

City of North Little Rock Electric Department

Financial Statements and Supplementary Information with
Independent Auditor's Report

December 31, 2021

City of North Little Rock Electric Department

December 31, 2021

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Independent Auditor's Report

Members of the City Council
City of North Little Rock, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of North Little Rock Electric Department (Department), enterprise fund of the City of North Little Rock, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2021, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of North Little Rock, Arkansas, as of December 31, 2021, the changes in its financial position, or, where applicable, its cash flows for the year 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension, and other postemployment benefit information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The budgetary comparison schedule and the schedule of net revenues and debt service requirements as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 and the schedule of net revenues and debt service requirements are 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 May 19, 2022, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of the Department's 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.

BKD, LLP

Dallas, Texas
May 19, 2022

City of North Little Rock Electric Department

Management's Discussion and Analysis

December 31, 2021 and 2020

This section presents management's analysis of the City of North Little Rock Electric Department's (Department or 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 Department'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 year ending December 31, 2021. 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.

City of North Little Rock Electric Department

Management's Discussion and Analysis

December 31, 2021 and 2020

Statement of Net Position

As of December 31, 2021 total assets and deferred outflows exceeded total liabilities and deferred inflows by \$157,473,583. Of the total net position, \$108,760,225 was invested in capital assets, \$3,106,611 was restricted for debt service and \$45,606,747 was unrestricted.

	2021	2020
Current Assets	\$ 58,791,362	\$ 59,495,124
Non-current assets	11,889,377	12,189,620
Property, plant, and equipment, net	129,557,596	133,534,875
Deferred outflows of resources	1,684,827	1,777,640
Current liabilities	8,871,661	10,826,941
Non-current liabilities	33,988,690	39,670,258
Deferred inflows of resources	1,589,228	1,410,890
Net Position		
Net investment in capital assets	108,760,225	107,272,083
Restricted for debt service	3,106,611	3,110,730
Unrestricted net position	45,606,747	44,706,357

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 6.61 for 2021, compared to 5.50 for 2020. 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, 2021 and 2020, were 10 percent and 13 percent, respectively.

Capital assets decreased by approximately 4 million as a result of 7.5 million in additions to the electric system offset by 11.5 million in current year depreciation expense.

Revenue bonds payable decreased \$5.5 million to \$20.9 million during 2021 due to scheduled bond payments.

City of North Little Rock Electric Department

Management's Discussion and Analysis

December 31, 2021 and 2020

Statement of Revenues, Expenses, and Changes in Net Position

For the year ending December 31, 2021, operating revenues were \$93,857,877 and operating expenses were \$78,225,663. Non-operating revenues (expenses), net totaled \$401,505 which consisted of non-operating revenues of \$1,004,767 and non-operating expenses of \$603,262. Transfers to the City were \$13,649,306. The result was an increase in net position in the amount of \$2,384,413.

	2021	2020
Operating revenues	\$ 93,857,877	\$ 87,823,545
Operating expenses	78,225,663	68,046,217
Non-operating revenues	1,004,767	506,680
Non-operating expenses	603,262	584,814
Transfers to the City	13,649,306	13,649,346
	<hr/>	<hr/>
Increase in net position	\$ 2,384,413	\$ 6,049,848
	<hr/>	<hr/>

The NLRED operating revenues for 2021 increased \$6,034,332 from 2020. The main reason for the increase was due to additional system load of 19M kWh and weather was not as mild as the previous year. The majority of NLRED operating revenue is derived from residential and commercial customers. The total customers served during 2021 across all classes was 39,659.

Operating expenses, including depreciation expense, increased \$10,179,446 in 2021. This increase was a result of greater usage as noted above and purchase power costs rising in a very volatile market.

