

**REPORT OF**  
**MUNICIPAL GAS COMMISSION**  
**OF MISSOURI**  
**DECEMBER 31, 2010 AND 2009**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Municipal Gas Commission of Missouri

We have audited the accompanying balance sheets of the Municipal Gas Commission of Missouri ("MGCM"), as of December 31, 2010 and 2009, and the related statements of revenue, expenses and changes in fund equity; and cash flows for the years then ended. These financial statements are the responsibility of MGCM's management. Our responsibility is to express an opinion on the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Gas Commission of Missouri as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Williams-Keepers LLC*

June 3, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report provides an overview and analysis of the financial activities of the Municipal Gas Commission of Missouri ("MGCM") for the years ended December 31, 2010 and 2009. We encourage you to consider the information presented here in conjunction with additional information presented in the basic financial statements which follow this section.

MGCM's purpose is 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. MGCM was established in 1988, under the Missouri Joint Municipal Utility Commission Act.

### Overview of the Financial Statements

The basic 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 basic financial statements, in addition to Management's Discussion and Analysis, are comprised of the Balance Sheet; the Statement of Revenue, Expenses and Changes in Fund Equity; the Statement of Cash Flows; and the Notes to Financial Statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles.

The Balance Sheet presents MGCM's financial position as of the end of the year. Information is displayed on assets and liabilities, with the difference between the two reported as fund equity. The fund equity of MGCM reflects the resources available as of the end of the year to support member activities. Over time, increases and decreases in fund equity measure whether MGCM's financial position is improving or deteriorating.

The Statement of Revenue, Expenses and Changes in Fund Equity presents information detailing the revenues and expenses that resulted in the change in fund equity for the current year. All revenues and expenses are reported on an accrual basis. 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 presents 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 Balance Sheet. The effects of accrual accounting are adjusted out and noncash activities, such as depreciation, are removed to supplement the presentation in the Statement of Revenue, Expenses and Changes in Fund Equity.

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

## Financial Analysis

The following tables present summarized financial position and results for the years ended December 31, 2010 and 2009. Additional details are available in the accompanying basic financial statements.

### Balance Sheet Analysis for 2010

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>ASSETS</b>				
Cash and cash investments	\$ 286,383	\$ 1,066,048	(779,665)	-73.1%
Accounts receivable	1,309,288	1,940,212	(630,924)	-32.5%
Prepaid expenses	-	6,375	(6,375)	N/A
Gas in storage	592,732	679,042	(86,310)	-12.7%
Total current assets	<u>\$ 2,188,403</u>	<u>\$ 3,691,677</u>	<u>\$ (1,503,274)</u>	<u>-40.7%</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,195,011	\$ 1,840,163	\$ (645,152)	-35.1%
Other current liabilities	36,677	893,253	(856,576)	-95.9%
Total current liabilities	1,231,688	2,733,416	(1,501,728)	-54.9%
Advances from members	98,968	98,968	-	0.0%
Total liabilities	1,330,656	2,832,384	(1,501,728)	-53.0%
<b>UNRESTRICTED FUND EQUITY</b>	<u>857,747</u>	<u>859,293</u>	<u>(1,546)</u>	<u>-0.2%</u>
Total liabilities and fund equity	<u>\$ 2,188,403</u>	<u>\$ 3,691,677</u>	<u>\$ (1,503,274)</u>	<u>-40.7%</u>

Cash and cash investments represents 13.1% of 2010 fiscal year total current assets and includes deposits and current investments held in operating funds. A 73.1% decline from 2009 fiscal year balance of \$1,066,048 to a 2010 balance of \$286,383 resulted from the release of \$856,576 held in an escrow fund on behalf of three member cities involved in a tariff case with the Missouri Public Service Commission (PSC). Fiscal year levels of accounts receivables are largely attributed to timing of member payments, lower natural gas prices, and load demand that was influenced by a staggering economy.

MGCM's 2010 year-end Gas in storage value was 12.7% below comparable 2009 figures while actual quantities of gas in storage at December 31, 2010 were in excess of similar 2009 levels by approximately 3%, both of which resulted primarily from favorable commodity prices. Timing of sales and purchases and their correlation to weather conditions can also affect the unit value of gas in storage.

