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**UTILITIES ACCOUNTING DEPARTMENT
CITY OF NORTH LITTLE ROCK, ARKANSAS**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED DECEMBER 31, 2014 AND 2013

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DATE 7/21/15

Diane Whitbey, City Clerk and Collector
North Little Rock, Arkansas

RECEIVED by [Signature]

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of net position of the Utilities Accounting Department of the City of North Little Rock, Arkansas (the UAD) as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities Accounting Department of the City of North Little Rock, Arkansas as of December 31, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Craft, Veach & Company

Craft, Veach & Company, PLC
North Little Rock, Arkansas
June 19, 2015

**UTILITIES ACCOUNTING DEPARTMENT
CITY OF NORTH LITTLE ROCK, ARKANSAS**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS	2014	2013
Current assets:		
Cash	\$ 579,566	\$ 1,129,609
Certificates of deposit	965,755	964,023
Restricted cash and investments – current	1,207,545	930,264
Accounts receivable:		
Collection fees	207,537	204,457
Other	3,316	3,238
Prepaid expenses	143,712	81,404
Total current assets	<u>3,107,431</u>	<u>3,312,995</u>
Noncurrent assets:		
Noncurrent cash and investments:		
Cash - restricted	1,937,184	1,653,573
Certificates of deposit – restricted	2,459,671	2,450,000
Accrued interest	7,012	7,858
	<u>4,403,867</u>	<u>4,111,431</u>
Less amount required to meet current obligations	(1,207,545)	(930,264)
Total noncurrent cash and investments	<u>3,196,322</u>	<u>3,181,167</u>
Capital assets:		
Equipment	1,247,076	1,004,278
Less accumulated depreciation	(907,151)	(816,453)
Total capital assets, net	<u>339,925</u>	<u>187,825</u>
Total noncurrent assets	<u>3,536,247</u>	<u>3,368,992</u>
Total assets	<u>6,643,678</u>	<u>6,681,987</u>
LIABILITIES		
Current liabilities:		
Accounts payable:		
Other city departments and governmental agencies	211,061	283,318
Current portion of customer deposits	1,207,545	930,264
Accrued expenses	392,683	371,997
Total current liabilities	<u>1,811,289</u>	<u>1,585,579</u>
Noncurrent liabilities:		
Interest earned on restricted investments	5,159	9,578
Customer deposits, less current portion	3,122,587	3,114,062
Total noncurrent liabilities	<u>3,127,746</u>	<u>3,123,640</u>
Total liabilities	<u>4,939,035</u>	<u>4,709,219</u>
NET POSITION		
Net investment in capital assets	339,925	187,825
Unrestricted	1,364,718	1,784,943
Total net position	<u>1,704,643</u>	<u>1,972,768</u>
Total liabilities and net position	<u>\$ 6,643,678</u>	<u>\$ 6,681,987</u>

See accompanying notes to the financial statements.

UTILITIES ACCOUNTING DEPARTMENT
CITY OF NORTH LITTLE ROCK, ARKANSAS

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Collection	\$ 2,357,789	\$ 2,359,970
Other	40,325	49,045
Total operating revenues	<u>2,398,114</u>	<u>2,409,015</u>
Operating expenses:		
Salaries	1,393,125	1,298,096
Payroll taxes	100,951	97,335
Employee benefits	332,371	336,921
Insurance	13,572	15,805
Postage	160,882	143,532
Professional services	7,000	7,000
Supplies	72,778	75,267
Telephone	40,814	17,047
Maintenance – equipment	301,687	368,111
Depreciation	90,698	71,268
Miscellaneous	31,795	57,338
Utilities	126,150	126,619
Total operating expenses	<u>2,671,823</u>	<u>2,614,339</u>
Operating income (loss)	<u>(273,709)</u>	<u>(205,324)</u>
Nonoperating revenues (expenses):		
Investment income	5,584	6,010
Total nonoperating revenues (expenses)	<u>5,584</u>	<u>6,010</u>
Change in net position	(268,125)	(199,314)
Net position, beginning of year	<u>1,972,768</u>	<u>2,172,082</u>
Net position, end of year	<u>\$ 1,704,643</u>	<u>\$ 1,972,768</u>

