

**REPORT OF**  
**MISSOURI ASSOCIATION OF**  
**MUNICIPAL UTILITIES**  
**DECEMBER 31, 2017 and 2016**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Missouri Association of Municipal Utilities

We have audited the accompanying financial statements of Missouri Association of Municipal Utilities ("MAMU"), which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Missouri Association of Municipal Utilities as of December 31, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Williams Keepers LLC*  
June 4, 2018

MISSOURI ASSOCIATION OF MUNICIPAL UTILITIES

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 52,397	\$ 146,505
Accounts Receivable	56,508	83,956
Prepaid Expenses	10,051	8,279
Total Current Assets	<u>118,956</u>	<u>238,740</u>
<b>OTHER ASSETS</b>		
Investments	90,039	-
Total Assets	<u>\$ 208,995</u>	<u>\$ 238,740</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 16,946	\$ 32,725
Unearned Revenue	12,907	2,625
Total Current Liabilities	<u>29,853</u>	<u>35,350</u>
<b>NET ASSETS</b>		
Unrestricted	179,142	203,390
Total Liabilities and Net Assets	<u>\$ 208,995</u>	<u>\$ 238,740</u>

See accompanying notes to financial statements

# MISSOURI ASSOCIATION OF MUNICIPAL UTILITIES

## STATEMENTS OF ACTIVITIES Years Ended December 31, 2017 and 2016

	2017	2016
<b>REVENUES</b>		
Membership Dues	\$ 574,821	\$ 575,153
Associate Membership Dues	43,375	41,875
Total Membership Dues	618,196	617,028
Finance Program Income	243,058	151,659
Member Training	73,632	81,616
Residential Energy Audit Program	20,537	19,157
Membership Directory Advertising	14,250	9,800
Interest	953	463
Other Revenue	21,277	15,020
Total Revenues	991,903	894,743
<b>EXPENSES</b>		
Payroll, Payroll Taxes and Employee Benefits	501,515	502,097
Transfer to MJMEUC Alliance Fund	88,803	84,734
Finance Program	62,525	62,111
Member Training	66,869	79,778
Residential Energy Audit Program	19,564	18,250
Travel	43,197	42,090
Legislative Expenses	64,965	95,165
Other Consulting Services	98,070	21,084
Water Council	45,632	24,661
Member Directory Expenses	5,864	4,827
Insurance	12,387	12,204
Other Expenses	6,760	3,902
Total Expenses	1,016,151	950,903
Decrease in Unrestricted Net Assets	(24,248)	(56,160)
Unrestricted Net Assets, Beginning of Year	203,390	259,550
Unrestricted Net Assets, End of Year	\$ 179,142	\$ 203,390

See accompanying notes to financial statements

**MISSOURI ASSOCIATION OF MUNICIPAL UTILITIES**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Decrease in Net Assets	\$ (24,248)	\$ (56,160)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Adjustments for (Increases) Decreases in Current Assets and Increases (Decreases) in Current Liabilities:		
Accounts Receivable	27,448	(19,582)
Prepaid Expenses	(1,772)	2,467
Accounts Payable	(15,779)	20,701
Unearned Revenue	10,282	46
Net Cash Used by Operating Activities	(4,069)	(52,528)
<b>INVESTING ACTIVITIES:</b>		
Purchases of Investments	(90,039)	-
Net Cash Used by Investing Activities	(90,039)	-
Net Decrease in Cash and Cash Equivalents	(94,108)	(52,528)
Cash and Cash Equivalents, Beginning of Year	146,505	199,033
Cash and Cash Equivalents, End of Year	\$ 52,397	\$ 146,505
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Taxes Paid	\$ 1,548	\$ -

See accompanying notes to financial statements

# MISSOURI ASSOCIATION OF MUNICIPAL UTILITIES

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of the Organization*

The Missouri Association of Municipal Utilities (“MAMU”) is a state-wide organization open for membership to any municipality owning and operating its own utility, including water, electric, natural gas or wastewater. MAMU’s primary mission is to monitor legislation, keep its members informed about how proposed and existing legislation affects them, and to efficiently represent the interests of the members before the Missouri Legislature. In addition, MAMU provides communication, education, training and other self-help activities on a cooperative basis that individual members would not normally do themselves to help the membership increase their effectiveness as individual operating utilities.

