CITY OF NORTH LITTLE ROCK ELECTRIC DEPARTMENT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

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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"), an enterprise fund of the City of North Little Rock, Arkansas, which comprise the statements of net position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matters

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, 2018 and 2017, 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.

As described in Note 1 to the financial statements, in 2018, the Department implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are 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 4-6) and historical pension information (pages 23-25) 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The budgetary comparison schedule (page 26) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, 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.

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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
September 24, 2019

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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 deferred outflows of resources as well as all of the liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases and decreases in net position are indicators 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 presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipts and disbursements 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 financial statements.

The financial statements were prepared by NLRED staff from its detailed transactions for the years ending December 31, 2018 and 2017. The financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The financial statements on pages 7 through 9 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, 2018, total assets and deferred outflows exceeded total liabilities and deferred inflows at the close of 2018 by $138,762,194. Of the total net position, $115,397,589 was invested in capital assets, $3,184,207 was restricted for debt service, $7,472,904 was restricted for working capital, and $12,707,494 was unrestricted.

	2018	2017
Current Assets	$ 53,734,658	$ 50,890,436
Non-current Assets	910,000	975,000
Total Property, Plant, & Equipment	139,112,589	141,410,604
Deferred Outflows of Resources	3,333,094	2,408,643
Current Liabilities	11,306,804	16,662,220
Non-current Liabilities	44,967,463	47,079,545
Deferred Inflows of Resources	2,053,880	2,360,803
Net Position		
Net Investment in Capital Assets	115,397,589	113,600,604
Restricted for Debt Service	3,184,207	3,137,377
Restricted for Working Capital	7,472,904	7,387,784
Unrestricted Net Positon	12,707,494	5,456,350

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 4.75 for 2018, compared 3.05 for 2017. 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, 2018 and 2017, were 19% and 21% respectively.

The following were net capital improvements, additions or replacements for 2018 (the figures are approximate):

Murray Hydro Electric Generation Plant	$ 382,000
Distribution System	5,062,000
AMI (Advanced Meter Infrastructure- Smart Meters)	(1,374,000)
Office Funiture & Fixtures, Computers, Communication, and Misc. Equipment	924,000
Transportation, Tools, and Power Equipment	348,000
CWIP- Net of Transfers to Property, Plant & Equipment	1,606,000
Net Capital Improvements	$ 6,948,000

Statement of Revenues, Expenses, and Changes in Net Position

For the year ending December 31, 2018, operating revenues were $93,739,108 and operating expenses were $71,636,550. Non-operating revenues and (expenses) totaled $(547,490) which consisted of non-operating revenues of $2,493,507, and non-operating expenses of $3,040,997. Transfers to the City were $12,000,040. The result was an increase in net position in the amount of $9,555,028.

	2018	2017
Operating Revenues	$ 93,739,108	$ 89,964,914
Operating Expenses	71,636,550	69,858,975
Non-operating Revenues	2,493,507	1,818,975
Non-operating Expenses	3,040,997	2,191,842
Transfers to the City	12,000,040	12,000,000
Increase (Decrease) in Net Position	$ 9,555,028	$ 7,733,072

The NLRED operating revenues for 2018 increased $3,774,194 from 2017. The main reasons for the increase were the result of milder weather patterns in 2017 and the first-year implementation effect of a three-year rate adjustment. The majority of NLRED operating revenue is derived from residential and commercial customers. The total customers served during 2018 across all classes was 38,692.

Operating expenses, not including depreciation expense, increased 2% in 2018. Depreciation expense increased 6% in 2018.

Non-operating revenues increased 37% in 2018 while Non-operating expenses increased 39% in 2018.

Budget-to-Actual Comparison

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

Actual operating revenues were more than budgeted by approximately $4,739,000. Operating expenses, not including depreciation, were approximately $4,554,000 less than the amount budgeted. The change in Net Position was approximately $8,523,000 more than the amount budgeted.

