

CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT

FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

(With independent auditor's report thereon.)

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PKF North America

Independent Auditor's Report

To the City Council
City of North Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the City of North Little Rock Electric Department (the "Department"), a component unit of the City of North Little Rock, Arkansas, which comprise the statement of net position as of December 31, 2014 and 2013, and 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 3 through 5 and 18 be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

EGP, PLLC

July 28, 2015

Certified Public Accountants & Consultants

EGP

**CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

This section presents management's analysis of the City of North Little Rock Electric Department's (NLRED) financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Overview

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the utility's financial condition and performance.

The financial statements report information about the NLRED using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, notes to the financial statements and other supporting schedules.

The statement of net position presents the financial position of the NLRED on a full accrual historical cost basis. This statement presents information on all of the assets and liabilities with the difference reported as net position. Over time, increases and decreases in net assets are an indicator of whether the financial position of the NLRED is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The statement of cash flows present's changes in cash and cash equivalents, resulting from operational, financing, and investing activities, this statement presents cash receipts and disbursement information only.

The notes to the financial statements and supplementary information are provided to disclose information that is essential to a full understanding of the material data provided in the statements.

The financial statements were prepared by NLRED staff from its detailed transactions for the years ending December 31, 2014 and 2013. The financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The financial statements on pages 6 through 8 provide information about the financial activities of NLRED. The following information is an analysis of the year presented.

**CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Statement of Net Position

Total assets as of December 31, 2014 were \$185,379,611 and exceeded total liabilities, which were \$71,936,484. Of the total net position, \$91,232,934 was invested in capital assets; \$5,612,627 (\$5,194,502 + \$418,125) was restricted for debt service and capital improvements; \$10,075,388 was restricted for working capital, and \$7,149,017 was unrestricted. Please note that the restricted working capital of \$10,035,857 can be made unrestricted at any time and used for day to day operations.

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 53,358,516	\$ 44,369,767
Total Property, Plant & Equipment	132,021,095	125,993,541
Deferred Outflows of Resources	626,839	1,970,203
Current Liabilities	11,821,484	9,209,901
Non-current Liabilities	60,115,000	65,790,000
Net position		
Net investment in capital assets	91,232,934	85,303,744
Restricted for debt service	5,194,502	3,787,763
Restricted for working capital	10,075,388	10,035,857
Restricted for capital improvements	418,125	1,921,298
Unrestricted net position	7,149,017	(3,715,052)

The current ratio is an indication of short-term liquidity and is calculated by dividing current assets by current liabilities. A resulting number greater than one indicates current assets in excess of current needs that can be applied in future periods. The current ratio for NLRED was 4.51 for 2014, compared 4.82 for 2013. Another ratio that is computed from this statement is the debt utilization ratio, which indicates what percentage the total debt is to total assets. This ratio is calculated by dividing total debt by total assets. The debt utilization ratios for the years ending December 31, 2014 and 2013 were 39% and 44% respectively.

The following were capital improvements, additions or replacements for 2014 (the figures are approximate):

Murray Hydro Electric Generation Plant	\$ 206,000
Distribution System (poles, wire, transformers, conductors, etc.)	2,152,000
AMI (advanced meter infrastructure – Smart Meters)	1,585,000
Office furniture & fixtures and computer & communication equipment	2,011,000
Transportation, tools and power equipment	413,000
CWIP –Hydro Overhaul and Galloway Substation	<u>4,300,000</u>
Total Capital Improvements	<u>\$ 10,667,000</u>

**CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Statement of Revenues, Expenses, and Changes in Net Position

For the year-ending December 31, 2014, operating revenues were \$93,824,469 and operating expenses were \$69,157,647. Non-operating revenues and (expenses) totaled \$4,069,534 which consisted of non-operating revenues of \$1,857,293, Federal Contract Income of \$6,291,950 and non-operating expenses of \$4,079,709. Transfers to the City were \$12,000,000. The result was an increase in net position in the amount of \$16,736,356.

