

West Memphis Utility Department

FINANCIAL REPORT

December 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the West Memphis Utility Commission
West Memphis, Arkansas

We have audited the accompanying statements of net assets of the West Memphis Utility Department, of the City of West Memphis, Arkansas, as of December 31, 2007 and 2006 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the West Memphis Utility Department 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 Utility Department 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. Also, as discussed in Note A to the financial statements, the Department's investments in property, plant and equipment and the related reserves cannot presently be determined due to the insufficient historical records. The Department's records do not permit the application of adequate alternative procedures to verify the cost of property, plant and equipment.

In our opinion, except for the effect of such adjustments, if any, with respect to the investment in property, plant and equipment, and related allowances, had the records been auditable, the financial statements referred to above present fairly, in all material respects, the financial position of the West Memphis Utility Department as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits of the financial statements of the West Memphis Utility Department, an entity of the City of West Memphis (an Arkansas Municipal Corporation) for the years ended December 31, 2007 and 2006 were intended primarily for the purpose of formulating an opinion on the basic financial statements taken as a whole. The additional information presented on pages 15 and 16 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements and, accordingly, we express no opinion on it.

West Memphis, Arkansas
May 12, 2009

Jackson, Howell & Associates, PLLC

**West Memphis Utility Department
STATEMENTS OF NET ASSETS
December 31**

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,093,192	\$ 2,739,833
Investments	15,346,377	16,476,870
Accounts receivable, net	4,789,400	5,035,100
Inventories	1,772,844	1,422,751
Interest receivable	61,483	631,666
Intergovernmental receivables	<u>1,752,425</u>	<u>1,962,927</u>
TOTAL CURRENT ASSETS	28,815,721	28,269,147
RESTRICTED ASSETS		
Cash and cash equivalents	917,532	549,899
Investments	1,031,215	1,000,000
Interest receivable	<u>-</u>	<u>31,426</u>
TOTAL RESTRICTED ASSETS	1,948,747	1,581,325
NON-CURRENT ASSETS		
Capital assets		
Land and improvements	1,060,681	1,060,681
Buildings and equipment	7,686,361	7,192,604
Electric plant	42,501,491	41,377,968
Water plant	16,103,283	15,884,229
Sewer plant	<u>25,624,454</u>	<u>24,994,377</u>
	92,976,270	90,509,859
Less accumulated depreciation	<u>66,480,519</u>	<u>64,150,159</u>
Net capital assets	<u>26,495,751</u>	<u>26,359,700</u>
TOTAL NON-CURRENT ASSETS	<u>26,495,751</u>	<u>26,359,700</u>
	<u>\$57,260,219</u>	<u>\$56,210,172</u>

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

**West Memphis Utility Department
STATEMENTS OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
For the Years Ended December 31**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE		
Charges for services		
Electric	\$27,906,125	\$27,475,669
Water	1,660,279	1,555,423
Sewer	1,592,046	1,508,958
Other	<u>203,118</u>	<u>227,242</u>
	31,361,568	30,767,292
OPERATING EXPENSES		
Purchase power for resale	16,162,066	16,140,624
Transmission charges	1,541,916	1,437,581
General and administrative	5,713,561	5,078,708
Maintenance, operations, and contracted services	3,313,293	3,300,816
Payment in lieu of taxes	1,559,504	1,513,168
Depreciation	<u>2,252,893</u>	<u>2,502,236</u>
	<u>30,543,233</u>	<u>29,973,133</u>
OPERATING INCOME	818,335	794,159
NON-OPERATING REVENUE (EXPENSES)		
Investment income	939,629	1,061,118
Interest on bonds	-	(277,000)
Amortization	-	(465,442)
	<u>939,629</u>	<u>318,676</u>
NET INCOME	1,757,964	1,112,835
NET ASSETS AT BEGINNING OF YEAR	<u>53,119,875</u>	<u>52,007,040</u>
NET ASSETS AT END OF YEAR	<u>\$54,877,839</u>	<u>\$53,119,875</u>

