



**LITTLE ROCK, ARKANSAS**

**A Component Unit of the City of Little Rock, Arkansas**

**Comprehensive Annual**

**Financial Report**

**For The Year Ended December 31, 2006**

**Prepared by:**

**Little Rock Wastewater Finance Department**



**LITTLE ROCK WASTEWATER**  
Little Rock, Arkansas  
A Component Unit of the City of Little Rock

**Comprehensive Annual Financial Report**  
Year Ended December 31, 2006

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**INTRODUCTORY SECTION**



**Little Rock**  
**Wastewater**

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February 20, 2007

To Little Rock Sanitary Sewer Committee,  
Little Rock City Board of Directors, and  
Little Rock Wastewater Customers

The staff of Little Rock Wastewater (“LRW”) is proud to present the Comprehensive Annual Financial Report (“CAFR”) of the LRW for the fiscal year ended December 31, 2006. State law requires that every general-purpose local government publish a complete set of audited financial statements for each fiscal year. This report is published to fulfill that requirement for the fiscal year ended December 31, 2006. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with LRW. This CAFR was prepared by the Finance Division of LRW and the help of Cobb and Suskie, Ltd.

The CAFR is management’s representation of the finances of LRW. Management assumes full responsibility for the completeness and reliability of all the information presented in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal controls should not outweigh their benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

LRW’s financial statements have been audited by Cobb and Suskie, Ltd., a firm of licensed certified public accountants. Cobb and Suskie have issued an unqualified (“clean”) opinion on LRW’s financial statements for the year ended December 31, 2006. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### **Profile of the Government**

The 1933 Arkansas General Assembly enacted Act 132, authorizing all cities and towns in the state to levy user charges against property owners “to construct, own, equip, operate, maintain, and improve” sewage collection and treatment systems. In June 1935, a full-fledged Sanitary Sewer Committee was named and the City of Little Rock Sanitary Sewer System was created. The now five-member Little Rock Sanitary Sewer Committee (LRSSC) manages and controls the city’s sewer system. The LRSSC and LRW must seek approval of all sewer rate increases and long term financing through the City of Little Rock Board of Directors. The City of Little Rock Board of Directors appoints LRSSC members. The LRSSC in turn hires a Chief Executive Officer. The LRSSC meets on the third Wednesday of each month.

LRW provides wastewater service to its customers. For financial reporting purposes, LRW is considered a component unit of the City of Little Rock, Arkansas. The LRSSC operates and manages LRW with the City of Little Rock having the power to impose its will on LRW. LRW adopts an annual operating, capital, and debt service budget along with associated rates and fees for services; and also issues updates to its Rules and Regulations. LRW recovers the cost of providing wastewater services primarily through user charges and collects a 6.9% Franchise Fee for the City of Little Rock.

The LRSSC is required to adopt a final budget by no later than the close of the fiscal year. This annual operating and capital budget serves as the foundation for LRW's financial planning and control. The budget is submitted by each department, consolidated and prepared by the Finance Division, and reviewed by the budget sub-committee before final approval from the LRSSC. Each month, financials are presented to the LRSSC to show that operations are being conducted according to management's intentions.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment with which the LRW operates.

**Local Economy** - The City of Little Rock currently enjoys a favorable economic environment and local indicators point to continued stability. The City of Little Rock is the capital and largest city of Arkansas as well as the governmental, economic, cultural, and financial center of the state. The city and surrounding communities have a mix of industry – state government, centralized health-care centers serving the state, a financial sector, information sector, and a variety of other sectors that are not cyclical. Moody's Investment Service has named Little Rock the second most diverse economy in America. Forbes magazine ranked Little Rock 21<sup>st</sup> out of 150 metropolitan areas on its list of the best places in America for business or careers. In 2004, Pulaski County had a total effective buying income of \$11.3 billion, while total retail sales numbered \$9 billion.

The customer base has continued to grow for the residential and commercial users of the Sewer System. The number of residential customer accounts has increased by 9.8% over the past ten years while commercial users have increased by 12.8% over the same time period. The overall growth of total customer accounts for the ten year period is 10.4%.

**Long-Term Financial Planning** – In 2000, the LRSSC and LRW contracted with an engineering firm to evaluate LRW's sewer system capacity. The resulting report titled System Evaluation and Capacity Assurance Plan (SECAP) was finalized in 2002. The report recommended implementing a \$171,000,000 capacity-related capital improvement program over a fifteen year time period, 2003-2017. The recommended capital improvement program was incorporated into a Settlement Agreement between the LRSSC and the Sierra Club. After LRSSC authorized the SECAP study, the Sierra Club filed a Complaint in Federal Court concerning non-capacity and capacity related sanitary sewer overflows. The aforementioned Settlement Agreement mandates LRW meet specific overflow performance standards. For



non-capacity sanitary sewer overflows, the performance requirement of six per one-hundred miles of owned and operated sewer lines must be satisfied two consecutive years before 2008. For capacity related overflows, the performance requirement is no overflows unless precipitation amounts are extremely heavy (2-year return frequency); the deadline for this performance level is 2017. In addition to the SECAP projects, the Little Rock City Board of Directors requested that LRW extend new sewer mains into areas previously not served within the Little Rock City Limits.

With the lawsuit and SECAP being the driving force behind capital improvements, Engineering Services schedules projects using a five-year capital budget outlook. The next five-year construction phase will consist of the following major construction projects:

1. Upgrade Adams Field Wastewater Treatment Plant: The Adams Field project includes modernizing the preliminary and primary treatment sections of the plant, which were constructed in 1959. Plant capacity will also be upgraded to 94 MGD to mitigate upstream overflows and better manage wet weather peaks. The flow equalization basin required to upgrade capacity will minimize blending primary and secondary effluents during high flows. The total estimated cost of the improvements (including engineering, administration expenses, and contingencies) is \$25,637,900. The forecasted amount of work to be completed by December 31, 2006 is \$24,577,700, with \$740,200 budgeted for 2007, and \$50,000 budgeted for 2008. The construction of the project is scheduled to be substantially completed by December 31, 2006.
2. Little Maumelle Basin Wastewater Treatment Plant: A new treatment facility is needed to serve existing customers and future growth in the Little Maumelle River Basin. The pump station that currently serves the area overloads gravity sewers in Murray Park during wet weather, resulting in numerous overflows. The 2007 budget allocates \$12,210,200 for the completion of design, bidding, and commencement of construction. The five-year forecast includes an additional \$52,498,000 for engineering, construction, administration expenses, and contingencies. Construction is scheduled to begin in 2007 with it being substantially completed in 2009.
3. Peak Flow Attenuation Facilities: The peak flow attenuation facility project's primary purpose is to reduce capacity related sanitary sewer overflows. The project will provide peak flow storage of wastewater resulting from significant rainfall events. The storage basins will be located in an area of the collection system where inadequate interceptor capacity results in system overflows. The basins will remain empty until that point during a substantial rainfall event that the large interceptor pipelines will become full or surcharged with wastewater diluted with rainwater, which enters the system through defects in both the public and private pipelines. Gauges will be installed in the interceptor manholes that will monitor the depth of flow. Prior to a manhole overflowing, a signal will be sent to motorized diversion structures which will divert the flow to a newly constructed pump station. This pump station will pump the excess wastewater flow to the storage basins at a maximum rate of 50 million gallons per day. The wastewater will be held in the storage basins until the level of water in the interceptor pipelines recedes to the point that it can be totally contained. An automated valve will then open allowing the wastewater to drain from the storage basins back to the

interceptor pipelines. The major new construction elements of the project are listed below, as follows:

- Two (2) concrete Diversion Structures
- Approximately 2,000 linear feet of gravity pump station influent lines
- A peak flow pump station (50 million gallon per day flow rate)
- Approximately 15,000 linear feet of 48" diameter force main
- A two-cell concrete storage basin with a total volume of 30 million gallons

In addition to the new construction associated with the attenuation basins, the Arch Street Pump Station must be renovated to increase capacity from 38 million gallons per day to 45 million gallons per day. Since the pumping capacity at the Arch Street Pump Station impacts the amount of flow diverted to the basins and the ability to drain the basins back to the sewer system, the renovations to the Arch Street Pump Station and force main must be addressed concurrent with the basin design and construction. The 25-year old force main connecting the Arch Street Pump Station and the Fourche Creek Wastewater Treatment Plant is not capable of withstanding the increased pressures associated with the increased flow rate. The years of corrosive environment, generated from the conveyance of wastewater, has deteriorated the existing concrete pressure pipe to a point where increasing the pressure is not feasible. The Utility intends to install a parallel force main to be used in combination with the existing force main during peak flow events. By utilizing both the existing force main and the new parallel force main, the internal pressure during a peak flow event can be minimized. In addition, the new parallel force main can be used independently while repairs and rehabilitation work are being performed on the existing deteriorated line. There is also a considerable value in having parallel force mains which provide a redundant source of flow for the Fourche Creek Wastewater Treatment Plant. The total estimated cost for the Peak Flow Attenuation Facilities and all related work described herein is \$60,500,000 in the following table.

4. Electrical Switchgear Replacement at Fourche Creek Treatment Plant: The principal power supply at the Fourche Creek Treatment Plant is through three digester-gas burning engines coupled to electrical generators all of which are controlled through the switchgear. The switchgear has reached the end its reliable service life; repair parts are increasingly difficult to locate. This project will replace the switchgear. An estimated \$1,580,500 has been allocated in 2007 for the construction of this project.
5. Fourche Creek Treatment Plant Hydraulic Upgrade: The hydraulic upgrade of the Arch Street Pump Station from 38 MGD to 45 MGD will necessitate the hydraulic upgrade of the Fourche Creek Treatment Plant to a minimum of 45 MGD. An assessment of future flows to the plant will be conducted as part of this project to see if the minimum hydraulic capacity will need to be greater than 45 MGD. This is a new project for 2007. The 2007 budget allocates \$6,513,000 for design and bidding services. The five-year forecast includes an additional \$11,787,000 for construction which is scheduled to start in 2008.

6. Unsewered Areas: As part of the 2002/2003 rate increase, the Little Rock City Board of Directors allocated a percent of the rates to finance projects to extend new sewer mains into areas previously not served within the Little Rock City limits. On December 15, 2004, LRW closed on a \$13,000,000 State Revolving Loan to fund projects in thirteen of these areas over the next three years. LRW anticipates total expenditures of over \$7,000,000 in 2007 for the design and construction of the remaining unsewered areas.
7. Collection System Rehabilitation Capacity Assurance Projects: Collection system rehabilitation and capacity assurance projects are scheduled over the next five years. The majority of the projects have been extracted from the 15-year capital improvement plan outlined in the SECAP report. The total cost of work scheduled for 2007 is \$8,466,500. The 5-year forecast includes over \$41,000,000 for collection system rehabilitation and capacity assurance projects. Projects currently funded by a \$14,000,000 State Revolving Loan acquired in 2004 will be completed in 2007. The last remaining project to be funded with this loan, Natural Resources Rehabilitation, is under contract and scheduled for completion in March 2007.

There are two projects, Hinson OMP and Jimmerson OMP, currently in design that will be funded with a new loan for \$18,000,000 from the State Revolving Fund. The loan is projected to close in the summer of 2007. The following projects will be constructed with funding from the new loan: Hinson, Jimmerson, Allsop, Country Club, Barton, Leawood, Pleasant Valley, and Echo Valley.

8. Trenchless Sewerline Rehabilitation: These construction projects fix structurally deteriorated line segments that contribute to non-capacity overflows. The projects include repairs that are located by our line walking crews, which cannot be repaired with conventional construction methods by in-house forces. The Engineering department ranks the line segments to determine priority levels. In 2007, it is estimated \$1,750,000 will be needed to counter the influx of line segments generated in 2006 and those carried over from 2005. LRW anticipates \$2,500,000 will be needed each year from 2008 to 2010 to complete the lines on the list.

All of these projects have been or will be funded by either Revolving Loan Funds from the Arkansas Natural Resources Commission or Sewer Revenue Bonds. Total capital expenditures planned for the next five years will be in excess of \$235,000,000. In order to meet the capital and O&M demands for the system improvements, the City of Little Rock approved a rate ordinance on November 28, 2006 for the Little Rock Sanitary Sewer System. This step rate ordinance includes increases of 15% in December 2006, 8% in July 2007, 3% in January 2008, 4% in January 2009, and 5% in January 2010.

**Cash Management Policies and Practices** – LRW has a banking service agreement with a local depository bank to handle daily cash management operations. The accounts are invested in state authorized pooled investments. LRW utilizes purchases of authorized investments that range from 30 to 180 days to manage cash flows and government securities for short and long term investments. Interest income includes appreciation (depreciation) in the fair value of investments. LRW holds its investments to maturity and realization of temporary increases or decreases in fair value of investments is unlikely.

**Risk Management** – In 1997, LRW became the only self-insured independent city agency in the state of Arkansas. LRW makes safety and risk management a top priority. The Administration and Community Relations Division has two full-time coordinators that manage all aspects of safety and risk management. A Safety Specialist has conducted and outsourced 123 training events such as Right-To-Know, American Heart CPR/First Aid with AED, Defensive Driving, Confined Spaces, Traffic Control, Excavation Safety, Proper Protective Equipment, Portable Gas-Monitoring Equipment, and other specific safety topics with 2,716 in attendance in 2006. The Safety Specialist also conducts routine facility and field health and safety audits to identify unsafe acts and conditions. LRW also has a safety committee that handles departmental safety concerns, investigations, and assists in field audits.