	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 93,824,469	\$ 93,373,975
Operating Expenses	69,157,647	75,748,019
Non-operating Revenues & Grants	8,149,243	2,440,306
Non-operating Expenses	4,079,709	4,880,713
Transfers to the City	12,000,000	12,000,000
Increase (Decrease) in Net Position	16,736,356	3,185,549

The NLRED operating revenues for 2014 were about the same as 2013. The majority of NLRED operating revenue is derived from residential and commercial customers. In 2014, the NLRED had an average of 33,441 residential customers, 4,852 commercial customers, and 155 large users.

Operating expenses, not including depreciation expense, decreased 10% in 2014. Depreciation expense increased 9% in 2014.

Non-operating revenues increased 234% and non-operating expenses decreased 16% in 2014. The reason for the large increase in non-operating revenues was due to Federal Contract Income of \$6,291,950 related to services provided to the U.S. Corp of Engineers for the Bayou Meto Pump Station project. The total contract was \$9,712,928. The project will be completed in 2015.

Budget-to-Actual Comparison

The budget is prepared internally by NLRED based on the prior year's activity. The previous year amounts are adjusted to reflect anticipated activity for the current year. As with any budget, there are differences between anticipated and actual results.

Actual operating revenues were more than budgeted operating revenues by approximately \$2,300,000. Operating expenses, not including depreciation, were approximately \$600,000 more than the amount budgeted. The change in Net Position was approximately \$1,700,000 less than the amount budgeted.

See "Budgetary Comparison Schedule" on page 18.

City of North Little Rock Electric Department
Statement of Net Position
December 31, 2014 and 2013
(See independent auditor's report.)

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	\$ 26,447,498	15,959,455
Restricted cash	15,688,015	15,744,917
Accounts receivable, net of allowance of \$487,867 and \$512,595, respectively	3,707,167	3,977,392
Other receivables	53,165	130,685
Unbilled revenue	4,373,000	4,379,000
Materials and supplies	2,373,829	2,475,990
Prepaid expenses	715,842	1,702,328
Total Current Assets	53,358,516	44,369,767
 Property, Plant and Equipment	 260,537,485	 247,840,709
Less accumulated depreciation	(128,516,390)	(121,847,168)
Total Property, Plant and Equipment	132,021,095	125,993,541
 Total Assets	 185,379,611	 170,363,308
 Deferred Outflows of Resources		
Deferred amount from refunding of bonds	626,839	1,970,203
 Total Assets and Deferred Outflows of Resources	 \$ 186,006,450	 172,333,511

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

Liabilities and Net Position

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts payable	\$ 3,610,565	3,621,721
Accrued expenses and other liabilities	1,656,769	1,635,719
Bonds payable - current portion	5,675,000	3,055,000
Accrued interest payable	879,150	897,461
Total Current Liabilities	<u>11,821,484</u>	<u>9,209,901</u>
Non-current Liabilities		
Bonds payable, net of current portion	<u>60,115,000</u>	<u>65,790,000</u>
Total Non-current Liabilities	<u>60,115,000</u>	<u>65,790,000</u>
Total Liabilities	<u>71,936,484</u>	<u>74,999,901</u>
Net Position		
Net investment in capital assets	91,232,934	85,303,744
Restricted for debt service	5,194,502	3,787,763
Restricted for working capital	10,075,388	10,035,857
Restricted for capital improvements	418,125	1,921,298
Unrestricted net position	7,149,017	(3,715,052)
Total Net Position	<u>114,069,966</u>	<u>97,333,610</u>
Total Liabilities and Net Position	<u>\$ 186,006,450</u>	<u>172,333,511</u>

City of North Little Rock Electric Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2014 and 2013
(See independent auditor's report)

