

**REPORT OF
MUNICIPAL GAS COMMISSION
OF MISSOURI**

DECEMBER 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Municipal Gas Commission of Missouri

We have audited the accompanying financial statements of the Municipal Gas Commission of Missouri ("MGCM"), which comprise the statements of net position as of December 31, 2014 and 2013, 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Municipal Gas Commission of Missouri as of December 31, 2014 and 2013, and the changes in its net position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Williams-Keepers LLC

May 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipal Gas Commission of Missouri ("MGCM") offers all persons interested in the financial position and results of MGCM's operations this narrative overview and analysis of MGCM's financial activities for the years ending December 31, 2014 and 2013. Please read this narrative in conjunction with the financial statements and the accompanying notes to financial statements which follow this section.

Overview of the Financial Statements

MGCM was formed in 1988 under the Joint Municipal Utility Commission Act, Revised Statutes of Missouri, to provide for financing, acquisition and operation of natural gas production, transmission and distribution facilities and resources and for the joint purchase of natural gas to meet the requirements of its eleven member municipalities. MGCM's role is to be an aggregator for the purpose of bulk purchasing of natural gas for resale to its member cities. It also functions as a designated operating agent representing its members with major pipeline companies that transport the commodity, and manages the supply and storage contracts for its members. MGCM's administration of the purchasing, transportation, and storage of natural gas on behalf of its membership reduces the total cost and increases the efficiency for all the members.

This report consists of two parts, Management's Discussion and Analysis (this section) and the financial statements. The financial statements are comprised of the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; the Statements of Cash Flows; and the Notes to Financial Statements. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The financial statements are prepared using proprietary or enterprise fund accounting. Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting.

The Statements of Net Position present MGCM's financial position as of the end of the years presented. Information is displayed on assets and liabilities, with the difference between the two reported as net position. The net position of MGCM reflects the resources available as of the end of the year to support member activities. Over time, increases and decreases in net position measure whether MGCM's financial health is improving or deteriorating.

The Statements of Revenue, Expenses and Changes in Net Position present information detailing the revenues and expenses that resulted in the change in net position for the years presented. All revenues and expenses are reported on an accrual basis, following GAAP. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future periods. For example, gas purchases that occurred during the year will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The Statements of Cash Flows present the cash inflows and outflows of MGCM categorized by operating, noncapital financing, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the Statement of Net Position. The effects of accrual accounting are adjusted out and noncash activities, such as depreciation, are removed to supplement the presentation in the Statements of Revenue, Expenses and Changes in Net Position.

The Notes to Financial Statements follow the above financial statements and provide additional information that is essential to a full understanding of the information provided in the financial statements.

Financial Analysis

An analysis of MGCM's financial position begins with a review of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. The following tables present summarized financial position and results of operations for the years ended December 31, 2014, 2013 and 2012. Additional details are available in the accompanying financial statements.

Condensed Statements of Net Position as of December 31, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Cash and Cash Investments	\$ 632,589	\$ 452,233	\$ 203,582
Accounts Receivable	914,257	1,095,981	973,938
Prepaid Expenses	12,777	9,999	4,425
Gas Imbalance	43,291	-	-
Gas in Storage	225,858	38,699	309,017
Total Current Assets	<u>\$ 1,828,772</u>	<u>\$ 1,596,912</u>	<u>\$ 1,490,962</u>
LIABILITIES			
Accounts Payable	\$ 917,487	\$ 794,298	\$ 746,854
Total Current Liabilities	<u>917,487</u>	<u>794,298</u>	<u>746,854</u>
Advances from Members	<u>60,719</u>	<u>60,719</u>	<u>60,719</u>
Total Liabilities	<u>978,206</u>	<u>855,017</u>	<u>807,573</u>
UNRESTRICTED NET POSITION			
Total Liabilities and Net Position	<u>\$ 850,566</u>	<u>741,895</u>	<u>683,389</u>
	<u>\$ 1,828,772</u>	<u>\$ 1,596,912</u>	<u>\$ 1,490,962</u>

Financial Position Analysis – 2014

- Cash and Cash Investments increased 39.9% over the 2013 year-end balance and represents 34.6% of the 2014 fiscal year-end total assets. The increase is attributable to a \$181,724 decrease in accounts receivable and a \$108,671 increase in net position.
- Accounts Receivable reflects a 16.6% decrease compared to 2013 due to the timing of collections from members.
- Gas Imbalance is a new item in 2014 and represents the difference between the amount of gas actually used by members and what was scheduled to be delivered from the supplier. MGCM's suppliers owed MGCM \$43,291 of natural gas at December 31, 2014 due to these differences. This amount was near zero at December 31, 2013.
- Gas in Storage increased \$187,159 or 483.6%. This increase is attributable to a \$0.86/Dth increase in the average cost of gas in storage and a 40,669 Dth increase in the amount of gas in storage.
- Accounts Payable was 15.5% higher at the end of 2014 as compared to 2013 due to higher gas prices in December 2014 and a large infusion of natural gas into storage in December 2014.

