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# **City of North Little Rock Electric Department**

## **Financial Statements and Supplementary Information with Independent Auditor's Reports**

December 31, 2023



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# City of North Little Rock Electric Department

## December 31, 2023

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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), an enterprise fund of the City of North Little Rock, Arkansas, as of and for the year ended December 31, 2023, 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, 2023, 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 (*Government Auditing Standards*). 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, 2023, 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.

### ***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.

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 GAAS, 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 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 30, 2024, 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.

**FORVIS, LLP**

**Dallas, Texas  
May 30, 2024**

# **City of North Little Rock Electric Department**

## **Management's Discussion and Analysis**

### **December 31, 2023**

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 fiscal year ended December 31, 2023. 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, required supplementary information 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, required supplementary information, 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, 2023. The financial statements were audited and adjusted, if material, during the independent external audit process.

#### **Financial Analysis**

The financial statements on pages 8 through 10 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, 2023

#### **Statement of Net Position**

As of December 31, 2023 total assets and deferred outflows exceeded total liabilities and deferred inflows by \$175,514,983. Of the total net position, \$115,367,289 was invested in capital assets, \$1,786,631 was restricted for debt service and \$58,361,063 was unrestricted.

	<b>2023</b>	<b>2022*</b>
Current Assets	\$ 75,928,861	\$ 63,329,144
Other non-current assets	10,241,122	10,319,459
Capital and subscription assets, net	128,068,444	125,227,031
Deferred outflows of resources	2,236,894	3,088,110
Current liabilities	10,215,474	8,286,672
Non-current liabilities	30,055,187	33,426,564
Deferred inflows of resources	689,677	955,701
<b>Net Position</b>		
Net investment in capital assets	115,367,289	109,997,145
Restricted for debt service	1,786,631	1,725,938
Unrestricted net position	58,361,063	47,571,724

\* Fiscal year 2022 amounts have not been restated for adoption of GASB 96

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 7.43 for 2023. 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 ratio for the year ending December 31, 2023, was 6%.

# City of North Little Rock Electric Department

## Management's Discussion and Analysis

### December 31, 2023

#### ***Statement of Revenues, Expenses, and Changes in Net Position***

For the year ending December 31, 2023, operating revenues were \$106,771,617 and operating expenses were \$81,648,728. Non-operating revenues (expenses), net totaled \$4,746,633 which consisted of non-operating revenues of \$5,302,238 and non-operating expenses of \$555,605. Transfers to the City were \$13,649,346. The result was an increase in net position in the amount of \$16,220,176.

	<b>2023</b>	<b>2022</b>
Operating revenues	\$ 106,771,617	\$ 102,966,537
Operating expenses	81,648,728	88,838,375
Non-operating revenues	5,302,238	1,810,398
Non-operating expenses	555,605	467,990
Transfers to the City	13,649,346	13,649,306
 Increase in net position	 <u>\$ 16,220,176</u>	 <u>\$ 1,821,264</u>

The NLRED operating revenues for 2023 increased \$3,805,080 from 2022. The main reason for the increase was due to additional system load of 514,650 kWh as 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 2023 across all classes was 39,873.

Operating expenses, including depreciation and amortization expense, decreased \$7,189,647 in 2023. This decrease was primarily the result of below average purchase power costs in 2023 after being well above average in 2022 due to a 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 \$8.1M due to an increase in sales. Operating expenses were approximately \$24.8M less than the amount budgeted. This is mainly due to below average power prices in 2023 somewhat offset by various other services and charges not included in the budget. The change in Net Position was approximately \$37.9M greater than the amount budgeted.

See "Budgetary Comparison Schedule" on page 33 of this report.



# City of North Little Rock Electric Department

## Management's Discussion and Analysis

### December 31, 2023

#### ***Capital and Subscription Assets and Debt Administration***

**Capital and subscription assets.** The Department's investment in capital and subscription assets as of December 31, 2023, amounts to \$128,068,444 (net of accumulated depreciation and amortization). This investment in capital and subscription assets includes land, plant and equipment, and subscription assets. Capital and subscription assets increased by approximately \$2.8 million as a result of \$14.5 million in additions to the electric system and subscription assets offset by \$11.3 million in current year depreciation and amortization expense.