The Environmental Health and Special Projects Specialist coordinates employee shots (HBV, Flu) and health monitoring (hearing conservation, PFT, fit testing, and Hepatitis B monitoring) programs and records. He also provides training on special interest issues such as environmental issues and administers the self-insurance Worker's Compensation program. Over the past five years, there has only been one indemnity claim with lost time. LRW has partnered with a third-party provider for administering reports and claims. As part of the requirement for being self-funded, a designated reserve fund to cover potential losses related to Worker's Compensation claims has been established and the balance is maintained based on recommendations from the third-party provider. Specific reinsurance currently in place limits LRW's liability for an individual Workers' Compensation incident to \$275,000.

**Pension and Other Post-employment benefits** – LRW is a member of a state-sponsored retirement system entitled Arkansas Public Employees Retirement System (APERS). APERS is both an employer and employee contribution plan. The employer contribution rates in 2006 were 12.54% from January 1 to December 31. APERS has made it mandatory for all new personnel hired on or after July 1, 2005 to contribute 5% of gross salary in conjunction with the employer contributions. Benefits are fully vested upon completing five years of service. Benefits of APERS members are calculated on age, final average salary, years of service, and a benefit factor.

LRW also sponsors a defined contribution plan. Employees are offered a 401(a) Pension Plan, where contributions are matched on a one-for-one dollar amount by LRW. The employee dollar amount is a contributory percent, ranging from 1.00% to 5.00%. The percent is based on years-of-service. Benefits are fully vested up completing five years of service.

LRW provides post-retirement health, dental and optical care benefits for certain retirees and their dependents. Employees who meet the retirement guidelines set forth by APERS (28 years of service) are eligible to continue their health coverage. The retiree's rates were the same as employee rates in 2006. Due to Governmental Accounting Standards Board (GASB) Statements No. 43 & 45, both the retiree and employee health premium rates have increased with retirees increasing more than employees in 2007. At the end of the current (2006) fiscal year, there were approximately 21 employees receiving these benefits, which are financed on a pay-as-you go basis and in 2007 LRW must either fund or recognize the accrued liabilities for post employment benefits.

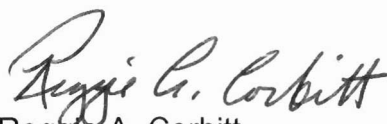
## Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Little Rock Wastewater, Little Rock, Arkansas for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2005. This was the second year that LRW has received this prestigious award. In order to be awarded a Certificate of Achievement, LRW had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the LRW Finance Division.

Respectfully submitted,



Reggie A. Corbitt  
Chief Executive Officer



James A. Barham  
Manager of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Little Rock Wastewater Utility, Arkansas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

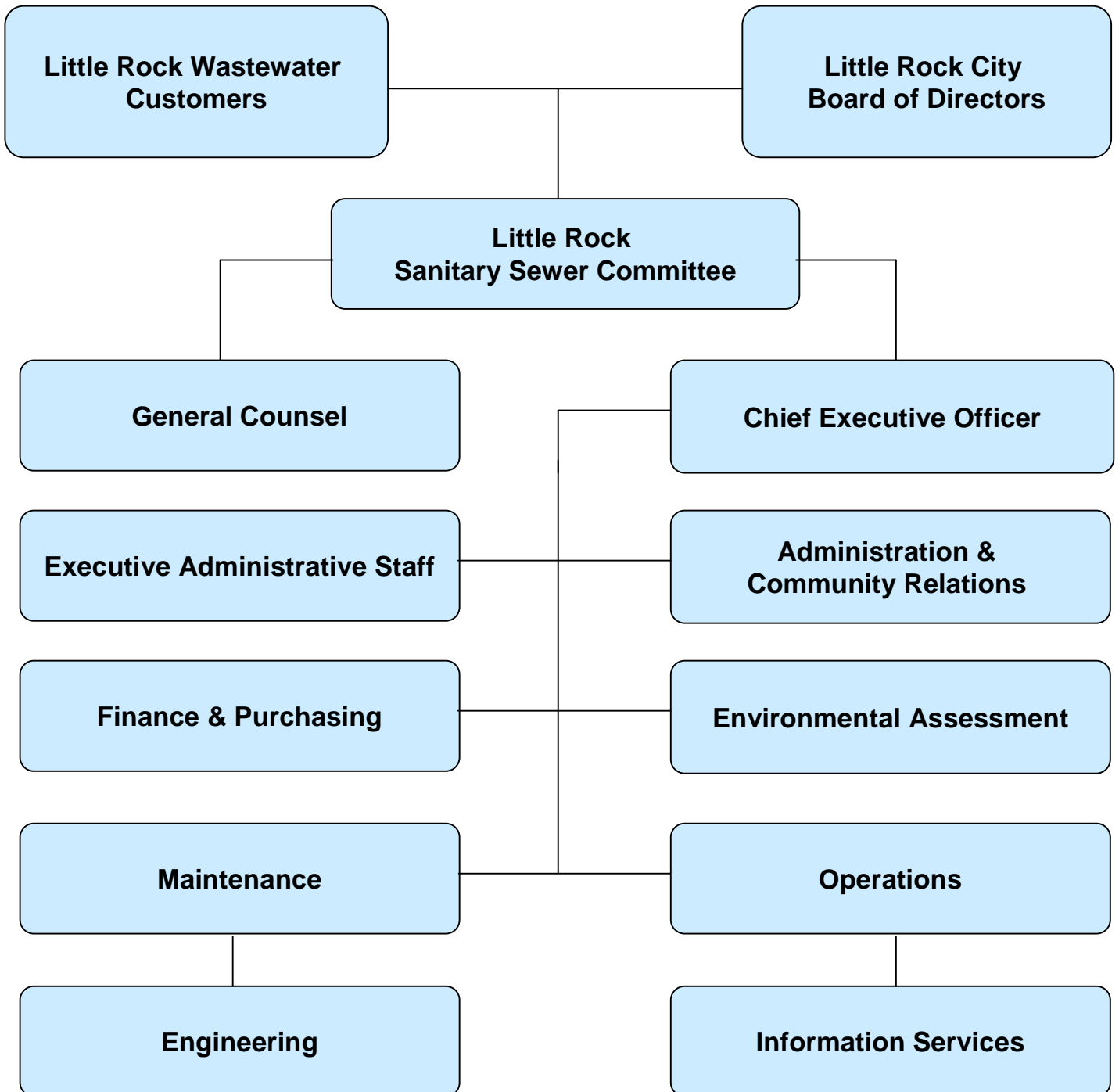


President

Executive Director



## ORGANIZATIONAL CHART



# 2006 LITTLE ROCK SANITARY SEWER COMMITTEE



**James R. Pender**  
**Secretary**



**Patrick D. Miller**  
**Chair**



**Charles G. Goss**  
**Vice Chair**



**Andrew L. Harper, Jr.**  
**Member**



**Reggie A. Corbitt**  
**Chief Executive Officer**



**Dale J. Wintroath**  
**Member**

## **EXECUTIVE STAFF**

**Nancy Trotter - Executive Secretary**

**Don Hamilton - General Counsel**

**John Jarratt – Administration and Community Relations**

**Jim Barham - Finance & Purchasing**

**Howell Anderson - Engineering**

**Bryan Bull - Information Services**

**Mack Vought - Maintenance**

**Stan Miller - Operations**

**Stan Suel - Environmental Assessment**



**FINANCIAL SECTION**



**Little Rock**  
**Wastewater**

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# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

One Financial Centre • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675  
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Michael L. Cobb

Anne Suskie Pinyan

## Independent Auditors' Report

The Members of the Little Rock  
Sanitary Sewer Committee  
Little Rock, Arkansas

We have audited the accompanying financial statements of the business-type activities of Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of LRW's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Little Rock Wastewater as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2007, on our consideration of LRW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 15 through 23 and 46 - 47, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board.

The Members of the Little Rock  
Sanitary Sewer Committee  
Page Two

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133 "Audits of State, Local Governments, and Non-Profit Organizations," and the supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying information in the statistical section as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
February 16, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Little Rock Wastewater (LRW), we offer readers of LRW's financial statements this narrative overview and analysis of the financial activities of LRW for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 - 9 of this report. The comprehensive annual financial report is made available via the Internet ([www.lrwu.com](http://www.lrwu.com)). The use of the Internet is consistent with LRW's objective to provide greater information to the public in a more efficient manner, reducing paperwork, labor, and communications costs.

### Financial Highlights

- Total assets at year-end were \$232.2 million and exceeded liabilities in the amount of \$92.2 million. Total net assets were \$139.9 million, an increase of 5.8% from 2005.
- Operating revenue declined to \$30.3 million in 2006. This was a decrease of 1.0% or \$.3 million from 2005 and a slight increase of 0.3% over the 2005 budget projections.
- Operating expenses before depreciation increased \$1.3 million or 6.1% compared to fiscal year 2005 and was under budget by 0.8%. Operating expenses including depreciation increased \$1.6 million or 6.1% from 2005.
- Debt service coverage was 218%, exceeding the 120% required by the Bond Covenant. The City of Little Rock passed an ordinance in November 2006 that increased sewer rates by 15% starting December 28, 2006 and also includes increases in July 2007, January 2008, January 2009, and January 2010. In the Statistical Data Section, Schedule 11 – Pledged-Revenue Coverage provides more information on debt service coverage.
- Developer contributions of cash and non-cash items showed an increase of \$2.2 million or 50.5% from 2005.

### General Trends

The growth rate of LRW's customer accounts from 2005 to 2006 was 0.9 %. Over a ten year period, the customer growth rate also averaged 1.1%.

<b>Wastewater Customers</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Beginning Customer Accounts	65,192	64,395	63,702
Additional Accounts (net)	578	797	693
Ending Customer Accounts	65,770	65,192	64,395

LRW also provides wholesale wastewater collection and treatment services to Shannon Hills and Sewer Improvement Districts 226 and 239.

Little Rock Wastewater began introducing its 5-phase rate adjustment that was approved by the City of Little Rock Board of Directors on November 28, 2006, with the first billing cycle that included the new rate increase of 15% in January 2007. The next four rate adjustments are 8% on July 1, 2007, 3% on January 1, 2008, 4% on January 1, 2009, and 5% on January 1, 2010.

The following chart shows a residential bill based on a consumption of 8 Ccf. These amounts do not include a 6.9% franchise fee that is collected and paid to the City of Little Rock.

<b>Residential Bill</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	\$24.26	\$24.26	\$24.26

Little Rock’s wastewater rates remain slightly higher than neighboring utilities. The Little Rock Sanitary Sewer Committee (“LRSSC”) and LRW have a continual five year budget plan that allows LRW to project rate adjustments in conjunction with major capital construction and debt issue.

**Little Rock Wastewater Utility System**

LRW is regulated by the United States Environmental Protection Agency (EPA) and Arkansas Department of Environmental Quality (ADEQ). These agencies issue permits to LRW for discharge of treated wastewater. Currently, LRW has 28 remote, unattended pumping stations, two secondary treatment plants with another in the initial stages of construction, a maintenance facility, and an administration building. The collection system includes over 122 square miles containing approximately 1,270 miles of sewer lines. LRW has received awards from the EPA and the Association of Metropolitan Sewerage Agencies (AMSA). LRW’s two wastewater treatment plants have been awarded the AMSA Gold award for 100% Permit Compliance for the years 1999-2000. A list of all awards can be viewed on LRW’s website.

The Adams Field Wastewater Treatment Plant has been in operation since 1961 and was Little Rock’s first wastewater treatment plant. The plant was put into operations at a cost of \$3.5 million and was only equipped with primary treatment. Secondary treatment facilities were added in the early 1970’s at a cost of \$6.2 million. The current upgrade construction is estimated at \$25.6 million is over 95% completed. It is estimated that the completion date will be in January 2007. The construction consists of upgrading the primary clarifiers for peak flow and the building of an equalization basin to hold 15 million gallons of effluent during high flows. The plant is now rated as a 94 Million Gallons per Day (MGD) complete-mix activated sludge plant, serving approximately 70% of the City of Little Rock. The plant is a two-stage “secondary” treatment plant, designed to reduce the pollutant load by approximately 90% through a combination of physical and biological processes.

The Fourche Creek Wastewater Treatment Plant provides wastewater treatment to the Fourche Creek Valley since its inception in 1981 at a cost of \$19.6 million. The activated sludge section was put on line in 1989 at a cost of \$9 million. The plant is also a two-stage, or “secondary” treatment facility. It has an installed treatment capacity of 16 MGD, or a population equivalent of 120,000 persons. The plant’s annual average dry weather influent

sewage quantity is 15 MGD. This treatment plant is currently in the planning stages of being upgraded from a 16 MGD to a 45 MGD.

The Little Maumelle Basin Wastewater Treatment Plant is in the beginning stages of construction. The land site was selected in April 2005 and purchased in December 2005. This activated sludge treatment plant is expected to cost is \$52.5 million for engineering, construction, administration expenses, and contingencies. Construction is scheduled to begin in 2007.