Financial Position Analysis – 2013

- Cash and Cash Investments represent 28.3% of 2013 fiscal year-end total assets, which is a 14.6% increase over the same 2012 representation. The increase is attributable to a large reduction in cash needed for gas in storage purchases.
- Accounts Receivable reflects a 12.5% increase compared to 2012 due to higher commodity sales volumes resulting from increased weather-impacted loads.
- Gas in Storage decreased \$270,318 or 87.5%. The majority of this decrease is attributable to MGCM reducing its contract storage capacity due to the marketability of storage gas and lower gas demand from its membership.
- Accounts Payable was 6.4% higher at the end of 2013 as compared to 2012 due to higher gas volumes purchased in December 2013.

Condensed Statements of Revenues, Expenses, and Changes in Net Position for 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Gas Sales	\$ 6,705,693	\$ 5,429,654	\$ 4,665,444
Management Fee	192,684	182,249	148,950
From Members for Legal Fees	-	-	6,977
Training Revenue	900	300	900
Total Operating Revenues	<u>6,899,277</u>	<u>5,612,203</u>	<u>4,822,271</u>
OPERATING EXPENSES			
Gas Purchases and Related Costs	6,610,121	5,361,905	4,723,133
Employee Expenses	103,500	111,456	133,035
Consulting Services	30,137	27,576	31,837
Other Expenses	46,840	52,783	65,432
Total Operating Expenses	<u>6,790,598</u>	<u>5,553,720</u>	<u>4,953,437</u>
NONOPERATING REVENUES			
Interest Income	58	67	1,158
Interest Expense	(66)	(44)	-
Total Nonoperating Income	<u>(8)</u>	<u>23</u>	<u>1,158</u>
Increase (Decrease) in Net Position	108,671	58,506	(130,008)
Net Position, Beginning of the Year	741,895	683,389	813,397
Net Position, End of the Year	<u>\$ 850,566</u>	<u>\$ 741,895</u>	<u>\$ 683,389</u>

Operating Results Analysis – 2014

- Gas Sales of \$6,705,693 increased approximately 23.5% from 2013 fiscal year levels. Fiscal year 2014 saw relatively stable, but slightly higher natural gas prices and increased gas sales volumes. Sales volumes were primarily driven by weather related conditions increasing 2014 heating degree days by 4% over the previous year and 8% above what is considered normal.
- Higher consumption also impacts Management Fee revenues, which increased 5.7% from 2013. General and administrative costs are recovered through management fees which are based upon a per Dth charge.

- Gas Purchases and Related Costs consist of gas supply, transportation, and storage costs and represents 97.3% of total operating expenditures. Members' natural gas consumption increased approximately 5.7% from fiscal year 2013 to 2014. MGCM members saw an average commodity cost per MMBtu of \$4.62 for 2014 compared to \$3.57 for the 2013 fiscal year. Members realized an all-in delivered commodity price of \$6.44 MMBtu, which was approximately \$0.90 higher than the 2013 all-in delivered price, which was primarily the result of higher commodity prices in 2014.
- General and administrative costs are recovered in Management Fees and totaled approximately 2.7% of total operating expenses.

Operating Results Analysis – 2013

- Gas Sales of \$5,429,654 increased approximately 16% from 2012 fiscal year levels. Fiscal year 2013 saw relatively stable natural gas prices and increased gas sales volumes. Sales volumes were primarily driven by weather related conditions increasing 2013 heating degree days by 36% over the previous year.
- Higher consumption also impacts Management Fee revenues, which increased 22.4% from 2012. General and administrative costs are recovered through management fees which are based upon a per Dth charge.
- Gas Purchases and Related Costs consist of gas supply, transportation, and storage costs and represents 96.5% of total operating expenditures. Members' natural gas consumption increased approximately 22% from fiscal year 2012 to 2013, and natural gas purchases were above comparable 2012 amounts by approximately 13.5%. MGCM members saw an average commodity cost per MMBtu of \$3.57 for 2013 compared to \$3.66 for the 2012 fiscal year. Members realized an all-in delivered commodity price of \$5.54 MMBtu, which was approximately \$0.25 lower than the 2012 all-in delivered price.
- General and administrative costs are recovered in Management Fees and totaled approximately 3.5% of total operating expenses.

