained relatively unchanged from 2017. As a result, operating income increased by $2.5 million to $47.2 million.

7. Nonoperating expenses – net decreased by $3.8 million to $56.9 million in 2018, largely due to reduced interest expense in 2018 relative to 2017.

8. Net position decreased by $9.7 million due to net nonoperating expenses exceeding net operating income.

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION II
(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	$ 1,758,317	$ 1,329,507
Accounts receivable:		
Sales to affiliate	3,458,512	7,407,399
Settled price risk management derivatives	10,430,756	6,123,740
Short-term investments—restricted	86,901,975	84,527,103
Current portion of prepaid natural gas contract	95,107,103	94,783,258
Prepaid expenses and other assets	26,623	28,977
Current portion of price swap	118,582,706	101,227,087
Total current assets	316,265,992	295,427,071
NONCURRENT ASSETS:		
Prepaid natural gas contract (net of accumulated amortization of $1,114,772,201 and $1,019,988,943 in 2019 and 2018, respectively)	627,611,133	722,718,236
Price swap	832,854,476	848,626,109
Total noncurrent assets	1,460,465,609	1,571,344,345
Total assets	1,776,731,601	1,866,771,416
DEFERRED OUTFLOW OF RESOURCES—		
Deferred outflow from derivative instruments	157,304,158	141,396,675
TOTAL	$ 1,934,035,759	$ 2,008,168,091

(Continued)

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

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

LIABILITIES AND NET POSITION	2019	2018
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,565,110	$ 1,463,852
Bond interest payable	1,070,321	1,370,847
Current portion of long-term bonds	100,385,000	91,010,000
Current portion of derivative component of prepaid natural gas contract	118,582,706	101,227,087
Current portion of interest rate swap	33,113,933	28,004,882
Total current liabilities	254,717,070	223,076,668
NONCURRENT LIABILITIES:		
Long-term bonds	1,069,935,000	1,170,320,000
Tax arbitrage rebate	698,453	487,593
Derivative component of prepaid natural gas contract	832,854,476	848,626,109
Interest rate swap	124,190,225	113,391,793
Total noncurrent liabilities	2,027,678,154	2,132,825,495
Total liabilities	2,282,395,224	2,355,902,163
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION—restricted	(348,359,465)	(347,734,072)
TOTAL	$ 1,934,035,759	$ 2,008,168,091

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION II
(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 $12,045,030 and $12,868,737 in 2019 and 2018, respectively)	$ 41,757,540	$ 49,539,083
Price risk management derivatives income	106,728,336	94,007,718
Net operating revenues	148,485,876	143,546,801
OPERATING EXPENSES:		
Gas management expenses	72,103	70,448
Amortization of prepaid natural gas contract	94,783,258	94,783,258
General and administrative	1,593,901	1,530,091
Total operating expenses	96,449,262	96,383,797
OPERATING INCOME	52,036,614	47,163,004
NONOPERATING REVENUES (EXPENSES):		
Interest income	6,115,416	5,952,928
Interest expense	(58,566,564)	(62,620,941)
Tax arbitrage rebate	(210,859)	(212,015)
Nonoperating expenses—net	(52,662,007)	(56,880,028)
CHANGE IN NET POSITION	(625,393)	(9,717,024)
BEGINNING—Net Position	(347,734,072)	(338,017,048)
ENDING—Net Position	$ (348,359,465)	$ (347,734,072)

See notes to financial statements.

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION II
(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	$ 45,706,427	$ 46,640,295
Receipts from price risk management derivatives	102,421,320	96,582,206
Payments for gas management services	(71,995)	(70,307)
Payments for general and administrative expenses	(1,590,665)	(1,530,846)
Net cash provided by operating activities	146,465,087	141,621,348
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments—restricted	(2,374,872)	(2,081,908)
Collection of interest	6,116,270	5,950,870
Net cash provided by investing activities	3,741,398	3,868,962
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest rate swap payments	(29,755,532)	(35,016,205)
Principal payments on bonds	(91,010,000)	(83,120,000)
Interest payments on bonds	(29,012,143)	(27,788,411)
Net cash used in capital and related financing activities	(149,777,675)	(145,924,616)
NET DECREASE IN RESTRICTED CASH AND CASH EQUIVALENTS	428,810	(434,306)
RESTRICTED CASH AND CASH EQUIVALENTS—Beginning of year	1,329,507	1,763,813
RESTRICTED CASH AND CASH EQUIVALENTS—End of year	$ 1,758,317	$ 1,329,507
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 52,036,614	$ 47,163,004
Amortization of prepaid natural gas contract	94,783,258	94,783,258
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable—sales to affiliates	3,948,887	(2,898,788)
(Increase) decrease in accounts receivable—settled price risk management derivatives	(4,307,016)	2,574,488
(Increase) decrease in prepaid expenses and other assets	1,500	(344)
Increase (decrease) in accounts payable and accrued liabilities	1,844	(270)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 146,465,087	$ 141,621,348