Lower commodity prices and decreased accrual of natural gas impacted accounts payable. The above-mentioned release of escrow funds to three member cities involved in a PSC tariff case, decreased other current liabilities by approximately 96%. After receiving notice of a favorable ruling in December 2009, the escrow funds were returned in January 2010 to the appropriate cities. Further information is provided in Note 6 to the financial statements.

**Balance Sheet Analysis for 2009**

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>ASSETS</b>				
Cash and cash investments	\$ 1,066,048	\$ 1,628,754	\$ (562,706)	-34.5%
Accounts receivable	1,940,212	3,057,489	(1,117,277)	-36.5%
Other current assets	679,042	590,067	88,975	15.1%
Total current assets	<u>\$ 3,691,677</u>	<u>5,276,310</u>	<u>\$ (1,584,633)</u>	<u>-30.0%</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,840,163	\$ 3,566,251	\$ (1,726,088)	-48.4%
Other current liabilities	893,253	852,758	40,495	4.7%
Total current liabilities	2,733,416	4,419,009	(1,685,593)	-38.1%
Advances from members	98,968	98,968	-	0.0%
Total liabilities	2,832,384	4,517,977	(1,685,593)	-37.3%
<b>UNRESTRICTED FUND EQUITY</b>	859,293	758,333	100,960	13.3%
Total liabilities and fund equity	<u>\$ 3,691,677</u>	<u>\$ 5,276,310</u>	<u>\$ (1,584,633)</u>	<u>-30.0%</u>

Cash and cash investments represents 29% of 2009 fiscal year total current assets and includes deposits and current investments held in operating funds and a tariff case escrow fund. A 34.5% decline of cash and cash investments from 2008 fiscal year balance of \$1,628,754 to a 2009 balance of \$1,066,048 is a result of lower natural gas prices and corresponds with timing of member payments. Fiscal year levels of accounts receivables are largely attributed to timing of member payments as well.

MGCM's 2009 quantities of gas in storage were influenced by outflows of 2008 purchases remaining in storage and steady 2009 injections with lower cost gas. Overall, less gas was purchased for storage in 2009 than 2008 but net 2009 Gas in storage, \$679,042, and volume balance exceeded 2008 levels by approximately 15% and 37%, respectively. The unit value of gas in storage is affected by gas market prices and timing of purchases. Other factors that adjust gas storage levels are normal operational issues such as weather and unanticipated gas sales volumes. The combination of all of these factors can cause significant changes in the total dollar value of natural gas in storage from year to year.

Other current liabilities include funds held for members totaling \$856,576 as of December 31, 2009. Funds held for members represents collections from three member cities related to a tariff case filed with the Missouri Public Service Commission. These three member cities received a favorable ruling in December 2009 and the escrow funds were returned in January 2010 to the cities involved. Further information is provided in Note 6 to the financial statements.

**Statement of Revenue, Expenses, and Change in Fund Equity Analysis for 2010**

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>OPERATING REVENUES</b>				
Gas sales	\$ 8,387,851	\$ 10,374,828	\$ (1,986,977)	-19.2%
Management fee	245,555	189,320	56,235	29.7%
From members for legal fees	47,586	83,866	(36,280)	-43.3%
Total operating revenues	<u>8,680,992</u>	<u>10,648,014</u>	<u>(1,967,022)</u>	<u>-18.5%</u>
<b>OPERATING EXPENSES</b>				
Gas purchases and related costs	8,414,833	10,312,218	(1,897,385)	-18.4%
Employee expenses	140,890	-	140,890	-
Management fee	-	125,000	(125,000)	-100.0%
Consulting services	24,750	-	24,750	-
Other expense	102,495	112,548	(10,053)	-8.9%
Total operating expenses	<u>8,682,968</u>	<u>10,549,766</u>	<u>(1,866,798)</u>	<u>-17.7%</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	430	2,712	(2,282)	-84.1%
Increase (decrease) in fund equity	(1,546)	100,960	(102,506)	-101.5%
Fund equity, beginning of the year	859,293	758,333	100,960	13.3%
Fund equity, end of the year	<u>\$ 857,747</u>	<u>\$ 859,293</u>	<u>\$ (1,546)</u>	<u>-0.2%</u>

Starting at their peaks for the 2010 fiscal year, wholesale gas prices steadily declined during the first quarter and overall had the greatest impact on gas sales of \$8,387,851 for 2010 falling approximately 19% from 2009 year-end levels. Several factors throughout the year influenced MGCM's gas demands. A soft economy stifled industrial and commercial demand for natural gas and MGCM's overall demand requirements were also reduced slightly by one member leaving MGCM in April 2010. Offsetting these demand limitations were more normal weather conditions that resulted in 165 more heating degree days in 2010. Net result, members' natural gas consumption for fiscal year 2010 of 1,188,503 MMBtu fell short of 2009 volumes by almost 6%.

