

**West Memphis Utility Department  
An Enterprise Fund of  
The City of West Memphis, Arkansas**

**FINANCIAL REPORT**

**December 31, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the West Memphis Utility Commission  
West Memphis, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of the West Memphis Utility Department, an enterprise fund of the City of West Memphis, Arkansas, which comprise of the statements of net position as of December 31, 2016 and 2015, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, (collectively, financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis of Qualified Opinion**

As discussed in Note A to the financial statements, the Department's investments in property, plant and equipment and the related allowances 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.

### **Qualified Opinion**

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, 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, 2016 and 2015, 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.

### **Emphasis of Matter**

As discussed in Note A, the financial statements present only the West Memphis Utility Department, and do not purport to, and do not, present fairly the financial position of the City of West Memphis, Arkansas, as of December 31, 2016 and 2015, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

Our audits of the financial statements of the West Memphis Utility Department, for the years ended December 31, 2016 and 2015, 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 18 and 19 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.

*Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

West Memphis, Arkansas  
June 29, 2017

Jackson, Howell & Associates, PLLC

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**STATEMENTS OF NET POSITION**  
**December 31**

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**ASSETS**

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,312,366	\$ 4,839,729
Investments	12,917,557	12,835,249
Accounts receivable, net	4,092,335	4,722,006
Inventories	2,221,239	2,540,042
Interest receivable	28,959	32,167
Intergovernmental receivables	<u>1,736,780</u>	<u>1,809,813</u>
<b>TOTAL CURRENT ASSETS</b>	<b>25,309,236</b>	<b>26,779,006</b>
 <b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	11,260,083	10,984,573
Investments	2,290,362	2,274,652
Interest receivable	<u>10,484</u>	<u>12,989</u>
<b>TOTAL RESTRICTED ASSETS</b>	<b>13,560,929</b>	<b>13,272,214</b>
 <b>NON-CURRENT ASSETS</b>		
Capital assets		
Land and improvements	2,625,013	2,356,940
Buildings and equipment	13,067,554	12,324,728
Electric plant	53,519,764	52,320,452
Water plant	20,233,770	20,071,324
Sewer plant	<u>29,897,478</u>	<u>29,810,229</u>
	119,343,579	116,883,673
Less accumulated depreciation	<u>86,072,407</u>	<u>83,798,120</u>
Net capital assets	<u>33,271,172</u>	<u>33,085,553</u>
	<b><u>\$72,141,337</u></b>	<b><u>\$73,136,773</u></b>

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

**LIABILITIES AND NET POSITION**

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,862,701	\$ 1,174,635
Intergovernmental payable	<u>92,930</u>	<u>22,896</u>
<b>TOTAL CURRENT LIABILITIES</b>	1,955,631	1,197,531
<b>LIABILITIES, PAYABLE FROM RESTRICTED ASSETS</b>		
Bond interest payable	53,469	56,281
Bond payable, current	465,000	450,000
Accounts payable	<u>-</u>	<u>71,337</u>
<b>TOTAL LIABILITIES, PAYABLE FROM RESTRICTED ASSETS</b>	518,469	577,618
<b>NON-CURRENT LIABILITIES</b>		
Customer deposits	1,321,291	1,339,096
Bond payable, non-current	<u>7,245,000</u>	<u>7,710,000</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>8,566,291</u>	<u>9,049,096</u>
<b>TOTAL LIABILITIES</b>	11,040,391	10,824,245
<b>NET POSITION</b>		
Net investments in capital assets	33,271,272	33,085,553
Restricted for capital projects	11,260,083	10,984,573
Unrestricted	<u>16,569,591</u>	<u>18,242,402</u>
<b>TOTAL NET POSITION</b>	<u>61,100,946</u>	<u>62,312,528</u>
	<b><u>\$72,141,337</u></b>	<b><u>\$73,136,773</u></b>