#### **Department's Capital and Subscription Assets (Net of Depreciation and Amortization)**

	<b>2023</b>	<b>2022*</b>
Land	\$ 2,382,960	\$ 2,382,960
Construction in process	12,016,108	10,359,974
Plant and equipment	113,239,312	112,484,097
Subscription assets	430,064	-
	<hr/>	<hr/>
Total	<u>\$ 128,068,444</u>	<u>\$ 125,227,031</u>

\* Fiscal year 2022 amounts have not been restated for the adoption of GASB 96

**Long-term Debt.** At the end of the current fiscal year, the Department had total bonded debt and subscription liability of \$12,743,542. The entire amount of debt is backed by the full faith and credit of the government. Revenue bonds payable decreased from \$15.3 million to \$12.4 million during 2023 due to scheduled bond payments.

#### **Department's Outstanding Debt and Subscription Liability**

	<b>2023</b>	<b>2022*</b>
Revenue bonds	\$ 12,404,556	\$ 15,314,659
Subscription liability	338,986	-
	<hr/>	<hr/>
Total	<u>\$ 12,743,542</u>	<u>\$ 15,314,659</u>

\* Fiscal year 2022 amounts have not been restated for the adoption of GASB 96

#### ***Requests for Information***

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Operations, P.O. Box 936, North Little Rock Electric Department, North Little Rock, AR, 72115.

## **Financial Statements**

# City of North Little Rock Electric Department

## Statement of Net Position

### December 31, 2023

#### Assets

##### Current Assets

Cash and cash equivalents	\$ 37,056,774
Investments	15,632,752
Accounts receivable, net of allowance	6,567,769
Other receivables	10,629
Due from other funds	145,000
Unbilled revenue	5,897,122
Materials and supplies	9,161,690
Prepaid expenses	1,457,125
Total current assets	<u>75,928,861</u>

##### Noncurrent Assets

Restricted cash and cash equivalents	9,086,122
Due from other funds	1,155,000
Total other non-current assets	<u>10,241,122</u>

##### Capital and Subscription Assets

Property, plant, and equipment	332,535,834
Subscription assets	627,852
Less: accumulated depreciation and amortization	<u>(205,095,242)</u>
Total capital and subscription assets	<u>128,068,444</u>
Total assets	<u>214,238,427</u>

##### Deferred Outflows of Resources

Deferred loss on refunding	42,387
Deferred amounts related to pensions	2,109,520
Deferred amounts related to OPEB	84,987
Total deferred outflows of resources	<u>2,236,894</u>

Total assets and deferred outflows of resources \$ 216,475,321

#### Liabilities

##### Current Liabilities

Accounts payable	\$ 3,445,574
Accrued expenses and other liabilities	1,184,242
Due to other funds	2,069,972
Bonds payable – current portion	2,971,911
Subscription liability – current portion	267,697
Accrued compensated absences	170,089
Accrued interest payable	105,989
Total current liabilities	<u>10,215,474</u>

##### Noncurrent Liabilities

Customer deposits payable	7,234,996
Net pension liability	11,227,187
Total OPEB liability	463,566
Accrued compensated absences – noncurrent portion	1,625,504
Bonds payable – noncurrent portion	9,432,645
Subscription liability – noncurrent portion	71,289
Total noncurrent liabilities	<u>30,055,187</u>
Total liabilities	<u>40,270,661</u>

##### Deferred Inflows of Resources

Deferred inflows related to pensions	278,665
Deferred inflows related to OPEB	411,012
Total deferred inflows of resources	<u>689,677</u>

##### Net Position

Net investment in capital assets	115,367,289
Restricted for debt service	1,786,631
Unrestricted net position	58,361,063
Total net position	<u>175,514,983</u>

