

CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT

FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(With independent auditor's report thereon.)

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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, 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the year 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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Department as of December 31, 2011, were audited by other auditors whose report dated August 6, 2012, expressed an unmodified opinion on those statements.

While it does not affect our opinion on the basic financial statements, we noted that management has elected to omit management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to 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.

EGP, PLLC

May 30, 2013

Certified Public Accountants & Consultants

City of North Little Rock Electric Department
Statement of Net Position
December 31, 2012 and 2011
(See independent auditor's report.)

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 15,965,472	7,822,419
Restricted cash	13,384,750	15,128,073
Accounts receivable, net of allowance of \$588,530 and \$669,986, respectively	4,247,123	3,569,061
Other receivables	71,536	60,620
Unbilled revenue	4,124,000	4,270,000
Materials and supplies	3,543,072	2,303,454
Prepaid expenses	2,429,849	2,521,833
Accrued interest receivable	5,030	-
Total Current Assets	<u>43,770,832</u>	<u>35,675,460</u>
Noncurrent Assets		
Restricted Assets		
Cash - restricted	4,400,016	4,000,100
Investments - restricted	1,356,355	22,415,951
Accrued interest receivable	-	327,255
Total Restricted Assets	<u>5,756,371</u>	<u>26,743,306</u>
Property, Plant and Equipment	238,501,515	224,110,440
Less accumulated depreciation	(116,814,840)	(110,854,856)
Total Property, Plant and Equipment	<u>121,686,675</u>	<u>113,255,584</u>
Total Noncurrent Assets	<u>127,443,046</u>	<u>139,998,890</u>
Total Assets	<u>171,213,878</u>	<u>175,674,350</u>
Deferred Outflows of Resources		
Deferred amount from refunding of bonds	<u>3,313,567</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 174,527,445</u>	<u>175,674,350</u>

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

Liabilities and Net Position

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable	\$ 5,894,230	4,138,127
Accrued expenses and other liabilities	1,658,041	1,397,258
Bonds payable - current portion	2,935,000	11,535,000
Accrued interest payable	1,047,113	1,705,080
Total Current Liabilities	<u>11,534,384</u>	<u>18,775,465</u>
Noncurrent Liabilities		
Bonds payable, net of current portion	<u>68,845,000</u>	<u>65,050,000</u>
Total Noncurrent Liabilities	<u>68,845,000</u>	<u>65,050,000</u>
Total Liabilities	<u>80,379,384</u>	<u>83,825,465</u>
Net Position		
Net investment in capital assets	79,405,242	52,769,388
Restricted for debt service	3,881,923	26,220,200
Restricted for working capital	10,003,453	-
Restricted for capital improvements	5,255,745	15,651,179
Unrestricted net position	<u>(4,398,302)</u>	<u>(2,791,882)</u>
Total Net Position	<u>94,148,061</u>	<u>91,848,885</u>
 Total Liabilities and Net Position	 <u>\$ 174,527,445</u>	 <u>175,674,350</u>

City of North Little Rock Electric Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2012 and 2011
(See independent auditor's report)

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	<u>2012</u>	<u>2011</u>
Operating Revenues		
Sale of electricity, net of uncollectible accounts	\$ 91,842,679	91,083,269
Operating Expenses		
Purchased electricity	52,418,202	56,192,754
Depreciation	6,064,394	5,692,667
Other distribution expenses	2,927,249	2,937,598
Distribution system maintenance	2,593,897	2,597,314
Customer records and collection expense	2,586,029	2,640,035
General and administrative	2,399,377	1,992,941
Operating expenses	1,174,208	1,093,250
Generation plant maintenance	1,087,877	2,551,009
Franchise tax	1,068,026	1,074,314
Conservation	533,623	554,366
Other generation plant expenses	447,684	640,802
General plant maintenance	376,688	337,364
Property and liability insurance	360,238	346,456
Regulatory fees	183,373	193,596
Total Operating Expenses	<u>74,220,865</u>	<u>78,844,466</u>
Operating Income	<u>17,621,814</u>	<u>12,238,803</u>
Non-Operating Revenues (Expenses)		
Interest income	497,824	1,126,493
Interest expense	(3,832,098)	(4,434,820)
Trustee fees	(93,104)	(196,631)
Unrealized losses on investments	-	(141,283)
Penalty income	950,407	960,707
Bond issuance costs	(993,390)	(398,018)
Miscellaneous	147,723	1,337,748
Total Non-Operating Expenses	<u>(3,322,638)</u>	<u>(1,745,804)</u>
Income before transfers out	<u>14,299,176</u>	<u>10,492,999</u>
Transfers out	<u>12,000,000</u>	<u>12,000,000</u>
Increase (Decrease) in Net Position	2,299,176	(1,507,001)
Net position - beginning of period	<u>91,848,885</u>	<u>93,355,886</u>
Net Position - End of Period	<u>\$ 94,148,061</u>	<u>91,848,885</u>