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	2014	2013
Operating Revenues		
Sale of electricity, net of uncollectible accounts	\$ 93,824,469	\$ 93,373,975
Operating Expenses		
Purchased electricity	47,542,694	53,138,237
Depreciation	6,930,073	6,338,189
Distribution system maintenance	2,841,784	2,461,248
Other distribution expenses	2,679,433	3,041,916
Customer records and collection expense	2,634,015	2,620,253
General and administrative	1,558,355	2,635,218
Franchise tax	1,153,576	956,093
Operating expenses	998,554	1,071,500
Generation plant maintenance	880,854	1,637,728
General plant maintenance	441,038	323,206
Other generation plant expenses	414,334	475,992
Conservation	413,873	410,974
Property and liability insurance	363,451	395,272
Regulatory fees	305,613	242,193
Total Operating Expenses	69,157,647	75,748,019
Operating Income	24,666,822	17,625,956
Non-Operating Revenues (Expenses)		
Interest and investment income	77,729	89,108
Interest expense	(3,591,842)	(3,628,433)
Trustee fees	(10,320)	(10,280)
Penalty income	955,951	938,412
Miscellaneous income	823,613	1,173,692
Grant income	-	239,094
Federal contract revenue	6,291,950	-
Loss on disposal of equipment	(477,547)	(1,242,000)
Total Non-Operating Revenues (Expenses)	4,069,534	(2,440,407)
Income before transfers out	28,736,356	15,185,549
Transfers out	12,000,000	12,000,000
Increase (Decrease) in Net Position	16,736,356	3,185,549
Net position - beginning of period	97,333,610	94,148,061
Net Position - End of Period	\$ 114,069,966	97,333,610

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

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City of North Little Rock Electric Department
Statement of Cash Flows
For the Years Ended December 31, 2014 and 2013
(See independent auditor's report.)

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Cash received from:		
Customers	\$ 94,178,214	\$ 93,334,587
Cash payments for:		
Cash paid to vendors for goods and services	(6,186,085)	(9,544,493)
Cash paid for purchase of electricity	(47,542,694)	(53,138,237)
Cash paid for taxes	(1,103,431)	(905,948)
Cash paid to employees	(5,858,189)	(5,942,755)
Net Cash Provided by Operating Activities	<u>33,487,815</u>	<u>23,803,154</u>
 Cash Flows From Noncapital and Financing Activities:		
Transfers to other departments	(12,000,000)	(12,000,000)
Penalty income	955,951	938,412
Net Cash Required by Operating Activities	<u>(11,044,049)</u>	<u>(11,061,588)</u>
 Cash Flows From Capital and Related Financing Activities:		
Repayment of long-term debt and bonds payable	(3,055,000)	(2,935,000)
Purchase of property, plant and equipment	(13,873,808)	(12,265,680)
Interest paid	(2,266,789)	(2,434,721)
Grant disbursements	-	239,094
Federal contract receipts	6,291,950	-
Other receipts	813,293	1,163,412
Net Cash Required by Capital and Related Financing Activities	<u>(12,090,354)</u>	<u>(16,232,895)</u>
 Cash Flows From Investing Activities:		
Interest on investments	77,729	89,108
Net Cash Provided by Investing Activities	<u>77,729</u>	<u>89,108</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	10,431,141	(3,402,221)
Cash and cash equivalents at beginning of year	<u>31,704,372</u>	<u>35,106,593</u>
Cash and Cash Equivalents at End of Year	<u>\$ 42,135,513</u>	<u>31,704,372</u>

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



	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 24,666,822	\$ 17,625,956
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation expense	7,368,707	6,716,814
(Increase) decrease in assets:		
Accounts receivable	270,225	269,731
Other receivables	77,520	(54,119)
Unbilled revenues	6,000	(255,000)
Prepaid expenses	986,486	727,521
Materials and supplies	102,161	1,067,082
Increase (decrease) in liabilities:		
Accounts payable	(11,156)	(2,272,509)
Accrued expenses	21,050	(22,322)
Net Cash Provided by Operating Activities	<u>\$ 33,487,815</u>	<u>23,803,154</u>
Supplemental Disclosure of Noncash Transactions Investing and Financing Activities:		
Amortization deferred on bond refunding, included in interest expense	<u>\$ 1,343,364</u>	<u>\$ 1,343,364</u>