Total liabilities, deferred inflows of resources, and net position \$ 216,475,321

**City of North Little Rock Electric Department**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2023**

<b>Operating Revenues</b>	
Sale of electricity, net of uncollectible accounts	\$ 105,120,915
Penalty income	1,393,744
Miscellaneous income	256,958
	<hr/>
Total operating revenues	106,771,617
	<hr/>
<b>Operating Expenses</b>	
Salaries and fringe benefits	9,020,237
Purchased electricity and transmission costs	50,804,855
Maintenance	5,495,039
Franchise tax	356,183
Depreciation and amortization	10,786,109
Other services and charges	5,186,305
	<hr/>
Total operating expenses	81,648,728
	<hr/>
<b>Operating Income</b>	25,122,889
	<hr/>
<b>Nonoperating Revenues (Expenses)</b>	
Interest and investment income	1,858,330
Interest expense	(541,605)
Trustee fees	(14,000)
Intergovernmental revenue	3,443,908
	<hr/>
Total nonoperating revenues (expenses), net	4,746,633
	<hr/>
<b>Income Before Transfers Out</b>	29,869,522
	<hr/>
<b>Transfers to Other City Funds</b>	13,649,346
	<hr/>
<b>Increase in Net Position</b>	16,220,176
	<hr/>
<b>Net Position, Beginning of Year</b>	159,294,807
	<hr/>
<b>Net Position, End of Year</b>	\$ 175,514,983
	<hr/>

# City of North Little Rock Electric Department

## Statement of Cash Flows

### Year Ended December 31, 2023

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 103,938,624
Payments to vendors	(11,743,033)
Payments for purchase of electricity	(50,804,855)
Payments for taxes	(356,183)
Payments to employees	(8,966,036)
Net cash flows provided from operating activities	<u>32,068,517</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers to other departments	(13,649,346)
Net reduction of due to/from other funds	135,000
Net cash flows used by noncapital financing activities	<u>(13,514,346)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Repayment of revenue bonds	(2,910,103)
Repayment of subscription liability	(288,866)
Purchase of property, plant, and equipment	(13,601,091)
Interest paid	(489,752)
Proceeds from grants	3,443,908
Trustee payments	(14,000)
Net cash flows used by capital and related financing activities	<u>(13,859,904)</u>
<b>Cash flows from investing activities</b>	
Proceeds from sale of investments	36,779,808
Purchase of investments	(34,647,637)
Interest on investments	1,858,330
Net cash flows provided from investing activities	<u>3,990,501</u>
<b>Net Increase in Cash and Cash Equivalents</b>	8,684,768
<b>Cash and Cash Equivalents, Beginning of the Year</b>	<u>37,458,128</u>
<b>Cash and Cash Equivalents, End of the Year</b>	<u>\$ 46,142,896</u>
<b>Reconciliation of Operating Income to Net Cash Provided from Operating Activities</b>	
Operating income	\$ 25,122,889
<b>Adjustments to Reconcile Operating Income to Net Cash Provided from Operating Activities</b>	
Depreciation and amortization expense	11,387,530
Decrease in assets and deferred outflows of resources	
Accounts receivable	(3,234,979)
Unbilled revenues	401,986
Prepaid expenses	102,604
Inventory	(3,373,394)
Deferred outflows of resources	808,830
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable	997,139
Accrued expenses	578,586
Customer deposits payable	31,955
Pension and OPEB	(491,249)
Compensated absences	2,644
Deferred inflows of resources	(266,024)
Net cash provided from operating activities	<u>\$ 32,068,517</u>
<b>Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities</b>	
Addition of subscription assets via long-term obligations	\$ 621,525

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### 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:

- Net Investment in Capital Assets - consists of capital and subscription assets, including restricted capital assets, net of accumulated depreciation/amortization 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.
- 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.
- 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/amortization on capital and subscription 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, 2023**

### ***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 \$143,244 at December 31, 2023.

### ***Unbilled Revenue***

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 expenses.