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 \$500K due to an increase in sales. Operating expenses were approximately \$4.9M less than the amount budgeted. This is mainly due to maintenance expense of approximately \$3.1M over budget due to dredging for the Hydro Facility along with other charges and services over budget by approximately \$3.9M. Additionally, purchased electricity came in under budget by \$8.6M and salaries and related fringe benefits came in under budget by approximately \$3.2M as a result of turnover and labor shortages. The change in Net Position was approximately \$1.5M greater than the amount budgeted.

See "Budgetary Comparison Schedule" on page 29 of this report.

Financial Statements

City of North Little Rock Electric Department

Statement of Net Position

December 31, 2021

Assets

Current Assets

Cash and cash equivalents	\$ 40,227,664
Investments	4,970,570
Accounts receivable, net of allowance	2,694,285
Other receivables	8,556
Due from other funds	131,921
Unbilled revenue	5,310,623
Materials and supplies	4,811,967
Prepaid expenses	635,776
Total current assets	<u>58,791,362</u>

Non-Current Assets

Restricted cash and cash equivalents	10,454,377
Due from other funds	1,435,000
Total other non-current assets	<u>11,889,377</u>

Property, Plant and Equipment

Property, plant, and equipment	318,567,857
Less: accumulated depreciation	<u>(189,010,261)</u>
Total property, plant, and equipment	<u>129,557,596</u>
Total assets	<u>200,238,335</u>

Deferred Outflows of Resources

Deferred loss on refunding	127,159
Deferred amounts related to pensions	1,467,176
Deferred amounts related to OPEB	90,492
Total deferred outflows of resources	<u>1,684,827</u>

Total assets and deferred outflows of resources	<u>\$ 201,923,162</u>
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Liabilities

Current Liabilities

Accounts payable	\$ 1,503,974
Accrued expenses and other liabilities	412,617
Due to other funds	1,066,167
Bonds payable – current portion	5,609,871
Accrued compensated absences	135,137
Accrued interest payable	143,895
Total current liabilities	<u>8,871,661</u>

Noncurrent Liabilities

Customer deposits payable	7,290,097
Net pension liability	8,921,201
Total OPEB liability	735,909
Accrued compensated absences – noncurrent portion	1,726,824
Bonds payable – noncurrent portion	<u>15,314,659</u>
Total noncurrent liabilities	<u>33,988,690</u>
Total liabilities	<u>42,860,351</u>

Deferred Inflows of Resources

Deferred inflows related to pensions	1,432,605
Deferred inflows related to OPEB	156,623
Total deferred inflows of resources	<u>1,589,228</u>

Net Position

Net investment in capital assets	108,760,225
Restricted for debt service	3,106,611
Unrestricted net position	<u>45,606,747</u>
Total net position	<u>157,473,583</u>

Total liabilities, deferred inflows of resources, and net position	<u>\$ 201,923,162</u>
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City of North Little Rock Electric Department
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2021

Operating Revenues	
Sale of electricity, net of uncollectible accounts	\$ 91,998,528
Penalty income	1,309,433
Miscellaneous income	<u>549,916</u>
Total operating revenues	<u>93,857,877</u>
Operating Expenses	
Salaries and fringe benefits	8,066,837
Purchased electricity and transmission costs	49,587,899
Maintenance	5,413,418
Franchise tax	370,254
Depreciation	10,874,998
Other services and charges	<u>3,912,257</u>
Total operating expenses	<u>78,225,663</u>
Operating Income	<u>15,632,214</u>
Nonoperating Revenues (Expenses)	
Interest and investment income	131,053
Interest expense	(595,262)
Trustee fees	(8,000)
Intergovernmental revenue	<u>873,714</u>
Total nonoperating revenues (expenses), net	<u>401,505</u>
Income Before Transfers Out	16,033,719
Transfers to Other City Funds	<u>13,649,306</u>
Increase in Net Position	2,384,413
Net Position, Beginning of Year	<u>155,089,170</u>
Net Position, End of Year	<u><u>\$ 157,473,583</u></u>