See "Budgetary Comparison Schedule" on page 26 of this report.

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 18,229,580	$ 13,897,790
Hydro maintenance fund	5,457,588	4,478,800
Restricted cash	16,568,588	15,613,626
Accounts receivable, net of allowance of $381,467 and $465,004, for 2018 and 2017, respectively	3,589,361	7,485,710
Other receivables	272,078	163,339
Note receivable - current portion	65,000	65,000
Unbilled revenue	4,211,000	3,761,000
Materials and supplies	3,290,776	3,109,187
Prepaid expenses	2,050,687	2,315,984
Total Current Assets	53,734,658	50,890,436
Non-Current Assets:		
Note receivable, net of current portion	910,000	975,000
Total Non-Current Assets	910,000	975,000
Property, Plant, and Equipment:		
Property, plant, and equipment	301,737,196	294,789,083
Less: Accumulated depreciation	(162,624,607)	(153,378,479)
Total Property, Plant, and Equipment	139,112,589	141,410,604
TOTAL ASSETS	193,757,247	193,276,040
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from refunding of bonds	-	177,166
Deferred amounts related to pensions	3,333,094	2,231,477
Total Deferred Outflows of Resources	3,333,094	2,408,643
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	197,090,341	195,684,683
LIABILITIES		
Current Liabilities:		
Accounts payable	2,068,824	7,754,345
Accrued expenses and other liabilities	2,064,443	2,319,131
Bonds payable - current portion	5,035,000	4,910,000
Accrued interest payable	475,363	530,099
Current portion of customer deposits	1,663,174	1,148,645
Total Current Liabilities	11,306,804	16,662,220
Noncurrent Liabilities:		
Interest earned on restricted investments	-	10,369
Customer deposits payable	4,127,908	3,836,228
Accrued pension liability	8,810,416	6,782,948
Accrued OPEB liability	614,139	-
Bonds payable, net of current portion	31,415,000	36,450,000
Total Noncurrent Liabilities	44,967,463	47,079,545
TOTAL LIABILITIES	56,274,267	63,741,765
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pensions	1,997,519	2,360,803
Deferred amounts related to OPEB	56,361	-
Total Deferred Inflows of Resources	2,053,880	2,360,803
NET POSITION		
Net investment in capital assets	115,397,589	113,600,604
Restricted for debt service	3,184,207	3,137,377
Restricted for working capital	7,472,904	7,387,784
Unrestricted net position	12,707,494	5,456,350
TOTAL NET POSITION	138,762,194	129,582,115
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 197,090,341	$ 195,684,683

See accompanying notes to the financial statements.

	2018	2017
Operating Revenues:		
Sale of electricity, net of uncollectible accounts	$ 93,739,108	$ 89,964,914
Operating Expenses:		
Purchased electricity	45,691,291	45,190,964
Depreciation	9,647,390	9,088,223
Distribution system maintenance	3,209,871	3,151,952
Other distribution expenses	3,344,580	3,152,319
Customer records and collection expense	3,092,583	3,107,790
General and administrative	1,093,451	1,252,271
Franchise tax	1,093,667	1,052,063
Operating expenses	1,338,090	1,187,133
Generation plant maintenance	942,674	650,884
General plant maintenance	766,381	706,583
Other generation plant expenses	567,496	439,739
Conservation	451,443	363,416
Property and liability insurance	305,471	308,347
Regulatory fees	92,162	207,291
Total Operating Expenses	71,636,550	69,858,975
Operating Income	22,102,558	20,105,939
Nonoperating Revenues (Expenses):		
Interest and investment income	289,195	196,283
Interest expense	(1,415,306)	(1,906,113)
Pension expense	(562,567)	(275,241)
Trustee fees	(10,488)	(10,488)
Penalty income	1,317,079	946,912
Miscellaneous income	887,233	531,280
Grant income	-	144,500
Loss on disposal of equipment	(1,052,636)	-
Total Nonoperating Revenues (Expenses)	(547,490)	(372,867)
Income Before Transfers Out	21,555,068	19,733,072
Transfers Out	(12,000,040)	(12,000,000)
Increase (Decrease) in Net Position	9,555,028	7,733,072
Net Position, Beginning of Year, as Previously Reported	129,582,115	121,439,995
Cumulative effect of change in accounting principle-GASB 75	(374,949)	-
Net Position, Beginning of Year, as Restated	129,207,166	121,439,995
Transfer of Net Assets from North Little Rock Utilities Accounting Department	-	409,048
Net Position, End of Year	$ 138,762,194	$ 129,582,115