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013

1. Summary of Significant Accounting Policies

Principles of Operation

The City of North Little Rock Electric Department (the "Department") generates and provides electrical power to residents and businesses of the City of North Little Rock, Arkansas, and other communities in Pulaski County, Arkansas. The Department extends credit to customers on an unsecured basis. The financial statements present only the Department, an enterprise fund, and are not intended to present the financial position of the City of North Little Rock, Arkansas. The Department has adopted Government Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates. Actual results may differ from estimates.

Operating Revenues and Expenses

The Department recognizes revenue and expenses using the accrual method of accounting. The Department distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Department. Operating expenses for the proprietary funds include the cost of personnel, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers certificates of deposits and all highly liquid cash investments with original maturities of less than three months to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. The Department utilizes the allowance method of accounting for uncollectible accounts receivable. The Department reviews their customer accounts on a monthly basis and records a reserve for specific amounts that management determines may not be collected, which generally will include accounts that are more than 90 days past due. In addition, the Department has established a general reserve for potential uncollectible accounts based on historical bad debts. Amounts are written off at the point when collection attempts have been exhausted, which is usually nine months after the account is past due. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Department's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Department. Accounts receivable are net of an allowance for doubtful accounts of \$487,867 and \$512,595 at both December 31, 2014 and 2013.

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013

1. Summary of Significant Accounting Policies (continued)

Debt Issuance Expenses

Debt issuance expenses are recorded as expense in the year that they are incurred.

Inventory

Inventory consists of materials and supplies valued at the lower of cost or market, using the average cost method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost unless otherwise noted. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from five to fifty years. The cost of additions to property, plant and equipment include contractual work, direct labor, materials and allocable overhead. Costs of repairs and maintenance that do not improve or extend the assets lives are charged to expense as incurred.

Restricted Assets

The Department's bond agreements restrict certain assets for the payment of debt service, capital improvements, and repairs and maintenance.

Compensated Absences

The Department policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off, or in limited circumstances, as a cash payment. The Department has accrued a liability for vacation and sick leave pay, which has been earned but not taken by employees.

Transfers to General Fund

The Department transfers funds to the General Fund of the City of North Little Rock, Arkansas based on amounts directed and authorized by the City Council in the annual budget. These transfers are accounted for as operating transfers. The amounts of these transfers were \$12,000,000 for each of the years ended December 31, 2014 and 2013.

2. Description of Funds

The Department complies with all state and local laws and regulations as well as the provisions of certain contracts requiring the use of separate funds. The required funds used by the Department include the following:

Operation and Maintenance Fund

The Operating and Maintenance Fund is used to pay the reasonable and necessary monthly expenses of operation, and repair and maintenance of the electric system. The fund is maintained by required monthly transfers from the Revenue Fund.

**City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013**

2. Description of Funds (continued)

Revenue Bond Fund

On the next to last business day of each month, there shall be paid to this fund a sum equal to one-sixth of the next installment of interest, one-twelfth of the next installment of principal, and the estimated fees for the trustee for the current month until such time as there is accumulated in the fund an amount equal to the maximum annual debt service on all bonds outstanding.

Surplus Fund

Any surplus in the Revenue Fund after making all disbursements and making all required deposits described above including the correction of any deficiencies may be used for any lawful municipal purpose including early redemption of outstanding bonds or for the construction of extensions, betterments, and improvements to the electric system.

3. Deposits, Investments and Investment Income

Investment return includes dividend, interest, and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments. Investment return is included in unrestricted net assets.