(Continued)

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION II
(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		
Change in value of interest rate swap	(15,907,483)	42,947,931

See notes to financial statements. (Concluded)

1. ORGANIZATION AND NATURE OF OPERATIONS

Texas Municipal Gas Acquisition and Supply Corporation II ("TexGas II" 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 law on April 26, 2007, under the laws of the State of Texas, with the approval of the City of La Grange, Texas (the "Sponsor").

In July 2007, TexGas II issued its Series 2007A LIBOR-based bonds and its Series 2007B SIFMA-based bonds (collectively, the "Senior Lien Bonds") under the Original Indenture and acquired a prepaid natural gas supply contract (the "Prepaid Contract") for approximately 20 years from J.P. Morgan Ventures Energy Corporation (JPMVEC). In July 2012, the Company completed an exchange transaction (the "Exchange Transaction"), whereby a portion of the then-outstanding Series 2007B SIFMA-based bonds were exchanged, pari passu, for a like par amount of Series 2012C LIBOR-based bonds. In conjunction with the Exchange Transaction, the Original Indenture was replaced with the Amended and Restated Indenture. Under the Prepaid Contract, JPMVEC committed to deliver specific monthly volumes of natural gas to TexGas II at Henry Hub (H.H.). TexGas II 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 (the "Resale Contract") extending through July 2027. 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 II 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 II monthly and is intended to be the maximum discount that enables TexGas II to receive sufficient net revenues to pay debt service on its Senior Lien Bonds and expenses while also maintaining required cash reserves.

TexGas II 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. Non-operating 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 Prepaid Contract to MuniGas, a related party. At December 31, 2019 and 2018, MuniGas owed the Company $3,458,512 and $7,407,399, respectively. Both of the aforementioned amounts due from MuniGas were paid in January of 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 JPMVEC beginning August 1, 2007. The Company's financial statements reflect amortization expenses in 2019 and 2018 related to this asset of $94,783,258 and $94,783,258, 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 Statement No. 3 and GASB Statement 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.

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") on July 1, 2007, in order to secure the Senior Lien Bonds. While the Original Indenture was superseded by the Amended and Restated Indenture on July 10, 2012, the Trustee's role has continued uninterrupted. 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 Senior Lien Bonds and other reserve requirements in investment contracts, as permitted under the Indenture. All cash and cash equivalents and investments are restricted for the uses prescribed by the Indenture. At December 31, 2019 and 2018, the Company had $1,758,317 and $1,329,507, 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 "AAA" credit ratings.

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 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, entered into a guaranteed investment contract (the "Investment Contract") with a financial institution (the "Provider") on July 24, 2007, in accordance with the terms of both the Original Indenture and the Amended and Restated Indenture, thereafter. The Investment Contract provides a specified rate of interest on funds deposited by the Company that will be used for payments of bond principal and interest, as well as for a debt service reserve and commodity swap reserve. The Investment Contract provides a schedule for deposits and withdrawals that will be made over the term of the Senior Lien Bonds. The deposits earn a rate of interest that ranges from 5.516% to 5.648% per annum. Interest earned on the deposits under the Investment Contract is recorded as interest income in the statements of revenues, expenses, and changes in net position 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,$ 86,901,975 and $84,527,103, respectively, of the deposits were classified as short-term investments—restricted.

On August 20, 2009, following a rating downgrade of the Provider by Moody's Investors Service, the Trustee, on behalf of the Company, entered into a Master Repurchase Agreement and Annex I thereto (collectively, the "Repo") with the Provider. The Repo was later amended (the "Amended Repo") to accommodate the Exchange Transaction in 2012 (as described in Note 8). The Repo collateralizes the Provider's obligations as described in the original terms of the Investment Contract with eligible securities with a value, depending on the type and weighted-average life of the applicable security, between 100% (for cash deposits) to 140% (for "A" rated corporate bonds) of the amount deposited by the Trustee with the Provider. Wells Fargo Bank, N.A., acts as custodian (the "Custodian") of the securities posted by the Provider pursuant to a Custody Agreement dated August 20, 2009, between the Trustee, the Provider, and the Custodian (the "Custody Agreement"). At December 31, 2019, the Provider maintained long-term debt ratings of "AA-" by S&P and "A1" by Moody's and the Repo remains collateralized as required. On February 21, 2020, the Provider's long-term debt rating was downgraded by S&P to "A+".