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

**West Memphis Utility Department
STATEMENTS OF CASH FLOWS
For the Years Ended December 31**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$31,651,216	\$29,914,834
Payments to suppliers for goods and services	(26,068,485)	(24,602,044)
Payments to employees	<u>(3,244,885)</u>	<u>(3,000,807)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,337,846	2,311,983
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers (to) from other funds	<u>131,573</u>	<u>(269,192)</u>
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	131,573	(269,192)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(2,466,411)	(3,636,880)
Principal paid on bonds	-	(5,540,000)
Interest paid on bonds	-	(300,083)
Capital contributions	<u>77,468</u>	<u>1,025,139</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,388,943)	(8,451,824)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	1,541,238	635,369
Sales (purchases) of investments	<u>1,099,278</u>	<u>5,635,131</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,640,516</u>	<u>6,270,500</u>
NET INCREASE (DECREASE) IN CASH	2,720,992	(138,533)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,289,732</u>	<u>3,428,265</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,010,724</u>	<u>\$ 3,289,732</u>

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

West Memphis Utility Department
STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 818,335	\$ 794,159
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,252,893	2,502,236
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	245,700	(864,536)
(Increase) decrease in inventory	(350,092)	(504,428)
Increase (decrease) in accounts payable	(672,938)	372,474
Increase (decrease) in other liabilities	43,948	12,078
Total adjustments	<u>1,519,511</u>	<u>1,517,824</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 2,337,846</u>	 <u>\$ 2,311,983</u>

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

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

The West Memphis Utility Department (the "Department") of the City of West Memphis, Arkansas provides electric, water and sewer services for the City. The current West Memphis Utility Commission has the authority to recommend electric, water and sewer rates to the City Council which has final authority for approving utility rates. The Department purchases 44% of its energy from Constellation Energy. The balance is from generation and replacement power from Entergy.

Basis of Accounting

The Department follows the accrual basis of accounting. Interfund items and transactions between the electric, water and sewer funds have been eliminated.

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 of the various classes as follows:

	<u>Years</u>
Buildings	40
Furniture, fixtures and equipment	8 - 10
Plant in service	20 - 40
Investment in electric generating plant	27 - 28

Costs and related allowances for depreciation of assets sold or otherwise retired are eliminated from the asset and accumulated depreciation accounts where detail property records are available.

The Department's detailed property, plant and equipment records do not provide sufficient historical detail to determine the cost of individual assets. Due to this inadequacy, it is not always possible to determine the historical cost of property, plant and equipment to be retired. Therefore, certain assets have not been removed from the books when retired.

Short-term Investments

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

Revenues

Revenues are included in income as services are delivered. Unbilled revenue at December 31, 2007 and 2006 included in accounts receivable, was \$1,367,560 and \$1,319,940, respectively.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Debt Expense

Cost associated with issuing the 1980, 1991, and 1996 Series A revenue bonds has been deferred and is being amortized using the straight-line method over the life of the bonds. These bonds were paid off on December 1, 2006.

Statements of Cash Flows - Cash Equivalents

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

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 certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Compensated Absences

Employees of the Department are entitled to pay for compensated absences depending on job classification, length of service, and other factors. It is the Department's policy to recognize the cost of compensated absences when actually paid to the employees.

NOTE B - INVESTMENT IN GENERATING PLANTS

In 1980, the Department entered into an Ownership Agreement with Entergy whereby it purchased a 1% interest in two fossil fuel electric generating plants in Arkansas, one at White Bluff and one in Independence County. Both generating plants include two fully operational generating power units. The Department financed these purchases through the issuance of revenue bonds (See Note E).

As a party to the Ownership Agreement, the Department was required to pay its 1% share of the construction costs of the plants, as incurred by Entergy and as defined in the Agreement. After commercial operation of the plants began, the Department was also responsible for its 1% share of additions or replacements at each plant. The amounts recorded (including capitalized interest), of approximately \$10,628,782 and \$9,922,090 for White Bluff and Independence, respectively, represent the Department's 1% share of plant construction cost.

The Department is also a party to an Operating Agreement with Entergy whereby it has agreed to pay 1% of the operating costs (mainly operations and maintenance expenses, not including fuel) of the plants. Furthermore, the Department also pays for 1% of the coal purchased by the plants and this amount is included in inventory on the accompanying balance sheets.