The Clearwater Maintenance Facility is the operations/maintenance complex on a 36 acre tract that was built in 1989. LRW jointly owns the building with Central Arkansas Water and the two utilities together operate a Fleet Maintenance Department for the maintenance and repair of vehicles and equipment. About 100 LRW employees in the Maintenance Division work from this facility, making it the home base for the majority of LRW work force.

The Administration Building was built in 2005 and is located near the Clearwater Maintenance Facility. The CEO, Division Managers, Engineering, Information Services, Accounting, HR and Purchasing are all located in the administrative building. This building is also the location for the monthly sewer committee meetings.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to LRW's basic financial statements. LRW's basic financial statements are: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, and 3) Statement of Cash Flows.

The Statement of Net Assets presents information on all of the LRW's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of LRW is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect the results of the business activities over the course of the most recent fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The statement of cash flow presents changes in cash and cash equivalents, resulting from operational financing and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

## Fiscal Year 2004-2006 Financial Information

### Statement of Net Assets

Total Assets increased by \$19.0 million as compared to the previous fiscal year. Current Assets showed a decrease of 21.7%. This decrease reflects the spending of cash from restricted accounts on noncurrent capital items. Noncurrent Assets reflected an increase of 13.1% from 2005. This increase was due to several big factors involving ongoing major construction projects that started in 2004. The largest increase came from the line item called Capital Work In Progress (CWIP). CWIP increased from a balance of \$31.9 million in 2005 to \$47.6 million in 2006 with most of the changes coming from the continued capital improvements to Adams Field Wastewater Treatment Plant, sewer line rehabilitation, and the unsewered areas.

Current Liabilities showed a decrease of 24.4% or \$2.5 million. The major change from the previous year was the reduction on Construction Contract Payables by \$2.8 million. Noncurrent Liabilities showed a jump of 19.7% or 13.9 million for 2006. This change is related to the new debt on the 2004A, 2004B, and 2004C bond issues. LRW's bond information can be found in Note 7 on page 38. Total Liabilities increase by \$11.4 million for 2006.

Total Net Assets had an increase of 5.8% while Total Liabilities and Net Assets showed an increase of 8.9% in 2006. This change reflects the large increase of 8.8% or \$ 9.8 million in Invested in Capital Assets, Net or Related Debt. Additional information can be found in Note 5 on page 37 of this report.

	<b>2006</b>	Percent Change	<b>2005</b>	Percent Change	<b>2004</b>
<b><u>ASSETS</u></b>					
Current Assets	\$ 19,905,241	-21.7%	\$ 25,415,740	35.9%	\$ 18,695,583
Noncurrent Assets	212,302,145	13.1%	187,752,658	16.8%	160,789,541
Total Assets	<u>232,207,386</u>	<u>8.9%</u>	<u>213,168,398</u>	<u>18.8%</u>	<u>179,485,124</u>
<b><u>LIABILITIES</u></b>					
Current Liabilities	7,731,609	-26.9%	10,226,108	114.0%	4,325,515
Noncurrent Liabilities	84,485,471	19.4%	70,572,174	43.7%	49,777,385
Total Liabilities	<u>92,217,080</u>	<u>14.1%</u>	<u>80,798,282</u>	<u>49.3%</u>	<u>54,102,900</u>
<b><u>NET ASSETS</u></b>					
Restricted Assets	14,188,065	-12.5%	16,208,359	16.8%	13,872,731
Invested in Capital Assets, Net of Related Debt	121,156,476	8.8%	111,395,450	4.5%	106,590,310
Unrestricted Assets	4,645,765	-2.5%	4,766,307	-3.1%	4,919,183
Total Net Assets	<u>139,990,306</u>	<u>5.8%</u>	<u>132,370,116</u>	<u>5.6%</u>	<u>125,382,224</u>
Total Liabilities and Net Assets	<u>\$ 232,207,386</u>	<u>8.9%</u>	<u>\$ 213,168,398</u>	<u>18.8%</u>	<u>\$ 179,485,124</u>



## Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenue falls into three general categories: assessments levied, industrial surcharge, and other fees and income. Assessments levied are monthly residential/commercial service charge billings. Industrial surcharge is fees based on wastewaters having excessive Biochemical Oxygen Demand (BOD) or Total Suspended Solids (TSS) or Oil and Grease (O&G) or Chemical Oxygen Demand (COD) or pH discharge. Other fees and income are permit fees, connection fees, inspection fees, sewer dump permits, and co-generation revenue. Non-Operating revenue consists of interest income from investments and cash and cash equivalent accounts along with gain on disposal of property, unrealized gain on investments, and miscellaneous income.

The Total Revenue remained about the same in 2006 as 2005. Assessments Levied had a .4% increase from 2005. Industrial Surcharge declined by 7.0% as Other Fees and Income decrease as well by 44.8%. There were a few industrial customers that closed for business, moved, or changed to a more efficient process in 2006 thus reflecting the decrease. Non-Operating Revenue showed an increase of 43.6%. The line item that jumps out the most is interest earned. With the Federal Reserve increasing the federal funds rate, it allowed for more earnings on the money market and investments accounts. Interest income has increased by \$.27 million or 44.4% from 2005. All categories should show a significant increase due to the rate increases starting with the first billing cycle in January 2007.

Operating Expenses are divided into departments within LRW. Each department tracks their expenses based on the following breakdown; salaries, benefits, supplies, contract services, vehicle maintenance, utilities, insurance, and other. Non-Operating Expenses are made up of interest expense, amortization of bond issuance costs, loss on disposal of capital assets, unrestricted loss on investments, and miscellaneous.

Total Expense increased by over \$1.6 million in 2006. Operating Expense rose in 2006 by 6.1% or \$1.3 million. This is mainly attributable to salaries, benefits such as hospitalization and retirement contributions, fuel, and supplies for collection system maintenance. LRW granted a 4.0% cost of living wage increase during 2006. LRW continues to follow Plan 66. This plan is an aggressive approach to reduce dry weather overflows in a three-year period by having additional maintenance crews for inspecting and cleaning sewer lines.

Non-Operating Expense had an increase of 1.9% in 2006. A large majority of the increase, \$.1 million, comes from the line item called Loss on Disposal of Property.

Change in Net Assets of \$.6 million represents an increase of 9.0% from 2005 and the change in the ending total net assets of \$7.6 million from last year shows a 5.8% growth.

Additional information can be found on the Statement of Revenues, Expenses, and Changes in Net Assets on page 26 and Schedule of Operating Expenses by Department on page 48.

	2006	Percent Change	2005	Percent Change	2004
<u>Revenues:</u>					
Operating Revenues:					
Assessments Levied	\$ 29,482,518	0.4%	\$ 29,374,828	1.3%	\$ 28,992,504
Industrial Surcharge	576,499	-7.0%	619,707	-22.2%	796,528
Other Fees and Income	339,247	-44.8%	614,972	21.4%	506,555
Non-Operating Revenue	883,262	43.6%	615,104	-10.8%	689,859
Total Revenues:	31,281,526	0.2%	31,224,611	0.8%	30,985,446
<u>Expenses:</u>					
Operating Expense	22,088,849	6.1%	20,810,362	7.6%	19,348,737
Depreciation Expense	5,818,269	5.9%	5,496,016	7.8%	5,098,192
Non-Operating Expense	2,372,285	1.9%	2,327,071	8.8%	2,138,783
Total Expense:	30,279,403	5.7%	28,633,449	7.7%	26,585,712
Income (Loss) Before Contributions	1,002,123	-61.3%	2,591,162	-41.1%	4,399,734
Capital Contributions	6,618,067	50.5%	4,396,730	37.6%	3,195,056
Change in Net Assets	7,620,190	9.0%	6,987,892	-8.0%	7,594,790
Total Net Assets – Beginning	132,370,116	5.6%	125,382,224	6.4%	117,787,434
Total Net Assets – Ending	\$ 139,990,306	5.8%	\$ 132,370,116	5.6%	\$ 125,382,224

## Capital Assets and Debt Administration

The cash outflow for LRW on wastewater system capital improvements was \$22.5 million in fiscal year 2006. The major construction project dollars spent on improvements include Adams Field WWTP with a cost of \$12.1 million, Collection System Overflow Mitigation projects at \$2.6 million, Unsewered areas at \$2.5 million, Peak Flow Attenuation facilities at \$1.3 million, Trenchless Sewerline Rehabilitation at \$1.1 million, and Little Maumelle Basin WWTP at \$.8 million. The remaining classifications of new sewer mains, replacement sewer mains, sewer pumping and treatment plant, and transportation make up the remaining \$2.1 million spent on capital assets. Additional information on LRW's capital assets can be found in Note 5 on page 37 of this report.

The three current long-term loans (2004A, 2004B, and 2004C) received through Arkansas Natural Resources Commission were for the upgrade to Adams Field Wastewater Treatment Plant, rehabilitation of the sewer collection facilities, and sewer mains for remaining unsewered areas in the City of Little Rock. Currently all three projects are still ongoing. These loans were in the amounts of \$23.1 million, \$14 million and \$13 million respectively. LRW has a three year period to draw on the loans up to the designated amounts. The payment of principal and interest will begin when the project is completed or when the three year window is reached, whichever comes first. The total long-term debt (less bond payable within one year) increased by \$13.9 million in 2006. This amount is expected to increase significantly in the coming years with at least three bond issues scheduled in 2007.

<b>Long-Term Debt</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
1990 Sewer Revenue	\$ 3,288,001	\$ 3,657,150	\$ 4,011,965
1991 Sewer Revenue	2,818,287	3,134,700	3,438,827
1996 Sewer Revenue	4,219,471	4,484,479	4,740,450
1999 Sewer Revenue	10,255,848	10,716,479	11,160,309
2001 Sewer Revenue	20,260,000	20,635,000	20,995,000
2004A Sewer Revenue	21,201,426	10,574,355	1,550,202
2004B Sewer Revenue	11,399,566	8,287,650	1,220,168
2004C Sewer Revenue	3,995,265	1,193,930	207,029
2004 Short Term Note	0	0	3,316,918
2005 Sewer Revenue	9,655,000	10,000,000	
Less Debt Payable, due within one year	<u>(2,625,215)</u>	<u>(2,131,200)</u>	<u>(2,489,171)</u>
<b>Total Long-Term Debt</b>	<b><u>\$84,467,648</u></b>	<b><u>\$70,552,543</u></b>	<b><u>\$48,151,697</u></b>

Additional information on LRW's long-term debt can be found in Note 7 on page 38 of this report.

### **Economic Factors and Next Year's Budget and Rates**

LRW believes that the customer base for its services will continue to grow at a normal pace of 1.0%. In order for LRW to meet obligations and timelines for capacity and non-capacity overflow litigation, there are several major projects that are scheduled to start sometime in 2007. The Peak Flow Attenuation Facilities (projected at \$60.5 million) and the Little Maumelle Basin Wastewater Treatment Plant (projected at \$67 million) are slated to be revenue bond issues. In addition to the revenue bonds, there will be a Revolving Loan Fund issue in the amount of \$18 million for the Collection System Overflow Mitigation project, phase 6. The City of Little Rock Board of Directors passed a 5-phase rate adjustment on November 28, 2006, with the first billing cycle that included the new rate increase of 15% in January 2007. The next four rate adjustments are 8% on July 1, 2007, 3% on January 1, 2008, 4% on January 1, 2009, and 5% on January 1, 2010.

### **Request for Information**

This financial report is designed to provide a general overview of LRW's finances for the ratepayers, citizens, city leaders, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Manager of Finance, P.O. Box 45090, Little Rock, AR 72214-45090.

