

West Memphis Crittenden County Port Authority

FINANCIAL REPORT

December 31, 2009

CONTENTS

	<u>Page</u>
Independent Auditors' Report	3
Financial Statements	
Statements of financial position	4
Statements of activities	5
Statements of cash flows	6
Notes to financial statements	8

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INDEPENDENT AUDITORS' REPORT

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

We have audited the statements of financial position, statements of activities, and statements of cash flows of the West Memphis Crittenden County Port Authority, of the City of West Memphis, Arkansas, as of and for the year ended December 31, 2009 and 2008. 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.

In our opinion, 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, 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.

West Memphis, Arkansas
October 26, 2010

Jackson, Howell & Associates, PLLC

West Memphis Crittenden County Port Authority
STATEMENTS OF FINANCIAL POSITION
December 31

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Unrestricted		
Cash in bank	\$ 43,427	\$ 254,202
Short-term investments	221,529	215,322
Rents receivable	<u>10,704</u>	<u>20,516</u>
	275,660	490,040
Restricted		
Cash and short-term investments	<u>76,542</u>	<u>72,580</u>
	<u>76,542</u>	<u>72,580</u>
TOTAL CURRENT ASSETS	352,202	562,620
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>3,523,095</u>	<u>3,340,607</u>
	3,531,061	3,713,549
OTHER ASSETS		
Deferred debt expense	<u>19,622</u>	<u>21,490</u>
	<u>19,622</u>	<u>21,490</u>
	<u>\$3,902,885</u>	<u>\$4,297,659</u>

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

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Restricted		
Intergovernmental payables	\$ 25,000	\$ -
Bonds payable - current maturities	50,000	50,000
Accrued interest payable	<u>3,545</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	78,545	50,000
 BONDS PAYABLE, LESS CURRENT MATURITIES	 700,000	 750,000
 NET ASSETS		
Contributed capital	4,671,000	4,671,000
Restricted for debt service	76,542	72,580
Unrestricted	<u>(1,623,202)</u>	<u>(1,245,921)</u>
	<u>3,124,340</u>	<u>3,497,659</u>
	 <u>\$3,902,885</u>	 <u>\$4,297,659</u>

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

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE		
Rents	\$ 70,925	\$ 91,337
	<u>70,925</u>	<u>91,337</u>
OPERATING EXPENSES		
Depreciation and amortization	184,355	184,355
Professional fees	14,317	6,868
Repairs and maintenance	137	328
Transfer to general fund	200,000	-
Other	6,187	1,395
	<u>404,996</u>	<u>192,946</u>
OPERATING LOSS	(334,071)	(101,609)
NON-OPERATING INCOME (EXPENSES)		
Interest on bonds	(47,305)	(47,281)
Interest income	8,057	11,807
	<u>(39,248)</u>	<u>(35,474)</u>
DECREASE IN NET ASSETS	(373,319)	(137,083)
Total net assets, beginning of year	<u>3,497,659</u>	<u>3,634,742</u>
Total net assets, end of year	<u>\$3,124,340</u>	<u>\$3,497,659</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>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 80,738	\$ 76,363
Payments to suppliers for goods and services	<u>(195,641)</u>	<u>(8,613)</u>
NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES	(114,903)	67,750
 CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES:		
Principal paid on bonds	(50,000)	(60,000)
Interest paid on bonds	<u>(43,760)</u>	<u>(47,281)</u>
NET CASH USED IN CAPITAL AND		
RELATED FINANCING ACTIVITIES	(93,760)	(107,281)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>8,057</u>	<u>11,807</u>
NET CASH PROVIDED BY		
INVESTING ACTIVITIES	8,057	11,807
 NET DECREASE IN CASH	(200,606)	(27,724)
 CASH AND CASH EQUIVALENTS AT		
BEGINNING OF YEAR	<u>542,104</u>	<u>569,828</u>
 CASH AND CASH EQUIVALENTS AT		
END OF YEAR	<u>\$ 341,498</u>	<u>\$ 542,104</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>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (334,071)	\$ (101,609)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	184,355	184,355
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	9,813	(14,974)
Increase (decrease) in accounts payable	<u>25,000</u>	<u>(22)</u>
Total adjustments	<u>219,168</u>	<u>169,359</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ (114,903)</u>	 <u>\$ 67,750</u>

West Memphis Crittenden County Port Authority
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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.

Basis of Accounting

The Authority follows the accrual basis of accounting. 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.

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 operation. 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. Revenues earned, but not received at December 31, 2009 and 2008 were \$10,704 and \$20,516 respectively.

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.

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

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.

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 2009 and 2008 were 120% and 74% respectively. The 2009 and 2008 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>
2010	\$ 50,000
2011	50,000
2012	55,000
2013	60,000
2014	60,000
Thereafter	<u>475,000</u>
	<u>\$750,000</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.

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

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).

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.

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

NOTE E - OPERATING AND LEASE AGREEMENTS - CONTINUED

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.

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 paid 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 payable 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.

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

NOTE E - OPERATING AND LEASE AGREEMENTS - CONTINUED

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 2009 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.

NOTE F - CONCENTRATIONS OF CREDIT RISK

The Authority has cash deposits of \$43,427 and a certificate of deposit for \$221,529 at December 31, 2009. The Authority obtains collateralization for all accounts whose balance exceeds the FDIC insurance ceiling.

NOTE G - EVENTS OCCURRING AFTER REPORTING DATE

The Company has evaluated events and transactions that occurred between December 31, 2009 and October 26, 2010, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.