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**STATEMENTS OF REVENUE, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**For the Years Ended December 31**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUE</b>		
Charges for services		
Electric	\$26,582,157	\$27,637,267
Water	1,380,369	1,384,496
Sewer	1,329,540	1,425,157
Other	<u>50,111</u>	<u>400,454</u>
	29,342,177	30,847,374
 <b>OPERATING EXPENSES</b>		
Purchase power for resale	13,195,431	13,267,219
Transmission charges	3,406,631	2,126,178
General and administrative	6,951,565	6,508,408
Maintenance, operations, and contracted services	3,096,664	3,301,010
Payment in lieu of taxes	1,399,831	1,502,462
Depreciation	<u>2,274,286</u>	<u>2,206,102</u>
	<u>30,324,408</u>	<u>28,911,379</u>
<b>OPERATING INCOME (LOSS)</b>	(982,231)	1,935,995
 <b>NON-OPERATING REVENUE (EXPENSES)</b>		
Investment income	105,524	144,448
Interest on bonds	<u>(334,875)</u>	<u>(348,563)</u>
	<u>(229,351)</u>	<u>(204,115)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(1,211,582)	1,731,880
 <b>NET POSITION AT BEGINNING OF YEAR</b>	<u>62,312,528</u>	<u>60,580,648</u>
 <b>NET POSITION AT END OF YEAR</b>	<u>\$61,100,946</u>	<u>\$62,312,528</u>

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



**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$29,954,043	\$31,641,362
Payments to suppliers for goods and services	(23,694,255)	(24,199,037)
Payments to employees	<u>(3,420,233)</u>	<u>(3,378,762)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	2,839,555	4,063,563
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfers from other funds	<u>143,067</u>	<u>384,520</u>
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	143,067	384,520
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(2,460,006)	(2,811,817)
Principal paid on bonds	(450,000)	(435,000)
Interest paid on bonds	<u>(337,687)</u>	<u>(350,738)</u>
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(3,247,693)	(3,597,555)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received on investments	111,236	150,387
Purchases of investments	<u>(98,018)</u>	<u>(110,427)</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>13,218</u>	<u>39,960</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(251,853)	890,488
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>15,824,302</u>	<u>14,933,814</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$15,572,449</u>	<u>\$15,824,302</u>

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

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**For the Years Ended December 31**

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	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	(982,231)	\$ 1,935,995
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,274,286	2,206,102
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	629,671	744,374
(Increase) decrease in inventories	318,903	(520,948)
Increase (decrease) in accounts payable	616,729	(351,574)
Increase (decrease) in customer deposits	<u>(17,803)</u>	<u>49,614</u>
Total adjustments	<u>3,821,786</u>	<u>2,127,568</u>
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	 <u>\$ 2,839,555</u>	 <u>\$ 4,063,563</u>

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

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Operations**

The West Memphis Utility Department (the "Department"), an enterprise fund 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 energy from NRG Energy.

**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.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Department applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs") issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, which were codified into a single source for governmental standards.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Department's financial statements are reported using the economic resource measurement 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. Interfund items and transactions between the electric, water and sewer funds have been eliminated.

**Fair Value of Financial Instruments**

The Department's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable and accounts payable. The Department's estimate of fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

**Cash and 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**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**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 adjustment to market value is included in results of operations. Interest income is accrued as earned.

**Accounts Receivable**

Account receivable is recorded at the amount the Department expects to collect on balances outstanding at year-end. 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 \$500,000 on December 31, 2016, and December 31, 2015.

**Inventories**

Inventories consist of materials and supplies for the following:

	<u>2016</u>	<u>2015</u>
Electric Department	\$ 593,010	\$ 605,944
Water Department	80,357	69,042
Sewer Department	9,813	7,548
Gas and Oil	23,714	34,726
Independence - Coal Stockpile	532,061	688,867
Independence - Materials and supplies	146,951	150,763
White Bluff - Coal Stockpile	595,846	755,387
White Bluff - Materials and supplies	<u>239,487</u>	<u>227,765</u>
Total	<u>\$2,221,239</u>	<u>\$2,540,042</u>

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

**Capital Assets**

Capital assets, which include 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

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Capital Assets - continued**

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.

**Net position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Department's financial statements. Net position is classified in the following categories:

1. Net investment in capital assets - This amount consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of those assets.
2. Restricted net position - This amount is restricted by creditors, grantors, contributors, or laws or regulations of the government.
3. Unrestricted net position - This amount is the net position that does not meet the definition of "net investment of capital assets" or "restricted net position".

**Classification of Revenues and Expense**

As an enterprise (proprietary) fund, the Department classifies its revenues and expenses into the following classifications: operating revenue, operating expenses, non-operating revenue and non-operating expenses.

Operating revenue and expenses are deemed as revenues realized by the Department in exchange for providing its primary services for electric, water, sewer and other charges. Non-operating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources. Non-operating expenses include those related to bond costs and amortization expenses.

**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 would include services delivered but not billed for 15 days in December. Included in the accounts receivable at December 31, 2016 and 2015, was an estimate for these unbilled services totaling \$1,126,436 and \$1,094,744, respectively.

