CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015 AND 2014

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CRAFT, VEACH & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS
Members of the American Institute of Certified Public Accountants

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 statements of net position as of December 31, 2015 and 2014, 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 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

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, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

P.O. Box 13986 • Maumelle, AR 72113 | 8410 Counts Massie Road • North Little Rock, AR 72113 | (501) 753-0808 | Fax (501) 753-6706

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of the City as of December 31, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, during the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-5), budgetary comparison information (page 20), and historical pension information (pages 21-22) 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Craft, Veach & Company

Craft, Veach & Company, PLC
North Little Rock, Arkansas
June 30, 2016

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, 2015 and 2014. 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.

Statement of Net Position

As of December 31, 2015, total assets were $193,709,888 and exceeded total liabilities of $76,748,469 by $116,961,419. Of the total net position, $101,448,855 was invested in capital assets, $5,207,013 was restricted for debt service, $10,149,208 was restricted for working capital, and $2,504,579 was unrestricted. Please note that the restricted working capital of $10,149,208 can be made unrestricted at any time and used for day to day operations.

	2015	2014
Current Assets	$ 56,521,033	$ 53,358,516
Total Property, Plant & Equipment	137,188,855	132,021,095
Deferred Outflows of Resources	2,692,507	626,839
Current Liabilities	13,273,328	11,821,484
Non-current Liabilities	63,475,141	60,115,000
Net position		
Net investment in capital assets	101,448,855	91,232,934
Restricted for debt service	5,207,013	5,194,502
Restricted for working capital	10,149,208	10,075,388
Restricted for capital improvements	- 0 -	418,125
Unrestricted net position	2,504,579	7,149,017

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 4.26 for 2015, compared 4.51 for 2014. 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, 2015 and 2014 were 40% and 39% respectively.

The following were net capital improvements, additions or replacements for 2015 (the figures are approximate):

Murray Hydro Electric Generation Plant – Overhaul of Unit #2 Turbine	$ 4,757,000
Distribution System – Galloway Substation	7,665,000
Distribution System – poles, wire, transformers, conductors, etc.)	2,684,000
AMI (advanced meter infrastructure – Smart Meters)	738,000
Office furniture & fixtures, computers, communication and misc. equipment	1,086,000
Transportation, tools and power equipment	720,000
CWIP –Net of transfers to Property, Plant & Equipment	-5,005,000
Total Capital Improvements	$ 12,645,000

Statement of Revenues, Expenses, and Changes in Net Position

For the year-ending December 31, 2015, operating revenues were $89,147,960 and operating expenses were $66,580,268. Non-operating revenues and (expenses) totaled $1,483,902 which consisted of non-operating revenues of $1,644,668, Federal Contract revenue of $2,880,478 and non-operating expenses of $3,041,244. Transfers to the City were $12,000,000. The result was an increase in net position in the amount of $12,051,594.

	2015	2014
Operating Revenues	$ 89,147,960	$ 93,824,469
Operating Expenses	66,580,268	69,157,647
Non-operating & Fed Cont. Revenues	4,525,146	8,149,243
Non-operating Expenses	3,041,244	4,079,709
Transfers to the City	12,000,000	12,000,000
Increase (Decrease) in Net Position	12,051,594	16,736,356

The NLRED operating revenues for 2015 decreased $4,676,509 from 2014. The main reason for the decrease was the reduction in customer billings due to a negative Energy Cost Recovery adjustment factor (ECR) in 2015 vs. a positive ECR in 2014 which is the result of lower cost of power in 2015. The majority of NLRED operating revenue is derived from residential and commercial customers. In 2015, the NLRED had an average of 33,462 residential customers, 4,898 commercial customers, and 146 large users.

Operating expenses, not including depreciation expense, decreased 5% in 2015. Depreciation expense increased 12% in 2015.

