

West Memphis Crittenden County Port Authority

FINANCIAL REPORT

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the West Memphis Crittenden County Port Authority
West Memphis, Arkansas

We have audited the accompanying statements of net assets of the West Memphis Crittenden County Port Authority, of the City of West Memphis, Arkansas, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the West Memphis Crittenden County Port Authority management. 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 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.

As discussed in Note A, the financial statements present only the West Memphis Crittenden County Port Authority and are not intended to represent fairly the financial position of the City of West Memphis, Arkansas, and the results of its operations and the cash flows of its proprietary and nonexpendable trust funds, in conformity with accounting principles generally accepted in the United States of America. Further, the Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, except for the omission of the management's discussion and analysis, the financial statements referred to above present fairly, in all material respects, the financial position of the West Memphis Crittenden County Port Authority, as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

West Memphis, Arkansas
June 28, 2012

Jackson, Howell & Associates, PLLC

West Memphis Crittenden County Port Authority
STATEMENTS OF NET ASSETS
December 31

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Unrestricted		
Cash in bank	\$ 77,918	\$ 58,544
Short-term investments	<u>159,764</u>	<u>226,888</u>
	237,682	285,432
Restricted		
Cash and short-term investments	<u>91,605</u>	<u>75,844</u>
TOTAL CURRENT ASSETS	329,287	361,276
PROPERTY AND EQUIPMENT		
Land and improvements	813,463	813,463
Building - office	129,326	129,326
Port terminal facilities	<u>6,111,367</u>	<u>6,111,367</u>
	7,054,156	7,054,156
Less: accumulated depreciation	<u>3,835,129</u>	<u>3,682,137</u>
	3,219,027	3,372,019
OTHER ASSETS		
Deferred debt expense, net	<u>15,884</u>	<u>17,753</u>
	<u>\$3,564,198</u>	<u>\$3,751,048</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Restricted		
Intergovernmental payables	\$ -	\$ 47,742
Bonds payable - current maturities	60,000	55,000
Accrued interest payable	<u>3,545</u>	<u>3,545</u>
TOTAL CURRENT LIABILITIES	63,545	106,287
 BONDS PAYABLE, LESS CURRENT MATURITIES	 585,000	 645,000
 NET ASSETS		
Contributed capital	4,671,000	4,671,000
Restricted for debt service	91,605	75,844
Unrestricted	<u>(1,846,952)</u>	<u>(1,747,083)</u>
	<u>2,915,653</u>	<u>2,999,761</u>
	 <u>\$3,564,198</u>	 <u>\$3,751,048</u>

West Memphis Crittenden County Port Authority
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
For the Years Ended December 31

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Rents	\$ 120,560	\$ 82,746
 OPERATING EXPENSES		
Depreciation and amortization	154,861	160,911
Professional fees	8,898	6,000
Repairs and maintenance	136	137
Other	<u>16,807</u>	<u>2,466</u>
	<u>180,702</u>	<u>169,514</u>
 OPERATING LOSS	 (60,142)	 (86,768)
 NON-OPERATING INCOME (EXPENSES)		
Interest on bonds	(27,544)	(44,036)
Interest income	<u>3,578</u>	<u>6,225</u>
 Net non-operating income (expenses)	 <u>(23,966)</u>	 <u>(37,811)</u>
 DECREASE IN NET ASSETS	 (84,108)	 (124,579)
 Total net assets, beginning of year	 <u>2,999,761</u>	 <u>3,124,340</u>
 Total net assets, end of year	 <u>\$2,915,653</u>	 <u>\$2,999,761</u>

The accompanying notes are an integral part of these financial statements.

West Memphis Crittenden County Port Authority
STATEMENTS OF CASH FLOWS
For the Years Ended December 31

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 120,560	\$ 93,449
Payments to suppliers for goods and services	<u>(25,841)</u>	<u>(8,602)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	94,719	84,847
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers (to) from other funds, net	<u>(47,742)</u>	<u>22,742</u>
NET CASH (USED IN) PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	(47,742)	22,742
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on bonds	(55,000)	(50,000)
Interest paid on bonds	<u>(27,544)</u>	<u>(44,036)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(82,544)	(94,036)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>3,578</u>	<u>6,225</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,578</u>	<u>6,225</u>
NET INCREASE (DECREASE) IN CASH	(31,989)	19,778
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>361,276</u>	<u>341,498</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 329,287</u>	<u>\$ 361,276</u>

The accompanying notes are an integral part of these financial statements.