Interest rate risk – The Department has no formal policy to limit its exposure to fair value losses due to rising interest rates.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Provisions of debt agreements require the investments by the Department be rated no less than Aa by Moody's Investors Service and AA by Standard and Poor's Investor Service. There were no such investments at December 31, 2014 or 2013.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. There were no such investments at December 31, 2014 or 2013.

Concentration of credit risk – The Department places no limit on the amount that may be invested in any one issuer. The Department had amounts deposited in common trust and money market funds totaling \$5,612,626 and \$6,429,122 which are included in cash and restricted cash at December 31, 2014 and 2013, respectively.

Total investment return for the years ended December 31, 2014 and 2013 is comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and investment income	\$ 77,729	89,108
Net unrealized gains (losses) reported at fair value	-	-
	<u>\$ 77,729</u>	<u>89,108</u>

**City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013**

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2014:

	2013	Additions	Transfers	Disposals	2014
Land	\$ 2,032,960	-	-	-	2,032,960
Plant and equipment	232,525,363	701,324	8,665,196	(1,177,032)	240,714,851
Construction in process	13,282,386	13,172,484	(8,665,196)	-	17,789,674
	247,840,709	13,873,808	-	(1,177,032)	260,537,485
Less accumulated depreciation	(121,847,168)	(7,368,707)	-	699,485	(128,516,390)
	<u>\$125,993,541</u>	<u>6,505,101</u>	<u>-</u>	<u>(477,547)</u>	<u>132,021,095</u>

Property, plant and equipment consisted of the following at December 31, 2013:

	2012	Additions	Transfers	Disposals	2013
Land	\$ 2,032,960	-	-	-	2,032,960
Plant and equipment	226,201,674	533,329	8,716,846	(2,926,486)	232,525,363
Construction in process	10,266,881	11,732,351	(8,716,846)	-	13,282,386
	238,501,515	12,265,680	-	(2,926,486)	247,840,709
Less accumulated depreciation	(116,814,840)	(6,716,814)	-	1,684,486	(121,847,168)
	<u>\$121,686,675</u>	<u>5,548,866</u>	<u>-</u>	<u>(1,242,000)</u>	<u>125,993,541</u>

The Department allocates a portion of total depreciation expense across to various operating expense accounts. The amount of depreciation expense that was allocated as of December 31, 2014 and 2013 was \$438,634 and \$378,625, respectively.

5. Long-Term Debt

The City of North Little Rock Electric Department issued \$158,400,000 bonds on June 1, 1992 for capital improvements. The interest rate on the Series 1992 revenue bonds ranged from 6.1% to 6.5%. Annual sinking fund payments are made sufficient to redeem principal plus interest at rates ranging from 3.70% to 6.50% were required. These bonds were part of the advance bond refunding.

On May 1, 2011, the Department issued \$16,000,000 revenue bonds. The interest rate on the Series 2011 Revenue bonds is 5.1%. Annual sinking fund payments sufficient to redeem principal plus interest at rates ranging from 2.3% to 5.1% are required; redeemable at the City of North Little Rock, Arkansas' option, as a whole or in part, at 100% of the principal amount plus accrued interest at any date on 45 days' notice.

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013

5. Long-Term Debt (continued)

On June 1, 2012, the Department issued bonds totaling \$55,780,000. The interest rates on the Series 2012A, 2012B and 2012C Revenue bonds range between 3.0% and 5.0%. Annual sinking fund payments sufficient to redeem principal plus interest at rates ranging from 2.6% to 5.0% are required; redeemable at the City of North Little Rock, Arkansas' option, as a whole or in part, at 100% of the principal amount plus accrued interest at any date on 30 days' notice. The 2012A and 2012B bonds were issued for the refunding of the 1992, 1997 and 2009 Series bonds and to provide \$7,000,000 for capital improvements. The 2012C bonds were issued to finance working capital of \$10,185,000 for the Department.