These agreements entitle the Department to 1% of the net generating capacity and energy of the plants, which is delivered to West Memphis in accordance with a transmission agreement.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - CASH AND SHORT-TERM INVESTMENTS

The Treasurer of West Memphis Utility Commission is authorized by the State of Arkansas Statutes to invest excess cash balances in short-term investments. At December 31, 2007, cash and short-term investments are listed below:

	<u>Restricted</u>	<u>Unrestricted</u>
CASH	\$ 917,532	\$ 5,093,192
INVESTMENTS:		
Cash and money market	-	227,850
U.S. Government agencies	-	727,605
Certificates of Deposit	<u>1,031,215</u>	<u>14,390,922</u>
	<u>1,031,215</u>	<u>15,346,377</u>
	<u>\$1,948,747</u>	<u>\$20,439,569</u>

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Department's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations.

At December 31, 2007, none of the Department's bank balances of \$22,917,449 were exposed to custodial credit risk.

NOTE D - RESTRICTED ASSETS

Restricted assets represent (1) amounts required to be maintained by agreements related to the bond issues, (2) deposits received from customers and (3) a reserve for utility depreciation.

NOTE E - REVENUE BONDS PAYABLE

On October 15, 1991, the Department issued \$21,175,000 of the Public Utility System Refunding Revenue Bonds, 1991 Series A. The bonds were sold at a discount yielding net proceeds of approximately \$20,685,505. These proceeds were used to refund a substantial majority (\$20,325,000) of the Public Utility System Revenue Bonds, 1980 Series A.

Principal payments are due annually in increasing amounts over 18 years beginning in 1992. The bonds are subject to redemption prior to maturity at the option of the department on or after January 1, 2003. Interest is payable semiannually. The bonds have various interest rates ranging from 4.65% to 6.60% dependent upon the maturity date. The bond discount is being amortized using the bonds outstanding method over the life of the bonds.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE E - REVENUE BONDS PAYABLE - CONTINUED

The bonds are special obligations of the Department and of the City of West Memphis, Arkansas, and are payable solely from and secured by a pledge of the unexpended bond sale proceeds and by the revenue of the Department remaining after payment of necessary and ordinary operating and maintenance costs. Such remaining revenues are set aside in certain contingency and reserve funds as described in the Trust Indenture.

The portion of the proceeds designated for the payment of the 1980 Series A bonds has been placed in an irrevocable escrow account which meets the requirements for the defeasement of the bonds; therefore, neither the bonds nor the escrow deposits are reflected in the financial statements.

On November 19, 1996, the Department issued \$17,990,000 of the Public Utility System Revenue Bonds, 1996 Series A. These proceeds were used to refund the 1991 Series A Bonds. The bonds bear interest at rates ranging from 4.30% - 5.25%. Interest is payable on December 1 and June 1, commencing June 1, 1997. The bonds are special revenue obligations of the Department and of the City of West Memphis, Arkansas. They are payable solely from and secured by the revenues of the Department.

The portion of the proceeds designated for the payment of the 1991 Series A bonds has been placed in an irrevocable escrow account which meets the requirements for the defeasement of the bonds; therefore, neither the bonds nor the escrow deposits are reflected in the financial statements.

Public Utility System Revenue Bonds, 1996 Series A were refunded December 1, 2006.

NOTE F - RELATIONSHIPS WITH THE CITY

The Department 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 personnel, data processing, financial administration and legal services are provided to the Department by the City. The costs associated with providing these services are charged to the Department by the City. The City also charges the Department an amount in lieu of franchise taxes.

The Department, as a convenience to customers, includes the fees for city-provided garbage collection in its monthly customer billings. These fees are remitted to the Sanitation Department monthly and are not reflected in the accompanying financial statements.

NOTE G - CONTINGENCY

The City of West Memphis is involved in a number of lawsuits arising in the ordinary course of business. None of the lawsuits are directly related to the West Memphis Utility Department.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE H - PENSION PLAN

On January 1, 1977, the City established a defined contribution pension plan for all non-uniformed employees. The City contributes 6% of each participant's annual salary, and employees can also contribute an amount between 2% and 10% of their salaries. Participants vest in employer's contribution at a rate of 20% per year. Eligibility commences one year from date of employment.