Non-operating revenues decreased 45% in 2015 mainly due to a $3,411,472 reduction of Federal Contract Revenue by the U.S. Corp of Engineers for the Bayou Meto Pump Station project. The total Award was $9,712,928. While the Pump Station is operational in 2015, there is some wrap up work remaining.

Non-operating expenses decreased 25% in 2015 due to $800,000 reduction in Bond interest expense and $239,000 reduction in Loss on disposal of equipment (replacement of non-fully depreciated old meters by new Smart Meters).

Pension Plan Disclosure (New for 2015)

As per the Government Accounting Standards Board Statements No. 67 and No. 68, Accounting and Financial Reporting for Pensions, revises existing guidance for the financial reports of most pension plans for state and local governments that provide their employees with pension benefits. Please see Note 6 in the accompanying audit notes to the financial statements.

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 less than budgeted by approximately $4,300,000. Operating expenses, not including depreciation, were approximately $1,600,000 less than the amount budgeted. The change in Net Position was approximately $1,500,000 less than the amount budgeted. Note that these figures do not take in account the new Pension reporting requirement of the Cumulative effect of change in accounting principle-GASB 68.

See "Budgetary Comparison Schedule" on page 20 of the Audit.

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	$ 25,968,081	$ 26,447,498
Hydro maintenance fund	4,000,000	-
Restricted cash	15,356,224	15,688,015
Accounts receivable, net of allowance of $475,088 and $487,867, for 2015 and 2014, respectively	3,385,111	3,707,167
Other receivables	163,914	53,165
Unbilled revenue	4,125,000	4,373,000
Materials and supplies	2,195,111	2,373,829
Prepaid expenses	1,327,592	715,842
Total Current Assets	56,521,033	53,358,516
Property, Plant, and Equipment:		
Property, plant, and equipment	273,183,053	260,537,485
Less accumulated depreciation	(135,994,198)	(128,516,390)
Total Property, Plant, and Equipment	137,188,855	132,021,095
TOTAL ASSETS	193,709,888	185,379,611
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from refunding of bonds	-	626,839
Deferred amounts related to pensions	2,692,507	-
Total Deferred Outflows of Resources	2,692,507	626,839
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	196,402,395	186,006,450
LIABILITIES		
Current liabilities:		
Accounts payable	4,639,561	3,610,565
Accrued expenses and other liabilities	2,007,267	1,656,769
Bonds payable - current portion	5,800,000	5,675,000
Accrued interest payable	826,500	879,150
Total Current Liabilities	13,273,328	11,821,484
Noncurrent liabilities:		
Accrued pension liability	9,160,141	-
Bonds payable, net of current portion	54,315,000	60,115,000
Total Noncurrent Liabilities	63,475,141	60,115,000
TOTAL LIABILITIES	76,748,469	71,936,484
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS	344,271	-
NET POSITION		
Net investment in capital assets	101,448,855	91,232,934
Restricted for debt service	5,207,013	5,194,502
Restricted for working capital	10,149,208	10,075,388
Restricted for capital improvements	-	418,125
Unrestricted net position	2,504,579	7,149,017
TOTAL NET POSITION	119,309,655	114,069,966
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND TOTAL NET POSITION	$ 196,402,395	$ 186,006,450