#### *Method of Accounting*

MAMU prepares its financial statements in conformity with generally accepted accounting principles following the accounting standards set by the Financial Accounting Standards Board.

#### *Cash and Cash Equivalents*

For the purpose of the statement of cash flows, MAMU considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Periodically, MAMU may temporarily have cash on deposit at financial institutions in excess of amounts insured by the U.S. Federal Deposit Insurance Corporation.

#### *Accounts Receivable*

Accounts Receivable consist of trade receivables generated from MAMU’s ongoing operations. MAMU considers all accounts receivable balances to be fully collectable; therefore, an allowance for doubtful accounts has not been recorded.

#### *Investments*

Investments are reported at fair value. Investment return includes interest income and, if applicable, realized and unrealized gains or losses. See Note 3 for further information on MAMU’s investments.

#### *Property and Equipment*

Property and equipment are carried at cost if purchased or fair value if received by contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. At December 31, 2017 and 2016, MAMU has furniture and equipment with an original cost of \$12,560 that is fully depreciated.

#### *Income Taxes*

MAMU is generally exempt from income tax under Section 501(c)(6) of the Internal Revenue Code; however, federal income taxes are payable on lobbying activities at statutory tax rates applied to the lower of such expenses or investment income in excess of \$100. In addition, MAMU incurs an income tax liability for unrelated business activities. Penalties and interest, if any, are included with “Other Expenses” in the Statement of Activities. MAMU incurred a \$1,421 and a \$127 income tax liability for the years ended December 31, 2017 and 2016, respectively. MAMU incurred total penalties and interest of \$473 for the year ending December 31, 2017, and did not incur any penalties or interest for the year ending December 31, 2016.

### *Net Assets*

For not-for-profit organization financial statements, revenue and net assets are classified as unrestricted, temporarily restricted or permanently restricted based upon donor-imposed restrictions that limit the use of the assets received. All of MAMU's revenues and net assets are unrestricted.

### *Membership Dues Recognition*

Membership dues are recognized as revenue in the calendar year to which they pertain. Payments received for dues and other member services in advance of the year to which they pertain are deferred and reported as unearned revenue.

### *Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### *Subsequent Events*

Events that have occurred subsequent to December 31, 2017, have been evaluated through June 4, 2018, which represents the date MAMU's financial statements were approved by management and therefore were available to be issued.

## **2. CASH AND CASH EQUIVALENTS**

The carrying amount of MAMU's deposits with financial institutions was \$52,397 and \$146,505 at December 31, 2017 and 2016, respectively. The bank balances of \$60,959 and \$167,556 at December 31, 2017 and 2016, respectively, were fully covered by FDIC insurance.

## **3. INVESTMENTS**

U.S. generally accepted accounting principles ("GAAP") require investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the financial statements of not-for-profit organizations. Accordingly, such investments are stated at fair value.

### *Concentration of Risk*

All of MAMU's investments consist of investments in MPUA Resource Services Corporation, a related party entity, which are unsecured.

### *GAAP Valuation Hierarchy*

GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

GAAP defines fair value as 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.

The table below summarizes the valuation technique used in valuing MAMU's Level 3 investments and the quantitative information about the significant unobservable inputs used in the valuations. These unobservable inputs are based upon the best available information in the circumstances and include the investee's own data:

Asset	Fair Value		Valuation Technique	Unobservable Inputs	Range
	2017	2016			
Investment in long-term agreement	\$ 90,039	\$ -	Discounted Cash Flows	Probability of Receiving Face Value Probability of Default	95% - 100% 0% - 5%

A reconciliation of the beginning and ending balance of the Level 3 assets activity that are measured at fair value on a recurring basis using unobservable inputs is as follows:

	2017	2016
Balance, Beginning of Year	\$ -	\$ -
Net Additions, Purchases, Sales, Maturities	90,039	-
Balance, End of Year	\$ 90,039	\$ -

#### ***Investment Income***

Investment income is solely comprised of interest earnings on cash, cash equivalents and investments for the years ended December 31, 2017 and 2016.

