

West Memphis Utility Department

FINANCIAL REPORT

December 31, 2009

CONTENTS

	<u>Page</u>
Independent Auditors' Report	3
Financial Statements	
Statements of net assets	5
Statements of revenue, expenses and changes in net assets	6
Statements of cash flows	7
Notes to financial statements	9
Supplementary Information	
Property, plant and equipment	16
Utility sales and customer data	17

JACKSON, HOWELL & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS CONSULTANTS



PARTNERS:

LARRY W. JACKSON, CPA
GARY J. HOWELL, CPA
ROBERT L. GOSS, CPA
DAVID L. JACKSON, CPA
JIMMY R. ADKINS, CPA
MICHAEL L. STERLING, CPA
CYNTHIA C. ROBB, CPA

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION

TENNESSEE
7240 GOODLETT FARMS PARKWAY, SUITE 101
CORDOVA, TENNESSEE 38016-4925
(901) 683-5100 (O) / (901) 683-0562 (F)

ARKANSAS
301 EAST BROADWAY STREET
WEST MEMPHIS, ARKANSAS 72301-3173
(870) 735-2683 (O) / (870) 735-5871 (F)

E-MAIL: JHH@JHHCPA.COM

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, 2009 and 2008 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, 2009 and 2008, 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, 2009 and 2008 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 16 and 17 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
September 30, 2010

Jackson, Howell & Associates, PLLC

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

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,604,730	\$ 6,199,426
Investments	14,576,586	14,495,647
Accounts receivable, net	4,181,859	4,434,443
Inventories	1,512,269	1,579,974
Interest receivable	183,507	251,670
Intergovernmental receivables	<u>2,853,023</u>	<u>1,665,242</u>
TOTAL CURRENT ASSETS	28,911,974	28,626,402
RESTRICTED ASSETS		
Cash and cash equivalents	10,824,669	501,136
Investments	1,105,358	1,053,765
Interest receivable	<u>16,877</u>	<u>20,267</u>
TOTAL RESTRICTED ASSETS	11,946,904	1,575,168
NON-CURRENT ASSETS		
Capital assets		
Land and improvements	1,543,640	1,502,432
Buildings and equipment	8,910,752	8,182,717
Electric plant	44,815,142	43,727,164
Water plant	17,311,863	16,838,749
Sewer plant	<u>26,399,579</u>	<u>26,228,534</u>
	98,980,976	96,479,596
Less accumulated depreciation	<u>70,772,589</u>	<u>68,755,453</u>
Net capital assets	28,208,387	27,724,143
Deferred debt expense, net	<u>87,065</u>	<u>-</u>
TOTAL NON-CURRENT ASSETS	<u>28,295,452</u>	<u>27,724,143</u>
	<u>\$69,154,330</u>	<u>\$57,925,713</u>

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

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,436,052	\$ 1,464,123
Intergovernmental payable	<u>126,530</u>	<u>33,327</u>
TOTAL CURRENT LIABILITIES	1,562,582	1,497,450
 LIABILITIES, PAYABLE FROM RESTRICTED ASSETS		
Bond interest payable	66,148	-
Bond payable, current	390,000	-
Accounts payable	<u>22,064</u>	<u>136,848</u>
TOTAL LIABILITIES, PAYABLE FROM RESTRICTED ASSETS	478,212	136,848
 NON-CURRENT LIABILITIES		
Customer deposits	1,188,321	1,162,070
Bond payable, non-current	10,230,000	-
Unamortized bond discount, net	<u>(105,315)</u>	<u>-</u>
TOTAL NON-CURRENT LIABILITIES	<u>11,313,006</u>	<u>1,162,070</u>
 TOTAL LIABILITIES	13,353,800	2,796,368
 NET ASSETS		
Invested in capital assets, net of related debt	28,208,387	27,724,143
Restricted for capital projects	10,824,669	501,136
Unrestricted	<u>16,767,474</u>	<u>26,904,066</u>
TOTAL NET ASSETS	<u>55,800,530</u>	<u>55,129,345</u>
	 <u>\$69,154,330</u>	 <u>\$57,925,713</u>