Risk Disclosures:

Interest Rate Risk—The investments are fixed-rate investments with the Provider, and the Provider is obligated to provide a prenegotiated rate of interest on the investments.

Credit Risk—The investments are collateralized with various 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 a weekly basis.

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 the Provider, held by the Custodian under the 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 BONDS

On July 24, 2007, the Company issued two series of Senior Lien Bonds (Series 2007A and 2007B) in the aggregate principal amount of $1,934,305,000. The Senior Lien Bonds were issued through two variable rate series of $516,175,000 and $1,418,130,000.

The Senior Lien 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.

In July 2012, the Company exchanged a portion of the Series 2007B SIFMA-based bonds, pari passu, for a like par amount of Series 2012C LIBOR-based bonds. The Company's par value of long-term bonds as of December 31, 2019 and 2018, consisted of the following:

Series	Rate	Due in 2020	December 31 2019	Principal Reduction	December 31 2018	Principal Reduction	December 31 2017
2007A	(1)	$ 19,805,000	$ 218,890,000	$ (18,310,000)	$ 237,200,000	$ (18,300,000)	$ 255,500,000
2007B	(2)	9,250,000	109,215,000	(8,345,000)	117,560,000	(7,440,000)	125,000,000
2012C	(3)	71,330,000	842,215,000	(64,355,000)	906,570,000	(57,380,000)	963,950,000
Total		$ 100,385,000	$ 1,170,320,000	$ (91,010,000)	$ 1,261,330,000	$ (83,120,000)	$ 1,344,450,000

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

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

(b) the per annum spread equal to 0.87% for 2027 index rate term bonds ($218.9 million).

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

(a) the weekly SIFMA Municipal Swap Index over such period, plus

(b) the per annum spread equal to 0.55% for 2027 index rate term bonds ($109.2 million).

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

(a) 66% of the three-month LIBOR for such period, plus

(b) the per annum spread equal to 0.69% for 2027 index rate term bonds ($842.2 million).

The Company's future debt service requirements through 2027, taking into account the interest rate swap transactions described in Note 5, as of December 31, 2019, were as follows:

Years Ending	2007 Series A		2007 Series B		2012 Series C	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2020	19,805,000	10,149,719	9,250,000	5,130,455	71,330,000	39,068,938
2021	21,515,000	9,186,985	10,100,000	4,674,893	77,890,000	35,599,804
2022	23,160,000	8,148,278	11,095,000	4,179,003	85,540,000	31,823,658
2023	24,990,000	7,028,159	12,190,000	3,633,566	94,025,000	27,670,543
2024	27,060,000	5,820,061	13,445,000	3,034,523	103,670,000	23,108,148
2025–2027	102,360,000	9,105,710	53,135,000	4,832,828	409,760,000	36,803,529
Total	$ 218,890,000	$ 49,438,912	$ 109,215,000	$ 25,485,268	$ 842,215,000	$ 194,074,620

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. DERIVATIVES AND HEDGING TRANSACTIONS

Prepaid Contract and Price Risk Management Swaps—The Company acquired the Prepaid Contract that 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 receives scheduled volumes of gas deliveries at H.H. over a 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 increase or decrease in future gas prices through the end of deliveries under the Prepaid Contract at each statements of net position date.

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.

In connection with the 2007 issuance of the Senior Lien Bonds and the acquisition of the Prepaid Contract, the Company initially entered into a gas commodity price swap agreement (the "Price Swap") with BP Corporation North America, Inc. (BPCNA). On June 18, 2010, Moody's downgraded BPCNA's long-term debt rating to "Baa1" following the April 2010 Macondo incident in the Gulf of Mexico. The downgrade placed BPCNA's long-term debt rating below the minimum Moody's rating requirements of the Original Indenture of "A3." As such, on July 21, 2010, the Price Swap was novated from BPCNA to BNP Paribas (BNP). Under the terms of the novation negotiated by the Company, the net pricing impact will improve the Company's monthly cash flows throughout the remaining term of the novated Price Swap. At December 31, 2019, BNP maintained long-term debt ratings with S&P and Moody's of "A+" and "Aa3", respectively. Pursuant to the terms of the Price Swap, the Company will pay a price equal to 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.