See accompanying notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating revenues:		
Sale of electricity, net of uncollectible accounts	$ 89,147,960	$ 93,824,469
Operating expenses:		
Purchased electricity	43,695,782	47,542,694
Depreciation	7,731,661	6,930,073
Distribution system maintenance	3,011,877	2,841,784
Other distribution expenses	3,069,782	2,679,433
Customer records and collection expense	2,556,576	2,634,015
General and administrative	1,379,298	1,558,355
Franchise tax	1,067,942	1,153,576
Operating expenses	1,006,111	998,554
Generation plant maintenance	1,103,430	880,854
General plant maintenance	576,428	441,038
Other generation plant expenses	412,476	414,334
Conservation	412,391	413,873
Property and liability insurance	347,141	363,451
Regulatory fees	209,373	305,613
Total operating expenses	66,580,268	69,157,647
Operating income	22,567,692	24,666,822
Nonoperating revenues (expenses):		
Interest and investment income	206,194	77,729
Interest expense	(2,792,285)	(3,591,842)
Trustee fees	(10,320)	(10,320)
Penalty income	943,156	955,951
Miscellaneous income	495,318	823,613
Federal contract revenue	2,880,478	6,291,950
Loss on disposal of equipment	(238,639)	(477,547)
Total nonoperating revenues (expenses)	1,483,902	4,069,534
Income before transfers out	24,051,594	28,736,356
Transfers out	12,000,000	12,000,000
Increase (decrease) in net position	12,051,594	16,736,356
Cumulative effect of change in accounting principle-GASB 68	(6,811,905)	-
Net position, beginning of year	114,069,966	97,333,610
Net position, end of year	$ 119,309,655	$ 114,069,966

See accompanying notes to the financial statements.

	2015	2014
Cash flows from operating activities:		
Receipts from customers	$ 89,730,795	$ 94,178,214
Payments to vendors	(7,216,112)	(6,186,085)
Payments for purchase of electricity	(43,695,782)	(47,542,694)
Payments for taxes	(1,144,579)	(1,103,431)
Payments to employees	(5,475,050)	(5,858,189)
Net cash flows provided (used) by operating activities	32,199,272	33,487,815
Cash flows from noncapital financing activities:		
Transfers to other departments	(12,000,000)	(12,000,000)
Penalty income	943,156	955,951
Net cash flows provided (used) by noncapital financing activities	(11,056,844)	(11,044,049)
Cash flows from capital and related financing activities:		
Repayment of long-term debt and bonds payable	(5,675,000)	(3,055,000)
Purchase of property, plant and equipment	(13,632,209)	(13,873,808)
Interest paid	(2,228,416)	(2,266,789)
Federal contract receipts	2,880,478	6,291,950
Other receipts	495,317	813,293
Net cash flows provided (used) by capital and related financing activities	(18,159,830)	(12,090,354)
Cash flows from investing activities:		
Interest on investments	206,194	77,729
Net cash flows provided (used) by investing activities	206,194	77,729
Net increase (decrease) in cash and cash equivalents	3,188,792	10,431,141
Cash and cash equivalents - beginning of the year	42,135,513	31,704,372
Cash and cash equivalents - end of the year	$ 45,324,305	$ 42,135,513
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 22,567,692	$ 24,666,822
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	8,225,810	7,368,707
(Increase) decrease in assets:		
Accounts receivable	322,056	270,225
Other receivables	(110,748)	77,520
Unbilled revenues	248,000	6,000
Prepaid expenses	(611,750)	986,486
Inventory	178,718	102,161
Increase (decrease) in liabilities:		
Accounts payable	1,028,996	(11,156)
Accrued expenses	350,498	21,050
Net cash provided by operating activities	$ 32,199,272	$ 33,487,815
Supplemental disclosure of noncash transactions investing and financing activities:		
Amortization deferred on bond refunding, included in interest expense	$ 626,839	$ 1,343,364

See accompanying notes to the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Operations and Reporting Entity

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 (the "City"), 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.

Basis of Accounting

The financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. As a component unit of the City of North Little Rock, the Department has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net position into three components – restricted; net investment in capital assets; and unrestricted.

> Restricted – consists of constraints placed on net position imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
>
> Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
>
> Unrestricted – consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

The Department's policy is to first apply restricted resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Department recognizes revenue and expenses using the accrual method of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. 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 expense 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.

NOTE 1: 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 the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

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.

Hydro Maintenance Fund

On November 23, 2015, the City Council approved Resolution No. 8886, which establishes a fund dedicated to manage expenses associated with maintenance of the Murray Hydroelectric Plant without incurring debt and anticipates that the overhaul of Unit 1 will occur within the next two fiscal cycles.