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

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE		
Charges for services		
Electric	\$24,968,181	\$26,817,352
Water	1,407,490	1,503,300
Sewer	1,447,288	1,473,707
Other	<u>564,285</u>	<u>222,296</u>
	28,387,244	30,016,655
OPERATING EXPENSES		
Purchase power for resale	13,961,333	15,571,839
Transmission charges	1,554,329	1,494,010
General and administrative	6,194,777	6,208,068
Maintenance, operations, and contracted services	3,123,144	3,517,633
Payment in lieu of taxes	1,375,728	1,469,229
Depreciation	<u>2,017,136</u>	<u>2,274,934</u>
	<u>28,226,447</u>	<u>30,535,713</u>
OPERATING INCOME (LOSS)	160,797	(519,058)
NON-OPERATING REVENUE (EXPENSES)		
Investment income	578,153	770,564
Interest on bonds	(66,148)	-
Amortization	<u>(1,617)</u>	<u>-</u>
	<u>510,388</u>	<u>770,564</u>
NET INCOME	671,185	251,506
NET ASSETS AT BEGINNING OF YEAR	<u>55,129,345</u>	<u>54,877,839</u>
NET ASSETS AT END OF YEAR	<u>\$55,800,530</u>	<u>\$55,129,345</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>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$28,666,079	\$30,382,933
Payments to suppliers for goods and services	(22,838,492)	(24,226,777)
Payments to employees	<u>(3,379,821)</u>	<u>(3,358,066)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,447,766	2,798,090
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers (to) from other funds	<u>(1,094,578)</u>	<u>6,784</u>
NET CASH (USED IN) PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	(1,094,578)	6,784
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(2,501,380)	(3,503,326)
Proceeds from issuance of bond	10,620,000	-
Payments of bond fees	<u>(193,997)</u>	<u>-</u>
NET CASH (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	7,924,623	(3,503,326)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	649,706	560,110
Sales (purchases) of investments	<u>(132,532)</u>	<u>828,180</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>517,174</u>	<u>1,388,290</u>
NET INCREASE IN CASH	9,728,837	689,838
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,700,562</u>	<u>6,010,724</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$16,429,399</u>	<u>\$ 6,700,562</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>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 160,797	\$ (519,058)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,017,136	2,274,934
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	252,584	354,956
(Increase) decrease in inventories	67,705	192,870
Increase (decrease) in accounts payable	(142,855)	483,067
Increase (decrease) in other liabilities	26,251	11,321
Increase (decrease) in bond interest payable	66,148	-
Total adjustments	<u>2,286,969</u>	<u>3,317,148</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 2,447,766</u>	 <u>\$ 2,798,090</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 30% of its energy from Constellation Energy. The balance is from generating 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.

Allowance for Doubtful Accounts

An allowance for uncollectible accounts is estimated and recorded based on the Department's historical bad debt experience and on management's judgment. The allowance for uncollectible accounts was \$225,000 on December 31, 2009 and December 31, 2008.

Inventory

Inventory consists of materials and supplies for the following:

Electric Department	\$ 684,388
Water Department	49,852
Sewer Department	4,432
Pretreatment Department	870
Gas and Oil	40,169
Independence - Coal Stockpile	223,916
Independence - Materials and supplies	116,207
White Bluff - Coal Stockpile	208,954
White Bluff - Materials and supplies	<u>183,481</u>
Total	<u>\$1,512,269</u>

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. The Utility Department reads customers meter that will normally span a month; i.e., January 15, 2010 would include services delivered but not billed of 15 days in December. Included in the accounts receivable at December 31, 2009 and 2008 was an estimate for these unbilled services totaling \$1,453,058 and \$1,328,824, respectively.

Deferred Debt Expense

Cost associated with issuing the Series 2009 revenue bond has been deferred and is being amortized using the straight-line method over the life of the bond.

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.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 \$11,000,663 and \$10,460,712 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, 2009, cash and short-term investments are listed below:

	<u>Restricted</u>	<u>Unrestricted</u>
CASH	\$10,824,669	\$ 5,604,730
INVESTMENTS:		
U.S. Government agencies	-	99,000
Certificates of Deposit	<u>1,105,358</u>	<u>14,477,586</u>
	<u>1,105,358</u>	<u>14,576,586</u>
	<u>\$11,930,027</u>	<u>\$20,181,316</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, 2009, none of the Department's bank balances of \$22,112,792 were exposed to custodial credit risk.

NOTE D - RESTRICTED ASSETS

Restricted cash and investments represent amounts required to be maintained by agreements related to the bond issue and deposits received from customers.

NOTE E - REVENUE BONDS PAYABLE

On November 1, 2009, the Department issued \$10,620,000 of the Public Utility System Revenue Bond, Series 2009.

Principal payments are due annually in increasing amounts over 18 years beginning in 2010. Interest is payable semi-annually. The bond has various interest rates ranging from 2.0 - 4.5% dependent upon the maturity date. The bond discount of \$106,200 is being amortized over the life of the bond. The amortization of the bond discount for 2009 is \$1,617.