# **City of North Little Rock Electric Department**

## **Notes to Financial Statements**

### **December 31, 2023**

#### ***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. The Department had restricted assets for debt service in the amount of \$1,786,631 at December 31, 2023.

Customer's deposits received for electric services are, by law, to be considered restricted assets. The Department had restricted assets for customer's deposits in the amount of \$7,299,491 at December 31, 2023.

#### ***Long-Term Obligations***

Long-term obligations are reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as period costs when incurred.

#### ***Subscription Assets and Liability***

The Department contracts for noncancellable subscriptions of information technology software. At the commencement of a subscription, the Department measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial direct costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life or subscription term, whichever is shorter.

Key estimates and judgments related to subscriptions include how the Department determines: (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Department uses the interest rate charged by the subscription-based information technology arrangement (SBITA) vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for subscriptions.



# **City of North Little Rock Electric Department**

## **Notes to Financial Statements**

### **December 31, 2023**

- The subscription term includes the noncancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with capital and subscription assets and subscription liabilities are reported with long-term liabilities on the statement of net position.

#### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Department's defined benefit pension plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### ***Postemployment Benefits Other Than Pensions (OPEB)***

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the Department's Health Care Plan and additions to/deductions from the Plan have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

#### ***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 net 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 assets 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, and 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 of the refunding bond or new bond, whichever is shorter.

# **City of North Little Rock Electric Department**

## **Notes to Financial Statements**

### **December 31, 2023**

In addition to liabilities, the statement of net 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 assets 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.

#### ***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 \$13,649,346 for the year ended December 31, 2023.

#### ***Adoption of New Accounting Standards***

The Department adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which was effective for the Department beginning in fiscal year 2023. This statement addresses accounting and financial reporting for subscription-based information technology arrangements (SBITAs), a type of information technology (IT) arrangement (i.e., software licensing). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (intangible asset) and a corresponding subscription liability, provides capitalization criteria, and requires footnote disclosure. Implementation of GASB 96 did not have a material impact on the Department.

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### 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, 2023, are as follows:

	Fair Value	Investment Maturities (in Years)		
		0-1	1-2	2-5
<b>December 31, 2023</b>				
Investments subject to interest rate risk				
U.S. agency securities	\$ 2,331,630	\$ -	\$ 2,331,630	\$ -
U.S. treasuries	13,301,122	13,301,122	-	-
Money market mutual funds	10,041,029	10,041,029	-	-
Total investments	\$ 25,673,781	\$ 23,342,151	\$ 2,331,630	\$ -

##### ***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, 2023, none of the Department's bank balances of \$36,777,089 (with a carrying value of \$36,101,867) were exposed to custodial credit risk.

##### ***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 money market funds totaling \$10,041,029 which are included in cash and cash equivalents and restricted cash and cash equivalents at December 31, 2023.

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### ***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, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl e Inputs (Level 3)
<b>December 31, 2023</b>				
Investments by fair value level				
U.S. treasury obligations	\$ 13,301,122	\$ 13,301,122	\$ -	\$ -
U.S. agency securities	<u>2,331,630</u>	<u>-</u>	<u>2,331,630</u>	<u>-</u>
Total investments by fair value level	15,632,752	<u><u>\$ 13,301,122</u></u>	<u><u>\$ 2,331,630</u></u>	<u><u>\$ -</u></u>
Investment measured at amortized cost				
Money market mutual funds	<u>10,041,029</u> *			
Total investments	<u><u>\$ 25,673,781</u></u>			

\* Included in Cash and Cash Equivalents in the Statement of Net Position

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### Note 3: Capital and Subscription Assets

Capital and subscription assets consisted of the following at December 31, 2023:

	Balance January 1, 2023*	Additions	Retirements	Transfers	Balance December 31, 2023
Capital assets, not being depreciated					
Land	\$ 2,382,960	\$ -	\$ -	\$ -	\$ 2,382,960
Construction in progress	10,359,974	11,314,360	(243,923)	(9,414,303)	12,016,108
Total capital assets, not being depreciated	12,742,934	11,314,360	(243,923)	(9,414,303)	14,399,068
Capital and subscription assets, being depreciated/amortized					
Plant and equipment	312,470,103	2,540,212	(6,287,852)	9,414,303	318,136,766
Subscription assets	6,327	621,525	-	-	627,852
Total capital and subscription assets, being depreciated/amortized	312,476,430	3,161,737	(6,287,852)	9,414,303	318,764,618
Less accumulated depreciation and amortization for:					
Plant and equipment	(199,986,006)	(11,189,742)	6,278,294	-	(204,897,454)
Subscription assets	-	(197,788)	-	-	(197,788)
Total accumulated depreciation and amortization	(199,986,006)	(11,387,530)	6,278,294	-	(205,095,242)
Total capital and subscription assets, being depreciated/amortized, net	112,490,424	(8,225,793)	(9,558)	9,414,303	113,669,376
Total capital and subscription assets, net	\$ 125,233,358	\$ 3,088,567	\$ (253,481)	\$ -	\$ 128,068,444

\* Beginning balance amounts have been restated for GASB 96

The Department allocates a portion of total depreciation and amortization expense to various operating expense accounts. The amount of depreciation and amortization expense that was allocated as of December 31, 2023, was \$601,421.

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### 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% 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, 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% and 1.921%. Interest will be payable semiannually on July 1 and December 1 of each year, commencing July 1, 2020.

The following is a summary of the bonds payable, accrued compensated absences, and subscription liability activity for the year ended December 31, 2023:

	Beginning Balance January 1, 2023*	Additions	Retirements	Ending Balance December 31, 2023	Due Within One Year
Revenue bonds	\$ 15,314,659	\$ -	\$ 2,910,103	\$ 12,404,556	\$ 2,971,911
Accrued compensated absences	1,792,949	196,376	193,732	1,795,593	170,089
Subscription liability	6,327	621,525	288,866	338,986	267,697
Total	<u>\$ 17,113,935</u>	<u>\$ 817,901</u>	<u>\$ 3,392,701</u>	<u>\$ 14,539,135</u>	<u>\$ 3,409,697</u>

\* Beginning balance 2022 amounts have been restated for GASB 96

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

	Revenue Bonds		
	Principal	Interest	Total
2024	\$ 2,971,911	\$ 275,432	\$ 3,247,343
2025	3,027,645	218,960	3,246,605
2026	1,000,000	153,759	1,153,759
2027	1,025,000	127,374	1,152,374
2028	1,050,000	100,649	1,150,649
2029-2031	3,330,000	131,361	3,461,361
	<u>\$ 12,404,556</u>	<u>\$ 1,007,535</u>	<u>\$ 13,412,091</u>

# City of North Little Rock Electric Department

## Notes to Financial Statements

December 31, 2023

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 year ended December 31, 2023, the Department was in compliance with this covenant.

An initial subscription liability was recorded for in the amount of \$6,327. As of December 31, 2023, the value of the subscription liabilities was \$338,986. An incremental borrowing rate of 2.61% to 3.76% was used to measure subscription liabilities. The value of the right-to-use subscription assets as of December 31, 2023 was \$627,852 and had accumulated amortization of \$197,788.

Total future minimum subscription payments are as follows for the years ending December 31:

	Principal	Interest	Total
2024	\$ 267,697	\$ 10,480	\$ 278,177
2025	49,487	2,276	51,763
2026	21,802	614	22,416
	<u>\$ 338,986</u>	<u>\$ 13,370</u>	<u>\$ 352,356</u>

### 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 5% of gross earnings to be paid through payroll withholdings. Each month, the Department contributes 12.35% 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.