City of North Little Rock Electric Department

Statement of Cash Flows

Year Ended December 31, 2021

Cash Flows from Operating Activities	
Receipts from customers	\$ 95,568,368
Payments to vendors	(7,827,282)
Payments for purchase of electricity	(49,587,899)
Payments for taxes	(370,254)
Payments to employers	(8,012,356)
Net cash flows provided from operating activities	<u>29,770,577</u>
Cash Flows from Noncapital Financing Activities	
Transfers to other departments	(13,649,306)
Net reduction of due to/from other funds	(2,465,161)
Proceeds from grants	873,714
Net cash flows used by noncapital financing activities	<u>(15,240,753)</u>
Cash Flows from Capital and Related Financing Activities	
Repayment of long-term debt and bonds payable	(5,507,807)
Purchase of property, plant, and equipment	(7,477,931)
Interest paid	(599,423)
Trustee payments	(8,000)
Net cash flows used by capital and related financing activities	<u>(13,593,161)</u>
Cash flows from investing activities	
Proceeds from sale of investments	3,111,461
Purchase of investments	(5,000,000)
Interest on investments	131,053
Net cash flows used by investing activities	<u>(1,757,486)</u>
Net Decrease in Cash and Cash Equivalents	(820,823)
Cash and Cash Equivalents, Beginning of the Year	<u>51,502,864</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 50,682,041</u>
Reconciliation of Operating Income to Net Cash Provided from Operating Activities	
Operating income	\$ 15,632,214
Adjustments to Reconcile Operating Income to Net Cash Provided from (Used By) Operating Activities	
Depreciation expense	11,455,210
Decrease in assets and deferred outflows of resources	
Accounts receivable	973,713
Unbilled revenues	736,778
Prepaid expenses	1,089,864
Inventory	(1,089,216)
Deferred outflows of resources	50,427
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable	1,025,617
Accrued expenses	(250,802)
Customer deposits payable	142,718
Pension and OPEB	(187,187)
Compensated absences	12,903
Deferred inflows of resources	178,338
Net cash provided from operating activities	<u>\$ 29,770,577</u>

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

Note 1: Summary of Significant Accounting Policies

Principles of Operations and Reporting Entity

The City of North Little Rock Electric Department (Department) generates and provides electrical power to residents and businesses of the City of North Little Rock, Arkansas (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.

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 entities. As an enterprise fund of the City of North Little Rock, the Department has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* (GASB 34). GASB 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.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 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 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 \$105,587 at December 31, 2021.

Unbilled Revenues

The Department bills customers for electric services after usage based upon meter readings made during the month. The Department records a receivable for unbilled revenue at December 31 for estimated usage for which bills have not been sent.

Inventory and Prepaid Items

Inventory consists of materials and supplies valued at the lower of cost or market, using the average cost method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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 includes 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.

Restricted Cash

The Departments bond agreements restrict certain assets for the payment of debt service, capital improvements, and repairs and maintenance, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position.

Customer's deposits received for electric services are, by law, to be considered restricted assets.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future reporting period(s), and so will not be recognized as an outflow of resources (expense) until then. The Department has three types of items that qualify for reporting in this category. The deferred pension outflows relate to pension items requiring deferral under GASB 68, the deferred outflows from other postemployment benefits relate to OPEB items requiring deferral under GASB 75. The department also has deferred outflows related to loss on bond refunding which will be amortized over the life if the refunding bond or new bond, whichever is shorter.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has two types of items that qualify for reporting in this category. The deferred pension inflows relate to pension items requiring deferral under GASB 68 and the deferred inflows from other postemployment benefits relate to OPEB items requiring deferral under GASB 75.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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 amount of transfers is \$13,649,306 for the year ended December 31, 2021.