As a result of this refunding, \$3,313,567 of deferred bond issuance costs was recognized and will be amortized over the remaining life of the old bonds. As of December 31, 2014 and 2013, \$626,839 and \$1,970,203, respectively, remained deferred bond costs and is reported as a deferred outflow of resources.

The following is a summary of the bonds payable activity for the years ended December 31, 2014 and 2013, respectively:

	<u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014</u>
Bonds payable	\$ 68,845,000	-	(3,055,000)	65,790,000
	<u>2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013</u>
Bonds payable	\$ 71,780,000	-	(2,935,000)	68,845,000

Aggregate payments of the bonds outstanding are as follows for the years ending December 31:

	<u>Series 2011</u>	<u>Series 2012</u>	<u>Total</u>
Principal:			
2015	685,000	4,990,000	5,675,000
2016	705,000	5,095,000	5,800,000
2017	725,000	5,205,000	5,930,000
2018	745,000	5,340,000	6,085,000
2019	775,000	5,485,000	6,260,000
2020-2024	4,355,000	23,675,000	28,030,000
2025-2029	5,435,000	-	5,435,000
2030-2034	2,575,000	-	2,575,000
	<u>\$ 16,000,000</u>	<u>49,790,000</u>	<u>65,790,000</u>

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013

5. Long-Term Debt (continued)

Interest:

2015	668,024	1,532,999	2,201,023
2016	650,893	1,432,951	2,083,844
2017	690,765	1,317,749	2,008,514
2018	607,598	1,185,908	1,793,506
2018	581,356	1,038,915	1,620,271
2019-2023	2,416,161	2,317,687	4,733,848
2024-2028	1,335,002	260,274	1,595,276
2029-2033	132,355	-	132,355
	<u>\$ 7,082,154</u>	<u>9,086,483</u>	<u>16,168,637</u>

The City of North Little Rock, Arkansas will maintain rates sufficient to produce net revenues equal to at least 125% of the annual debt service. Net revenues are defined as all revenues derived from operations of the electric system, including profits from all funds maintained under bond indenture except the project fund, less extraordinary income items and after reduction for normal operating expenses (exclusive of depreciation and noncash items and interest expense). For the years ended December 31, 2014 and 2013, the Department was in compliance with this covenant.

All revenues derived from the operation of the Department shall be deposited in the Revenue Bond Fund. Revenues deposited shall be expended into the following funds in the following order of priorities: Operation and Maintenance Fund, Revenue Bond Fund and Surplus Fund.

6. Non-uniformed Employees Retirement Plan

All full-time employees of the Department are participants of "The Retirement System of the City of North Little Rock" (Non-uniformed Plan) defined benefit plan. The provisions of the plan call for employee contributions of 4% of gross earnings to be paid through payroll withholdings. Each month, the Department contributes 6% of each employee's monthly compensation. Employer contributions reflected in the financial statements for the years ended December 31, 2014 and 2013 was \$309,917 and \$310,035, respectively, and was included in operating expenses. Employee contributions to the plan were \$206,611 and \$206,691 for the years ended December 31, 2014 and 2013, respectively.

For more information regarding funding status and composition of the pension benefit obligation, see the 2014 City of North Little Rock, Arkansas, Comprehensive Annual Financial Report.

7. Related Party Transactions

The Utilities Accounting Department of the City of North Little Rock, Arkansas, under the direction of the Department of Finance of the City, performs customer billing, collection services and accounts receivable recordkeeping for the Department. The Utilities Accounting Department charges the Department for this service based on the number of bills rendered. Charges for services totaled approximately \$2,300,000 each year for the years ended December 31, 2014 and 2013.

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013

7. Related Party Transactions (continued)

Service deposits for Department customers are collected and maintained by the Utilities Accounting Department. Interest earnings on deposit funds invested are recorded by the Department and reflected in these financial statements.