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**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.

**Risk Management**

The Department purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on Department properties, which includes earthquake and flood coverage. There were no significant reductions in insurance coverage in the current year. Additionally, there were no significant settlements, which exceeded insurance coverage for each of the past three years. The Department employees were members of the City of West Memphis Employee Self-Insured Benefit Plan that was administered by CIGNA Healthcare Insurance Company through June 2011. The City was required to maintain a benefit plan account which would be sufficient at all times to fund plan benefits and plan related expenses. In July 2011, the City changed to a fully funded plan with United Healthcare through September 2012. Then in October 2012, the City changed to CIGNA Open Access Plan. Beginning January 1, 2016, the City changed from a self-insured to fully insured by United Healthcare.

**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.

**Events Occurring After Reporting Date**

The Company has evaluated events and transactions that occurred between December 31, 2016, and June 29, 2017, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements

**NOTE B - 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, 2016 and 2015, cash and short-term investments are listed below:

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE B - CASH AND SHORT-TERM INVESTMENTS - CONTINUED**

	<u>2016</u>		<u>2015</u>	
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>
CASH	\$11,260,083	\$ 4,312,366	\$10,984,573	\$ 4,839,729
INVESTMENTS:				
Certificates of Deposit	<u>2,290,360</u>	<u>12,917,557</u>	<u>2,274,652</u>	<u>12,835,249</u>
	<u>\$13,550,443</u>	<u>\$17,229,923</u>	<u>\$13,259,225</u>	<u>\$17,674,978</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, 2016 and 2015, none of the Department's bank balances of \$21,333,548 and \$21,465,440, respectively, were exposed to custodial credit risk.

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in eligible investment securities having a maturity of no longer than 5 years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity; an Arkansas bank certificate of deposit; an account established by a local government joint investment trust; or an Arkansas financial institution repurchase agreement for eligible investment securities in which the seller agrees to repurchase the investment at a price including interest earned during the holding period as determined by the repurchase agreement.

**NOTE C - 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).

**West Memphis Utility Department  
An Enterprise Fund of the City of West Memphis, Arkansas  
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE C - INVESTMENT IN GENERATING PLANTS - CONTINUED**

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 \$11,939,791 and \$11,074,859 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.

**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**

In November 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.

Changes in long-term debt:

	<u>Balance</u> <u>December 31, 2015</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>December 31, 2016</u>
Bond payable	\$8,160,000	\$ -	\$450,000	\$7,710,000



**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE E - REVENUE BONDS PAYABLE - CONTINUED**

Total long-term debt principal and interest payments are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 465,000	\$ 320,813	\$ 785,813
2018	480,000	303,375	783,375
2019	500,000	283,375	783,375
2020	520,000	266,625	786,625
2021	540,000	247,125	787,125
2022-2026	3,045,000	881,840	3,926,840
2027-2029	<u>2,160,000</u>	<u>196,238</u>	<u>2,356,238</u>
	<u>\$7,710,000</u>	<u>\$2,499,391</u>	<u>\$10,209,391</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 - INTERGOVERNMENTAL BALANCES**

During the course of its operations, the Department has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds have not been paid or received as of December 31, 2016, balances of interfund amounts receivable or payable have been recorded as "intergovernmental receivables/payables". All interfund balances are expected to be paid within one year.

**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**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE I - PENSION PLAN**

In January 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 a voluntary amount of not less than 2% of his/her regular pay to the plan. Participants vest in the 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 \$180,834 and \$174,659 for the years ended December 31, 2016 and 2015, respectively.

**NOTE J - MAJOR VENDORS**

Purchases for the year ended December 31, 2016 and 2015, include purchases from two major vendors.

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Purchases from:				
Vendor A	\$12,890,677	97.69 %	\$13,121,239	98.89%
Vendor B	304,754	2.31%	145,980	1.11%
Accounts Payable:				
Vendor A	\$1,081,493	58.06%	\$694,707	66.12%
Vendor B	65,656	3.52%	203,590	19.38%
Vendor C	395,692	21.24%	-	-

**NOTE K - MISO INTEGRATION**

In November 2013, West Memphis Utility Department, along with Energy Arkansas and other utilities in the region, joined the Mid-Continent Independent System Operator (MISO) system. MISO is an Independent System Operator (ISO) and a Regional Transmission Organization (RTO) that offers open access transmission, monitors the high-voltage transmission grid and operates a Day-2 energy market for electric utilities in the region.