Note 2: Deposits, Investments, and Investment Income

Interest Rate Risk

The Department has no formal policy to limit its exposure to fair value losses due to rising interest rates. The investments subject to interest rate risk at December 31, 2021, are as follows:

		Investment Maturities (in Years)		
	Fair Value	0-1	1-2	2-5
December 31, 2021				
Investments subject to interest rate risk				
U.S. agency securities	\$ 4,970,570	-	4,970,570	-
Money market mutual funds	10,915,013	10,915,013	-	-
Total investments	\$ 15,885,583	\$ 10,915,013	\$ 4,970,570	\$ -

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.

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. State statutes require all time and demand deposits to be fully insured or collateralized. Accounts with under \$250,000 balance of either an interest bearing account or non-interest bearing account are covered by FDIC deposit insurance. The total cash held in demand deposits has been fully collateralized and meets statutes' requirements. At December 31, 2021, none of the Department's bank balances of \$40,278,873 (with a carrying value of \$39,767,028) were exposed to custodial credit risk.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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 \$10,915,013 which are included in cash and cash equivalents and restricted cash and cash equivalents at December 31, 2021.

Fair Value of Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Investments by fair value level				
U.S. agency securities	\$ 4,970,570	\$ -	\$ 4,970,570	\$ -
Total investments by fair value level	4,970,570	\$ -	\$ 4,970,570	\$ -
Investment measured at amortized cost				
Money market mutual funds	10,915,013 *			
Total investments	\$ 15,885,583			

* Included in Cash and Cash Equivalents Per Report

City of North Little Rock Electric Department
Notes to Financial Statements
December 31, 2021

Note 3: Property, Plant and Equipment

Property, plant, and equipment consisted of the following at December 31, 2021:

	Balance January 1, 2021	Additions	Retirements	Transfers	Balance December 31, 2021
Capital assets, not being depreciated					
Land	\$ 2,032,960	\$ -	\$ -	\$ -	\$ 2,032,960
Construction in progress	6,317,103	6,598,131	-	(4,346,999)	8,568,235
Total capital assets, not being depreciated	8,350,063	6,598,131	-	(4,346,999)	10,601,195
Capital assets, being depreciated					
Plant and equipment	305,475,929	879,800	(2,736,066)	4,346,999	307,966,662
Total capital assets, being depreciated	305,475,929	879,800	(2,736,066)	4,346,999	307,966,662
Less accumulated depreciation for:					
Plant and equipment	(180,291,117)	(11,455,210)	2,736,066	-	(189,010,261)
Total accumulated depreciation	(180,291,117)	(11,455,210)	2,736,066	-	(189,010,261)
Total capital assets, being depreciated, net	125,184,812	(10,575,410)	-	4,346,999	118,956,401
Total capital assets, net	\$ 133,534,875	\$ (3,977,279)	\$ -	\$ -	\$ 129,557,596

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, 2021, was \$580,212.

Note 4: Long-term Debt

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, 2018, with the final payment due May 1, 2031. The bond shall bear interest at a fixed rate per annum for 96 months equivalent to 2.47 percent and at a fixed rate per annum equivalent to 2.57 percent for the remaining 78 months. Interest will be payable semiannually on May 1 and November 1 of each year, commencing May 1, 2018.

On March 6, 2020, the Department issued a Series 2020 A & B refunding revenue bond totaling \$16,479,710. Principal on the bond shall be paid annually, on a graduated basis, on July 1 of each year, commencing July 1, 2020, with the final payment due July 1, 2025. The bond shall bear interest rates ranging between 1.853 percent and 1.921 percent. Interest will be payable semiannually on July 1 and December 1 of each year, commencing July 1, 2020.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

The following is a summary of the bonds payable activity for the years ended December 31, 2021:

	Beginning Balance January 1, 2021	Additions	Retirements	Ending Balance December 31, 2021	Due Within One Year
Revenue bonds	\$ 26,432,337	\$ -	\$ 5,507,807	\$ 20,924,530	\$ 5,609,871
Accrued compensated absences	1,849,058	114,510	101,607	1,861,961	135,137
Total	<u>\$ 28,281,395</u>	<u>\$ 114,510</u>	<u>\$ 5,609,414</u>	<u>\$ 22,786,491</u>	<u>\$ 5,745,008</u>