Management fee expense increased as a result of increased general and administrative costs of doing business. Although member cities received a favorable ruling in December 2009, legal matters related to the tariff dispute continued into 2010. Components of revenues consisting of legal fees for 2010 are collections from members to pay legal costs associated with this ongoing tariff dispute.

Gas purchases and related costs consist of gas supply, transportation, and storage costs and represents 96.9% of total operating expenditures. At December 31, 2010, overall gas storage levels of 129,923 MMBtu increased by approximately 2.7% over 2009 levels of 126,494. Members' natural gas consumption decreased 6% from fiscal year 2010 to 2009, and natural gas purchases were below comparable 2009 amounts by approximately 18.4%. MGCM members saw an average commodity cost per MMBtu of \$4.99 for 2010 compared to \$6.52 for the 2009 fiscal year. Members realized an all-in delivered commodity price of \$7.31 MMBtu, which was approximately \$1.05 lower than the 2009 all-in delivered price.

General and administrative costs are represented in management fees and totaled approximately 2.5% of total operating expenses.

For the past two years, MGCM has witnessed declines in its all-in cost for gas consumed. A relatively much colder winter had little influence on gas demand due to an ailing economy's affects on commercial and industrial customers' gas needs. Lower demands also contributed to significant increases in national gas storage levels which assisted in subduing any market price gyrations similar to those seen in 2008-2009. What is certain is the risk remaining with the short and long-term outcome of the economy, and its response to influences from unforeseen major events or natural disasters. Management, however, continues to believe, aside from the unexpected, relatively normal seasonal market fluctuations will occur with the anticipation that market prices will resemble closely the levels seen through the last three quarters of 2010.

**Statement of Revenue, Expenses, and Change in Fund Equity Analysis for 2009**

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>OPERATING REVENUES</b>				
Gas sales	\$ 10,374,828	\$ 13,773,580	\$ (3,398,752)	-24.7%
Management fee	189,320	74,651	114,669	153.6%
From members for legal fees	83,866	34,057	49,809	N/A
Total operating revenues	<u>10,648,014</u>	<u>13,882,288</u>	<u>(3,234,274)</u>	<u>-23.3%</u>
<b>OPERATING EXPENSES</b>				
Gas purchases and related costs	10,312,218	13,745,173	(3,432,955)	-25.0%
Management fee	125,000	90,000	35,000	38.9%
Miscellaneous expense	112,548	65,274	47,274	72.4%
Total operating expenses	<u>10,549,766</u>	<u>13,900,447</u>	<u>(3,350,681)</u>	<u>-24.1%</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	2,712	21,241	(18,529)	-87.2%
Interest expense	-	(5,761)	(5,761)	100.0%
Total nonoperating income	<u>2,712</u>	<u>15,480</u>	<u>(12,768)</u>	<u>-82.5%</u>
Increase (decrease) in fund equity	100,960	(2,679)	103,639	-3868.6%
Fund equity, beginning of the year	758,333	761,012	(2,679)	-0.4%
Fund equity, end of the year	<u>\$ 859,293</u>	<u>\$ 758,333</u>	<u>\$ 100,960</u>	<u>13.3%</u>

In 2009, gas sales of \$10,374,828 were approximately 25% less than comparable revenues for 2008 primarily as a result of steadily declining wholesale gas prices and weakening commodity demand. Members' natural gas consumption for fiscal year 2009 of 1,262,136 MMBtu fell short of 2008 sale volumes by approximately 15.58% as a result of demand and 360 fewer heating degree days in 2009.

Components of revenues consisting of legal fees for 2009 are collections from members to pay legal costs associated with the tariff dispute previously discussed and contract matters. Similar levels of legal costs associated with the tariff dispute are not expected to be incurred in 2010. A corresponding amount of legal expense was incurred.