**UTILITIES ACCOUNTING DEPARTMENT
CITY OF NORTH LITTLE ROCK, ARKANSAS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from other governments	\$ 2,394,956	\$ 2,419,852
Payments to employees	(1,773,698)	(1,729,550)
Payments to vendors	(924,879)	(877,476)
Net cash flows provided (used) by operating activities	<u>(303,621)</u>	<u>(187,174)</u>
Cash flows from investing activities:		
Investment income	5,584	6,010
Net change in certificates of deposit	(11,403)	(1,772)
Purchases of equipment	(242,798)	(94,318)
Net cash flows provided (used) by investing activities	<u>(248,617)</u>	<u>(90,080)</u>
Cash flows from noncapital financing activities:		
Net change in customer deposits	285,806	391,587
Net cash flows provided (used) by noncapital financing activities	<u>285,806</u>	<u>391,587</u>
Net increase (decrease) in cash and cash equivalents	(266,432)	114,333
Cash and cash equivalents - beginning of the year	2,783,182	2,668,849
Cash and cash equivalents - end of the year	<u>\$ 2,516,750</u>	<u>\$ 2,783,182</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (273,709)	\$ (205,324)
Item not requiring cash:		
Depreciation	90,698	71,268
Changes in operating assets and liabilities:		
Accounts receivable	(3,158)	10,837
Prepaid expenses and accrued interest	(61,462)	18,999
Accounts payable, accrued expenses and interest earned on restricted investments	(55,990)	(82,954)
Net cash provided (used) by operating activities	<u>\$ (303,621)</u>	<u>\$ (187,174)</u>

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

The Utilities Accounting Department (the UAD) of the City of North Little Rock, Arkansas, provides billing and collection services for the North Little Rock Electric, Sanitation and Recycling departments and certain other governmental agencies and utilities in Pulaski County, Arkansas. Collections are remitted regularly to these departments and districts. The UAD generates revenue by charging a collection fee based on the number of bills rendered. These financial statements present only the UAD, an internal service fund, and are not intended to present the financial position or changes in financial position of the City of North Little Rock, Arkansas (the City).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of the UAD have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities are recognized when exchange transactions take place. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the UAD. All revenues and expenses not meeting this definition are reported as nonoperating revenues (expenses) in the Statement of Revenues, Expenses and Changes in Net Position.

The UAD has adopted GASB Statement No. 62, *Codification of Accounting and Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, to the extent that those pronouncements or opinions do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Statement of Cash Flows

For purposes of the statement of cash flows, the UAD considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are comprised of certificates of deposit and are valued at the lower of cost or fair value. Investment income includes interest income and is reflected as other income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable

Accounts receivable are stated at the amount billed to entities for which the UAD provides billing and collection services. Accounts receivable are ordinarily due 14 days after the issuance of the invoice. Accounts past due for more than 30 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Risk Management

The UAD is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management (continued)

The UAD has joined together with other governmental services to form the Arkansas Municipal League (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for its members. The UAD pays an annual premium to the Pool for its insurance coverage.

The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts. Settled claims have not exceeded this commercial coverage in any of the three preceding years, nor has there been a significant reduction in coverage during the fiscal year.

Compensated Absences

The UAD 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 expense and related liability are recognized as vacation benefits as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for the benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the date of the Statement of Net Position. Accrued expenses on the Statements of Net Position include liabilities for compensated absences in the amount of \$242,420 and \$209,458 at December 31, 2014 and 2013, respectively.

Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used to finance the acquisition, construction, or improvement of those assets. Net position is reported as restricted when they are to be used for a particular purpose as specified by creditors, grantors, or donors external to the UAD, including amounts to be deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related liabilities. The UAD'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.

Income Taxes

As a governmental function of the City of North Little Rock, Arkansas, the UAD is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the UAD is subject to federal income tax on any unrelated business taxable income.

Date of Management's Review

Management has evaluated subsequent events through June 19, 2015, the date on which the financial statements were available to be issued.

Recently Adopted Accounting Standards

For the year ended December 31, 2014, the UAD implemented the following Governmental Accounting Standards Board (GASB) Statement:

GASB Statement No. 67 – *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, issued June 2013, became effective for the UAD for the year ending December 31, 2014. This Statement improves financial reporting by state and local governmental pension plans and replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The adoption of this statement did not have a material impact on the UAD's financial statements or related disclosures.

NOTE 2: DEPOSITS AND INVESTMENT INCOME

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The UAD's deposit policy is to require collateralization of all deposits in excess of federal depository insurance. At December 31, 2014 and 2013, \$4,631,372 and \$6,361,440 respectively, of the UAD's bank balances of \$5,381,372 and \$6,861,440 respectively, were uninsured but were collateralized by the pledging financial institution. There were no bank balances uninsured and uncollateralized at December 31, 2014 and 2013, respectively.

Investment Income

Investment income consisted of interest income of \$5,584 and \$6,010 for 2014 and 2013, respectively.

Summary of Carrying Values

The carrying values of bank deposits are included in the Statements of Net Position as follows:

	<u>2014</u>	<u>2013</u>
Carrying value:		
Deposits	\$ 5,942,176	\$ 6,197,205
Included in the following Statement of Net Position captions:		
Current assets - cash	579,566	1,129,609
Current assets - certificates of deposit	965,755	964,023
Restricted cash and investments:		
Cash	1,937,184	1,653,573
Certificates of deposit	<u>2,459,671</u>	<u>2,450,000</u>
	<u>\$ 5,942,176</u>	<u>\$ 6,197,205</u>

NOTE 3: CAPITAL ASSETS

Capital assets are stated at cost less accumulated depreciation. The UAD uses the straight-line method of depreciation in allocating the cost of the capital assets and equipment to operations over estimated useful lives of 5 to 10 years.