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

	Revenue Bonds		
	Principal	Interest	Total
2022	\$ 5,609,871	\$ 403,060	\$ 6,012,931
2023	2,910,103	317,429	3,227,532
2024	2,971,911	256,013	3,227,924
2025	3,027,645	193,246	3,220,891
2026	1,000,000	153,759	1,153,759
2027-2031	<u>5,405,000</u>	<u>359,384</u>	<u>5,764,384</u>
	<u>\$ 20,924,530</u>	<u>\$ 1,682,891</u>	<u>\$ 22,607,421</u>

The City of North Little Rock, Arkansas, will maintain rates sufficient to produce net revenues equal to at least 125 percent 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 year ended December 31, 2021, the Department was in compliance with this covenant.

Note 5: Non-Uniformed Employees Retirement Plan

Plan Description

All full-time employees of the Department are participants of the "The Retirement System of the City of North Little Rock" (Non-uniformed Plan) defined benefit plan. The provisions of the Non-uniformed Plan call for employee contributions of five percent of gross earnings to be paid through payroll withholdings. Each month, the Department contributes 11.85 percent of each employee's monthly compensation.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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.

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

The recommended contribution level for the 2021 Plan Year for the City as a whole, including employee contributions, is 19.15 percent. For 2021, the Department's contributions to the Plan were \$897,271.

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

The Plan's collective net pension liability of \$31,748,047 was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. Each component unit's proportion of the net pension liability was based on the component units share of contributions to the pension plan relative to the total contributions of all participating component units.

At December 31, 2021, the department's proportionate share was 28.1 percent, and the Department recorded a liability of \$8,921,201 for its proportionate share of the net pension liability.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

For the year ended December 31, 2021, the Department recognized pension expense of \$890,228. At December 31, 2021, 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	\$ 361,264	\$ 249,635
Changes of actuarial assumptions	789,525	576,523
Changes in proportion	316,387	53,899
Net difference between projected and actual earnings on pension plan investments	-	552,548
	<u>\$ 1,467,176</u>	<u>\$ 1,432,605</u>

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

Year Ended December 31	Amount
2022	\$ 33,052
2023	(322,105)
2023	241,791
2024	(46,748)
2025	61,571
Thereafter	<u>67,010</u>
Total	<u>\$ 34,571</u>

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

Actuarial Assumptions

The total pension liability in the January 1, 2022, 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	3.5% Annually
Mortality Table	Based on the Retirement Plans 2014 Mortality Table

Cost of Living Adjustment (COLA)

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

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	40%	2.25%
Domestic Equity	40%	4.75%
Foreign Equity	12%	6.25%
Alternatives	4%	4.50%
Cash	4%	0.25%
	<hr/>	
Total	<hr/> <hr/>	
	100%	
Expected Inflation		2.50%

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

Single Discount Rate

A single discount rate of 6.50 percent 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 percent. The projection of cash flows, based on the assumptions made, found that the pension plan's net together with the employer contributions and projected investment returns will be sufficient to meet benefit payments and expenses in all future years.

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 percent, 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 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% Decrease (5.5%)	Current Single Rate	1% Increase (7.5%)
The Department's proportionate share of the net pension liability	<u>\$ 12,086,359</u>	<u>\$ 8,921,201</u>	<u>\$ 6,283,012</u>

Note 6: 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 \$1,649,306 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 year ended December 31, 2021.

On January 30, 2017, a note in the amount of \$1,105,000 was issued from North Little Rock Electric Department to the City of North Little Rock. The note has a maturity date of December 1, 2031, with an interest rate of 3.25 percent. On July 16, 2019, an additional note in the amount of \$790,000 was issued from North Little Rock Electric Department to the City of North Little Rock with an interest rate of 5.25 percent maturing on December 1, 2031. The notes are recorded as a due from other funds on the accompanying balance sheet and the total amount owed to the Department as of December 31, 2021, was \$1,565,000.