Gas purchases and related costs consist of gas supply, transportation, and storage costs and represents 97.7% of total operating expenditures. Gas storage capacities remained as a key component of management's purchasing strategies in 2009 and higher priced gas purchased for storage in 2008 was gradually consumed and replaced with lower cost purchases of gas in 2009. At December 31, 2009, overall gas storage levels of 126,494 MMBtu increased by approximately 37% over 2008 levels of 92,376. Members realized an all-in delivered commodity price of \$8.36 MMBtu, approximately \$0.95 lower than the 2008 all-in delivered price.

MGCM delivered 1.262 Bcf of gas requirements to its members in 2009 compared to 2008 gas requirements of 1.493 Bcf. Members' natural gas consumption decreased 15.5 % from fiscal year 2008 to 2009, and in suit total expenses for natural gas purchases were below comparable 2008 amounts by approximately 29%. MGCM members saw an average commodity cost per MMBtu of \$6.52 for 2009 compared to \$7.73 for 2008 fiscal year.

Administrative costs are represented in management fees and totaled less than 2% of total operating expenses.

The national economy continued along its sluggish path and gas purchase prices began conceding to soft demand throughout 2009. Current developments in the U.S. economic environment do not lead management to believe wholesale natural gas prices will fluctuate to levels experienced in 2008/2009. Stabilization in the economy is expected to produce demand levels for 2010 similar to 2009, under the assumption extreme heating demand for natural gas does not occur. Management anticipates moderate swings in short-term supply and demand prices will likely occur throughout 2010 with the average cost of natural gas during the 2009/2010 heating season projected to be less than during the 2008/2009 heating season. Most importantly, MGCM will remain flexible in continuing to focus on providing reliable and economical gas supplies and related services to its members.

### **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

## BALANCE SHEETS December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash investments	\$ 286,383	\$ 1,066,048
Accounts receivable	1,309,288	1,940,212
Prepaid expenses	-	6,375
Gas in storage	592,732	679,042
Total current assets	<u>\$ 2,188,403</u>	<u>\$ 3,691,677</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,195,011	\$ 1,840,163
Funds held for members	-	856,576
Imbalance	36,677	36,677
Total current liabilities	<u>1,231,688</u>	<u>2,733,416</u>
ADVANCES FROM MEMBERS	<u>98,968</u>	<u>98,968</u>
Total liabilities	1,330,656	2,832,384
FUND EQUITY - UNRESTRICTED	<u>857,747</u>	<u>859,293</u>
Total liabilities and fund equity	<u>\$ 2,188,403</u>	<u>\$ 3,691,677</u>

The notes to financial statements are an integral part of these statements

**MUNICIPAL GAS COMMISSION OF MISSOURI**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY**

**Years Ended December 31, 2010 and 2009**

	2010	2009
<b>OPERATING REVENUES</b>		
Gas sales	\$ 8,387,851	\$ 10,374,828
Management fee	245,555	189,320
From members for legal fees	47,586	83,866
Total operating revenue	8,680,992	10,648,014
<b>OPERATING EXPENSES</b>		
Gas purchases and related costs	8,414,833	10,312,218
Employee expenses	140,890	-
Transfer to MJMEUC Alliance Fund	20,629	-
Management fee	-	125,000
Tax on storage gas	3,452	455
Legal	48,036	82,405
Consulting services	24,750	-
Miscellaneous	30,378	29,688
Total operating expenses	8,682,968	10,549,766
Operating income (loss)	(1,976)	98,248
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	430	2,712
Increase (decrease) in fund equity	(1,546)	100,960
Fund equity, beginning of year	859,293	758,333
Fund equity, end of year	\$ 857,747	\$ 859,293