LITTLE ROCK WASTEWATER  
BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005

**ASSETS**

	<u>2006</u>	<u>2005</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 2,421,846	\$ 3,048,454
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$205,913 in 2006 and \$232,951 in 2005)	2,136,500	1,790,228
Inventories	1,229,322	1,160,988
Prepaid Items	75,591	94,634
Restricted Current Assets		
Restricted for Bond Requirements		
Cash and Cash Equivalents	2,559,584	4,359,830
Investments		
Accrued Interest Receivable	31,440	31,769
Prepaid Items	367,179	368,742
Unamortized Bond Issue Expense - Current	85,539	90,610
Restricted for Construction and Improvement		
Cash and Cash Equivalents	10,970,153	10,915,934
Investments		3,358,858
Construction Receivable	15,180	178,699
Accrued Interest Receivable	12,907	16,994
Total Current Assets	<u>19,905,241</u>	<u>25,415,740</u>
<u>NONCURRENT ASSETS:</u>		
Restricted for Bond Requirements		
Investments	2,454,671	1,983,541
Unamortized Bond Issue Expense	612,608	698,147
Total Noncurrent Assets	<u>3,067,279</u>	<u>2,681,688</u>
Capital Assets (Net of Accumulated Depreciation)	<u>209,234,866</u>	<u>185,070,970</u>
Total Noncurrent Assets	<u>212,302,145</u>	<u>187,752,658</u>
TOTAL ASSETS	<u>\$ 232,207,386</u>	<u>\$ 213,168,398</u>

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

## LIABILITIES

	<u>2006</u>	<u>2005</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 399,149	\$ 399,233
Franchise Fee Collections due to City of Little Rock	167,086	298,744
Accrued Wages Payable and Related Liabilities	372,543	429,175
Accrued Expenditures and Other	278,716	200,845
Compensated Absences	965,896	970,283
Current Liabilities Payable from Restricted Assets		
Construction Contract Payable	2,264,362	5,107,028
Accrued Bond/Note Interest Payable	656,834	687,738
Bond/Note Payable - Current	2,625,215	2,131,200
Unamortized Bond Premium - Current	1,808	1,862
Total Current Liabilities	<u>7,731,609</u>	<u>10,226,108</u>
<u>NONCURRENT LIABILITIES</u>		
Bonds/Note Payable	84,467,648	70,552,543
Unamortized Bond Premium	17,823	19,631
Total Noncurrent Liabilities	<u>84,485,471</u>	<u>70,572,174</u>
Total Liabilities	<u>92,217,080</u>	<u>80,798,282</u>
<u>NET ASSETS</u>		
Restricted		
For Debt Service	5,454,187	6,844,902
For Construction and Improvements	8,733,878	9,363,457
Total Restricted	<u>14,188,065</u>	<u>16,208,359</u>
Invested in Capital Assets, Net of Related Debt	121,156,476	111,395,450
Unrestricted	4,645,765	4,766,307
Total Net Assets	<u>139,990,306</u>	<u>132,370,116</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 232,207,386</u>	<u>\$ 213,168,398</u>

LITTLE ROCK WASTEWATER  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

<u>OPERATING REVENUES</u>	<u>2006</u>	<u>2005</u>
Sewer Charges	\$ 29,482,518	\$ 29,374,828
Industry Surcharges	576,499	619,707
Connection Fees	172,823	214,625
Other	166,424	400,347
Total Operating Revenues	<u>30,398,264</u>	<u>30,609,507</u>
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	17,511,523	16,541,644
Supplies	1,984,357	1,964,885
Contract Services	2,130,193	1,851,550
Vehicle Expense	641,644	511,315
Utilities	1,470,846	1,353,354
Administrative	1,139,964	1,135,952
Less Capital Work in Progress	(2,789,678)	(2,548,338)
Total Operating Expenses	<u>22,088,849</u>	<u>20,810,362</u>
Operating Income Before Depreciation	8,309,415	9,799,145
<u>PROVISION FOR DEPRECIATION</u>		
Building Improvements	1,284,727	668,891
Infrastructure-Collections, Pumping, & Treatment	3,294,915	3,370,047
Equipment	1,238,627	1,457,078
Total Provision for Depreciation	<u>5,818,269</u>	<u>5,496,016</u>
OPERATING INCOME	<u>2,491,146</u>	<u>4,303,129</u>
<u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	865,470	599,093
Interest Expense	(2,176,779)	(2,174,967)
Amortization of Bond Issuance Costs	(90,610)	(99,825)
Gain (Loss) on Disposal of Capital		
Assets	(104,896)	(8,272)
Unrealized Gain (Loss) on Investments	3,186	(44,007)
Other	14,606	16,011
Total Nonoperating Income (Expense)	<u>(1,489,023)</u>	<u>(1,711,967)</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 1,002,123</u>	<u>\$ 2,591,162</u>

LITTLE ROCK WASTEWATER  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
(CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	\$ 1,002,123	\$ 2,591,162
CAPITAL CONTRIBUTIONS	<u>6,618,067</u>	<u>4,396,730</u>
CHANGE IN NET ASSETS	7,620,190	6,987,892
NET ASSETS, BEGINNING OF YEAR	<u>132,370,116</u>	<u>125,382,224</u>
NET ASSETS, END OF YEAR	<u>\$ 139,990,306</u>	<u>\$ 132,370,116</u>

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

LITTLE ROCK WASTEWATER  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING</u>		
<u>ACTIVITIES</u>		
Cash Received from Customers	\$ 29,885,568	\$ 29,956,129
Other Receipts	166,424	400,347
Payments to Employees	(14,782,864)	(14,547,195)
Payments to Suppliers	(2,052,775)	(1,618,655)
Payments for Contractual Services	(2,130,193)	(1,647,811)
Payments for Utilities	(1,470,846)	(1,204,433)
Other Payments	(1,816,352)	(1,237,185)
Net Cash Provided by (Used by) Operating Activities	<u>7,798,962</u>	<u>10,101,197</u>
 <u>CASH FLOWS FROM CAPITAL AND</u>		
<u>RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(26,467,477)	(23,874,063)
Proceeds from Disposal of Property and Equipment	320,336	557,060
Principal Paid on Indebtedness	(2,131,201)	(5,035,661)
Interest Paid on Indebtedness	(2,176,779)	(2,122,914)
Net Proceeds from Issuance of Indebtedness	16,540,321	26,879,208
Other	14,606	16,011
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(13,900,194)</u>	<u>(3,580,359)</u>
 <u>CASH FLOWS FROM INVESTING</u>		
<u>ACTIVITIES</u>		
Interest on Investments	869,886	530,838
Maturities (Purchase) of Investments	<u>2,858,711</u>	<u>(3,316,907)</u>
Net Cash Provided by (Used by) Investing Activities	<u>3,728,597</u>	<u>(2,786,069)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 <u>\$ (2,372,635)</u>	 <u>\$ 3,734,769</u>



LITTLE ROCK WASTEWATER  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of Year	\$ 18,324,318	\$ 14,589,449
Net Increase (Decrease) in Cash and Cash Equivalents	(2,372,635)	3,734,769
End of Year	\$ 15,951,683	\$ 18,324,218
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:</u>		
Operating Income	\$ 2,491,146	\$ 4,303,129
Adjustments:		
Depreciation	5,818,269	5,496,016
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(345,943)	(52,889)
(Increase) Decrease in Inventories	(68,334)	(106,138)
(Increase) Decrease in Prepaid Expenses and Other Assets	18,714	24,192
Increase (Decrease) in Accounts Payable	(131,742)	236,157
Increase (Decrease) in Accrued Expenses	16,852	200,730
Net Cash Provided by Operating Activities	\$ 7,798,962	\$ 10,101,197

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES:

During 2006 and 2005, the Utility received donated sewer lines capitalized in the amount of \$6,618,067 and \$4,396,730, respectively.

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

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Reporting Entity**

The financial statements of the Little Rock Wastewater (LRW), a component unit (Enterprise Fund) of the City of Little Rock, conform to generally accepted accounting principles for state and local governments. LRW provides sewer services for the greater Little Rock area. These services primarily consist of treatment and disposal of sewer water, inspection of sewer lines, and construction of sewer treatment plants, rehabilitation projects, and spot repairs. The vast majority of LRW's customers are residential; however, LRW also services commercial businesses. LRW had 65,770 and 65,192 customers at December 31, 2006 and 2005, respectively. However, LRW is financially accountable to the City of Little Rock because the city's Board of Directors must approve any rate adjustments and debt issuances.

B. **Basis of Accounting**

LRW is a proprietary fund of the City and its financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. In accordance with paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, LRW applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

As a component unit of the City of Little Rock, LRW has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments." Statement No. 34 established standards for external financial reporting for all state and local government entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components; restricted; invested in capital assets, net of related debt, and unrestricted.

Restricted – Consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted – Consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

As a component unit of the City of Little Rock, LRW applies the provisions of Governmental Accounting Standards Board Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions.” This statement requires that capital contributions to LRW be presented as a change in net assets.

LRW’s accounting and financial reporting practices are similar to those used for business enterprises; therefore, the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues from assessments levied, industrial surcharges, connection fees, and other sewer fees are reported as operating revenues. Transactions which are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the sewer system such as salaries, benefits, supplies, utilities, and administrative costs are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

**C. Cash and Cash Equivalents**

LRW considers both restricted and unrestricted demand deposits, certificates of deposit, money market funds and cash management pools to be cash equivalents. In addition, all highly liquid investments, including repurchase agreements, with maturities of three months or less from the date of purchase are considered to be cash equivalents.

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. **Investments**

Investments are stated at fair value and consist of debt securities with original maturities in excess of three months when purchased. Unrealized gains and losses are included as nonoperating income (expense) in the accompanying statements of income.

E. **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2006 and 2005 are more fully explained in Note 4.

F. **Inventory**

Materials, supplies, and fuel inventories are valued at the lower of average cost or market value.

G. **Restricted Assets**

Restricted assets consist of monies and other resources which are restricted legally as described below:

Bond Requirements – These assets include cash, investments, and accrued interest held in various accounts as required by the bond indentures.

Construction and Improvements – These assets are restricted for designated capital projects and cannot be expended for any other item.

H. **Unamortized Bond Issuance Costs**

Costs associated with the issuance of bonds are capitalized as bond issuance costs and amortized over the life of the related bonds.

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. **Capital Assets and Capital Contributions**

Capital Assets consist of property, plant and equipment and include assets which have been contributed to LRW. These assets, consisting primarily of donated sewer lines, are recorded at the donor's cost (which approximates fair market value at the transfer date for those assets). Capital assets are defined by LRW as assets with an initial, individual cost of at least \$1,000 and an estimated useful life in excess of 5 years. Depreciation is computed using the straight-line method of depreciation with estimated useful lives of 10 to 50 years for buildings and improvements, 5 to 25 years for machinery and equipment, and 50 years for collection systems (primarily sewer lines).

J. **Basis of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. **Reclassifications**

Amounts have been reclassified in the 2005 financial statements to conform to the presentation in the 2005 financial statements.

L. **Compensated Absences**

Employees earn Personal Time Off (PTO) as the only paid personal leave as it covers time away from the workplace for vacation, personal time, funeral, illness, etc. There are no restrictions on how much PTO can be accrued and no deadline to use the time accrued (rolls over from year to year). Employees accumulate PTO each pay period based on length of service. The rate of accrual for any given year in the first twelve months is 18 days, one through five years accrue 20 days, six through fifteen accrue 25 days, sixteen through twenty-five accrue 30 days, and twenty-five years and up accrue 35 days.

M. **Pension Plan**

The provision for retirement pension costs is recorded when the related payroll is accrued and the obligation is incurred.

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the balance sheets as of December 31, 2006 and 2005, respectively, follows:

	<u>Unrestricted</u>	<u>2006 Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 3,048,454	\$ 15,275,764	\$ 18,324,218
Net Increase (Decrease)	<u>(626,608)</u>	<u>(1,746,027)</u>	<u>(2,372,635)</u>
Cash at End of Year	<u>\$ 2,421,846</u>	<u>\$ 13,529,737</u>	<u>\$ 15,951,583</u>
	<u>Unrestricted</u>	<u>2005 Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 3,087,603	\$ 11,501,846	\$ 14,589,449
Net Increase (Decrease)	<u>(39,149)</u>	<u>3,773,918</u>	<u>3,734,769</u>
Cash at End of Year	<u>\$ 3,048,454</u>	<u>\$ 15,275,764</u>	<u>\$ 18,324,218</u>

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. LRW's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all municipal deposits by federal depository insurance (FDIC) and qualified pledged securities consisting of obligations of the U.S. Treasury and U.S. agencies.

Included in LRW's total cash balances of \$15,951,583 and \$18,324,218 (restricted and unrestricted) at December 31, 2006 and 2005, respectively, are deposits with financial institutions which are categorized as to credit risk as follows.

	<u>2006 Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 14,043,033	\$ 15,951,583
Uninsured, Uncollateralized	<u>-</u>	<u>-</u>
Total	<u>\$ 14,043,033</u>	<u>\$ 15,951,583</u>

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

	<u>2005</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 18,324,218	\$ 18,525,011
Uninsured, Uncollateralized	-	-
Total	<u>\$ 18,324,218</u>	<u>\$ 18,525,011</u>

NOTE 3: INVESTMENTS

Investments at December 31, 2006 and 2005 consisted of U.S. Government Obligations, stated at fair values of \$2,454,671 and \$5,342,399. Net unrealized gain (loss) on these securities for each of the years ended December 31, 2006 and 2005, was \$3,186 and \$(44,007), respectively.

All of LRW's investments carry the explicit guarantee of the U.S. Government. LRW has managed its exposure to fair value losses arising from increasing interest rates by purchasing investments in 2006 with a maturity of less than four months.

Investments are categorized as follows to give an indication of the level of credit risk assumed by LRW at year end. Category 1 includes investments that are insured or registered or for which the securities are held by LRW or by its agent in LRW's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in LRW's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in LRW's name. All of LRW's investments at December 31, 2006 and 2005 are categorized as Category 1.

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Trade Receivables, Current	\$ 2,136,500	\$ 1,790,228
Trade Receivables, Past Due	205,913	209,831
Total	<u>2,342,413</u>	<u>2,000,059</u>
Allowance for Uncollectibles, Beginning of Year	(209,831)	(232,951)
Writeoff of Uncollectibles	210,047	223,262
Provision for Bad Debt Expense	<u>(206,129)</u>	<u>(200,142)</u>
Allowance for Uncollectibles, End of Year	<u>(205,913)</u>	<u>(209,831)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	<u>\$ 2,136,500</u>	<u>\$ 1,790,228</u>

Included in Accounts Receivables at December 31, 2006 and 2005 were the following amounts due from Central Arkansas Water for the sale of a building in the original amount of \$1,223,650.