Charges by the Department to the North Little Rock Street Department for the electricity usage amounted to approximately \$120,000 for the years ended December 31, 2014 and 2013. Amounts billed by the Department for service to the Street Department are determined by the City Council.

8. Litigation

In the normal course of business, the Department is, from time to time, subject to allegations that may or do result in litigation. The Department evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any. Based on management's evaluation, no amounts were accrued for expected losses as of December 31, 2014 and 2013. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

9. Other Post-Employment Benefit Plan

Department employees participate in another post-employment benefit plan (the "OPEB Plan") sponsored by the City of North Little Rock, Arkansas. GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("GASB 45"). GASB 45 requires that employers providing post-employment benefits other than pensions record and disclose annual other post-employment benefit ("OPEB") cost and a net OPEB obligation in their financial statements and disclose other information about their OPEB plans, including the unfunded actuarial liability ("UAAL").

The OPEB Plan allows employees to continue health insurance coverage beyond retirement. Although retirees are required to pay 100% of the group premium for continued coverage, the higher cost of covering retirees results in a subsidy to those retirees, which is reflected in the recorded OPEB cost.

Based on an actuarial valuation performed as of January 1, 2015, the Department recorded OPEB cost of \$38,343 for 2014; \$7,378 for 2013; and \$34,568 for 2012. The net OPEB obligation was \$230,914, \$192,571 and \$185,193 as of December 31, 2014, December 31, 2013, and 2012, respectively. The Department's share of the UAAL, which is not recorded in the financial statements, was \$253,999 as of the actuarial date of January 1, 2015; \$417,499 as of the actuarial date January 1, 2013; and \$400,000 as of the actuarial date of January 1, 2012. The UAAL will be included in annual OPEB cost over an amortization period of 30 years. The OPEB obligation and UAAL were computed using a discount rate of 5.5% and healthcare cost inflation rate of 5%. Additional OPEB Plan disclosures, including required supplementary information, required by GASB 45 may be found in the 2014 Comprehensive Annual Financial Report for the City of North Little Rock, Arkansas.

**City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013**

9. Other Post-Employment Benefit Plan (continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

10. Commitments

In 2007, the City of North Little Rock, Arkansas entered into a power purchase agreement with the Missouri Joint Municipal Electric Utility Commission ("MJMEUC"). Under the agreement, the Department is committed to acquire approximately 60 megawatts of generating capacity from the Plum Point Energy Stations, which was constructed near Osceola, Arkansas and began power generation in 2010. The agreement runs through December 31, 2050, but may end prior to that date if the plant is retired, if certain termination provisions apply or if otherwise agreed to by the parties. Under the agreement, the Department will pay its proportionate share of the fixed and variable costs of operating the plant and its share of MJMEUC's administrative and other costs associated with the contract.

In 2010, the Department entered into a fixed rate wholesale purchase power contract with NRG Power Marketing, LLC for \$53.96 per megawatt hour for the period April 1, 2010 through December 31, 2013. Effective October 17, 2013, the Department entered into a new fixed rate wholesale purchase power contract with NRG Power Marketing, LLC for the period of January 1, 2014 to December 31, 2016 for \$41.86 per megawatt hour.

The City of North Little Rock, Arkansas has an agreement with Entergy whereby Entergy has interconnected its transmission facilities with the City's facilities to transmit the hydroelectric power and energy generated at Murray Hydroelectric Plant ("Plant") to the electric system. The agreement was effective when the Plant became operational in November 1988. The term of the agreement continues as long as the City is authorized to operate the Plant, unless terminated earlier by either party on not less than 60 months advance written notice. Rates are determined based upon agreed-upon formulas, with billings to be made on a monthly basis.

During 2012, the City of North Little Rock established an adjustable Energy Cost Recovery Rider ("ECR") as a component of its electric rate structure. The ECR is designed to generate increases or decreases in billings to customers depending on increases or decreases in the cost purchasing and providing power to its customers.