See accompanying notes to the financial statements.

	2018	2017
Cash flows from operating activities:		
Receipts from customers	$ 97,268,994	$ 86,135,378
Payments to vendors	(12,311,466)	(4,245,996)
Payments for purchase of electricity	(45,691,291)	(45,190,964)
Payments for taxes	(1,032,607)	(1,036,837)
Payments to employees	(7,268,916)	(6,882,290)
Net cash flows provided (used) by operating activities	30,964,714	28,779,291
Cash flows from noncapital financing activities:		
Transfers to other departments	(12,000,040)	(12,000,000)
Loans to other departments	65,000	(975,000)
Penalty income	1,317,079	946,912
Net cash effect of transfers from NLR UAD	-	5,372,677
Net cash flows provided (used) by noncapital financing activities	(10,617,961)	(6,655,411)
Cash flows from capital and related financing activities:		
Repayment of long-term debt and bonds payable	(4,910,000)	(4,295,000)
Purchase of property, plant and equipment	(9,063,683)	(13,214,548)
Interest paid	(1,450,636)	(1,951,830)
Trustee payments	(10,488)	(10,488)
Grant receipts	-	144,500
Other receipts	887,233	531,280
Deferred outflows from refunding of bonds	177,166	531,497
Net cash flows provided (used) by capital and related financing activities	(14,370,408)	(18,264,589)
Cash flows from investing activities:		
Interest on investments	289,195	206,652
Net cash flows provided (used) by investing activities	289,195	206,652
Net increase (decrease) in cash and cash equivalents	6,265,540	4,065,943
Cash and cash equivalents - beginning of the year	33,990,216	29,924,273
Cash and cash equivalents - end of the year	$ 40,255,756	$ 33,990,216
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 22,102,558	$ 20,105,939
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	10,279,287	9,700,139
(Increase) decrease in assets:		
Accounts receivable	3,896,349	(4,156,777)
Other receivables	(108,739)	(66,275)
Unbilled revenues	(450,000)	318,000
Prepaid expenses	265,297	(335,384)
Inventory	(181,589)	(303,783)
Increase (decrease) in liabilities:		
Accounts payable	(5,685,521)	3,461,311
Accrued expenses	40,863	56,121
Customer deposits payable	806,209	-
Net cash provided by operating activities	$ 30,964,714	$ 28,779,291
Supplemental disclosure of noncash transactions investing and financing activities:		
Amortization deferred on bond refunding, included in interest expense	$ 177,166	$ 531,497

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 an enterprise fund 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 the three components below:

- *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 includes 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 established a fund dedicated to manage expenses associated with maintenance of the Murray Hydroelectric Plant without incurring debt. The electric department anticipates that the overhaul of Unit 1 will occur within the next fiscal cycle.

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 $381,467 and $465,004 at both December 31, 2018 and 2017, 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 lives of the assets are charged to expense as incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are $12,000,040 and 12,000,000 for the years ended December 31, 2018 and 2017, respectively.