	<u>2006</u>	<u>2005</u>
Current	\$	\$ 169,911
Noncurrent	<u>0</u>	<u></u>
Total	<u>\$ 0</u>	<u>\$ 169,911</u>



LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2006 and 2005 was as follows:

2006	Balance 12/31/05	Additions	Retirements	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$ 2,708,822	\$ 113,220		\$ 2,822,042
Construction in Progress	31,887,045	30,399,161	14,705,846	47,580,360
Total capital assets not being depreciated	34,595,867	30,512,381	14,705,846	50,402,402
Capital assets being depreciated:				
Building and Improvements	36,445,889	3,014,009	24,810	39,435,088
Infrastructure-Collection & Treatment	167,510,854	9,790,017	55,607	177,245,264
Equipment	25,605,001	1,794,836	1,124,377	26,275,460
Total capital assets being depreciated	229,561,744	14,598,862	1,204,794	242,955,812
Less accumulated depreciation for:				
Buildings and Improvements	17,807,066	778,347	10,204	18,575,209
Infrastructure-Collections & Treatment	44,125,575	3,519,117	5,216	47,639,476
Equipment	17,154,000	1,520,805	766,142	17,908,663
Total accumulated depreciation	79,086,641	5,818,269	781,562	84,123,348
Capital Assets, Net	<u>\$ 185,070,970</u>	<u>\$ 39,292,974</u>	<u>\$ 15,129,078</u>	<u>\$ 209,234,866</u>
2005	Balance 12/31/04	Additions	Retirements	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 2,704,008	\$ 4,814		\$ 2,708,822
Construction in Progress	8,330,153	31,753,919	8,197,027	31,887,045
Total capital assets not being depreciated	11,034,161	31,758,733	8,197,027	34,595,867
Capital assets being depreciated:				
Building and Improvements	36,215,809	230,080		36,445,889
Infrastructure-Collection & Treatment	160,072,086	7,438,768		167,510,854
Equipment	24,388,556	1,571,269	354,824	25,605,001
Total capital assets being depreciated	220,676,451	9,240,117	354,824	229,561,744
Less accumulated depreciation for:				
Buildings and Improvements	17,138,175	668,891		17,807,066
Infrastructure-Collection & Treatment	40,755,529	3,370,046		44,125,575
Equipment	15,719,288	1,457,078	22,366	17,154,000
Total accumulated depreciation	73,612,992	5,496,015	22,366	79,086,641
Capital Assets, Net	<u>\$ 158,097,620</u>	<u>\$ 35,502,835</u>	<u>\$ 8,529,485</u>	<u>\$ 185,070,970</u>

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 5: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2006 and 2005 included capitalized construction period interest of \$972,340 and \$312,208 that was incurred in each respective year.

Depreciation expense was \$5,818,269 and \$5,496,016 for the years ended December 31, 2006 and 2005, respectively.

NOTE 6: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals, were \$6,618,066 and \$4,396,730 for the years ended December 31, 2006 and 2005, respectively.

NOTE 7: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds and other indebtedness for which the changes in the year ended December 31, 2006 and 2005 are as follows:

		<u>2006</u>			Amount Due Within One Year
		Beginning Balance	Increases	Decreases	Ending Balance
Sewer Revenue Bond		\$72,683,743	\$ 16,540,321	\$ 2,131,201	\$87,092,863
Sewer Reserve Note					-
		<u>\$72,683,743</u>	<u>\$ 16,540,321</u>	<u>\$ 2,131,201</u>	<u>\$87,092,863</u>
		<u>2005</u>			Amount Due Within One Year
		Beginning Balance	Increases	Decreases	Ending Balance
Sewer Revenue Bond		\$ 47,323,950	\$ 27,078,536	\$ 1,718,743	\$ 72,683,743
Sewer Reserve Note		3,316,918		3,316,918	
		<u>\$ 50,640,868</u>	<u>\$ 27,078,536</u>	<u>\$ 5,035,661</u>	<u>\$ 72,683,743</u>
					<u>\$ 2,131,200</u>

Sewer revenue bonds payable consist of the following:

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 7: LONG-TERM DEBT (CONTINUED)

<u>Series</u>	<u>Interest Rate</u>	<u>Outstanding at Maturity Date</u>	<u>December 31, 2006</u>	<u>Amount Due Within One Year</u>
1990	4.0%	2004 to 2014	\$3,288,001	\$384,063
1991	4.0%	2004 to 2014	2,818,287	329,197
1996	3.5%	2004 to 2019	4,219,471	274,366
1999	3.5%	2004 to 2022	10,255,848	478,066
2001	4.00% to 5.125%	2004 to 2022	20,260,000	390,000
2004A	3.25%	2004 to 2027	21,201,426	414,523
2004B	3.25%	2004 to 2027	11,399,566	-
2004C	3.25%	2004 to 2027	3,995,265	-
2005	3.00% to 4.375%	2006 to 2025	9,655,000	355,000
Total			<u>\$87,092,864</u>	<u>\$2,625,215</u>

Payment dates for the revenue bonds are as follows:

<u>Series</u>	<u>Principal and Interest</u>
1990	April 15 and October 15
1991	April 15 and October 15
1996	April 15 and October 15
1999	April 15 and October 15
2001	February 1 and August 1
2004A	April 15 and October 15
2004B	April 15 and October 15
2004C	April 15 and October 15
2005	May 1 and November 1

The Arkansas Natural Resource Commission (ANRC) has issued certain revenue bonds, the proceeds of which have been loaned to the City of Little Rock, Arkansas, for the purpose of financing costs of constructing extensions, betterments, and improvements to the sewer system. The City of Little Rock has passed these funds to LRW for such purpose as follows:

<u>Sewer Revenue Bond Issue</u>	<u>Bond Issue</u>
Series 1990 (December, 1990)	\$ 7,000,000
Series 1991 (April, 1991)	\$ 6,000,000
Series 1996 (January, 1996)	\$ 6,000,000
Series 1999 (July 1999)	\$ 12,000,000
Series 2004A (March, 2004)	\$ 23,100,000
Series 2004B (March 2004)	\$ 14,000,000
Series 2004C (March 2004)	\$ 13,000,000

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 7: LONG-TERM DEBT (CONTINUED)

In October, 2001, the City of Little Rock, Arkansas, issued \$22,680,000 of Sewer Refunding and Construction Revenue Bonds, Series 2001, for the purpose of financing certain costs of constructing extensions, betterments, and improvements to the sewer system and to advance refund the Series 1993 Bonds.

In March, 2004, the City of Little Rock, Arkansas authorized a Sewer Revenue Bond issue of \$23,100,000, \$14,000,000, and \$13,000,000 to be issued by ANRC, for the purpose of financing the costs of constructing extensions, betterments, and improvements to the Adams Field Treatment Plant, LRW's collection system, and unsewered areas. As of December 31, 2006, LRW had drawn \$21,201,426, \$11,399,566, and \$3,995,265 respectively, on these bond issues, with additional draws of \$1,898,574, \$2,600,434, and \$9,004,735 remaining. These draws, which amount to \$13,503,743 in the aggregate, will be made as the aforementioned construction progresses.

In May 2005, the City of Little Rock, Arkansas issued \$10,000,000 of Sewer Refunding and Construction Revenue Bonds, Series 2005, for the purpose of financing certain costs of constructing extensions, betterments, and improvements to the sewer system and to pay off the 2004 Short-Term Note.

The 1990, 1991, and 1996 Series Sewer Revenue Bonds are subordinate to the 2001 & 2005 Series Revenue Bonds. The 1999 and 2004 Series Sewer Revenue Bonds are subordinate to the 1990, 1991, 1996, 2001, and 2005 Series Revenue Bonds.

In addition to the \$87,092,863 balance of Sewer Revenue Bonds outstanding at December 31, 2006, an additional \$13,503,743 will, as previously described, be drawn in fulfillment of current bond issues, for a total Sewer Revenue Bond indebtedness of \$100,596,606.

The annual requirements to amortize sewer revenue bond indebtedness outstanding, and scheduled, including interest, as of December 31, 2006, are as follows:

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 7: LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
2007	\$ 2,625,215	\$ 2,496,617	\$ 5,121,832
2008	3,653,185	3,219,421	6,872,606
2009	4,256,753	3,506,318	7,763,071
2010	4,404,107	3,353,963	7,758,070
2011	4,560,839	3,196,525	7,757,364
2012 to 2016	25,471,424	13,301,881	38,773,305
2017 to 2021	30,849,588	7,904,846	38,754,434
2022 to 2026	21,355,411	2,311,263	23,666,674
2027 to 2030	3,420,084	105,415	3,525,499
Total	<u>\$ 100,596,606</u>	<u>\$ 39,396,249</u>	<u>\$ 139,992,855</u>

Interest expense incurred during construction amounted to \$972,340 and \$312,208 all of which was capitalized to construction in progress in the years ended December 31, 2006 and December 31, 2005, respectively.

NOTE 8: LITIGATION

The Little Rock Sanitary Sewer Committee (LRSSC) was a defendant, along with the City of Little Rock, in a lawsuit filed in the U.S. District Court on January 13, 2000, by the Sierra Club. The plaintiff alleged violations of the Clean Water Act and the Resource Conservation and Recovery Act for alleged sewer overflows, and sought injunctions for the alleged violations as well as penalties. LRSSC and the plaintiff entered into a written settlement agreement releasing LRSSC's liability for any alleged violations up to the settlement agreement dated September 12, 2001. A judgment approving this settlement was filed on November 16, 2001, subject to an award of the plaintiff's statutory attorneys' fees, which were paid on January 13, 2003; and on December 23, 2003 the LRSSC paid the plaintiff \$20,149 in satisfaction of its liability for the plaintiff's court costs. As of December 31, 2003, there were no further sums due to the plaintiffs in this litigation. Accordingly, LRW's financial statements as of December 31, 2006 and 2005, respectively, do not include any provisions of potential liability with regard to this litigation.

However, in accordance with the settlement agreement between the plaintiff and LRSSC, the Court retained jurisdiction for the purpose of enforcing the provisions of the settlement agreement incorporated by reference in the judgment. Under the provisions of the settlement, LRSSC is required to follow certain reporting, notice,

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 8: LITIGATION (CONTINUED)

and maintenance procedures, as well as to complete a study to address sanitary sewer overflows with the goal of eliminating them, as specified in the settlement agreement, and then developing, adopting, and implementing the necessary program within certain deadlines, which LRSSC has done or is doing.

Management is of the opinion that LRW is generally in compliance with the provisions of the settlement agreement, except that due to the delay in the selection and acquisition of the proposed Little Maumelle Plant site needed to comply with the settlement agreement as provided in the System Evaluation and Capacity Assurance Plan approved by LRSSC, this plant will not be completed as originally proposed in the schedule of 2006. Further court action could occur as a consequence, if the Sierra Club chooses to challenge LRSSC's compliance with the settlement agreement. Management completed an annual report, as required by the settlement agreement each year, detailing compliance actions taken during the year 2005.

This report was approved by LRSSC at its monthly meeting on February 15, 2006. Prior such reports starting with the report for 2003 were all approved by LRSSC. Management expects to remain in compliance with the settlement agreement, except for the completion schedule of the Little Maumelle Plant, currently estimated to be completed in 2009, and will in good faith take all reasonable steps in that regard to comply with the provisions of the settlement agreement, which will require the expenditure of substantial sums in excess of \$170,000,000 over a 15 year period, according to the current engineering estimates.

On February 11, 2004, staff representatives of Arkansas Department of Environmental Quality ("ADEQ") and Little Rock Wastewater ("LRW") met to discuss provisions in the Sierra Club Settlement Agreement ("Settlement"), and ADEQ requested certain documents from LRW which were then sent to the United States Environmental Protection Agency ("U.S. EPA") on February 13, 2004 from LRW. After subsequent telephone conversations, LRW attended a meeting on August 12, 2004, between U.S. EPA and ADEQ, which they requested for the purpose of further discussion about the Settlement and a possible further agreement with ADEQ imposing certain requirements desired by both ADEQ and U.S. EPA for compliance with certain provisions of the Clean Water Act on issues not covered by the prior Settlement with Sierra Club. Based on subsequent discussions, ADEQ has requested that a Consent Administrative Order ("CAO") be issued addressing certain issues including, but not limited to, maintenance practices, secondary treatment bypasses at the Adams Field Wastewater

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 8: LITIGATION (CONTINUED)

Treatment Plant, administrative requirements, design and performance provisions, monitoring, measurement and program modifications, sanitary sewer overflow plan, system evaluation and capacity assurance plan, audits, communications and money penalties for failure to comply with performance and deadlines based on civil penalties of \$100 to \$500 per day, depending upon the duration of any violation of the proposed CAO. Numerous drafts of proposed CAO's containing various provisions regarding these issues have been exchanged since November 1, 2004, and the most recent draft dated January 25, 2006 was discussed and tentatively agreed on at that date by LRW's staff.

On March 7, 2006, LRW's CEO signed the final draft of the proposed CAO on behalf of LRW and sent it to ADEQ for the Director's signature, which is expected shortly. Management is of the opinion that LRW will make every effort to comply with its provisions so long as it is in effect. Completion dates vary for the projects specified in the CAO, and the completion date for the Little Maumelle Plant is December 31, 2009. Management expects to remain in compliance for the duration of the CAO, which should be lengthy. Thus, management is of the opinion that any unfavorable outcome appears remote.

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

LRW had commitments totaling approximately \$10,609,281 at December 31, 2006, for the expansion of plant capacity.