The Electric Department transfers funds to the General Fund based on amounts directed and authorized by the City Council in the annual budget. At December 31, 2021, the Department owed the City's General Fund in the amount of \$1,066,167.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

Note 7: 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, 2021. Events could occur that would cause the estimate of the ultimate loss to differ materially in the near term.

Note 8: 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 (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 percent 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, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	-
Active employees	118
	<hr/>
	119
	<hr/>

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

Actuarial Assumptions

The Department's share of the total OPEB liability was measured as of December 31, 2021, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2020, using the following actuarial assumptions:

Inflation:	3% per year
Healthcare 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:	2.25% per annum, as required by GASB 75
Mortality Table:	Based on retirement Plans 2014 Mortality Rate

Total OPEB Liability

The components of the Departments proportionate share of the total OPEB liability at December 31, 2021, were as follows:

Balance at January 1, 2021	<u>\$ 704,806</u>
Changes for the year	
Service cost	46,514
Interest on total OPEB liability	24,386
Difference between expected and actual experience	-
Benefit payments	(6,565)
Effect of assumptions changes or inputs	<u>(33,232)</u>
Net Changes	<u>31,103</u>
Balance at December 31, 2021	<u><u>\$ 735,909</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 1.93 percent at December 31, 2020, to 2.25 percent at December 31, 2021.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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 one percent lower or one percent higher than the current discount rate:

	1% Decrease in Discount Rate (1.25%)	Current Discount Rate Assumption (2.25%)	1% Increase in Discount Rate (3.25%)
Total OPEB liability	\$ 812,475	\$ 735,909	\$ 664,613

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 total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current healthcare cost trend rate:

	1% Decrease in Discount Rate (7%)	Current Health Care Trend Cost (8%)	1% Increase in Discount Rate (9%)
Total OPEB liability	\$ 617,158	\$ 735,909	\$ 885,001

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

For the year ended December 31, 2021, the Department recognized OPEB expense of \$63,317. At December 31, 2021, 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 in expected and actual experience	\$ -	\$ 107,857
Changes of actuarial assumptions	90,492	48,766
	<u>\$ 90,492</u>	<u>\$ 156,623</u>

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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, 2020	Net Deferred Outflow/ (Inflow) of Resources
2022	\$ (7,583)
2023	(7,583)
2024	(7,583)
2025	(7,583)
2026	(7,583)
Thereafter	<u>(28,216)</u>
Totals	<u><u>\$ (66,131)</u></u>

Note 9: 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. During 2021, the Department paid approximately \$10,035,000 in purchased power from MJMEUC.

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 2019, 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.

City of North Little Rock Electric Department

Notes to Financial Statements

December 31, 2021

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. During 2021, the Department paid approximately \$20,900,000 in purchased power from MISO. Additionally, the Department paid approximately \$8,750,000 in transmission costs to MISO for the fiscal year ended December 31, 2021.

In 2015, the City of North Little Rock, Arkansas entered into a power purchase agreement with The Energy Authority, Inc. (TEA). Under the agreement, the Department agrees to purchase certain volumes of energy at an agreed upon price. During 2021, the Department paid approximately \$7,400,000 in purchased power from TEA.