Adoption of Accounting Principles

In 2018, the Department implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also changes the focus of OPEB accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date. Adoption of this statement resulted in the following adjustments to beginning net position at January 1, 2018:

OPEB obligation at January 1, 2018, as previously reported	$ 278,640
Total OPEB liability at January 1, 2018 under GASB 75	(653,589)
Cumulative effect of implementation of GASB 75	$ (374,949)
Net position at January 1, 2018, as previously reported	$ 129,582,115
Adjustment to beginning net position for GASB 75 implementation	(374,949)
Net position at January 1, 2018, as restated	$ 129,207,166

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the presentation of the 2018 financial statements. These reclassifications had no effect on the change in net position.

Date of Management's Review

Management has evaluated subsequent events through September 24, 2019, 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.

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, 2018 and 2017.

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, 2018 and 2017.

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 $10,657,111 and $10,525,161 which are included in restricted cash at December 31, 2018 and 2017 respectively.

Total investment return for the years ended December 31, 2018 and 2017 is comprised of the following:

	2018	2017
Interest and Investment Income	289,195	196,283

NOTE 4: PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at December 31, 2018 and 2017 respectively:

	2017	Additions	Transfers	Disposals	2018
Land	$ 2,032,960	$ -	$ -	$ -	$ 2,032,960
Plant and Equipment	286,548,697	1,653,582	5,775,166	(2,086,794)	291,890,651
Construction in Process	6,207,426	7,410,101	(5,775,166)	(28,776)	7,813,585
	294,789,083	9,063,683	-	(2,115,570)	301,737,196
Less: Accumulated Depreciation	(153,378,479)	(10,279,287)	-	1,033,159	(162,624,607)
	$ 141,410,604	$ (1,215,604)	$ -	$ (1,082,411)	$ 139,112,589

	2016	Additions	Transfers	Disposals	2017
Land	$ 2,032,960	$ -	$ -	$ -	$ 2,032,960
Plant and Equipment	276,268,502	1,620,383	9,949,512	(1,289,700)	286,548,697
Construction in Process	3,651,140	11,594,165	(9,037,879)	-	6,207,426
	281,952,602	13,214,548	911,633	(1,289,700)	294,789,083
Less: Accumulated Depreciation	(144,077,651)	(9,700,139)	(890,389)	1,289,700	(153,378,479)
	$ 137,874,951	$ 3,514,409	$ 21,244	$ -	$ 141,410,604

The Department allocates a portion of total depreciation expense to various operating expense accounts. The amount of depreciation expense that was allocated as of December 31, 2018 and 2017 was $631,897 and $632,894, respectively.

NOTE 5: LONG-TERM DEBT

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 November 1, 2016 the Department placed the remaining bond proceeds from the Series 2011 bonds into an escrow account. This move allowed for the Department to save money by choosing advance refunding of the bonds. An advance refunding takes advantage of current market conditions by issuing bonds now. The bond proceeds remained in the escrow account until they were redeemed on May 1, 2018.

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. On August 1, 2016 the Department redeemed the 2012C bonds with excess reserves in order to reduce annual debt payments of approximately $1,480,000.

On November 1, 2016 the Department issued a Series 2016 refunding revenue bond totaling $13,845,000. Principal on the Bond shall be paid annually, on a graduated basis, on May 1 of each year, commencing May 1, 2017 with the final payment due May 1, 2031. The weighted average maturity of the Bond shall not exceed 8.5 years. The Bond shall bear interest at a fixed rate per annum for 96 months equivalent to 2.47% and at a fixed rate per annum equivalent to 2.57% for the remaining 78 months. Interest will be payable semiannually on May 1 and November 1 of each year, commencing May 1, 2017. The bond proceeds of the Series 2016 bond will be invested until the optional redemption date of the Series 2011 bonds.