NOTE 10: PENSIONS AND OTHER POST EMPLOYMENT BENEFITS

A. Defined Contribution Plan

LRW offers a voluntary 401 (a) qualified Pension Plan to all of its employees upon initial employment. The plan is administered by the Little Rock Sanitary Sewer Committee. The Pension expense is recorded for the amount of LRW's required contributions, determined in accordance with the terms of the plan. This plan requires that employees contribute 1% to 5% of their base salary based upon years of service and these contributions are matched dollar for dollar by LRW. The employee contributions are pre-taxed. Participants are fully vested after five years of service. Total employee and employer contributions were approximately \$817,227 and \$767,606 in 2006 and 2005, respectively.

LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 10: PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

B. Arkansas Public Employees Retirement System (APERS)

LRW participates in a cost-sharing multiple-employer pension plan, administered by the Arkansas Public Employees Retirement System (APERS). Members participate in a contributory plan or a noncontributory plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Prior to July 1, 2005, voluntary contributory plan members were required to contribute 5.0% of their annual salary to APERS. The employer's contributions are actuarially determined on an annual basis. The authority for establishing and amending both funding policies and benefits offered rests with APERS. No employees participated in this voluntary plan for the years ended June 30, 2006 and 2005. Contributions to the noncontributory plan are also actuarially determined on an annual basis. Contributions to the noncontributory plan were approximately \$1,439,927 \$1,164,043 and \$933,118 for the plan years ended June 30, 2006, 2005, and 2004, respectively, and represented 12.54%, 11.09%, and 10.0% of covered payroll for each of the plan years, respectively. These amounts represent 100% of required contributions for these three years. Employees hired on or after July 1, 2005 are subject to mandatory employee contributions of 5% of compensation. For the plan year ended June 30, 2006, the 5% mandatory employee contributions were \$26,696.44 and are not included in the amount above.

C. Post Employment Benefits Other Than Pensions

Little Rock Wastewater provides postretirement benefits in the form of medical and life insurance coverage to all retirees. Currently, 21 retirees are eligible to receive these benefits. These benefits are funded from current operations of LRW. Expenditures for such postretirement benefits amounted to \$136,651 and \$139,432 for the years ended December 31, 2006 and 2005, respectively.

NOTE 11: CONCENTRATIONS

LRW pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$592,508 and \$577,497 for the years ended December 31, 2006 and 2005, respectively, and are included as operating expenses in the accompanying statements of income.



LITTLE ROCK WASTEWATER  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 12: RISK MANAGEMENT

LRW has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; or natural disasters. Payments and premiums for these policies are recorded as expenses of LRW. Insurance settlements have not exceeded insurance coverage in any of the past three years.

LRW maintains a self-funded workers' compensation plan. All full-time employees are covered by the plan. It is self-funded to a maximum of \$275,000 per occurrence per employee. Coverage amounts in excess of this limit have been obtained by means of a stop loss reinsurance policy. LRW records an estimated liability based on claims made against LRW. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not yet reported based on historical experience. Settlements have not exceeded coverage in each of the past three years. The following represents the changes in approximate aggregate liabilities of the workers' compensation plan for LRW for January 1, 2005 to December 31, 2006:

Liability balance, January 1, 2005	\$ 12,309
Claims and changes in estimates	14,815
Claims payments	<u>(24,395)</u>
Liability balance, December 31, 2005	2,729
Claims and changes in estimates	13,786
Claims payments	<u>(13,214)</u>
Liability balance, December 31, 2006	<u>\$ 3,301</u>

LITTLE ROCK WASTEWATER  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original and Final Budget	Actual	Variance Over (Under)
<u>OPERATING REVENUES</u>			
Sewer Charges	\$ 29,276,160	\$ 29,482,518	\$ 206,358
Industry Surcharges	624,000	576,499	(47,501)
Connection Fees	192,000	172,823	(19,177)
Other	223,500	166,424	(57,076)
Total Operating Revenues	<u>30,315,660</u>	<u>30,398,264</u>	<u>82,604</u>
<u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>			
Committee	71,500	72,253	753
Management	1,901,486	1,728,749	(172,737)
Finance and Administration	2,182,659	2,187,617	4,958
Engineering	2,980,102	3,086,746	106,644
Information Systems	1,704,849	1,726,927	22,078
Maintenance	10,322,648	10,469,406	146,758
Operations	4,413,333	4,120,384	(292,949)
Environmental Assessment	1,548,182	1,486,445	(61,737)
CWIP	(2,849,770)	(2,789,678)	60,092
Total Operating Expenses, Excluding Depreciation	<u>22,274,989</u>	<u>22,088,849</u>	<u>(186,140)</u>
Operating Income Before Depreciation	<u>8,040,671</u>	<u>8,309,415</u>	<u>268,744</u>
<u>PROVISION FOR DEPRECIATION</u>			
Building and Improvement	1,331,442	1,284,727	(46,715)
Infrastructure-Collection & Treatment	3,414,722	3,294,915	(119,807)
Equipment	1,283,664	1,238,627	(45,037)
Total Provision for Depreciation	<u>6,029,828</u>	<u>5,818,269</u>	<u>(211,559)</u>
OPERATING INCOME (LOSS)	<u>2,010,843</u>	<u>2,491,146</u>	<u>480,303</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED DECEMBER 31, 2006 (CONTINUED)

	Original and Final Budget	Actual	Variance Over (Under)
<u>NONOPERATING INCOME</u>			
<u>(EXPENSE)</u>			
Interest Income	\$ 392,400	\$ 865,470	\$ 473,070
Interest Expense	(2,180,051)	(2,176,779)	3,272
Amortization of Bond Issuance Costs	(88,879)	(90,610)	(1,731)
Gain (Loss) on Disposal of Capital Assets	3,600	(104,896)	(108,496)
Unrestricted Gain (Loss) on Investments		3,186	3,186
Other	2,400	14,606	12,206
Total Nonoperating Income (Expense)	<u>(1,870,530)</u>	<u>(1,489,023)</u>	<u>\$381,507</u>
NET INCOME (LOSS)	<u>\$ 140,313</u>	<u>\$ 1,002,123</u>	<u>\$ 1,868,810</u>

See independent auditors' report on required supplementary information.

LITTLE ROCK WASTEWATER  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT  
EXCLUDING DEPRECIATION (SCHEDULE 1)  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<u>Sewer Committee:</u>		
Committee Expense Reimbursement	\$ 44,691	\$ 30,892
Insurance	12,034	11,539
Other	15,528	20,828
Total	72,253	63,259
<u>Utility Manager:</u>		
Salaries	885,824	813,453
Employee Benefits	411,409	347,608
Supplies	60,864	49,613
Contract Services	46,059	133,330
Vehicle Maintenance	16,082	8,427
Utilities	18,657	13,790
Insurance	8,233	7,854
Training and Administration	281,621	305,279
Total	1,728,749	1,679,354
<u>Finance:</u>		
Salaries	791,064	806,206
Employee Benefits	319,107	310,943
Supplies	60,363	133,901
Contract Services	690,516	631,802
Vehicle Maintenance	7,294	2,977
Utilities	12,963	71,022
Insurance	30,107	16,969
Delinquent Accounts	206,129	200,142
Training and Administration	70,074	93,900
Total	2,187,617	2,267,862
<u>Engineering:</u>		
Salaries	1,905,640	1,665,518
Employee Benefits	865,464	702,527
Supplies	61,654	93,604
Contract Services	133,315	188,170
Vehicle Maintenance	42,592	19,102
Utilities	25,350	22,632
Insurance	5,997	5,745
Training and Administration	46,734	40,336
Total	3,086,746	2,737,634

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT  
EXCLUDING DEPRECIATION (SCHEDULE 1) (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<u>Collection System and Facilities/</u>		
<u>Equipment Maintenance:</u>		
Salaries	\$ 5,431,764	\$ 5,323,997
Employee Benefits	2,564,192	2,408,994
Supplies	1,159,837	1,019,852
Contract Services	472,763	255,854
Vehicle Maintenance	535,138	455,329
Utilities	139,531	68,066
Insurance	68,906	80,626
Training and Administration	97,275	92,475
Total	10,469,406	9,705,193
 <u>Operations - Adams, Fourche, and</u>		
<u>Industrial Monitoring:</u>		
Salaries	1,443,423	1,424,050
Employee Benefits	632,477	600,823
Supplies	181,184	185,629
Contract Services	514,704	436,546
Vehicle Maintenance	15,104	8,727
Utilities	1,178,781	1,085,028
Insurance	40,894	38,961
Training and Administration	113,817	108,315
Total	4,120,384	3,888,079
 <u>Technical Services:</u>		
Salaries	692,339	660,435
Employee Benefits	318,484	279,697
Supplies	314,917	357,344
Contract Services	233,302	177,041
Vehicle Maintenance	12,672	7,978
Utilities	90,434	86,651
Insurance	1,975	1,529
Training and Administration	62,804	53,329
Total	1,726,927	1,624,004

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT  
EXCLUDING DEPRECIATION (SCHEDULE 1) (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>Environmental Assessment</u>		
<u>Department (EAD):</u>		
Salaries	\$ 851,415	\$ 821,563
Employee Benefits	398,922	375,830
Supplies	145,536	124,945
Contract Services	39,535	28,811
Vehicle Maintenance	12,763	8,775
Utilities	5,128	6,165
Insurance	1,920	1,698
Training and Administration	31,226	25,528
Total	<u>1,486,445</u>	<u>1,393,315</u>
Costs Allocated to Construction	<u>(2,789,678)</u>	<u>(2,548,338)</u>
Total Operating Expenses	<u>\$ 22,088,850</u>	<u>\$ 20,810,362</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 1990)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2007	4%	\$ 190,130	\$ 193,933	\$ 65,760	\$ 61,957	\$ 511,780
2008	4%	197,811	201,768	58,079	54,123	511,781
2009	4%	205,803	209,919	50,087	45,971	511,780
2010	4%	214,117	218,400	41,773	37,490	511,780
2011	4%	222,769	227,223	33,122	28,666	511,780
2012	4%	231,768	236,403	24,123	19,486	511,780
2013	4%	241,131	245,954	14,759	9,937	511,781
2014	4%	250,872	-	5,017	-	255,889
		<u>\$ 1,754,401</u>	<u>\$ 1,533,600</u>	<u>\$ 292,720</u>	<u>\$ 257,630</u>	<u>\$ 3,838,351</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 1991)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2007	4%	\$ 162,969	\$ 166,228	\$ 56,366	\$ 53,106	\$ 438,669
2008	4%	169,553	172,944	49,782	46,391	438,670
2009	4%	176,403	179,931	42,932	39,404	438,670
2010	4%	183,529	187,200	35,805	32,135	438,669
2011	4%	190,944	194,763	28,391	24,572	438,670
2012	4%	198,658	202,631	20,676	16,703	438,668
2013	4%	206,684	210,817	12,651	8,517	438,669
2014	4%	215,033	-	4,301	-	219,334
		<u>\$ 1,503,773</u>	<u>\$ 1,314,514</u>	<u>\$ 250,904</u>	<u>\$ 220,828</u>	<u>\$ 3,290,019</u>

See independent auditors' report on supplementary schedules.



LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 1996)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2007	3.5%	\$ 135,993	\$ 138,373	\$ 73,841	\$ 71,461	\$ 419,668
2008	3.5%	140,793	143,257	69,039	66,575	419,664
2009	3.5%	145,765	148,316	64,068	61,518	419,667
2010	3.5%	150,911	153,552	58,922	56,281	419,666
2011	3.5%	156,239	158,974	53,594	50,860	419,667
2012	3.5%	161,756	164,585	48,078	45,247	419,666
2013	3.5%	167,466	170,397	42,367	39,436	419,666
2014	3.5%	173,379	176,413	36,454	33,420	419,666
2015	3.5%	179,500	182,641	30,333	27,192	419,666
2016	3.5%	185,837	189,089	23,995	20,743	419,664
2017	3.5%	192,399	195,766	17,434	14,067	419,666
2018	3.5%	199,192	202,678	10,641	7,155	419,666
2019	3.5%	206,200	-	3,609	-	209,809
		<u>\$2,195,430</u>	<u>\$2,024,041</u>	<u>\$ 532,375</u>	<u>\$ 493,955</u>	<u>\$ 5,245,801</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 1999)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2007	3.75%	\$ 236,813	\$ 241,253	\$ 192,297	\$ 187,857	\$ 858,220
2008	3.75%	245,776	250,385	183,334	178,725	858,220
2009	3.75%	255,079	259,862	174,031	169,248	858,220
2010	3.75%	264,735	269,698	164,375	159,412	858,220
2011	3.75%	274,755	279,907	154,355	149,203	858,220
2012	3.75%	285,155	290,502	143,955	138,608	858,220
2013	3.75%	295,949	301,498	133,161	127,612	858,220
2014	3.75%	307,151	312,910	121,959	116,200	858,220
2015	3.75%	318,777	324,754	110,333	104,356	858,220
2016	3.75%	330,843	337,046	98,267	92,064	858,220
2017	3.75%	343,366	349,804	85,744	79,306	858,220
2018	3.75%	356,363	363,045	72,747	66,065	858,220
2019	3.75%	369,852	376,787	59,258	52,323	858,220
2020	3.75%	383,851	391,048	45,259	38,062	858,220
2021	3.75%	398,381	405,850	30,729	23,260	858,220
2022	3.75%	413,460	421,194	15,650	7,898	858,202
		<u>\$ 5,080,306</u>	<u>\$ 5,175,543</u>	<u>\$ 1,785,454</u>	<u>\$ 1,690,199</u>	<u>\$13,731,502</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 2001)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		<u>2/1</u>	<u>8/1</u>	<u>2/1</u>	<u>8/1</u>	
2007	4.000%	\$ 195,000	\$ 195,000	\$ 486,328	\$ 482,428	\$ 1,358,756
2008	4.000%	200,000	205,000	478,528	474,528	1,358,056
2009	4.000%	210,000	215,000	470,428	466,228	1,361,656
2010	4.050%	220,000	220,000	461,928	457,473	1,359,401
2011	4.150%	225,000	230,000	453,018	448,350	1,356,368
2012	4.250%	235,000	240,000	443,577	438,583	1,357,160
2013	4.350%	245,000	250,000	433,483	428,155	1,356,638
2014	5.125%	490,000	510,000	422,717	410,161	1,832,878
2015	5.125%	760,000	775,000	397,092	377,617	2,309,709
2016	4.650%	795,000	815,000	357,758	339,273	2,307,031
2017	4.750%	830,000	855,000	320,325	300,613	2,305,938
2018	4.800%	875,000	895,000	280,306	259,306	2,309,612
2019	4.850%	1,020,000	1,045,000	237,827	213,091	2,515,918
2020	5.000%	1,175,000	1,205,000	187,750	158,375	2,726,125
2021	5.000%	1,230,000	1,270,000	128,250	97,500	2,725,750
2022	5.000%	1,300,000	1,330,000	65,750	33,250	2,729,000
		<u>\$ 10,005,000</u>	<u>\$ 10,255,000</u>	<u>\$ 5,625,065</u>	<u>\$ 5,384,931</u>	<u>\$ 31,269,996</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 2004A)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2007	3.25%	\$ -	\$ 414,523	\$ -	\$ 375,375	\$ 789,898
2008	3.25%	421,259	428,105	368,639	361,793	1,579,796
2009	3.25%	435,061	442,131	354,837	347,767	1,579,796
2010	3.25%	449,315	456,617	340,583	333,281	1,579,796
2011	3.25%	464,037	471,577	325,861	318,321	1,579,796
2012	3.25%	479,241	487,028	310,657	302,870	1,579,796
2013	3.25%	494,942	502,985	294,956	286,913	1,579,796
2014	3.25%	511,159	519,465	278,739	270,433	1,579,796
2015	3.25%	527,906	536,485	261,992	253,413	1,579,796
2016	3.25%	545,203	554,062	244,695	235,836	1,579,796
2017	3.25%	563,066	572,216	226,832	217,682	1,579,796
2018	3.25%	581,514	590,963	208,384	198,935	1,579,796
2019	3.25%	600,567	610,326	189,331	179,572	1,579,796
2020	3.25%	620,244	630,323	169,654	159,575	1,579,796
2021	3.25%	640,566	650,974	149,332	138,924	1,579,796
2022	3.25%	661,553	672,303	128,345	117,595	1,579,796
2023	3.25%	683,229	694,331	106,669	95,567	1,579,796
2024	3.25%	705,613	717,080	84,285	72,818	1,579,796
2025	3.25%	728,733	740,575	61,165	49,323	1,579,796
2026	3.25%	752,608	764,838	37,290	25,060	1,579,796
2027	3.25%	777,277	-	12,621	-	789,898
		<u>\$11,643,093</u>	<u>\$11,456,907</u>	<u>\$ 4,154,867</u>	<u>\$ 4,341,053</u>	<u>\$31,595,920</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 2004B)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2008	3.25%	\$ 251,226	\$ 255,308	\$ 227,500	\$ 223,418	\$ 957,452
2009	3.25%	259,458	263,673	219,268	215,053	957,452
2010	3.25%	267,958	272,312	210,768	206,414	957,452
2011	3.25%	276,738	281,234	201,988	197,492	957,452
2012	3.25%	285,805	290,449	192,921	188,277	957,452
2013	3.25%	295,169	299,965	183,557	178,761	957,452
2014	3.25%	304,839	309,794	173,887	168,932	957,452
2015	3.25%	314,828	319,944	163,898	158,782	957,452
2016	3.25%	325,142	330,426	153,584	148,300	957,452
2017	3.25%	335,795	341,252	142,931	137,474	957,452
2018	3.25%	346,798	352,433	131,928	126,293	957,452
2019	3.25%	358,160	363,980	120,566	114,746	957,452
2020	3.25%	369,894	375,906	108,832	102,820	957,452
2021	3.25%	382,013	388,221	96,713	90,505	957,452
2022	3.25%	394,531	400,941	84,195	77,785	957,452
2023	3.25%	407,457	414,078	71,269	64,648	957,452
2024	3.25%	420,807	427,645	57,919	51,081	957,452
2025	3.25%	434,594	441,656	44,132	37,070	957,452
2026	3.25%	448,833	456,126	29,893	22,600	957,452
2027	3.25%	463,539	471,073	15,187	7,653	957,452
		<u>\$6,943,584</u>	<u>\$7,056,416</u>	<u>\$2,630,936</u>	<u>\$2,518,104</u>	<u>\$19,149,040</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 2004C)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2009	3.25%	\$ 233,281	\$ 237,071	\$ 211,250	\$ 207,460	\$ 889,062
2010	3.25%	240,924	244,839	203,607	199,692	889,062
2011	3.25%	248,818	252,861	195,713	191,670	889,062
2012	3.25%	256,970	261,146	187,561	183,385	889,062
2013	3.25%	265,390	269,702	179,141	174,829	889,062
2014	3.25%	274,085	278,538	170,446	165,993	889,062
2015	3.25%	283,065	287,664	161,466	156,867	889,062
2016	3.25%	292,339	297,089	152,192	147,442	889,062
2017	3.25%	301,918	306,823	142,613	137,708	889,062
2018	3.25%	311,810	316,877	132,721	127,654	889,062
2019	3.25%	322,026	327,258	122,505	117,273	889,062
2020	3.25%	332,576	337,981	111,955	106,550	889,062
2021	3.25%	343,473	349,055	101,058	95,476	889,062
2022	3.25%	354,727	360,491	89,804	84,040	889,062
2023	3.25%	366,349	372,302	78,182	72,229	889,062
2024	3.25%	378,352	384,500	66,179	60,031	889,062
2025	3.25%	390,748	397,098	53,783	47,433	889,062
2026	3.25%	403,551	410,108	40,980	34,423	889,062
2027	3.25%	416,773	423,546	27,758	20,985	889,062
2028	3.25%	430,428	437,448	14,103	7,108	889,087
		<u>\$6,447,603</u>	<u>\$6,552,397</u>	<u>\$2,443,017</u>	<u>\$2,338,248</u>	<u>\$17,781,265</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2006

Sewer Revenue Bonds (Series 2005)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		05/01	11/01	05/01	11/01	
2007	3.000%	\$ 355,000	\$ -	\$ 197,583	\$ 192,258	\$ 744,841
2008	3.000%	370,000	-	192,258	186,709	748,967
2009	3.500%	380,000	-	186,709	180,059	746,768
2010	3.125%	390,000	-	180,059	173,965	744,024
2011	3.250%	405,000	-	173,965	167,384	746,349
2012	4.000%	415,000	-	167,384	159,084	741,468
2013	4.000%	435,000	-	159,084	150,384	744,468
2014	4.000%	450,000	-	150,384	141,384	741,768
2015	4.000%	470,000	-	141,384	131,984	743,368
2016	0.050%	490,000	-	131,984	119,734	741,718
2017	4.000%	510,000	-	119,734	109,534	739,268
2018	4.100%	535,000	-	109,534	98,566	743,100
2019	5.000%	555,000	-	98,566	84,691	738,257
2020	4.200%	585,000	-	84,691	72,406	742,097
2021	4.375%	605,000	-	72,406	59,172	736,578
2022	4.375%	635,000	-	59,172	45,281	739,453
2023	4.375%	660,000	-	45,281	30,844	736,125
2024	4.375%	690,000	-	30,844	15,750	736,594
2025	4.375%	720,000	-	15,750	-	735,750
		<u>\$ 9,655,000</u>	<u>\$ -</u>	<u>\$ 2,316,772</u>	<u>\$ 2,119,189</u>	<u>\$ 14,090,961</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(SCHEDULE 3)  
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Federal Grantor/ Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Amount</u>
<u>Environmental Protection Agency</u>			
Passed Through the Arkansas Natural Resources Commission - State Revolving Fund Program:			
Sewer Bonds (1990 Series)	66.458	N/A	\$ 7,000,000
Sewer Bonds (1991 Series)	66.458	N/A	6,000,000
Sewer Bonds (1996 Series)	66.458	N/A	6,000,000
Sewer Bonds (1999 Series)	66.458	N/A	12,000,000
Sewer Bonds (2004A Series)	66.458	N/A	23,100,000
Sewer Bonds (2004B Series)	66.458	N/A	14,000,000
Sewer Bonds (2004C Series)	66.458	N/A	<u>13,000,000</u>
Totals			<u>\$ 81,100,000</u>

See auditors' report on supplementary schedules and accompanying notes to Schedule of Expenditures of Federal Awards



<u>Bonds Payable December 31, 2005</u>	<u>Cash Received in 2006</u>	<u>Principal Repayments in 2006</u>	<u>Bonds Payable December 31, 2006</u>	<u>Total Expenditures in 2006</u>
\$ 3,657,150	\$ -	\$ 369,149	\$ 3,288,001	\$ -
3,134,700	-	316,413	2,818,287	-
4,484,479	-	265,008	4,219,471	-
10,716,479	-	460,631	10,255,848	-
10,574,355	10,627,071	-	21,201,426	10,627,071
8,287,650	3,111,916	-	11,399,566	3,111,916
1,193,930	2,801,335	-	3,995,265	2,801,335
<u>\$ 42,048,743</u>	<u>\$ 16,540,322</u>	<u>\$ 1,411,201</u>	<u>\$ 57,177,864</u>	<u>\$ 16,540,322</u>

LITTLE ROCK WASTEWATER  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of the federal financial assistance program of the Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the basis of accounting described in Note 1 to LRW's financial statements.

NOTE 3: PURPOSE OF FUNDS RECEIVED

Funds received under LRW's participation in the State Revolving Fund Program are used in construction related activities involving publicly-owned treatment works and/or developing a nonpoint source pollution control program.

NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS

Principal repayments in 2006 are included in the statements of cash flows in LRW's financial statements. Bonds payable of \$20,581,609 at December 31, 2006 are included in Note 7 to LRW's financial statements. Total expenditures in 2006 are included in acquisition and construction of capital assets in the statements of cash flows in LRW's financials statements.

**STATISTICAL DATA**



**Little Rock**  
**Wastewater**

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Schedule 1

**Little Rock Wastewater**

Net Assets by Component,  
Last Five Fiscal Years

	Fiscal Year		
	2004	2005	2006
Primary Government			
Restricted			
Restricted for Debt Service	\$ 3,347,720	\$ 6,844,902	\$ 5,454,187
Restricted for Construction and Improvements	10,525,011	9,363,457	8,733,878
Total Restricted	13,872,731	16,208,359	14,188,065
Invested in Capital Assets, Net of Related Debt	106,590,310	111,395,450	121,156,476
Unrestricted	4,919,183	4,766,307	4,645,765
Total primary governmental net assets	<u>\$ 125,382,224</u>	<u>\$ 132,370,116</u>	<u>\$ 139,990,306</u>

	Fiscal Year		
	2001	2002	2003
Primary Government			
Restricted			
Restricted for Debt Service	\$ 3,398,325	\$ 3,275,149	\$ 3,291,012
Restricted for Construction and Improvements	2,202,611	713,342	3,301,786
Total Restricted	5,600,936	3,988,491	6,592,798
Invested in Capital Assets, Net of Related Debt	95,001,363	100,946,678	106,332,313
Unrestricted	8,018,069	5,918,872	4,862,322
Total primary governmental net assets	<u>\$ 108,620,368</u>	<u>\$ 110,854,041</u>	<u>\$ 117,787,433</u>

LRW is reporting retroactively back to the year Statement 34 was implemented.

Schedule 2

**Little Rock Wastewater**

Changes in Net Assets,

Fiscal Year	Operating Revenue	Operating Expense	Depreciation Expense	Total Nonoperating Revenues/ (Expensee)	Income/(Loss) before Capital Contributions	Capital Contributions	Change in Net Assets
2001	\$ 20,295,613	\$ (14,379,127)	\$ (4,658,076)	\$ (1,998,639)	\$ (740,229)	\$ 635,301	\$ (104,928)
2002	21,136,586	(16,208,850)	(4,860,468)	(1,264,945)	(1,197,677.00)	3,431,349.00	2,233,672.00
2003	27,811,390	(17,498,220)	(4,924,975)	(1,703,325)	3,684,870.00	3,248,525.00	6,933,395.00
2004	30,295,588	(19,348,737)	(5,098,192)	(1,448,924)	4,399,735.00	3,195,054.00	7,594,789.00
2005	30,609,507	(20,810,362)	(5,496,016)	(1,711,967)	2,591,162.00	4,396,730.00	6,987,892.00
2006	30,398,264	(22,088,849)	(5,818,269)	(1,489,023)	1,002,123.00	6,618,066.00	7,620,190.00

LRW is reporting retroactively back to the year Statement 34 was implemented.