# **City of North Little Rock Electric Department**

## **Notes to Financial Statements**

### **December 31, 2023**

#### ***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 2023 Plan Year for the City as a whole, including employee contributions, is 17.60%. For 2023, the Department's contributions to the Plan were \$1,064,767.

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

The Plan's collective net pension liability of \$40,678,213 was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2024. 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, 2023, the Department's proportionate share was 27.6%, and the Department recorded a liability of \$11,227,187 for its proportionate share of the net pension liability.



# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

For the year ended December 31, 2023, the Department recognized pension expense of \$1,159,528. At December 31, 2023, the Department reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 573,057	\$ 81,574
Changes of actuarial assumptions	391,578	-
Changes in proportion share	117,591	197,091
Net difference between projected and actual earnings on pension plan investments	<u>1,027,294</u>	<u>-</u>
	<u><u>\$ 2,109,520</u></u>	<u><u>\$ 278,665</u></u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years, as follows:

<b>Year Ended December 31</b>	<b>Amount</b>
2024	\$ 739,921
2025	456,100
2026	562,635
2027	(13,316)
2028	47,125
Thereafter	<u>38,390</u>
Total	<u><u>\$ 1,830,855</u></u>

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### *Actuarial Assumptions*

The total pension liability in the January 1, 2024, 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	14 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	6.5%
Salary Increases	3.5% Annually
Mortality Table	105% Pub-2010, General Employees, below median income Projected with MP-2020 This mortality basis first used for the 2022 ADC

#### *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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Fixed Income	35%	3.50%
US Equity - Large Cap	35%	4.00%
US Equity - Mid/Small Cap	20%	5.25%
Foreign Equity	5%	4.25%
Alternatives	0%	3.75%
Cash	5%	0.50%
Total	100%	
Expected Inflation		2.50%

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### ***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 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%, 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:

	<b>1% Decrease (5.5%)</b>	<b>Current Single Rate (6.5%)</b>	<b>1% Increase (7.5%)</b>
The Department's proportionate share of the net pension liability	<u>\$ 14,611,372</u>	<u>\$ 11,227,187</u>	<u>\$ 8,406,765</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, 2023.

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%. 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% maturing on December 1, 2031. The notes are recorded as a due from other funds on the accompanying statement of net position and the total amount owed to the Department as of December 31, 2023, was \$1,300,000.

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, 2023, the Department owed the City's General Fund in the amount of \$2,069,972.

# City of North Little Rock Electric Department

## Notes to Financial Statements

December 31, 2023

### 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, 2023. 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% 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, 2023, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Active employees	111
	<hr/>
	113
	<hr/>

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

#### ***Actuarial Assumptions***

The Department's share of the total OPEB liability was measured as of December 31, 2023, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2022, 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:	4.00% 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, 2023, were as follows:

<b>Balance at January 1, 2023</b>	\$ 423,939
Changes for the year	
Service cost	24,946
Interest on total OPEB liability	18,910
Benefit payments	(20,292)
Effect of assumptions changes or inputs	16,063
Net Changes	<u>39,627</u>
<b>Balance at December 31, 2023</b>	<u><u>\$ 463,566</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 4.31% at December 31, 2022, to 4.00% at December 31, 2023.

# City of North Little Rock Electric Department

## Notes to Financial Statements

December 31, 2023

### *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 (3.00%)	Current Discount Rate Assumption (4.00%)	1% Increase in Discount Rate (5.00%)
Total OPEB liability	\$ 519,212	\$ 463,566	\$ 413,449

### *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	\$ 389,973	\$ 463,566	\$ 554,548

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

For the year ended December 31, 2023, the Department recognized OPEB expense of \$5,549. At December 31, 2023, 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	\$ -	\$ 282,683
Changes of actuarial assumptions	84,987	128,329
	\$ 84,987	\$ 411,012

# City of North Little Rock Electric Department

## Notes to Financial Statements

### December 31, 2023

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

Year Ending December 31,	Net Deferred Outflow/ (Inflow) of Resources
2024	\$ (38,307)
2025	(38,307)
2026	(38,307)
2027	(38,307)
2028	(38,307)
Thereafter	<u>(134,490)</u>
Totals	<u>\$ (326,025)</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 2023, the Department paid \$14,798,546 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, 2023**

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 2023, the Department paid \$13,908,746 in purchased power from MISO.