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 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 $475,088 and $487,867 at both December 31, 2015 and 2014, respectively.

Debt Issuance Expenses

Debt issuance expenses are recorded as expenses 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of $12,000,000 for each of the years ended December 31, 2015 and 2014.

New Accounting Pronouncements

The Department implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB 68*. The provisions of these statements were effective for financial statements for fiscal years beginning after June 15, 2014. The implementation of GASB Statements No. 68 and 71 resulted in a cumulative effect of change in accounting principle which reduced the net position of the Department by $6,811,905. Additionally, implementation of the new GASB statements also resulted in the recording of related deferred outflows and inflows of resources, and an unfunded pension liability which is further discussed in Note 6.

Date of Management's Review

Management has evaluated subsequent events through June 30, 2016, that date on which the financial statements were available to be issued.

NOTE 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.

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.

NOTE 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 position.

NOTE 3: DEPOSITS, INVESTMENTS, AND INVESTMENT INCOME (Continued)

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, 2015 and 2014.

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, 2015 and 2014.

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 $5,207,013 and $5,612,626 which are included in cash, hydro maintenance fund and restricted cash at December 31, 2015 and 2014 respectively.

Total investment return for the years ended December 31, 2015 and 2014 is comprised of the following:

	2015	2014
Interest and investment income	$ 206,194	$ 77,729
Net unrealized gains (losses) reported at fair value	-	-
	$ 206,194	$ 77,729

NOTE 4: PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at December 31, 2015:

	2014	Additions	Transfers	Disposals	2015
Land	$ 2,032,960	$ -	$ -	$ -	$ 2,032,960
Plant and equipment	240,714,851	953,164	17,683,882	(986,641)	258,365,256
Construction in process	17,789,674	12,679,045	(17,683,882)	-	12,784,837
	260,537,485	13,632,209	-	(986,641)	273,183,053
Less: accumulated depreciation	(128,516,390)	(8,225,810)	-	748,002	(135,994,198)
	$132,021,095	$5,406,399	$ -	$(238,639)	$137,188,855

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)
	$ 125,993,541	$ 6,505,101	$ -	$ (477,547)	$132,021,095

NOTE 4: PROPERTY, PLANT, AND EQUIPMENT (Continued)

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, 2015 and 2014 was $494,149 and $438,634, respectively.

NOTE 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 were made sufficient to redeem principal plus interest at rates ranging from 3.70% to 6.50%. 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 2001 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.

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 amortized over the remaining life of the old bonds. As of December 31, 2015 and 2014, $0 and $626,839, respectively, remained in 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, 2015 and 2014, respectively:

	2014	Additions	Retirements	2015
Bonds Payable	$ 65,790,000	$ -	$ (5,675,000)	$ 60,115,000

	2013	Additions	Retirements	2014
Bonds Payable	$ 68,845,000	$ -	$ (3,055,000)	$ 65,790,000

NOTE 5: LONG-TERM DEBT (Continued)

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

	Series 2011	Series 2012	Total
Principal:			
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	800,000	5,640,000	6,440,000
2021-2025	4,540,000	18,035,000	22,575,000
2026-2030	5,705,000	-	5,705,000
Thereafter	1,320,000	-	1,320,000
	$ 15,315,000	$ 44,800,000	$ 60,115,000

	Series 2011	Series 2012	Total
Interest:			
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
2019	581,356	1,038,915	1,620,271
2020	552,005	881,359	1,433,364
2021-2025	2,230,591	1,696,603	3,927,194
2026-2030	1,066,959	-	1,066,959
Thereafter	33,660	-	33,660
	$ 6,413,827	$ 7,553,485	$ 13,967,312

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, 2015 and 2014, 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.

NOTE 6: NON-UNIFORMED EMPLOYEES RETIREMENT PLAN

Plan Description

All full-time employees of the Department are participants of “The Retirement System of the City of North Little Rock” (the “Non-uniformed Plan”) defined benefit plan. The provisions of the Non-uniformed 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.