During 2013, the City entered into an energy-only contract in order to capitalize on the cost-effective delivery of power from the Midcontinent Independent System Operator ("MISO") market. Under the contract, the City will begin managing the output of its generation resources in the market by selling excess energy into the market at the current market price. When those resources produce insufficient energy, the City will purchase replacement energy from the market at the current market price.

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2014 and 2013

11. Debt Refunding

On June 1, 2012, the City of North Little Rock Electric Department issued \$55,780,000 in revenue refunding bonds with interest rates ranging between 3.0% and 5.0%. The Department issued the bonds to refund \$38,595,000 of the outstanding Series 1992, 1997, and 2009 bonds and to provide \$10,185,000 in working capital and \$7,000,000 for capital improvements.

The Department issued the 2012A bonds to advance refund \$39,500,000 of the outstanding Series 1992 Bonds with a 6.5% interest rate. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the Series 1992 bonds. As a result, that portion of the Series 1992 bonds is considered defeased, and the Department has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$11,611,990 at December 31, 2014.

The advance refunding reduced debt service payments over the next 12 years by \$555,504. The result was an economic gain (difference between the present values of debt service payments on the old and new debt) of \$771,641 in the year ended December 31, 2012.

12. Federal Contract Revenue

In 2014, the Department provided services to the Department of the Army to upgrade an electric substation for \$9,712,928. The Department earned and recorded as revenue \$6,291,950 for the year ending December 31, 2014. There were no revenues earned for the year ending December 31, 2013.

13. New Accounting Standard

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, is effective for fiscal years beginning after June 15, 2014 and requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The effect of this new standard has not yet been determined as of December 31, 2014.

14. Reissued Financial Statements

The financial statements were reissued as of July 28, 2015 in order to clearly identify the federal contract revenue received for services provided to the Department of the Army in Note 12. This federal contract revenue was previously identified in the financial statements as grant income.

City of North Little Rock Electric Department
Budgetary Comparison Schedule
For the Year Ended December 31, 2014
(See independent auditor's report)

	Original and Final Budget	Actual	Actual Over (Under) Budget
Operating Revenues			
Sale of electricity, net of uncollectible accounts	\$ 91,500,000	93,824,469	2,324,469
Operating Expenses			
Purchased electricity	48,496,000	47,542,694	(953,306)
Depreciation	6,837,300	6,930,073	92,773
Distribution system maintenance	2,791,000	2,841,784	50,784
Other distribution expenses	2,550,000	2,679,433	129,433
Customer records and collection expense	2,300,000	2,634,015	334,015
General and administrative	1,507,300	1,558,355	51,055
Franchise tax	1,070,000	1,153,576	83,576
Operating expenses	668,100	998,554	330,454
Generation plant maintenance	515,000	880,854	365,854
General plant maintenance	424,500	441,038	16,538
Other generation plant expenses	166,000	414,334	248,334
Conservation	452,000	413,873	(38,127)
Property and liability insurance	420,000	363,451	(56,549)
Regulatory fees	245,000	305,613	60,613
Total Operating Expenses	68,442,200	69,157,647	715,447
Operating Income	23,057,800	24,666,822	1,609,022
Non-Operating Revenues (Expenses)			
Interest and investment income	60,000	77,729	17,729
Interest expense	(3,591,842)	(3,591,842)	-
Other income	10,950,000	7,583,647	(3,366,353)
Total Non-Operating Revenues (Expenses)	7,418,158	4,069,534	(3,348,624)
Income before transfers out	30,475,958	28,736,356	(1,739,602)
Transfers out	12,000,000	12,000,000	-
Increase (Decrease) in Net Position	18,475,958	16,736,356	(1,739,602)
Net position - beginning of period	97,333,610	97,333,610	-
Net Position - End of Period	\$ 115,809,568	114,069,966	(1,739,602)