#### **4. RELATED ORGANIZATIONS**

MAMU is a party to a Joint Operating Agreement with the Missouri Joint Municipal Electric Utility Commission ("MJMEUC") and the Municipal Gas Commission of Missouri ("MGCM") for the purpose of coordinating resources to improve efficiency and reduce costs. The resulting alliance, known as the Missouri Public Utility Alliance ("MPUA"), is managed by a Joint Operating Committee, comprised of three representatives from the governing boards of each member. This committee reviews and recommends annual budgets for each member, determines the allocation of expenses on a cost reimbursement basis to members, consults on employee issues, and recommends contractual arrangements with joint consultants to each member. The Alliance is accounted for as a separate cost center of MJMEUC. The majority of telephone, utility, postage and other miscellaneous office expenses not directly attributable to a specific program or member are charged to the Alliance cost center. MAMU incurred costs payable to MJMEUC of \$88,803 and \$84,734 for 2017 and 2016, respectively, for its allocated share of Alliance expenses.

All MPUA staff are employees of MJMEUC. MAMU reimburses MJMEUC for time spent by MJMEUC employees on MAMU matters. Salary and employee benefits reimbursements paid to MJMEUC totaled \$501,515 and \$502,097 in 2017 and 2016, respectively.

MJMEUC owed MAMU \$31,105 and \$3,496 at December 31, 2017 and 2016, respectively, for overpayment of Alliance expenses by MAMU.

A fourth MPUA related entity, MPUA Resource Services, Corporation (“RSC”), was created in 2017. RSC is a non-profit and income tax-exempt corporation formed to provide services to governmental entities that have utilities. RSC does not share office and other costs with the other three entities on a joint operating basis but will instead be charged a management fee for services provided to it by the other MPUA entities beginning in 2018. MAMU assisted RSC in its entity development process; however, MAMU will not be reimbursed for any costs incurred or services performed in 2017 but will begin receiving management fees in 2018 from RSC.

**5. MUNICIPAL FINANCE PROGRAMS**

***Missouri Development Finance Board Programs***

Since 1999, MAMU has served as administrator for certain municipal finance programs of the Missouri Development Finance Board (“MDFB”), a component unit of the State of Missouri. Financing was available to Missouri municipalities for public utility capital projects. Repayment of the principal and interest is the obligation of the municipalities who have borrowed under the programs. MAMU has no liability for repayment of the debt. As of December 31, 2017 and 2016, MAMU is the administrator for four long-term debt series issued by MDFB, one each in 2003, 2005, 2006 and 2008. The 1999 debt series issued by MDFB was retired during 2013.

***Greyhawk Financial Services Program***

In 2011, MAMU started a new finance program with Greyhawk Financial Services (“Greyhawk”). Under this program, financing was available to any MPUA member for utility and other tax-exempt municipal projects. Greyhawk issued capital leases to municipalities for long-term financing for any tax-exempt purpose and MAMU provides certain administrative services. Repayment of the capital leases is the obligation of the municipalities who have borrowed under the program. MAMU has no liability for repayment of the capital leases.

***Direct Lending Finance Program***

In 2016, MAMU started its own direct lending program where MAMU works directly with the municipalities and the lending institutions, allowing MAMU to offer more attractive interest rates to its members. Financing is available to any MPUA member for utility and other tax-exempt municipal projects. Under the program, the financial institutions issue capital leases to municipalities for long-term financing for any tax-exempt purpose and MAMU provides certain administrative services. Repayment of the capital leases is the obligation of the municipalities who have borrowed under the program. MAMU has no liability for repayment of the capital leases.

***Administrative Services Provided by MAMU***

For each of the above programs, MAMU has certain administrative duties at the time the debt instruments are issued and during the term of the outstanding debt. MAMU receives fees at the time of issuance and on a monthly or quarterly basis thereafter during the term of the outstanding debt. Fees are typically based on a percentage of the outstanding principal of the underlying debt of the municipalities. Fees received at the time of issuance are recognized in MAMU’s financial statements when received and monthly or quarterly fees are recognized in the period to which they pertain. For 2017 and 2016, total fees earned were \$243,058 and \$151,659, respectively. In 2017, \$90,000 of the fees earned was a withdraw of surplus funds from the Direct Lending Finance Program made by MAMU.

MAMU contracts out the servicing of the municipalities’ debt, for which it pays fees typically based on the outstanding principal of the debt. These fees are due quarterly and are paid from the administrative fees received by MAMU. There is a separate outsourcing agreement for each debt series. Most of the agreements include a minimum and maximum amount allowed to be paid during the year. Fees are only paid to the extent that MAMU receives administrative fees. Direct expenses for these fees and other expenses of the program were \$62,525 and \$62,111 for 2017 and 2016, respectively.