NOTE 6: NON-UNIFORMED EMPLOYEES RETIREMENT PLAN (Continued)

The Non-uniformed Plan is a single-employer, defined benefit plan established under Arkansas state law. The Non-uniformed Plan assets are administered by an independent fiduciary agent, but governed by a Board of Trustees. The Non-uniformed Plan provides retirement, disability, and survivor benefits to all regular, full time, non-uniformed employees of the Department. The amount of benefits to be paid to any participant depends solely on amounts contributed to the plan plus investment earnings.

Benefits Provided

The Non-uniformed Plan provides retirement, disability and death benefits to plan members. Retirement benefits are determined as a percentage of the member's Final Average Earnings.

Members are eligible to retire with a full benefit under the following conditions:

- At age 65
- At age 62 with 5 years of service

Members may retire with a reduced benefit at age 55 with at least 10 years of service.

Members are eligible for disability benefits at age 50 with 10 years of service.

Death benefits are paid to a surviving spouse based upon age and length of service.

Contributions

For the Non-uniformed Plan as a whole, it is the actuary's opinion that the city and member contributions of 10% as required by the Non-uniformed Plan are not expected to be sufficient to finance the cost of benefits earned by members during the year. The recommended contribution level for the 2016 Plan Year for the City as a whole is 17.31%. For 2015, the Department's contributions to the Plan were $305,374.

Pension Liabilities, Pension Expense, and Deferred Outflows / Inflows of Resources Related to Pensions

The Plan's collective net pension liability of $35,367,339 was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Each component unit's proportion of the net pension liability was based on the component unit's share of contributions to the pension plan relative to the total contributions of all participating component units.

At December 31, 2015, the Department's proportion was 25.9% and the Department recorded a liability of $9,160,141 for its proportionate share of the net pension liability.

For the year ended December 31, 2015, the Department recognized pension expense of $1,047,288. At December 31, 2015, the Department reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual Investment earnings on pension plan investments	$ -	$ (344,271)
Changes of actuarial assumptions	1,727,157	-
Net difference between projected and actual earnings on pension plan investments	965,349	-
	$ 2,692,506	$ (344,271)

NOTE 6: NON-UNIFORMED EMPLOYEES RETIREMENT PLAN (Continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2016	2017	2018	2019	2020	Thereafter
$ 414,198	$ 414,198	$ 414,198	$ 414,198	$ 172,861	$ -

Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Pay
Remaining Amortization Period	15 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Salary Increases	4.0% Annually
Mortality Table	Based on 1983 Group Annuity Mortality Table
Average Service Life of All Members	11.89 years

Cost of Living Adjustment (COLA)

The plan does not provide cost of living adjustments (COLA), and none are anticipated or included in these calculations.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return. The target allocation of the plan and the long-term expected real rates of return are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	40%	2.25%
Domestic Equity	40%	4.75%
Foreign Equity	12%	6.25%
Alternatives	4%	4.50%
Cash	4%	0.25%
Total	100%	
Expected Inflation		3.00%

NOTE 6: NON-UNIFORMED EMPLOYEES RETIREMENT PLAN (Continued)

Single Discount Rate

A single discount rate of 4.90% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.0%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was not available to make all projected future benefit payments of current plan members. Therefore, the calculated single discount rate calculated was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Position Liability to Changes in the Discount Rate:

The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 4.90%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.90%) or one percentage point higher (5.90%) than the current rate:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
The Department's proportionate share of the net pension liability	$ 11,460,098	$ 9,160,141	$ 6,930,816

NOTE 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, 2015 and 2014.

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, 2015 and 2014.

NOTE 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, 2015 and 2014. Events could occur that would cause the estimate of the ultimate loss to differ materially in the near term.