NOTE 5: LONG-TERM DEBT (CONTINUED)

As a result of this refunding, $797,246 of deferred bond issuance costs was recognized and amortized over the remaining life of the old bonds. As of December 31, 2018 and 2017, $0 and $177,166, 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, 2018 and 2017, respectively:

2017	Additions	Retirements	2018
$ 41,360,000	$ -	$ (4,910,000)	$ 36,450,000

2016	Additions	Retirements	2017
$ 45,655,000	$ -	$ (4,295,000)	$ 41,360,000

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

	Series 2012	Series 2016	Total
Principal:			
2019	$ 4,195,000	$ 840,000	$ 5,035,000
2020	4,305,000	855,000	5,160,000
2021	4,445,000	880,000	5,325,000
2022	4,605,000	905,000	5,510,000
2023	1,975,000	930,000	2,905,000
2024 - 2028	4,190,000	4,995,000	9,185,000
Thereafter	-	3,330,000	3,330,000
	$ 23,715,000	$ 12,735,000	$ 36,450,000

	Series 2012	Series 2016	Total
Interest:			
2019	$ 845,293	$ 308,319	$ 1,153,612
2020	733,609	287,909	1,021,518
2021	600,386	265,366	865,752
2022	431,641	243,012	674,653
2023	249,620	220,033	469,653
2024 - 2028	263,652	758,273	1,021,925
Thereafter	-	131,361	131,361
	$ 3,124,201	$ 2,214,273	$ 5,338,474

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, 2018 and 2017, the Department was in compliance with this covenant.

NOTE 5: LONG-TERM DEBT (CONTINUED)

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 5% of gross earnings to be paid through payroll withholdings. Each month, the Department contributes 10% of each employee’s monthly compensation.

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 10 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 15% 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 2018 Plan Year for the City as a whole is 20.83%. For 2018, the Department’s contributions to the Plan were $664,857.

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

The Plan’s collective net pension liability of $31,692,145 was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019. 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, 2018, the Department’s proportionate share was 27.8% and the Department recorded a liability of $8,810,416 for its proportionate share of the net pension liability.

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

For the year ended December 31, 2018, the Department recognized pension expense of $562,567. At December 31, 2018, the Department reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 348,432	$ 276,277
Changes of actuarial assumptions	757,888	1,425,918
Changes in proportion	479,371	42,747
Net difference between projected and actual earnings on pension plan investments	1,747,403	252,577
	$ 3,333,094	$ 1,997,519

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

2019	2020	2021	2022	2023	Thereafter
$ 494,253	$ 235,211	$ 193,761	$ 277,953	$ (73,413)	$ 207,812

Actuarial Assumptions

The total pension liability in the January 1, 2019 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 (3.5% Growth)
Remaining Amortization Period	15 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	6.5%
Salary Increases	4.0% Annually
Mortality Table	Based on the Retirement Plans 2014 Mortality Table
Average Service Life of All Members	10.74 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.

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

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		2.50%

Single Discount Rate

A single discount rate of 6.50% 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 6.50%. 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 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 6.50%, 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 (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
The Department's proportianate share of the net pension liability	$ 11,825,088	$ 8,810,416	$ 6,663,031

There were no changes to the plan provisions during the 2018 plan year. The scheduled employee contribution effective January 1, 2018 increased from 4% to 5% of compensation. In addition to this increase, the form of the employee contribution was changed to a "picked up" contribution, meaning that it is pre-tax to the employee. This reduced the impact of the increase on the employee. The employer contribution was also increased to 10%, so that the total contribution to the plan is now 15% of compensation.

NOTE 7: RELATED PARTY TRANSACTIONS

The Information Technology (IT) Department of the City serves the needs of all departments city wide, including the Electric Department. The Electric Department contributes $1,499,369 annually to the General Fund for the services of the IT Department.

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, 2018 and 2017.

On January 30, 2017 a bond in the amount of $1,105,000 was issued from North Little Rock Electric Department to the City of North Little Rock, creating the note receivable reflected on the balance sheet. The bond has a maturity date of December 1, 2031 with an interest rate of 2.25%.