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

City of North Little Rock Electric Department
Statement of Cash Flows
For the Years Ended December 31, 2012 and 2011
(See independent auditor's report.)

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from:		
Customers	\$ 91,299,701	92,606,541
Cash payments for:		
Cash paid to vendors for goods and services	(8,233,469)	(11,233,517)
Cash paid for purchase of electricity	(52,418,202)	(56,386,350)
Cash paid for taxes	(1,031,276)	(1,071,322)
Cash paid to employees	(5,604,272)	(5,211,226)
Net Cash Provided by Operating Activities	<u>24,012,482</u>	<u>18,704,126</u>
 Cash Flows From Noncapital and Financing Activities:		
Transfers to other departments	(12,000,000)	(12,000,000)
Penalty income	950,407	960,707
Net Cash Required by Operating Activities	<u>(11,049,593)</u>	<u>(11,039,293)</u>
 Cash Flows From Capital and Related Financing Activities:		
Repayment of long-term debt and bonds payable	-	(9,745,000)
Purchase of property, plant and equipment	(14,816,776)	(11,842,203)
Refunding of 1992, 1997 and 2009 bonds	(9,783,639)	-
Proceeds from issuance of bonds	-	16,000,000
Interest paid	(3,818,383)	(4,628,763)
Other receipts	375,910	1,141,117
Bond issuance cost	-	(398,018)
Net Cash Required by Capital and Related Financing Activities	<u>(28,042,888)</u>	<u>(9,472,867)</u>
 Cash Flows From Investing Activities:		
Purchase of investment securities	-	(27,604,355)
Proceeds from maturities of investment securities	21,059,596	29,748,000
Interest on investments	820,049	1,268,868
Net Cash Provided by Investing Activities	<u>21,879,645</u>	<u>3,412,513</u>
 Net Increase in Cash and Cash Equivalents	6,799,646	1,604,479
Cash and cash equivalents at beginning of year	26,950,592	25,346,113
Cash and Cash Equivalents at End of Year	<u>\$ 33,750,238</u>	<u>26,950,592</u>

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

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 17,621,814	12,238,803
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation expense	6,064,394	5,692,667
(Increase) decrease in assets:		
Accounts receivable	(678,062)	534,998
Other receivables	(10,916)	494,274
Unbilled revenues	146,000	494,000
Prepaid expenses	91,984	(460,056)
Materials and supplies	(1,239,618)	(320,474)
Increase (decrease) in liabilities:		
Accounts payable	1,756,103	132,177
Accrued expenses	260,783	(102,263)
Net Cash Provided by Operating Activities	<u>\$ 24,012,482</u>	<u>18,704,126</u>
Supplemental Disclosure of Noncash Transactions Investing and Financing Activities:		
Amortization deferred on bond refunding, included in interest expense	<u>\$ 671,682</u>	<u>-</u>

**City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011**

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 Electric 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 \$588,530 and \$669,986 at both December 31, 2012 and 2011.

**City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011**

1. Summary of Significant Accounting Policies (continued)

Debt Issuance Expenses

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

Investments

Investment income includes interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value. Investment income is included in unrestricted net assets and is reflected as nonoperating revenue in the statements of revenues, expenses and changes in net position.

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 the years ended December 31, 2012 and 2011.

Reclassification

Certain reclassifications have been made to 2011 financial statements conform to the current presentation.

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:

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011

2. Description of Funds (continued)

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 Bond 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.

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. At December 31, 2011, the Department's investments in U.S. agency obligations not directly guaranteed by the U.S. government were rated AAA by Moody's Investors Service and AAA by Standard & Poor's Investors Service. There were no such investments at December 31, 2012.