Financial Outlook

MGCM continues to maintain a relatively stable market outlook on commodity prices through 2015-2016. The United States economy gives little indication it will drive natural gas prices significantly higher in the near term. Situations that could increase natural gas demand and commodity prices are an upsurge in natural gas demand from the power generation industry and infrastructure congestion, but again, abundant domestic supply levels are expected to moderate market prices overall.

MGCM is dedicated to providing reliable and economical natural gas supplies and related services to its members, as well as continuing support to its members in areas of training and natural gas pipeline developments.

Request for Information

This financial report is designed to provide the reader a general overview and analysis of the financial activities of MGCM. Questions or requests for more information should be directed to Duncan Kincheloe, General Manager, Municipal Gas Commission of Missouri, 1808 I-70 Drive SW, Columbia, MO 65203 (573-445-3279).

MUNICIPAL GAS COMMISSION OF MISSOURI

STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Investments	\$ 632,589	\$ 452,233
Accounts Receivable	914,257	1,095,981
Prepaid Expenses	12,777	9,999
Gas Imbalance	43,291	-
Gas in Storage	225,858	38,699
Total Current Assets	<u>\$ 1,828,772</u>	<u>\$ 1,596,912</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	<u>\$ 917,487</u>	<u>\$ 794,298</u>
Total Current Liabilities	917,487	794,298
ADVANCES FROM MEMBERS		
Total Liabilities	<u>60,719</u>	<u>60,719</u>
	978,206	855,017
NET POSITION - UNRESTRICTED		
Total Liabilities and Net Position	<u>850,566</u>	<u>741,895</u>
	<u>\$ 1,828,772</u>	<u>\$ 1,596,912</u>

See accompanying notes to financial statements.

MUNICIPAL GAS COMMISSION OF MISSOURI

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Gas Sales	\$ 6,705,693	\$ 5,429,654
Management Fee	192,684	182,249
Training Revenue	900	300
Total Operating Revenue	6,899,277	5,612,203
OPERATING EXPENSES		
Gas Purchases and Related Costs	6,610,121	5,361,905
Employee Expenses	103,500	111,456
Transfer to MJMEUC Alliance Fund	18,835	24,667
Consulting Services	30,137	27,576
Other	25,114	26,111
Legal	-	300
Training	2,854	1,529
Tax on Storage Gas	37	176
Total Operating Expenses	6,790,598	5,553,720
Operating Income	108,679	58,483
NONOPERATING REVENUES (EXPENSES)		
Interest Income	58	67
Interest Expense	(66)	(44)
Total Nonoperating Income (Expense)	(8)	23
Increase in Net Position	108,671	58,506
Net Position, Beginning of Year	741,895	683,389
Net Position, End of Year	\$ 850,566	\$ 741,895

See accompanying notes to financial statements.

MUNICIPAL GAS COMMISSION OF MISSOURI

STATEMENTS OF CASH FLOWS Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING ACTIVITIES		
Receipts from Sales to Members	\$ 6,888,317	\$ 5,307,911
Receipts from Management Fee	192,684	182,249
Payments to Suppliers for Goods and Services	(6,778,302)	(5,105,409)
Payments to MJMEUC for Employee Services	(103,500)	(111,456)
Payments to MJMEUC Alliance Fund	(18,835)	(24,667)
Net Cash Provided by Operating Activities	180,364	248,628
NONCAPITAL FINANCING ACTIVITIES		
Interest Paid on Line of Credit Borrowings	(66)	(44)
Net Cash (Used) by Noncapital Financing Activities	(66)	(44)
INVESTING ACTIVITIES		
Interest Income	58	67
Net Cash Provided by Investing Activities	58	67
Net Increase in Cash and Cash Equivalents	180,356	248,651
Cash and Cash Equivalents at Beginning of Year	452,233	203,582
Cash and Cash Equivalents at End of Year	\$ 632,589	\$ 452,233
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 108,679	\$ 58,483
Adjustments for (Increases) Decreases in Current Assets and Increases (Decreases) in Current Liabilities:		
Accounts Receivable	181,724	(122,043)
Prepaid Expenses	(2,778)	(5,574)
Gas Imbalance	(43,291)	-
Gas in Storage	(187,159)	270,318
Accounts Payable	123,189	47,444
Net Cash Provided by Operating Activities	\$ 180,364	\$ 248,628

See accompanying notes to financial statements.

MUNICIPAL GAS COMMISSION OF MISSOURI

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Municipal Gas Commission of Missouri ("MGCM") was formed in 1988, under the Joint Municipal Utility Commission Act, Revised Statutes of Missouri, to provide for financing, acquisition and operation of natural gas production, transmission and distribution facilities and resources and for the joint purchase of natural gas to meet the requirements of its member municipalities that own natural gas distribution systems. MGCM's administration of the purchasing, transportation, and storage of natural gas on behalf of its membership reduces the total cost and increases the efficiency for all MGCM members. Members sign a Joint Agreement that covers terms and obligations of membership and MGCM's services. Municipalities can withdraw from membership upon two years notice. As of December 31, 2014, MGCM had nine members in Missouri and two members in an adjoining state.