Employees have the option to invest the funds in their account. Employees are entitled only to the funds deposited by them and on their behalf; therefore, there is no unfunded liability.

The amount contributed to the pension plan and expensed by the Department was approximately \$169,849 and \$164,383 for the years ended December 31, 2007 and 2006, respectively.

SUPPLEMENTARY INFORMATION

**West Memphis Utility Department
PROPERTY, PLANT AND EQUIPMENT
December 31, 2007**

	COST			
	Balance January 1, 2007	Additions and Transfers	Disposals and Transfers	Balance December 31, 2007
UTILITY, PLANT IN SERVICE				
Electric	\$21,267,341	\$ 683,278	\$ -	\$21,950,619
Generating plants				
White Bluff	10,366,211	262,571	-	10,628,782
Independence	<u>9,744,416</u>	<u>177,674</u>	-	<u>9,922,090</u>
	41,377,968	1,123,523	-	42,501,491
Water	15,884,229	219,054	-	16,103,283
Sewer	<u>24,994,377</u>	<u>630,077</u>	-	<u>25,624,454</u>
	82,256,574	1,972,654	-	84,229,228
OTHER PROPERTY, PLANT AND EQUIPMENT				
Land	317,379	-	-	317,379
Buildings	669,458	-	-	669,458
Building improvements	743,302	-	-	743,302
Furniture and fixtures	304,083	26,625	-	330,708
Transportation equipment	3,259,446	381,839	-	3,641,285
Miscellaneous equipment	<u>2,959,617</u>	<u>85,293</u>	-	<u>3,044,910</u>
	8,253,285	493,757	-	8,747,042
CONTRIBUTION IN AID OF CONSTRUCTION				
	-	-	-	-
	<u>\$90,509,859</u>	<u>\$2,466,411</u>	<u>\$ -</u>	<u>\$92,976,270</u>

ACCUMULATED DEPRECIATION

Balance January 1, <u>2007</u>	<u>Current Provision</u>	<u>Other Additions</u>	Balance December 31, <u>2007</u>
\$11,000,955	\$ 432,235	\$ -	\$11,433,190
8,862,336	374,355	-	9,236,691
<u>7,527,461</u>	<u>350,465</u>	-	<u>7,877,926</u>
27,390,752	1,157,055	-	28,547,807
8,977,233	298,732	-	9,275,965
<u>17,046,721</u>	<u>427,590</u>	-	<u>17,474,311</u>
53,414,706	1,883,377	-	55,298,083
-	-	-	-
272,797	13,187	-	285,984
489,297	18,583	-	507,880
189,161	18,438	-	207,599
2,755,750	164,023	-	2,919,773
<u>2,138,829</u>	<u>155,285</u>	-	<u>2,294,114</u>
5,845,834	369,516	-	6,215,350
4,889,619	-	<u>77,467</u>	<u>4,967,086</u>
<u>\$64,150,159</u>	<u>\$2,252,893</u>	<u>\$ 77,467</u>	<u>\$66,480,519</u>

West Memphis Utility Department
UTILITY SALES AND CUSTOMER DATA
For the Years Ended December 31

	Electric Sales (KWH)		Number of Metered	
	<u>In Thousands</u>		<u>Customers</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Residential	158,669	155,369	10,673	10,658
Commercial & industrial	221,953	218,001	1,555	1,542
Public authority	<u>14,241</u>	<u>12,616</u>	<u>121</u>	<u>116</u>
	<u>394,863</u>	<u>385,986</u>	<u>12,349</u>	<u>12,316</u>

	Water Sale		Number of Metered	
	<u>(Thousand of Gallons)</u>		<u>Customers</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Residential	891,372	874,422	8,738	8,853
Commercial & industrial	773,751	952,125	1,052	1,038
Public authority	<u>18,178</u>	<u>15,460</u>	<u>34</u>	<u>35</u>
	<u>1,683,301</u>	<u>1,842,007</u>	<u>9,824</u>	<u>9,926</u>