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 2023, the Department paid \$9,407,901 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 2022 to 2023; 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 Nine Years**  
**December 31, 2023**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Department's proportion of the net pension liability	27.60%	28.20%	28.10%	28.10%	27.60%
Department's proportionate share of the net pension liability	\$ 11,227,187	\$ 11,758,063	\$ 8,921,201	\$ 9,139,491	\$ 7,876,004
Department's covered-employee payroll	\$ 8,617,618	\$ 8,144,496	\$ 7,571,914	\$ 7,704,469	\$ 6,796,086
Department's proportionate share of the net pension liability as a percentage of the total pension liability	130.28%	144.37%	117.82%	118.63%	115.89%
Plan Fiduciary net position as a percentage of the total pension liability	59.44%	56.10%	65.27%	62.39%	64.44%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	
Department's proportion of the net pension liability	27.80%	27.00%	25.40%	25.90%	
Department's proportionate share of the net pension liability	\$ 8,810,416	\$ 6,872,948	\$ 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 the total pension liability	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%	

**Note:** The Electric Department 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 Nine Years**  
**December 31, 2023**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Actuarially determined contribution	\$ 1,397,778	\$ 1,061,228	\$ 1,154,717	\$ 1,090,182	\$ 1,075,820
Contribution in relation of the actuarially determined contribution	<u>1,064,767</u>	<u>1,004,826</u>	<u>897,271</u>	<u>770,446</u>	<u>679,609</u>
Contribution deficiency (excess)	<u>\$ 333,011</u>	<u>\$ 56,402</u>	<u>\$ 257,446</u>	<u>\$ 319,736</u>	<u>\$ 396,211</u>
Covered-employee payroll	\$ 8,617,618	\$ 8,144,496	\$ 7,571,914	\$ 7,704,469	\$ 6,796,086
Contributions as a percentage of covered payroll	12.36%	12.34%	11.85%	10.00%	10.00%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	
Actuarially determined contribution	\$ 913,514	\$ 970,270	\$ 743,127	\$ 574,707	
Contribution in relation of the actuarially determined contribution	<u>664,857</u>	<u>565,206</u>	<u>334,398</u>	<u>304,615</u>	
Contribution deficiency (excess)	<u>\$ 248,657</u>	<u>\$ 405,064</u>	<u>\$ 408,729</u>	<u>\$ 270,092</u>	
Covered-employee payroll	\$ 6,648,574	\$ 6,280,067	\$ 5,583,222	\$ 5,076,918	
Contributions as a percentage of covered payroll	10.00%	9.01%	5.99%	6.00%	

**Note:** The Electric Department 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, 2023

	2023	2022	2021	2020	2019
<b>Total OPEB Liability, Beginning of Year</b>	\$ 423,939	\$ 735,909	\$ 704,806	\$ 668,809	\$ 614,139
Changes for the year					
Service cost	24,946	43,830	46,514	35,113	32,553
Interest	18,910	17,259	24,386	22,831	23,105
Difference between expected and actual experience	-	(243,732)	-	(104,407)	-
Benefit payments	(20,292)	(19,098)	(6,565)	(7,162)	(23,873)
Changes of assumptions	16,063	(110,229)	(33,232)	89,622	22,885
<b>Total OPEB Liability, End of Year</b>	<u>\$ 463,566</u>	<u>\$ 423,939</u>	<u>\$ 735,909</u>	<u>\$ 704,806</u>	<u>\$ 668,809</u>
<b>Covered-employee Payroll</b>	\$ 8,617,618	\$ 8,144,496	\$ 7,571,914	\$ 7,704,469	\$ 6,796,086
<b>Total OPEB Liability as a Percentage of Covered-employee Payroll</b>	5.38%	5.21%	9.72%	9.15%	9.84%
	<b>2018</b>				
<b>Total OPEB Liability, Beginning of Year</b>	\$ 653,589				
Changes for the year					
Service cost	34,804				
Interest	20,653				
Difference between expected and actual experience	(33,650)				
Benefit payments	(33,422)				
Changes of assumptions	(27,835)				
<b>Total OPEB Liability, End of Year</b>	<u>\$ 614,139</u>				
<b>Covered-employee Payroll</b>	\$ 6,796,086				
<b>Total OPEB Liability as a Percentage of Covered-employee Payroll</b>	9.04%				
<b>Notes to Schedule:</b>	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%			
	2022	4.31%			
	2023	4.00%			