Capital asset activity for the years ended December 31, 2014 and 2013 was as follows:

	<u>2014</u>			
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets at historical cost:				
Equipment	\$ 1,004,278	\$ 242,798	\$ -	\$ 1,247,076
Less: Accumulated depreciation	(816,453)	(90,698)	-	(907,151)
Total capital assets, net	<u>\$ 187,825</u>	<u>\$ 152,100</u>	<u>\$ -</u>	<u>\$ 339,925</u>
	<u>2013</u>			
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets at historical cost:				
Equipment	\$ 965,669	\$ 94,318	\$ (55,709)	\$ 1,004,278
Less: Accumulated depreciation	(800,894)	(71,268)	55,709	(816,453)
Total capital assets, net	<u>\$ 164,775</u>	<u>\$ 23,050</u>	<u>\$ -</u>	<u>\$ 187,825</u>

NOTE 4: ACCOUNTS PAYABLE – OTHER CITY DEPARTMENTS AND GOVERNMENTAL ENTITIES

Accounts payable to other City departments and governmental entities for the years ended December 31, 2014 and 2013 consisted of the following:

<u>December 31, 2014</u>	<u>Electric</u>	<u>Recycle</u>	<u>Sanitation</u>	<u>Total</u>
Collected and uncollected billings to customers	\$ 4,315,734	\$ 6,730	\$ 70,281	\$ 4,392,745
Uncollected billings to customers	<u>(4,108,214)</u>	<u>(6,401)</u>	<u>(67,069)</u>	<u>(4,181,684)</u>
Accounts payable – other City departments and sewer districts	<u>\$ 207,520</u>	<u>\$ 329</u>	<u>\$ 3,212</u>	<u>\$ 211,061</u>
<u>December 31, 2013</u>	<u>Electric</u>	<u>Recycle</u>	<u>Sanitation</u>	<u>Total</u>
Collected and uncollected billings to customers	\$ 4,711,240	\$ 74,247	\$ 7,824	\$ 4,793,311
Uncollected billings to customers	<u>(4,431,877)</u>	<u>(70,761)</u>	<u>(7,355)</u>	<u>(4,509,993)</u>
Accounts payable – other City departments and sewer districts	<u>\$ 279,363</u>	<u>\$ 3,486</u>	<u>\$ 469</u>	<u>\$ 283,318</u>

NOTE 5: OTHER POSTRETIREMENT BENEFIT PLANS

City employees assigned to the UAD participate in the annual other post-employment benefit (OPEB) plan sponsored by the City (the Plan). Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), requires that employers providing post-employment benefits other than pensions record and disclose annual OPEB cost and net OPEB obligation in their financial statements and disclose other information about their OPEB plans, including the unfunded actuarial accrued liability (UAAL).

The 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.

The UAD recorded an OPEB cost of \$11,149 for 2014 and \$11,264 for 2013, and a net OPEB obligation of \$103,940 and \$92,791 at December 31, 2014 and 2013, respectively. The UAD's share of the UAAL at January 1, 2015 (the most recent actuarial valuation date) was \$29,580 and is not recorded in the financial statements. The UAAL will be included in the annual OPEB cost over an amortization period of 30 years. The OPEB obligation and UAAL were computed using a discount rate of 5.5% and a healthcare cost inflation rate, which begins at 10.0% and decreases over a period of nine years to an ultimate rate of 5.0%. Additional plan disclosures required by GASB 45 may be found in the 2014 Comprehensive Annual Financial Report of the City of North Little Rock, Arkansas.

NOTE 6: PENSION PLANS

Certain employees of the UAD are covered by the "Retirement System of the City of North Little Rock (Non-Uniform Employees)". The provisions of the plan call for employee contributions of 4% of gross earnings to be paid through payroll withholdings. Each month, the UAD contributes 6% of each employee's respective monthly compensation. Pension expense reflected in the financial statements for the years ended December 31, 2014 and 2013, was \$77,353 and \$72,989, respectively. Additional disclosures regarding funding status and composition of the pension benefit obligations are contained in the 2014 Comprehensive Annual Financial Report of the City of North Little Rock, Arkansas.

NOTE 7: NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The GASB has issued the following standards that are required to be adopted by the UAD:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, issued June 2013, will be effective for the UAD for the year ending December 31, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are covered by the scope of the Statement. Management of the UAD has not yet determined the impact that adoption of this statement will have, if any, on the UAD's financial statements or related disclosures.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2014, will be effective for the UAD for the year ending December 31, 2015. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Management of the UAD has not yet determined the impact that adoption of this statement will have, if any, on the UAD's financial statements or related disclosures.