Note 10: Risk Management

The Department has various insurance policies to cover its potential liability risk areas (*e.g.*, automobile, personal property, contents and outside structures, and worker's compensation). Coverage is provided both commercially and through the Arkansas Municipal League (AML), which is an association of local governments. The Department pays an annual premium to the pool. Management believes the coverage is adequate to preclude any significant uninsured risk exposure to the Department. There have been no significant reductions in coverage from 2020 to 2021; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

City of North Little Rock Electric Department
Schedule of the Department's Proportionate Share of the Net Pension Liability
Last Seven Years
December 31, 2021

	2021	2020	2019	2018	2017
Department's proportion of the net pension liability	28.10%	28.10%	27.60%	27.80%	27.00%
Department's proportionate share of the net pension liability	\$ 8,921,201	\$ 9,139,491	\$ 7,876,004	\$ 8,810,416	\$ 6,872,948
Department's covered-employee payroll	\$ 7,571,914	\$ 7,704,469	\$ 6,796,086	\$ 6,648,574	\$ 6,280,067
Department's proportionate share of the net pension liability as a percentage of the total pension liability	117.82%	118.63%	115.89%	132.52%	108.01%
Plan Fiduciary net position as a percentage of the total pension liability	65.27%	62.39%	64.44%	58.40%	65.44%
	2016	2015			
Department's proportion of the net pension liability	25.40%	25.90%			
Department's proportionate share of the net pension liability	\$ 6,668,532	\$ 4,825,855			
Department's covered-employee payroll	\$ 5,583,222	\$ 5,076,918			
Department's proportionate share of the net pension liability as a percentage of the total pension liability	119.44%	95.05%			
Plan Fiduciary net position as a percentage of the total pension liability	62.24%	69.11%			

Note: The Utility began to report the above information when it implemented GASB Statement No. 68 in fiscal year 2015. This Pension schedule is intended to present information for ten years. Additional information will be displayed as it becomes available.

City of North Little Rock Electric Department
Schedule of Department Contributions
Last Seven Years
December 31, 2021

	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 1,154,717	\$ 1,090,182	\$ 1,075,820	\$ 913,514	\$ 970,270
Contribution in relation of the actuarially determined contribution	<u>897,271</u>	<u>770,446</u>	<u>679,609</u>	<u>664,857</u>	<u>565,206</u>
Contribution deficiency (excess)	<u>\$ 257,446</u>	<u>\$ 319,737</u>	<u>\$ 396,211</u>	<u>\$ 248,657</u>	<u>\$ 405,064</u>
Covered-employee payroll	\$ 7,571,914	\$ 7,704,469	\$ 6,796,086	\$ 6,648,574	\$ 6,280,067
Contributions as a percentage of covered payroll	11.85%	10.00%	10.00%	10.00%	9.01%
	2016	2015			
Actuarially determined contribution	\$ 743,127	\$ 574,707			
Contribution in relation of the actuarially determined contribution	<u>334,398</u>	<u>304,615</u>			
Contribution deficiency (excess)	<u>\$ 408,729</u>	<u>\$ 270,092</u>			
Covered-employee payroll	\$ 5,583,222	\$ 5,076,918			
Contributions as a percentage of covered payroll	5.99%	6.00%			

Note: The Utility began to report the above information when it implemented GASB Statement No. 68 in fiscal year 2015. This Pension schedule is intended to present information for ten years. Additional information will be displayed as it becomes available.

City of North Little Rock Electric Department
Schedule of Changes in the Department's Proportionate Share of
the Total OPEB Liability and Related Ratios
December 31, 2021

	2021	2020	2019	2018
Total OPEB Liability, Beginning of Year	\$ 704,806	\$ 668,809	\$ 614,139	\$ 653,589
Changes for the year				
Service cost	46,514	35,113	32,553	34,804
Interest	24,386	22,831	23,105	20,653
Difference between expected and actual experience	-	(104,407)	-	(33,650)
Benefit payments	(6,565)	(7,162)	(23,873)	(33,422)
Changes of assumptions	(33,232)	89,622	22,885	(27,835)
Total OPEB Liability, End of Year	<u>\$ 735,909</u>	<u>\$ 704,806</u>	<u>\$ 668,809</u>	<u>\$ 614,139</u>
Covered-employee Payroll	\$ 7,571,914	\$ 7,704,469	\$ 6,796,086	\$ 6,796,086
Total OPEB Liability as a Percentage of Covered-employee Payroll	9.72%	9.15%	9.84%	9.04%

Notes to Schedule:

None

Changes of benefit terms:

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2017	3.16%
2018	3.64%
2019	3.26%
2020	1.93%
2021	2.25%

Note: The Utility began to report the above information when it implemented GASB Statement 75 in fiscal year 2018. This OPEB schedule is intended to present information for ten years. Additional information will be displayed as it becomes available.