Measurement Focus, Basis of Accounting, and System of Accounts

MGCM prepares its financial statements as a business-type activity in conformity U.S. generally accepted accounting principles ("GAAP") following applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statements are prepared following the economic measurement focus and using the accrual basis of accounting, in conformity with these standards.

MGCM distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MGCM's ongoing operations. Operating expenses include the costs of sales and services, employee expenses, member training, and administrative and general expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounts Receivable

Accounts receivable consists of receivables due from member municipal utilities. MGCM believes all accounts receivable balances are fully collectible; therefore, an allowance for uncollectible accounts has not been reported in the financial statements.

Gas Imbalance

Imbalance is the difference between the amount of gas actually used by members and what was scheduled to be delivered from the supplier. This amount of gas is either due to MGCM (asset balance), or due to the supplier by MGCM (liability balance).

Gas in Storage

MGCM contracts for storing natural gas. Gas in storage is recorded at cost determined on an average cost basis. When current market price is lower than cost, adjustments to decrease inventory carrying cost to market are not made because current contracts with members allow inventory to be priced at cost.

Advances from Members

Advances from members consists of collections from member municipalities for a contingency reserve at the inception of MGCM, less refunds made to these original members who have since withdrawn from membership.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Income Taxes

MGCM is a body politic and corporate, municipal corporation of the State of Missouri and is exempt from federal and Missouri state income taxes.

Risk Management

MGCM manages its risks through insurance coverage provided by private insurers for officers and directors liability and other property and business risks. There were no significant reductions in coverage compared to the prior year.

Effect of New Accounting Standard on Current Period Financial Statements

The GASB has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Application of this standard may restate a portion of these financial statements in future years; however, a material impact on these financial statements is not anticipated.

2. CASH AND CASH EQUIVALENTS

For the purpose of the Statements of Cash Flows, MGCM considers all highly liquid debt instruments purchased with a maturity of three months or less, such as overnight repurchase agreements, to be cash equivalents.

Custodial risk for deposits is the risk that, in the event of a financial institution failure, MGCM's deposits may not be returned. MGCM's policy is to utilize a bank depository that poses little or no risk of loss of principal balance. MGCM requires its bank deposits to be fully insured or collateralized with securities. The bank deposits had a bank balance of \$632,589 and \$452,283 and a carrying amount of \$632,589 and \$452,233 at December 31, 2014 and 2013, respectively. The bank deposits are either insured or collateralized with securities held by the pledging financial institution's trust department or agent in MGCM's name.

3. LINE OF CREDIT

MGCM maintains a \$500,000 bank line of credit to cover temporary cash shortages if they arise. The line of credit had a zero outstanding balance at December 31, 2014 and 2013. The interest rate is equal to the New York Prime Rate as published by the Wall Street Journal plus one percent, which combined was 4.25% at December 31, 2014, but no lower than the floor of 4.00%. The note matures on June 10, 2015. MGCM's gas storage inventory and accounts receivable serve as collateral.

The following is a summary of changes in short-term debt for the years ended December 31, 2014 and 2013:

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2014</u>
Line of Credit	\$ -	\$ 320,000	\$ 320,000	\$ -

	<u>December 31, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2013</u>
Line of Credit	\$ -	\$ 184,258	\$ 184,258	\$ -

5. RELATED ORGANIZATIONS

MGCM is a party to a Joint Operating Agreement with the Missouri Association of Municipal Utilities (“MAMU”) and the Missouri Joint Municipal Electric Utility Commission (“MJMEUC”) 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. A 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. A portion of MGCM’s income is transferred to MJMEUC to pay for Alliance expenses. MGCM transferred to MJMEUC \$18,835 and \$24,667 for 2014 and 2013, respectively, to pay its allocated share of Alliance expenses. MGCM had overpayments of \$32 and \$2,890 at December 31, 2014 and 2013 to MJMEUC for Alliance expenses.

All MPUA staff are employees of MJMEUC. MGCM reimburses MJMEUC for time spent by MJMEUC employees on MGCM matters. Salary and employee benefits reimbursements paid to MJMEUC totaled \$103,500 and \$111,456 in 2014 and 2013, respectively.

6. FUTURE PURCHASE COMMITMENTS

MGCM entered into various purchase commitments for natural gas as a means to bring stability to their costs during a time in which market prices have been unstable and to take advantage of attractive market prices. The total amount of purchase commitments as of December 31, 2014 was \$916,124, with commitment dates ranging from January 2015 to December 2015.