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, 2018 and 2017. 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

Plan Description

Employees of the Department who retire directly from active employment may participate in a single-employer defined benefit healthcare plan (the "OPEB Plan") sponsored by the City of North Little Rock, Arkansas. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

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. Employees eligible include those who retire directly from active employment at age 55 or over with at least 20 years of service.

Employees Covered by the Benefit Terms

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	5
Inactive plan members or beneficiaries entitled to but not yet receiving benefit payments	-
Active employees	120
	125

NOTE 9: OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Actuarial Assumptions

The Department's proportionate share of the total OPEB liability was measured as of December 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	3.00%
Heathcare Cost Trend Rates:	8.0% in year 1, decreasing 0.5% each year to an ultimate rate of 5.0% in year 7
Discount Rate:	3.64%, based on AA 20-year tax exempt general obligation municipal bond index
Mortality Table	Based on the Retirement Plans 2014 Mortality Table

Department's Proportionate Share of the Total OPEB Liability

The components of the Department's proportionate share of the total OPEB liability at December 31, 2018, were as follows:

Balances at 1/1/18	$ 653,589
Changes for the year:	
Service cost	34,804
Interest	20,653
Differences between expected and actual experience	(33,650)
Benefit payments	(33,422)
Change of assumptions	(27,835)
Net changes	(39,450)
Balances at 12/31/18	$ 614,139

Changes in assumptions and other inputs reflect a change in the discount rate from 3.16% at December 31, 2017, to 3.64% at December 31, 2018.

Sensitivity of the Department's Proportionate Share of the Total OPEB Liability to Changes in Discount Rates

The following presents the Department's proportionate share of the total OPEB liability, as well as what the Department's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
The Department's proportianate share of the total OPEB liability	$ 673,459	$ 614,139	$ 560,003

NOTE 9: OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Sensitivity of the Department's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Department's proportionate share of the total OPEB liability, as well as what the Department's proportionate share of the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current healthcare cost trend rate:

	1% Decrease (7.0%)	Healthcare Cost Trend Rate (8.0%)	1% Increase (9.0%)
The Department's proportianate share of the total OPEB liability	$ 532,017	$ 614,139	$ 715,678

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Department recognized OPEB expense of $50,333. At December 31, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 30,846
Changes of actuarial assumptions	-	25,515
	$ -	$ 56,361

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31,	Net Deferred Outflow/(Inflow) of Resources
2019	$ (5,124)
2020	(5,124)
2021	(5,124)
2022	(5,124)
2023	(5,124)
Thereafter	(30,741)
Total	$ (56,361)

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.

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 of purchasing and providing power to its customers. In May of 2018, the City Council adopted Ordinance No. 9000 replacing the two-component ECR variable rider with a single component Power Cost Adjustment (PCA) rider. The PCA, in place with the new rate structure, is easier to calculate and has less variability.

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: TRANSFER OF NET ASSETS

On March 13, 2017 the North Little Rock City Council passed Resolution No. 9168 amending the 2017 budget for the City of North Little Rock. This amendment was made to re-distribute the budget for Utilities Accounting Department by excluding remaining information technology staff that would remain in UAD, to the North Little Rock Electric budget for the remainder of the year. The goal was to streamline operations, improve efficiency and utilize staff to increase and enhance service to utility customers. Effective April 1, 2017, the Customer Service Section of Utilities Accounting Department was transferred to North Little Rock Electric's budget and financials. In total, $9,109,187 of assets, $9,132,747 of liabilities, and $409,048 of net assets was transferred.

SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS*
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017	2016	2015
Department's proportion of the net pension liability	27.8%	27.0%	25.4%	25.9%
Department's proportionate share of the net pension liability	$ 8,810,416	$ 6,782,948	$ 6,668,532	$ 4,825,855
Department's covered-employee payroll	$ 6,648,574	$ 6,280,067	$ 5,583,222	$ 5,076,918
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	132.52%	108.01%	119.44%	95.05%
Plan Fiduciary net position as a percentage of the total pension liability	58.40%	65.44%	62.24%	69.11%

*Information for years prior to 2015 is not available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 YEARS*
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017	2016	2015
Actuarially determined contribution	$ 913,514	$ 970,270	$ 743,127	$ 574,707
Contributions in relation to the actuarially determined contribution	(664,857)	(565,206)	(334,398)	(304,615)
Contribution deficiency (excess)	248,657	405,064	408,729	270,092
Covered-employee payroll	$ 6,648,574	$ 6,280,067	$ 5,583,222	$ 5,076,918
Contributions as a percentage of covered-employee payroll	10.00%	9.01%	5.99%	6.00%

*Information for years prior to 2015 is not available.

SCHEDULE OF CHANGES IN THE DEPARTMENT'S PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS*
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018
Department's Proportionate Share of Total OPEB Liability:	
Service cost	$ 34,804
Interest	20,653
Differences between expected and actual experience	(33,650)
Employer contributions	-
Benefit payments	(33,422)
Change of assumptions	(27,835)
Net Change in Department's Proportionate Share of Total OPEB Liability	(39,450)
Department's Proportionate Share of Total OPEB Liability - Beginning	653,589
Department's Proportionate Share of Total OPEB Liability - Ending	$ 614,139
Department's covered-employee payroll	$ 6,245,696
Department's Proportionate Share of Total OPEB Liability as a percentage of covered-employee payroll	10%

*Information for years prior to 2018 is not available.

	Original and Final Budget	2018 Actual	Actual Over (Under) Budget
Operating revenues:			
Sale of electricity, net of uncollectible accounts	$ 89,000,000	$ 93,739,108	$ 4,739,108
Operating expenses:			
Purchased electricity	51,059,000	45,691,291	(5,367,709)
Depreciation	9,647,000	9,647,390	390
Distribution system maintenance	2,900,000	3,209,871	309,871
Other distribution expenses	3,130,000	3,344,580	214,580
Customer records and collection expense	3,092,000	3,092,583	583
General and administrative	882,000	1,093,451	211,451
Franchise tax	1,094,000	1,093,667	(333)
Operating expenses	1,550,000	1,338,090	(211,910)
Generation plant maintenance	850,000	942,674	92,674
Other generation plant expenses	450,000	567,496	117,496
Conservation	430,500	451,443	20,943
General plant maintenance	576,000	766,381	190,381
Property and liability insurance	305,000	305,471	471
Regulatory fees	225,000	92,162	(132,838)
Total operating expenses	76,190,500	71,636,550	(4,553,950)
Operating income	12,809,500	22,102,558	9,293,058
Nonoperating revenues (expenses):			
Interest income	106,000	289,195	183,195
Interest expense	(1,426,000)	(1,415,306)	10,694
Other income (expenses)	1,168,000	578,621	(589,379)
Total nonoperating revenues (expenses)	(152,000)	(547,490)	(395,490)
Income Before Transfers Out	12,657,500	21,555,068	8,897,568
Transfers Out	(12,000,000)	(12,000,040)	(40)
Increase (Decrease) in Net Position	657,500	9,555,028	8,897,528
Net Position, Beginning of Year, as Previously Reported	129,582,115	129,582,115	-
Cumulative effect of change in accounting principle-GASB 75	-	(374,949)	(374,949)
Net Position, Beginning of Year, as Restated	129,582,115	129,207,166	(374,949)
Net Position, End of Year	$ 130,239,615	$ 138,762,194	$ 8,522,579

See independent auditor's report.

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CERTIFIED PUBLIC ACCOUNTANTS
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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"), an enterprise fund of the City of North Little Rock, Arkansas, as of and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated September 24, 2019.

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*.

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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
September 24, 2019

Findings required to be reported by *Government Auditing Standards*:

Reference Number	**Finding**
	None.

Prior year findings required to be reported by *Government Auditing Standards:*

Reference Number	**Finding**
	None.