No amounts are accumulated in a trust that meets the criteria in paragraph four of GASB Statement No. 75 to pay related benefits.

Other Supplementary Information

City of North Little Rock Electric Department
Budgetary Comparison Schedule
Year Ended December 31, 2021

	Original and Final Budget	2021 Actual	Actual Over (Under) Budget
Operating Revenues			
Sale of electricity, net of uncollectible accounts	\$ 91,000,000	\$ 91,998,528	\$ 998,528
Penalty income	1,500,000	1,309,433	(190,567)
Miscellaneous income	850,000	549,916	(300,084)
	<u>93,350,000</u>	<u>93,857,877</u>	<u>507,877</u>
Operating Expenses			
Salaries and fringe benefits	11,306,852	8,066,837	(3,240,015)
Purchased electricity	58,165,714	49,587,899	(8,577,815)
Maintenance	2,250,000	5,413,418	3,163,418
Franchise tax	400,000	370,254	(29,746)
Depreciation	11,000,000	10,874,998	(125,002)
Other services and charges	-	3,912,257	3,912,257
	<u>83,122,566</u>	<u>78,225,663</u>	<u>(4,896,903)</u>
Operating Income	<u>10,227,434</u>	<u>15,632,214</u>	<u>5,404,780</u>
Nonoperating Revenues (Expenses):			
Interest and Investment Income	500,000	131,053	(368,947)
Interest Expense	(500,000)	(595,262)	(95,262)
Trustee Fees	(10,000)	(8,000)	2,000
Grant Income	2,625,000	873,714	(1,751,286)
	<u>2,615,000</u>	<u>401,505</u>	<u>(2,213,495)</u>
Income Before Transfers Out	12,842,434	16,033,719	3,191,285
Transfers Out	<u>12,000,000</u>	<u>13,649,306</u>	<u>1,649,306</u>
Increase (Decrease) in Net Position	842,434	2,384,413	1,541,979
Net Position, Beginning of Year	<u>155,089,170</u>	<u>155,089,170</u>	<u>-</u>
Net Position, End of Year	<u>\$ 155,931,604</u>	<u>\$ 157,473,583</u>	<u>\$ 1,541,979</u>

City of North Little Rock Electric Department
Schedule of Net Revenues and Debt Service Requirements
Year Ended December 31, 2021

Revenues

Sale of electricity, net of uncollectible accounts	\$ 91,998,528
Penalty income	1,309,433
Miscellaneous income	<u>549,916</u>

Total revenues	<u>93,857,877</u>
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Expenses, Excluding Depreciation and Interest Expense

Salaries and fringe benefits	8,066,837
Purchased electricity	49,587,899
Maintenance	5,413,418
Franchise tax	370,254
Other services and charges	<u>3,912,257</u>

Total expenses	<u>67,350,665</u>
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Net Available for Debt Service	<u>\$ 26,507,212</u>
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Average Remaining Annual Debt Service Requirements	\$ 2,260,742
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Net Earnings Coverage	11.73
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Minimum Requirement	1.25
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**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***

Independent Auditor's Report

Members of 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 activities of the City of North Little Rock Electric Department (Department), enterprise fund of the City of North Little Rock, Arkansas, which comprise the statement of net position as of December 31, 2021, 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, and have issued our report thereon dated May 19, 2022, which contains an emphasis of matter paragraph related to the presentation of Department only financial statements.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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*.

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 entity'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.

BKD, LLP

Dallas, Texas
May 19, 2022