NOTE 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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* ("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 the 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, 2016, the Department recorded OPEB cost of $16,105 for 2015; $38,343 for 2014; and $7,378 for 2013. The net OPEB obligation was $247,019, $230,914, and $192,571 as of December 31, 2015, December 31, 2014, and December 31, 2013, 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 and $417,499 as of the actuarial date of January 1, 2013. 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 2015 Comprehensive Annual Financial Report for the City of North Little Rock, Arkansas.

The projection of future benefit payment 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.

NOTE 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 3, 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.

NOTE 10: COMMITMENTS (Continued)

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 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.

NOTE 11: FEDERAL CONTRACT REVENUE

In 2015 and 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 $2,880,478 and $6,291,950 for the years ending December 31, 2015 and 2014 respectively.

	Original and Final Budget	2015 Actual	Actual Over (Under) Budget
Operating revenues:			
Sale of electricity, net of uncollectible accounts	$ 93,409,000	$ 89,147,960	$ (4,261,040)
Operating expenses:			
Purchased electricity	46,615,000	43,695,782	(2,919,218)
Depreciation	7,502,358	7,731,661	229,303
Distribution system maintenance	2,550,000	3,011,877	461,877
Other distribution expenses	2,791,000	3,069,782	278,782
Customer records and collection expense	2,600,000	2,556,576	(43,424)
General and administrative	1,507,300	1,379,298	(128,002)
Franchise tax	1,200,000	1,067,942	(132,058)
Operating expenses	733,000	1,006,111	273,111
Generation plant maintenance	1,070,000	1,103,430	33,430
General plant maintenance	439,500	576,428	136,928
Other generation plant expenses	170,000	412,476	242,476
Conservation	392,000	412,391	20,391
Property and liability insurance	350,000	347,141	(2,859)
Regulatory fees	250,000	209,373	(40,627)
Total operating expenses	68,170,158	66,580,268	(1,589,890)
Operating income	25,238,842	22,567,692	(2,671,150)
Nonoperating revenues (expenses):			
Interest income	60,000	206,194	146,194
Interest expense	(2,802,605)	(2,792,285)	10,320
Other Income	3,074,659	4,069,993	995,334
Total nonoperating revenues (expenses)	332,054	1,483,902	1,151,848
Income before transfers out	25,570,896	24,051,594	(1,519,302)
Transfers out	12,000,000	12,000,000	-
Increase (decrease) in net position	13,570,896	12,051,594	(1,519,302)
Cumulative effect of change in accounting principle-GASB 68	-	(6,811,905)	(6,811,905)
Net position, beginning of year	114,069,966	114,069,966	-
Net position, end of year	$ 127,640,862	$ 119,309,655	$ (8,331,207)

SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS*
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015
Department's proportion of the net pension liability	25.9%
Department's proportionate share of the net pension liability	$ 9,160,141
Department's covered-employee payroll	$ 5,076,918
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.43%
Plan Fiduciary net position as a percentage of the total pension liability	54.11%

*Information for years prior to 2015 is not available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 YEARS*
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Actuarially determined contribution	$ 574,707	$ 562,954
Contributions in relation to the actuarially determined contribution	(304,615)	(309,917)
Contribution deficiency (excess)	270,092	253,037
Covered-employee payroll	$ 5,076,918	$ 5,169,458
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

*Information for years prior to 2014 is not available.

CRAFT, VEACH & COMPANY, PLC
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of North Little Rock, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of North Little Rock Electric Department (the "Department"), a component unit of the City of North Little Rock, Arkansas, as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated June 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

P.O. Box 13986 • Maumelle, AR 72113 | 8410 Counts Massie Road • North Little Rock, AR 72113 | (501) 753-0808 | Fax (501) 753-6706

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Craft, Veach & Company

Craft, Veach & Company, PLC
North Little Rock, Arkansas
June 30, 2016

P.O. Box 13986 • Maumelle, AR 72113 | 8410 Counts Massie Road • North Little Rock, AR 72113 | (501) 753-0808 | Fax (501) 753-6706

Findings Required to be Reported by *Government Auditing Standards*:

Reference Number	Finding
	None.