Overview and Risk Disclosures:

Objective—The objective of the Price Swap is to hedge against the potential fluctuations in future gas prices related to the deliveries of gas stated in the Prepaid Contract, which 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 153,986,000 MMBtu, 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 between $7.57 per MMBtu and $10.85 per MMBtu, and the Company will pay the monthly floating FOM H.H. Index gas price. The termination date of the Price Swap is July 31, 2027.

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 current forward prices implied by an independent forward price quote obtained by the Company. These net payments were discounted using the spot forward curve of the LIBOR through July 31, 2027.

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 $951,437,182 and $949,853,196 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 $118,582,706 and $101,227,087, respectively. The long-term portion is recorded in the statements of net position as a noncurrent asset of $832,854,476 and $848,626,109 at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the fair value of the derivative component of the Prepaid Contract had negative values (liability) of $951,437,182 and $949,853,196, respectively. The current portion is recorded in the statements of net position as a current liability at December 31, 2019 and 2018, of $118,582,706 and $101,227,087, respectively. The long-term portion is recorded in the statements of net position as a noncurrent liability of $832,854,476 and $848,626,109 at December 31, 2019 and 2018, 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 gain of $1,583,986 in 2019 and an unrealized loss of $69,827,227 in 2018, respectively, and the changes in fair value of the derivative component of the Prepaid Contract created an unrealized loss of $1,583,986 in 2019 and an unrealized gain of $69,827,227 in 2018, respectively, there was no net 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, is as follows:

	2019	2018
Fair value of Price Swap:	$ 951,437,182	$ 949,853,196
Current portion	118,582,706	101,227,087
Long-term portion	832,854,476	848,626,109
Fair value of Prepaid Contract:	(951,437,182)	(949,853,196)
Current portion	(118,582,706)	(101,227,087)
Long-term portion	(832,854,476)	(848,626,109)

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, BNP held current long-term debt ratings of "A+" from S&P and "Aa3" from Moody's. JPMVEC's payment obligations under the Prepaid Contract are guaranteed by JPMorgan Chase & Co. At December 31, 2019, JPMorgan Chase & Co. maintained long-term credit ratings of "A-" from S&P and "A2" from Moody's.

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 equal to the floating price for gas deliveries pursuant to the terms of the Resale Contract between the Company and MuniGas (see Note 6 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 Bonds.

Termination Risk—Pursuant to the terms of the Price Swap, the Company and BNP 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 JPMVEC 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 Senior Lien Bonds in 2007 and the Exchange Transaction in 2012, the Company entered into (and amended as necessary in 2012) interest rate swap transactions (collectively, the "Interest Rate Swaps") with JPMorgan Chase Bank, National Association (JPM). The Interest Rate Swaps resulted in an effective fixed rate for 100% of the notional amount of the Company's Senior Lien Bonds. The longest Interest Rate Swaps extend until September 15, 2027, the maturity date of the longest series of variable rate Senior Lien Bonds. Pursuant to the terms of the Interest Rate Swaps, the Company pays a fixed rate to JPM and receives a floating rate from JPM.

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 Senior Lien Bonds.

Terms—At December 31, 2019 and 2018, the notional amount of the Interest Rate Swaps totaled $1,170,320,000 and $1,261,330,000, respectively, which equals the principal amount of the Senior Lien Bonds outstanding on the respective dates. The Interest Rate Swaps contain scheduled notional amounts that take into account scheduled principal payments of the Senior Lien Bonds from inception to final maturity in 2027. Under the terms of the Interest Rate Swaps for the Series 2007A Senior Lien Bonds, the Company will pay fixed rates of 4% to 4.74%, and receive, subject to the cap amendments, floating rates equal to 67% of three-month US dollar-denominated LIBOR, plus 70 to 87 basis points. Under the terms of the Interest Rate Swaps for the Series 2007B Senior Lien Bonds, the Company will pay fixed rates of 4.45% to 4.80%, and receive, subject to the cap amendments, floating rates equal to the SIFMA weekly Municipal Swap Index, plus 47 to 55 basis points. These Interest Rate Swaps were effective July 24, 2007, the date of issuance of the Senior Lien Bonds. Under the terms of the Interest Rate Swaps for the Series 2012C Senior Lien Bonds, the Company will pay a fixed rate of 4.74% and receive, subject to the cap amendments, a floating rate equal to 66% of three-month US dollar-denominated LIBOR, plus 69 basis points. The termination date of the last swap transaction is September 15, 2027.