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. All of the underlying securities for the Department's investments at December 31, 2011, were held by the Department's agent in the agent's name. There were no such investments at December 31, 2012.

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011

3. Deposits, Investments and Investment Income (continued)

Concentration of credit risk – The Department places no limit on the amount that may be invested in any one issuer. At December 31, 2011, the Department’s investment in U.S. agency obligations of \$16,377,212 represented obligations of one issuer and constituted 51% of its total investments. There were no such investments at December 31, 2012.

At December 31, 2012 and 2011, the Department had investments consisted of and had maturities of the following:

<u>Type</u>	<u>December 31, 2012</u>		
	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>Greater than 1</u>
U.S. agencies obligations	\$ 1,356,355	1,356,355	-
	<u>\$ 1,356,355</u>	<u>1,356,355</u>	<u>-</u>

<u>Type</u>	<u>December 31, 2011</u>		
	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>Greater than 1</u>
U.S. Treasury obligations	\$ 682,384	-	682,384
U.S. agencies obligations	17,733,567	1,356,355	16,377,212
Other investments	4,000,000	4,000,000	-
	<u>\$ 22,415,951</u>	<u>5,356,355</u>	<u>17,059,596</u>

The Department had amounts deposited in common trust and money market funds totaling \$348,266 and \$15,128,073 which are included in restricted cash at December 31, 2012 and 2011, respectively.

Total investment return for the years ended December 31, 2012 and 2011 is comprised of the following:

	<u>2012</u>	<u>2011</u>
Investment income	\$ 497,824	1,126,493
Net unrealized gains (losses) reported at fair value	-	(141,283)
	<u>\$ 497,824</u>	<u>985,210</u>

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2012:

	<u>2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>2012</u>
Land	\$ 2,032,960	-	-	-	2,032,960
Plant and equipment	213,562,564	736,258	12,328,553	(425,701)	226,201,674
Construction in process	8,514,916	14,080,518	(12,328,553)	-	10,266,881
	<u>224,110,440</u>	<u>14,816,776</u>	<u>-</u>	<u>(425,701)</u>	<u>238,501,515</u>
Less accumulated depreciation	<u>(110,854,856)</u>	<u>(6,064,394)</u>	<u>-</u>	<u>104,410</u>	<u>(116,814,840)</u>
	<u>\$113,255,584</u>	<u>8,752,382</u>	<u>-</u>	<u>(321,291)</u>	<u>121,686,675</u>

Property, plant and equipment consisted of the following at December 31, 2011:

	<u>2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>2011</u>
Land	\$ 2,032,960	-	-	-	2,032,960
Plant and equipment	207,847,188	10,508,135	(4,508,609)	(284,150)	213,562,564
Construction in process	2,672,239	1,334,068	4,508,609	-	8,514,916
	<u>212,552,387</u>	<u>11,842,203</u>	<u>-</u>	<u>(284,150)</u>	<u>224,110,440</u>
Less accumulated depreciation	<u>(105,305,056)</u>	<u>(5,692,667)</u>	<u>-</u>	<u>142,867</u>	<u>(110,854,856)</u>
	<u>\$107,247,331</u>	<u>6,149,536</u>	<u>-</u>	<u>(141,283)</u>	<u>113,255,584</u>

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 (see Note 12).

The Department issued \$15,350,000 bonds on December 30, 1997 for capital improvements. Annual sinking fund payments sufficient to redeem principal plus interest at rates from 4.45% to 5.20% are required; redeemable at the City of North Little Rock, Arkansas' option, as a whole or in part, as 102% of the principal amount beginning January 1, 2008, at declining percentages thereafter. These bonds were part of the current bond refunding (see Note 12).

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011

5. Long-Term Debt (continued)

On July 15, 2009, the Department issued \$5,000,000 working capital bonds. The interest rate on the 2009A working capital bonds is 5.5%. Annual sinking fund payments sufficient to redeem principal plus interest are required; redeemable at the City of North Little Rock, Arkansas' option, as a whole or in part, at 100% of the principal plus accrued interest at any date on 15 days' notice. These bonds were part of the current bond refunding (see Note 12).