**SUPPLEMENTARY INFORMATION**

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**CAPITAL ASSETS**  
**December 31, 2016**

	<b>COST</b>			
	<b>Balance January 1, 2016</b>	<b>Additions and Transfers</b>	<b>Disposals and Transfers</b>	<b>Balance December 31, 2016</b>
<b>UTILITY, PLANT IN SERVICE</b>				
Electric	\$ 29,454,622	\$1,050,491	\$ -	\$ 30,505,113
Generating plants				
White Bluff	11,860,394	79,397	-	11,939,791
Independence	<u>11,005,436</u>	<u>69,424</u>	-	<u>11,074,860</u>
	52,320,452	1,199,312	-	53,519,764
Water	20,071,324	162,546	-	20,233,770
Sewer	<u>29,810,229</u>	<u>87,249</u>	-	<u>29,897,478</u>
	102,202,005	1,449,107	-	103,651,012
<b>CAPITAL ASSETS</b>				
Land	418,341	-	-	418,341
Buildings	1,458,920	217,611	-	1,676,531
Building improvements	1,938,599	268,073	-	2,206,672
Furniture and fixtures	677,997	12,693	-	690,690
Transportation equipment	6,139,239	349,054	-	6,488,293
Miscellaneous equipment	<u>4,048,572</u>	<u>163,468</u>	-	<u>4,212,040</u>
	14,681,668	1,010,899	-	15,692,567
<b>CONTRIBUTION IN AID OF CONSTRUCTION</b>				
	-	-	-	-
	<u>\$116,883,673</u>	<u>\$2,460,006</u>	<u>\$ -</u>	<u>\$119,343,579</u>

**ACCUMULATED DEPRECIATION**

<b>Balance January 1, 2016</b>	<b>Current Provision</b>	<b>Other Additions</b>	<b>Balance December 31, 2016</b>
\$16,137,967	\$ 670,385	\$ -	\$16,808,352
10,130,011	94,692	-	10,224,703
<u>9,644,880</u>	<u>74,832</u>	<u>-</u>	<u>9,719,712</u>
35,912,858	839,909	-	36,752,767
11,553,342	327,133	-	11,880,475
<u>21,319,146</u>	<u>560,437</u>	<u>-</u>	<u>21,879,583</u>
68,785,346	1,727,479	-	70,512,825
-	-	-	-
454,072	34,806	-	488,878
776,938	40,182	-	817,120
471,689	38,830	-	510,519
4,944,329	310,833	-	5,255,162
<u>3,398,660</u>	<u>122,156</u>	<u>-</u>	<u>3,520,816</u>
10,045,688	546,807	-	10,592,495
<u>4,967,086</u>	<u>-</u>	<u>-</u>	<u>4,967,086</u>
<u>\$83,798,120</u>	<u>\$2,274,286</u>	<u>\$ -</u>	<u>\$86,072,406</u>

**West Memphis Utility Department**  
**An Enterprise Fund of the City of West Memphis, Arkansas**  
**UTILITY SALES AND CUSTOMER DATA**  
**For the Years Ended December 31**

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	<b>Electric Sales (KWH)</b>		<b>Number of Metered</b>	
	<b><u>In Thousands</u></b>		<b><u>Customers</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Residential	145,035	138,206	10,274	10,257
Commercial & industrial	214,794	215,711	1,587	1,580
Public authority	<u>13,236</u>	<u>13,630</u>	<u>129</u>	<u>131</u>
	<u>373,065</u>	<u>367,547</u>	<u>11,990</u>	<u>11,968</u>

	<b>Water Sale</b>		<b>Number of Metered</b>	
	<b><u>(Thousand of Gallons)</u></b>		<b><u>Customers</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Residential	676,204	690,009	8,154	8,264
Commercial & industrial	667,365	673,473	1,064	1,060
Public authority	<u>24,528</u>	<u>27,263</u>	<u>31</u>	<u>33</u>
	<u>1,368,097</u>	<u>1,390,745</u>	<u>9,249</u>	<u>9,357</u>

	<b>Sewer Sale</b>		<b>Number of Metered</b>	
	<b><u>(Thousand of Gallons)</u></b>		<b><u>Customers</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Residential	716	826	8,100	8,242
Commercial & industrial	572	592	981	989
Public authority	<u>11</u>	<u>17</u>	<u>23</u>	<u>24</u>
	<u>1,299</u>	<u>1,435</u>	<u>9,104</u>	<u>9,255</u>