Fair Value—While interest rates generally rose in 2019 relative to 2018, the floating interest rates remained lower relative to the fixed rate paid under the Interest Rate Swaps. As a result, the Interest Rate Swaps had negative fair values (liability) of $157,304,158 and $141,396,675 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 $33,113,933 and a noncurrent liability of $124,190,225. At December 31, 2018, the liability was recorded in the statement of net position as a current liability of $28,004,882 and a noncurrent liability of $113,391,793. 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 $157,304,158 and $141,396,675, 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 rates implied by independent forward rate quotes obtained by the Company representing future spot rates. These net payments were discounted using the spot forward LIBOR curve through September 15, 2027.

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

	2019	2018
Fair value of Interest Rate Swaps:	$ (157,304,158)	$ (141,396,675)
Current portion	(33,113,933)	(28,004,882)
Long-term portion	(124,190,225)	(113,391,793)
Deferred outflow of resources	$ (157,304,158)	$ (141,396,675)

Credit Risk—At December 31, 2019 and 2018, the Company was not exposed to credit risk since the Interest Rate Swaps had negative fair values. At December 31, 2019, JPM's long-term credit rating was "A+" from S&P and "Aa2" from Moody's.

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 rates that the Company receives on the Interest Rate Swaps equals the variable interest rates paid on the Senior Lien Bonds.

Termination Risk—Pursuant to the terms of the Interest Rate Swaps, the Company and JPM 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.

6. TRANSACTIONS WITH SPONSOR AND DOWNSTREAM AFFILIATE

In order to accommodate the 2007 financing 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 $53,802,570 and $62,407,820 of gas (prior to discounts and rebates) from the Prepaid Contract to MuniGas during 2019 and 2018, respectively.

7. TRANSACTIONS WITH THE ADMINISTRATOR

Administrative Agreements—The Company entered into two base administrative agreements with the Administrator in 2007 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 financings, acquisitions, and ongoing management. In order to accommodate the closing of the 2007 Senior Lien Bonds, the acquisition of the Prepaid Contract, and the 2012 Exchange Transaction, amendments to the agreements were made 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 remained materially unchanged from the base agreements. In addition, extraordinary services provided by the Administrator have the potential, with the approval of TexGas II, 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 II. 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 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 a Letter Agreement dated July 17, 2007, 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.

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 July 17, 2007, amending its GMA upon the closing of the TexGas II 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 Letter Agreement amended the Administrator’s per unit of gas GMA fees as well as subordinated 60% of such fees due to the Administrator for 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 extend at least 45 days prior to each December 2. As of December 31, 2019, the term of the GMA with TexGas II 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**
PAA Fees	$ 1,338,179	$ 1,306,815
GMA Fees	72,103	70,448
Total	$ 1,410,282	$ 1,377,263

8. EXCHANGE TRANSACTION

The Company entered into an Exchange Transaction on July 10, 2012, whereby TexGas II issued $963,950,000 of Series 2012C LIBOR-based bonds (the “2012C Bonds”) in exchange for a similar par value of its Series 2007B SIFMA-based bonds. TexGas II received an upfront payment related to the amendment to the Interest Rate Swap agreement and will continue to achieve lower debt service payments through the life of the bonds. In connection with the Exchange Transaction and the associated issuance of the 2012C Bonds, the Company entered into the Amended and Restated Indenture, amended Interest Rate Swap agreement, and the Amended Repo.

9. TAX ARBITRAGE REBATE

The Tax Reform Act of 1986 instituted certain tax arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Tax 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 tax arbitrage is remitted to the United States Department of the Treasury at least every five years. During 2019 and 2018, the Administrator performed calculations of such estimated excess investment earnings on the Senior Lien Bonds and, accordingly, for the periods ended December 31, 2019 and 2018, the Company recorded expense of $210,859 and $212,015, respectively. These expenses are recorded as tax arbitrage rebate in the statements of revenues, expenses, and changes in net position.

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 Indenture). On September 18, 2017, the Company rebated to Treasury 1) $823,945 for its actual arbitrage rebate related to Series 2007A and 2007B Bonds for the period July 25, 2012 to July 24, 2017 and 2) $38,705 for its actual arbitrage related to Series 2012C Bonds for the period July 25, 2016 to July 24, 2017. At December 31, 2019 and 2018, the Company had deposits of $878,296 and $667,437, respectively, in the rebate account. These deposits are included in restricted cash and cash equivalents in the statements of net position.

10. 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 Indenture, other Program documents, and various regulatory requirements. The Company is in compliance with all terms of the Indenture, all Program documents, and all regulatory requirements.

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