On December 15, 2009, the Department issued \$10,000,000 working capital bonds. The interest rate on the 2009B working capital bonds is 5.5%. Annual sinking fund payments sufficient to redeem principal plus interest at rates of 5.5% 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 15 days' notice. These bonds were part of the current bond refunding (see Note 12).

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.

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 (See Note 12).

As a result of this refunding, \$3,985,249 of deferred bond issuance costs will be amortized over the remaining life of the old bonds. As of December 31, 2012, \$3,313,567 in remaining deferred bond costs is reported as a reduction from the new bond liability.

The following is a summary of the bonds payable activity for the years ended December 31, 2012 and 2011, respectively:

	<u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012</u>
Bonds payable	\$ 76,585,000	55,780,000	(60,585,000)	71,780,000
	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
Bonds payable	\$ 70,330,000	16,000,000	(9,745,000)	76,585,000

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011

5. Long-Term Debt (continued)

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:			
2013	\$ -	2,935,000	2,935,000
2014	-	3,055,000	3,055,000
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
Thereafter	13,885,000	34,500,000	48,385,000
	<u>\$ 16,000,000</u>	<u>55,780,000</u>	<u>71,780,000</u>
Interest:			
2013	\$ 675,902	1,735,431	2,411,333
2014	675,902	1,569,622	2,245,524
2015	668,024	1,533,000	2,201,024
2016	650,893	1,432,952	2,083,845
2017	630,765	1,317,750	1,948,515
Thereafter	6,086,018	4,802,783	10,888,801
	<u>\$ 9,387,504</u>	<u>12,391,538</u>	<u>21,779,042</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, 2012 and 2011, 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. Nonuniformed Employees Retirement Plan

All full-time employees of the Department are participants of "The Retirement System of the City of North Little Rock (Nonuniform Employees)." 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.

Pension expense reflected in the financial statements for the years ended December 31, 2012 and 2011 was \$298,911 and \$293,473, respectively, and is included in operating expense.

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2012 and 2011

6. Nonuniformed Employees Retirement Plan (continued)

For more information regarding funding status and composition of the pension benefit obligation, see the 2012 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 \$2,100,000 each year for the years ended December 31, 2012 and 2011. 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, 2012 and 2011. 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, 2012 and 2011. 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 an other 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.

City of North Little Rock Electric Department
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9. Other Post-Employment Benefit Plan (continued)

The effect of adopting GASB 45 was not material to the financial statements of the Department. Based on an actuarial valuation performed as of January 1, 2011, the Department recorded OPEB cost of \$34,568 for 2012 and \$26,530 for 2011, \$35,985 for 2010, and a net OPEB obligation of \$185,193, \$150,625 and \$124,095 as of December 31, 2012, 2011 and 2010, respectively. The Department's share of the UAAL, which is not recorded in the financial statements, was \$400,000 as of the actuarial date of January 1, 2012 and \$373,297 as of the actuarial date of January 1, 2011. 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 2012 Comprehensive Annual Financial Report for the City of North Little Rock, Arkansas.

10. Commitments

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.

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.

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.

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11. New Accounting Standards

During the year ended December 31, 2012, management retroactively applied GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement requires certain items, such as bond issuance costs, that were previously reported as an asset to be reported as an outflow of resources (an expense) during the period that they are incurred. The effect of this adjustment is a decrease in net position of \$970,731 and \$759,544 and amortization expense of \$186,831 and \$175,176 at December 31, 2011 and 2010, respectively. In addition, bond issuance costs reflected as expenses were increased by \$398,018 at December 31, 2011. Bond issuance costs previously recorded as assets were adjusted through unrestricted net position as follows:

	<u>2011</u>	<u>2010</u>
Net position as originally stated at December 31	\$ 92,819,616	94,115,430
Bond issuance costs at December 31	<u>(970,731)</u>	<u>(759,544)</u>
Net position as adjusted at December 31	<u>\$ 91,848,885</u>	<u>93,355,886</u>

During the year ended December 31, 2012, management applied GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63"), which provides guidance for deferred outflows of resources and deferred inflows of resources. Under GASB No. 63, the deferred amount from the refunding of bonds is reported as a deferred outflow of resources rather than a reduction of bonds payable. In addition, it identifies net position as the residual of all other elements presented in the statement of financial position. This statement did not impact previously recorded balances.

12. 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 \$34,741,929 at December 31, 2012.

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