West Memphis Crittenden County Port Authority
STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating (loss)	\$ (60,142)	\$ (86,768)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation and amortization	154,861	160,911
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	<u>-</u>	<u>10,704</u>
Total adjustments	<u>154,861</u>	<u>171,615</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 <u>\$ 94,719</u>	 <u>\$ 84,847</u>

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The West Memphis Crittenden County Port Authority (the "Authority") of the City of West Memphis owns and leases port facilities including a barge terminal, rail line spur, and improved real property. The Authority is governed by a board of five members, one of whom is the mayor of the City of West Memphis and serves as chairman of the board. The other members are appointed by the mayor.

Governmental Accounting Standards

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board ("GASB") is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the Department.

Private-sector accounting standards are established by the Financial Accounting Standards Board ("FASB"). FASB standards issued on or before November 30, 1989, are generally followed for the financial statements to the extent those standards do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, paragraph 7, governments have the option to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The Authority has elected to apply subsequent FASB standards.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's financial statements are reported using the economic resource management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are expensed when incurred. Additions, major improvements, and replacements of units are capitalized and depreciated on a straight-line basis over the estimated useful lives as follows:

<u>Years</u>	
Land improvements	40
Buildings	40
Port terminal	40

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Short-term Investments

Short-term investments are stated at cost unless there is an indication of permanent impairment of value, in which case the adjustments to market value are included in results of operations. Interest income is accrued as earned.

Revenues

The Authority has entered into lease and operating agreements with various entities for the operation of the port facilities. Revenues are included in income as earned.

Statements of Cash Flows - Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Donated Property

Certain property owners donated land for the initial development of the port facilities. The recorded cost was based on appraised values by independent appraisals.

Events Occurring After Reporting Date

The Authority has evaluated events and transactions that occurred between December 31, 2011, and June 28, 2012, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE B - RESTRICTED ASSETS

Restricted assets represent amounts required to be maintained by agreements related to the bond issue.

NOTE C - SERIES 2000 REVENUE BONDS PAYABLE

The Authority issued revenue bonds in the amount of \$1,125,000 dated July 1, 2000. The amount payable at December 31, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</u>
Total amount due of year end	\$645,000	\$700,000
Less current maturities	<u>60,000</u>	<u>55,000</u>
Bonds payable, less current maturities	<u>\$585,000</u>	<u>\$645,000</u>

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - SERIES 2000 REVENUE BONDS PAYABLE - CONTINUED

Principal payments are due annually in varying amounts over twenty years beginning in 2001. The bonds have interest rates ranging from 5.35% to 6.25%.

The bonds are not general obligations of the City but are special obligations, secured by a pledge of the revenues derived from operations of the port. In addition, the bonds are secured by a pledge of Surplus Utility Revenues of the City.

Pursuant to the bond indenture the City covenants that the net revenues of the Port will be at least equal to 120% of the aggregate maximum annual principal and interest requirements of all outstanding bonds. The net revenue percentage for the years 2011 and 2010 were 80% and 70% respectively. The 2011 and 2010 shortfall, however, does not constitute an event of default.

Future minimum payments by year and in the aggregate consist of the following:

<u>Year Ending</u>	<u>Long-Term Debt</u>
2012	\$ 60,000
2013	60,000
2014	65,000
2015	70,000
2016	75,000
Thereafter	<u>315,000</u>
	<u>\$645,000</u>

NOTE D - RELATIONSHIPS WITH THE CITY

The Authority is one of a number of departments and/or funds of the City of West Memphis established for a specific purpose. General services such as financial and data processing are provided to the Authority by the City. The City does not charge the Authority for any of these costs.

NOTE E - OPERATING AND LEASE AGREEMENTS

The Authority has entered into various agreements with certain entities for the operations of the port facilities.

Terminal Lease Agreements

This agreement between the West Memphis Crittenden County Port Authority (the "Authority") and Global Materials Services, LLC (the "Operator") was executed October 20, 1981. The original operator under the agreement was Pine Bluff Warehouse Company who assigned their interest in the agreement to Global Materials Services, LLC (formerly known as Mid-South Terminal Company). Global Materials Services, LLC subsequently assigned their interest to Kinder Morgan Terminals

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE E - OPERATING AND LEASE AGREEMENTS - CONTINUED

Terminal Lease Agreements - continued

The premises covered by the agreement consist of the land, together with the buildings, improvements and facilities comprising the port terminal facilities. Also included are electric lines, necessary water lines and service, sufficient outdoor storage space for adequate operation of the port facilities and all necessary easements and right-of-way for access and roadway to the port.