**Note:** The Electric Department 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, 2023**

	<b>Original and Final Budget</b>	<b>2023 Actual</b>	<b>Actual Over (Under) Budget</b>
<b>Operating Revenues</b>			
Sale of electricity, net of uncollectible accounts	\$ 96,000,000	\$ 105,120,915	\$ 9,120,915
Penalty income	2,300,000	1,393,744	(906,256)
Miscellaneous income	290,000	256,958	(33,042)
Total operating revenues	98,590,000	106,771,617	8,181,617
<b>Operating Expenses</b>			
Salaries and fringe benefits	13,390,162	9,020,237	(4,369,925)
Purchased electricity and transmission costs	77,589,118	50,804,855	(26,784,263)
Maintenance	4,000,000	5,495,039	1,495,039
Franchise tax	470,000	356,183	(113,817)
Depreciation and amortization	11,000,000	10,786,109	(213,891)
Other services and charges	-	5,186,305	5,186,305
Total operating expenses	106,449,280	81,648,728	(24,800,552)
<b>Operating Income</b>	(7,859,280)	25,122,889	32,982,169
<b>Nonoperating Revenues (Expenses):</b>			
Interest and investment income	240,000	1,858,330	1,618,330
Interest expense	(400,000)	(541,605)	(141,605)
Trustee fees	(10,000)	(14,000)	(4,000)
Grant income	-	3,443,908	3,443,908
Total nonoperating revenues (expenses)	(170,000)	4,746,633	4,916,633
<b>Income Before Transfers Out</b>	(8,029,280)	29,869,522	37,898,802
<b>Transfers to Other City Funds</b>	13,649,346	13,649,346	-
<b>Increase (Decrease) in Net Position</b>	(21,678,626)	16,220,176	37,898,802
<b>Net Position, Beginning of Year</b>	159,294,807	159,294,807	-
<b>Net Position, End of Year</b>	\$ 137,616,181	\$ 175,514,983	\$ 37,898,802

**City of North Little Rock Electric Department**  
**Schedule of Net Revenues and Debt Service Requirements**  
**Year Ended December 31, 2023**

**Revenues**

Sale of electricity, net of uncollectible accounts	\$ 105,120,915
Penalty income	1,393,744
Miscellaneous income	<u>256,958</u>

Total revenues	<u>106,771,617</u>
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**Expenses, Excluding Depreciation and Interest Expense**

Salaries and fringe benefits	9,020,237
Purchased electricity	50,804,855
Maintenance	5,495,039
Franchise tax	356,183
Other services and charges	<u>5,186,305</u>

Total expenses	<u>70,862,619</u>
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<b>Net Available for Debt Service</b>	<b><u><u>\$ 35,908,998</u></u></b>
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Average Remaining Annual Debt Service Requirements	\$ 1,676,511
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Net Earnings Coverage	21.42
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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 (*Government Auditing Standards*), the financial statements of the City of North Little Rock Electric Department (Department), an enterprise fund of the City of North Little Rock, Arkansas, which comprise the statement of net position as of December 31, 2023, 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 30, 2024, 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.

**FORVIS, LLP**

**Dallas, Texas  
May 30, 2024**