West Memphis Utility Department
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE E - REVENUE BONDS PAYABLE - CONTINUED

Current principal maturities of long-term debt as of December 31, 2009 are as follows:

2010	\$ 390,000
2011	395,000
2012	405,000
2013	410,000
2014	425,000
Thereafter	<u>8,595,000</u>
	<u>\$10,620,000</u>

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 - RELATED PARTY TRANSACTIONS

The Department purchases office supplies from Delta Office Supply, a company owned by the City Treasurer. The Department purchased \$5,954 and \$3,845 for the years ended December 31, 2009 and 2008, respectively.

NOTE H - 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 I - 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 \$190,338 and \$189,920 for the years ended December 31, 2009 and 2008, respectively.

NOTE J - MAJOR VENDORS

Purchases for the year ended December 31, 2009 include purchases from a major vendor.

	<u>Amount</u>	<u>Percent</u>
Purchases from:		
Vendor A	\$8,082,446	52.09%
Vendor B	5,878,886	37.88%
Accounts Payable:		
Vendor A	620,013	42.52%
Vendor B	531,561	36.46%

NOTE K - EVENTS OCCURRING AFTER REPORTING DATE

The Company has evaluated events and transactions that occurred between December 31, 2009 and September 30, 2010, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements

SUPPLEMENTARY INFORMATION

**West Memphis Utility Department
PROPERTY, PLANT AND EQUIPMENT
December 31, 2009**

	COST			
	Balance January 1, <u>2009</u>	Additions and <u>Transfers</u>	Disposals and <u>Transfers</u>	Balance December 31, <u>2009</u>
UTILITY, PLANT IN SERVICE				
Electric	\$22,750,285	\$ 603,482	\$ -	\$23,353,767
Generating plants				
White Bluff	10,742,896	257,767	-	11,000,663
Independence	<u>10,233,983</u>	<u>226,729</u>	-	<u>10,460,712</u>
	43,727,164	1,087,978	-	44,815,142
Water	16,838,749	473,114	-	17,311,863
Sewer	<u>26,228,534</u>	<u>171,045</u>	-	<u>26,399,579</u>
	86,794,447	1,732,137	-	88,526,584
OTHER PROPERTY, PLANT AND EQUIPMENT				
Land	418,341	-	-	418,341
Buildings	669,458	115,718	-	785,176
Building improvements	1,084,091	41,208	-	1,125,299
Furniture and fixtures	355,044	88,345	-	443,389
Transportation equipment	4,012,918	413,501	-	4,426,419
Miscellaneous equipment	<u>3,145,297</u>	<u>110,471</u>	-	<u>3,255,768</u>
	9,685,149	769,243	-	10,454,392
CONTRIBUTION IN AID OF CONSTRUCTION				
	-	-	-	-
	<u>\$96,479,596</u>	<u>\$2,501,380</u>	<u>\$ -</u>	<u>\$98,980,976</u>

ACCUMULATED DEPRECIATION

Balance January 1, 2009	Current Provision	Other Additions	Balance December 31, 2009
\$11,887,960	\$ 475,327	\$ -	\$12,363,287
9,606,768	58,032	-	9,664,800
<u>8,237,500</u>	<u>368,905</u>	<u>-</u>	<u>8,606,405</u>
29,732,228	902,264	-	30,634,492
9,539,410	251,017	-	9,790,427
<u>17,917,983</u>	<u>448,401</u>	<u>-</u>	<u>18,366,384</u>
57,189,621	1,601,682	-	58,791,303
-	-	-	-
299,172	14,875	-	314,047
531,432	27,703	-	559,135
227,981	24,931	-	252,912
3,098,374	198,760	-	3,297,134
<u>2,441,787</u>	<u>149,185</u>	<u>-</u>	<u>2,590,972</u>
6,598,746	415,454	-	7,014,200
<u>4,967,086</u>	<u>-</u>	<u>-</u>	<u>4,967,086</u>
<u>\$68,755,453</u>	<u>\$2,017,136</u>	<u>\$ -</u>	<u>\$70,772,589</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Residential	147,886	153,820	10,632	10,677
Commercial & industrial	202,982	211,557	1,511	1,536
Public authority	<u>12,563</u>	<u>13,689</u>	<u>123</u>	<u>124</u>
	<u>363,431</u>	<u>379,066</u>	<u>12,266</u>	<u>12,337</u>

	Water Sale		Number of Metered	
	<u>(Thousand of Gallons)</u>		<u>Customers</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Residential	707,454	774,520	8,711	8,728
Commercial & industrial	652,043	689,814	1,062	1,060
Public authority	<u>23,232</u>	<u>14,066</u>	<u>31</u>	<u>32</u>
	<u>1,382,729</u>	<u>1,478,400</u>	<u>9,804</u>	<u>9,820</u>