The financial terms of the agreement require the operator to pay the Authority as rental four percent of the gross revenues received by the operator. The rental is paid in equal monthly installments based upon eighty percent of the previous year's rent. The final adjusted rent is payable on or before July 1 of the following year.

The operator at its expense has the obligation to maintain and keep in constant good condition and repair all of the terminal facilities. Any structural deficiencies will be the responsibility of the Authority.

Insurance coverage on the facilities is provided one half each by the operator and the Authority.

There have been four addendums to the original lease. Addendum 1 granted the operator the option to extend the lease agreement from and after May 31, 2002, provided the terminal lease agreement shall have been extended to that date, for six five-year periods, one succeeding the other if all are exercised, and three additional one year option periods at the termination of the last five year extension, being a total of thirty-three years, if all extensions of the lease have been made effective.

Addendum 2 granted the operator options to extend the term of the lease agreement from and after May 31, 2033, three additional five year periods, one succeeding the other if each is exercised and for one additional one year option commencing at the termination of the final five year extension, being a total of sixteen additional years, if all extensions of the lease have been made effective.

Addendum 3 deleted the provisions of article 22 of the lease and substituted a "covenant not to compete." Under the provision the operator shall not manage, operate or be interested in the operation of any facility at the port of West Memphis that competes with the terminal facilities, nor shall the Authority authorize operations and facilities for hire which are competitive to that of the operator. The operator agrees that it will not divert or cause to be diverted to other port facilities operated by the operator or with which the operator is affiliated, commodities in such volume as to reduce the rent paid to the authority for any calendar year of the lease to less than \$20,000.

Addendum 4 required the Authority to submit plans for proposed improvements to the operator. These improvements and the real property on which the same are located will be added to the premises covered by the lease.

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE E - OPERATING AND LEASE AGREEMENTS - CONTINUED

Lease Agreement

This lease agreement between the West Memphis Crittenden County Port Authority (the "Authority") and Riceland Foods, Inc. (the "Lessee") was executed April 23, 1985. The lease premises include improved real estate located adjacent to the port facilities.

The term of the lease is for a period of thirty-five years. The lessee has the right to extend the lease for three additional periods of five years each. In addition, the lessee has the option to extend the lease beyond fifty years based on capital expended by the lessee to enhance or improve the site.

The rent received on the lease is based on tonnage handled by the lessee. The first 200,000 tons is \$.05/ton with \$.04 for each additional ton. These rates are based on a specified tariff rate established by the lessee for charges to its customers. As the tariff rate changes, the rate/ton paid to the Authority will change in direct proportion to the change in the tariff rate. Currently these rates are \$.0536 and \$.0429 respectively. The lease provides for a minimum annual rent of \$6,000 receivable in twelve equal installments of \$500.

The lessee is responsible for all normal recurring maintenance of the facilities. Any structural deficiencies are the responsibility of the Authority.

The cost of insurance for fire, wind and extended coverage of the building will be shared equally by the lessee and the Authority.

Bunge North America ("Bunge") entered into an agreement in August 2011 to sublease the premises until December 30, 2011, and a new lease with Bunge began on December 31, 2011.

Operating Agreement

The Authority entered into an agreement with Missouri Pacific Railroad Company granting the Company the right to operate on and over the Authority's rail line known as "Tenark Branch." The Authority is responsible for the maintenance and inspection of the trackage including relocations of and /or extensions of the tracks and appurtenances thereto, as may at the sole determination of the Authority be required to provide adequate sufficient trackage for the proper and expeditious switching, interchange and hauling of cars. The financial terms of the agreement require the Company to pay the Authority \$2,000 monthly. This amount covers the handling of eight hundred (800) loaded cars annually delivered to or pulled from the Authority's railroad (commonly referred to as Friday-Graham spur line). Loaded car handling in excess of 800 annually will be at the rate of \$6 per loaded car. The monthly fee shall be subject to review and adjustment annually based upon actual maintenance costs and total number of loaded cars handled during the preceding year. The amount paid in 2010 was \$24,000.

The agreement will remain in full force and effect until terminated by either party serving on the other six months written notice of its intention to so terminate the agreement.

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE F - CONCENTRATIONS OF CREDIT RISK

The Authority has cash deposits of \$77,918 and a certificate of deposit for \$159,764 at December 31, 2011. The Authority obtains collateralization for all accounts whose balance exceeds the FDIC insurance ceiling.