The notes to financial statements are an integral part of these statements

**MUNICIPAL GAS COMMISSION OF MISSOURI**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES</b>		
Receipts from sales to members	\$ 8,162,199	\$ 11,532,600
Receipts from management fee	245,555	189,320
Receipts from members for legal fee reimbursements	47,586	83,866
Payments to suppliers for goods and services	(9,073,916)	(12,246,204)
Payments to MJMEUC for employee services	(140,890)	-
Payment to MJMEUC Alliance Fund	(20,629)	-
Payments to MAMU	-	(125,000)
Net cash provided (used) by operating activities	<u>(780,095)</u>	<u>(565,418)</u>
<b>INVESTING ACTIVITIES</b>		
Interest income	430	2,712
Net cash provided by investing activities	<u>430</u>	<u>2,712</u>
Net increase (decrease) in cash and cash equivalents	(779,665)	(562,706)
Cash and cash equivalents at beginning of year	<u>1,066,048</u>	<u>1,628,754</u>
Cash and cash equivalents at end of year	<u>\$ 286,383</u>	<u>\$ 1,066,048</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (1,976)	\$ 98,248
Adjustments for (increases) decreases in current assets and increases (decreases) in current liabilities:		
Accounts receivable	630,924	1,117,277
Prepaid expenses	6,375	(6,375)
Gas in storage	86,310	(88,975)
Accounts payable	(645,152)	(1,726,088)
Funds held for members	(856,576)	40,495
Net cash provided (used) by operating activities	<u>\$ (780,095)</u>	<u>\$ (565,418)</u>

The notes to financial statements are an integral part of these statements

# MUNICIPAL GAS COMMISSION OF MISSOURI

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organizational structure:* 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. 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, 2010, MGCM had seventeen members in Missouri and two other adjoining states. Five of these members have given notice of termination, which will become effective March 1, 2012.

*Method of accounting:* MGCM prepares its financial statements as a business-type activity in conformity with 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.

*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.

*Imbalance:* Imbalance is the difference between the amount of gas actually used by members and what was scheduled to be delivered from the supplier. The current carrying amount consists of the existing imbalances of two municipalities at the time they became members in 2001 and 2002, which were transferred to MGCM.

*Operating and nonoperating revenues:* All revenues, except for interest income, are classified as operating revenues. Interest expense is classified as nonoperating.

*FASB Pronouncements:* MGCM applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 that do not conflict with GASB pronouncements.

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

### 2. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, MGCM considers all highly liquid debt instruments purchased with a maturity of three months or less, 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 and requires MGCM’s bank deposits to be fully insured or collateralized with securities. Bank cash

deposits had a bank balance of \$288,265 and \$1,066,048 and a carrying amount of \$286,383 and \$1,066,048 at December 31, 2010 and 2009, respectively. All cash 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, 2010 and 2009. The interest rate is equal to the New York Prime Rate as published by the Wall Street Journal plus one percent, which was 3.25% at December 31, 2010, with a floor of 4.00%. The note matures on June 20, 2011. MGCM's gas storage inventory and accounts receivable serve as collateral.

### **4. ADVANCES FROM MEMBERS**

The total for "advances from members" consists of \$98,968 collected from eight member municipalities for a contingency reserve at the inception of MGCM.

### **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.

Effective January 1, 1988 MGCM entered into an agreement with MAMU to receive office space, telephone, postage, management, and accounting and other services from MAMU as needed. Management fees received from MGCM totaled \$125,000 in 2009. This agreement with MAMU was cancelled as of December 31, 2009 and MGCM started receiving these services from MJMEUC beginning January 1, 2010.

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 \$140,890 in 2010. MGCM transferred \$20,629 for 2010, to MJMEUC to pay its allocated share of Alliance expenses. MGCM owed MJMEUC \$1,243 at December 31, 2010, for Alliance expenses.

### **6. FUNDS HELD FOR MEMBERS**

MGCM acted as an agent for three of its member cities in a Missouri Public Service Commission ("PSC") proceeding which alleged tariff violations were committed by a pipeline company that provides natural gas transportation to them. The PSC ruled in favor of the cities, however; the pipeline company continued to

dispute the ruling. In December 2009, the Western District Court of Appeals affirmed the PSC's ruling. In April 2010, the Missouri Supreme Court denied the pipeline company's request to the court to review the PSC's actions. On behalf of its three member cities, MGCM has filed a petition with the appropriate circuit court seeking recovery of overcharges by the pipeline company. MGCM's legal counsel expects MGCM will prevail.

MGCM previously collected from the three cities the total amount the pipeline company claimed was due. MGCM remitted to the pipeline company the amounts that were not disputed by the cities and retained the remaining balance less \$58,000 that was placed in escrow pending outcome of the litigation. The amount MGCM was holding at December 31, 2009, \$856,576, pending final resolution of the dispute, was remitted to the member cities in January 2010.

## **7. 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. The total purchase commitments as of December 31, 2010 were approximately \$850,000, with commitment dates ranging from January 2011 to April 2011.