Schedule 3

**Little Rock Wastewater**

Operating Revenues by Source,  
Last Ten Fiscal Years

Fiscal Year	Sewer Charges	Industrial Surcharges <sup>a</sup>	Connection Fees	Other Income <sup>b</sup>	Total
1997	16,740,610	494,056	163,620	67,826	17,466,112
1998	17,114,694	540,737	175,850	68,929	17,900,210
1999	16,979,065	485,075	150,279	81,664	17,696,083
2000	19,366,492	519,779	115,500	420,299	20,422,070
2001	18,980,598	696,202	88,041	530,772	20,295,613
2002	20,306,520	498,152	85,000	246,914	21,136,586
2003	26,984,440	382,001	108,500	336,449	27,811,390
2004	28,992,505	796,528	165,229	341,326	30,295,588
2005	29,374,828	619,707	214,625	400,347	30,609,507
2006	29,482,518	576,499	172,823	166,424	30,398,264

<sup>a</sup>Fees based on wastewaters having excessive Biochemical Oxygen Demand (BOD) or Total Suspended Solids (TSS), or Oil & Grease (O&G), or Chemical Oxygen Demand (COD) or PH discharge.

<sup>b</sup>Includes permit fees, sewer dump permits, and co-generation revenue.

Schedule 4

**Little Rock Wastewater**

Operating Expenses,  
Last Ten Fiscal Years

Fiscal Year	Employment Costs	Supplies	Contract Services	Vehicle Maintenance	Utilities
1997	7,387,079	973,937	1,338,420	399,626	1,353,337
1998	7,865,576	1,115,748	1,676,171	352,528	1,145,312
1999	8,535,353	1,162,486	1,518,927	346,344	1,140,794
2000	8,979,511	1,327,214	1,505,752	440,718	1,246,006
2001	10,196,946	1,438,772	1,520,544	434,657	1,293,051
2002	11,610,711	1,595,353	1,776,670	463,714	1,255,564
2003	12,759,646	1,559,800	1,783,370	521,657	1,215,530
2004	14,809,248	1,756,942	1,760,801	357,558	1,277,660
2005	16,541,643	1,964,885	1,851,550	511,315	1,353,354
2006	17,511,524	1,984,357	2,130,193	641,644	1,470,846

<sup>a</sup>Includes committee, insurance, other (training & development, travel, delinquent accounts, & bank service charges) expenses

<sup>b</sup>Capitalized labor, overhead and supplies



Administrative Costs <sup>a</sup>	Less Capitalized Items <sup>b</sup>	Subtotal, Expense before Depreciation	Depreciation	Total Operating Expense
530,140	(1,099,608)	10,882,931	3,729,681	14,612,612
639,501	(1,041,362)	11,753,474	3,824,552	15,578,026
587,301	(1,124,997)	12,166,208	4,114,637	16,280,845
651,561	(1,131,097)	13,019,665	4,677,362	17,697,027
676,980	(1,181,823)	14,379,127	4,658,076	19,037,203
715,469	(1,208,631)	16,208,850	4,860,468	21,069,318
980,756	(1,322,539)	17,498,220	4,924,975	22,423,195
1,095,479	(1,708,951)	19,348,737	5,098,192	24,446,929
1,135,952	(2,548,338)	20,810,361	5,496,015	26,306,376
1,139,964	(2,789,678)	22,088,850	5,818,269	27,907,119

Schedule 5

**Little Rock Wastewater**

Nonoperating Revenues and Expenses,  
Last Ten Fiscal Years

Fiscal Year	Interest Expense	Interest Revenue	Bond Amortization Expense	Gain/Loss on Disposal of Capital Assets	Unrealized Gain/Loss on Investments	Other Gain/Loss	Total Nonoperating Revenue/Expense
1997	(1,699,976)	724,988	(66,018)	(37,376)	-	28,364	(1,050,018)
1998	(1,642,577)	540,929	(63,700)	(68,976)	-	40,731	(1,193,593)
1999	(1,737,906)	429,248	(66,085)	29,907	13,728	33,388	(1,297,720)
2000	(1,718,438)	499,722	(89,287)	(9,696)	-	16,783	(1,300,916)
2001	(1,693,272)	391,736	(256,807)	(18,078)	-	(422,218)	(1,998,639)
2002	(1,702,432)	244,519	(86,847)	(29,257)	23,846	285,226	(1,264,945)
2003	(1,976,233)	174,887	(82,006)	23,782	(14,927)	171,172	(1,703,325)
2004	(2,032,069)	249,077	(83,287)	440,359	(23,427)	423	(1,448,924)
2005	(2,174,967)	599,093	(99,825)	(8,272)	(44,007)	16,011	(1,711,967)
2006	(2,176,779)	865,470	(90,610)	(104,896)	3,186	14,606	(1,489,023)

Schedule 6

**Little Rock Wastewater**

New Construction/Inspections Completed,  
Last Ten Fiscal Years

Fiscal Year	Residential	Commercial	Total New Construction
1997	450	83	533
1998	633	108	741
1999	609	96	705
2000	559	75	634
2001	489	104	593
2002	555	98	653
2003	650	109	759
2004	736	112	848
2005	940	143	1,083
2006	986	132	1,118

Schedule 7

**Little Rock Wastewater**

Number of Sewer Customers<sup>a</sup> by Type,  
Last Ten Fiscal Years

Fiscal Year	Residential	Commercial	Industrial	Other <sup>b</sup>	Total
1997	53,792	5,404	86	300	59,582
1998	54,336	5,473	87	304	60,200
1999	55,098	5,538	85	298	61,019
2000	56,337	5,632	85	305	62,359
2001	56,747	5,691	87	298	62,823
2002 <sup>c</sup>	56,978	5,849	86	302	63,215
2003	57,245	5,976	85	396	63,702
2004	57,866	6,028	87	414	64,395
2005	58,610	2,090	82	410	61,192
2006	59,085	6,099	80	506	65,770

<sup>a</sup>Active billed accounts as of December 31

<sup>b</sup>Includes public utilities, governmental (US, state, county, city), and public schools

<sup>c</sup>LRW audited and reclassified accounts in each class type

Schedule 8A

**Little Rock Wastewater**  
 Sewer Rates (Inside City),  
 Last Ten Fiscal Years

Base Rate <sup>c</sup> (Meter Size)	Fiscal Year				
	2002 <sup>a</sup>	2003 <sup>b</sup>	2004	2005	2006 <sup>e</sup>
5/8"	\$ 9.00	\$ 11.00	\$ 11.00	\$ 11.00	\$ 11.00
3/4"	10.65	12.90	12.90	12.90	12.90
1"	14.25	17.25	17.25	17.25	17.25
1.5"	23.35	28.25	28.25	28.25	28.25
2"	34.20	41.40	41.40	41.40	41.40
3"	59.55	72.00	72.00	72.00	72.00
4"	95.75	115.85	115.85	115.85	115.85
6" or greater	186.30	225.40	225.40	225.40	225.40
Volumetric Rate <sup>d</sup>	\$ 1.83	\$ 2.21	\$ 2.21	\$ 2.21	\$ 2.21

Base Rate <sup>c</sup> (Meter Size)	Fiscal Year				
	1997	1998	1999	2000	2001
5/8"	\$ 2.57	\$ 2.57	\$ 2.57	\$ 2.57	\$ 2.57
3/4"	3.85	3.85	3.85	3.85	3.85
1"	6.42	6.42	6.42	6.42	6.42
1.5"	12.84	12.84	12.84	12.84	12.84
2"	20.55	20.55	20.55	20.55	20.55
3"	38.53	38.53	38.53	38.53	38.53
4"	64.22	64.22	64.22	64.22	64.22
6" or greater	128.45	128.45	128.45	128.45	128.45
Volumetric Rate <sup>d</sup>	\$ 1.31	\$ 1.31	\$ 1.31	\$ 1.31	\$ 1.31

<sup>a</sup>New step rate increase started September 17, 2002, and implemented new billing process called Average Winter Consumption

<sup>b</sup>Next step rate increase stated June 1, 2003

<sup>c</sup>Rate charge from 1996 to September 16, 2002, started with zero water consumed and from September 17, 2002 to present includes 200 cubic feet

<sup>d</sup>Per 100 cubic feet

<sup>e</sup>In November 2006, City of Little Rock Board of Directors approved a rate increase that will effect rates in January 2007.

Note: Increases in sewer rates must be approved by the City of Little Rock Board of Directors.

Schedule 8B

**Little Rock Wastewater**

Sewer Rates (Outside City),  
Last Ten Fiscal Years

Base Rate <sup>c</sup> (Meter Size)	Fiscal Year				
	2002 <sup>a</sup>	2003 <sup>b</sup>	2004	2005	2006 <sup>e</sup>
5/8"	\$ 13.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50
3/4"	16.00	19.40	19.40	19.40	19.40
1"	21.40	25.85	25.85	25.85	25.85
1.5"	35.05	42.40	42.40	42.40	42.40
2"	52.35	63.35	63.35	63.35	63.35
3"	89.30	108.00	108.00	108.00	108.00
4"	143.65	173.80	173.80	173.80	173.80
6" or greater	279.40	338.10	338.10	338.10	338.10
Volumetric Rate <sup>d</sup>	\$ 2.75	\$ 3.32	\$ 3.32	\$ 3.32	\$ 3.32

Base Rate <sup>c</sup> (Meter Size)	Fiscal Year				
	1997	1998	1999	2000	2001
5/8"	\$ 3.86	\$ 3.86	\$ 3.86	\$ 3.86	\$ 3.86
3/4"	5.78	5.78	5.78	5.78	5.78
1"	9.63	9.63	9.63	9.63	9.63
1.5"	19.26	19.26	19.26	19.26	19.26
2"	30.83	30.83	30.83	30.83	30.83
3"	57.80	57.80	57.80	57.80	57.80
4"	96.33	96.33	96.33	96.33	96.33
6" or greater	192.68	192.68	192.68	192.68	192.68
Volumetric Rate <sup>d</sup>	\$ 1.97	\$ 1.97	\$ 1.97	\$ 1.97	\$ 1.97

<sup>a</sup>New step rate increase started September 17, 2002, and implemented new billing process called Average Winter Consumption

<sup>b</sup>Next step rate increase stated June 1, 2003

<sup>c</sup>Rate charge from 1996 to September 16, 2002, started with zero water consumed and from September 17, 2002 to present includes 200 cubic feet

<sup>d</sup>Per 100 cubic feet

<sup>e</sup>In November 2006, City of Little Rock Board of Directors approved a rate increase that will effect rates in January 2007.

Note: Increases in sewer rates must be approved by the City of Little Rock Board of Directors.

Schedule 9

**Little Rock Wastewater**

Ten Largest Sewer Customers,  
Current Year and Six Years Ago

<b>Fiscal Year 2006</b>		
Customer	Amount	Percent
1. U of A Medical Science Center	\$ 289,380	0.98 %
2. Odom Sausage	262,466	0.89
3. Central Arkansas Water	233,896	0.79
4. Baptist Medical Center	212,013	0.72
5. City of Shannon Hills	133,682	0.45
6. Coleman Dairy	123,159	0.42
7. St. Vincent's Hospital	116,907	0.40
8. V.A. Hospital	113,681	0.39
9. Coca-Cola Bottling	113,326	0.38
10. Arkansas Children's Hospital	103,807	0.35
Subtotal	\$ 1,702,317	5.77
Balance from other customers	27,780,201	94.23
Grand Totals <sup>a</sup>	\$ 29,482,518	100.00 %

<b>Fiscal Year 2000</b>		
Customer	Amount	Percent
1. Odom Sausage	\$ 138,420	0.71 %
2. Baptist Medical Center	136,985	0.71
3. Gold Star Dairy	129,117	0.67
4. V.A. Hospital	120,932	0.62
5. UAMS CARTI	117,965	0.61
6. St. Vincent's Infirmary	88,689	0.46
7. US Time Corp.	74,510	0.38
8. City of Shannon Hills	70,533	0.36
9. Ozark Point	65,682	0.34
10. Pulaski County Detention Center	63,050	0.33
Subtotal	\$ 1,005,883	5.19
Balance from other customers	18,360,609	94.81
Grand Totals <sup>a</sup>	\$ 19,366,492	100.00 %

<sup>a</sup>Grand Totals are based on Sewer Charges from Schedule 3.

Schedule 10

**Little Rock Wastewater**

Ratios of Outstanding Debt by Types,  
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds	Revolving Fund Loans <sup>a</sup>	Notes	Total		
				Amount	Per Capita	As a Share of Personal Income
1997	23,930,000	16,584,923		40,514,923	223.49	0.09%
1998	22,995,000	16,900,562		39,895,562	216.88	0.09%
1999	22,020,000	16,688,328		38,708,328	210.43	0.08%
2000	21,000,000	21,854,373		42,854,373	234.01	0.09%
2001	22,680,000	24,302,865		46,982,865	256.55	0.10%
2002	21,675,000	25,919,408		47,594,408	259.89	0.11%
2003	21,340,000	24,659,791		45,999,791	251.18	0.11%
2004	20,995,000	26,328,950	3,316,918	50,640,868	276.53	0.12%
2005	30,635,000	42,048,744		72,683,744	396.89	0.17%
2006	29,915,000	57,177,864		87,092,864	475.57	0.20%

Notes: LRW's bond covenants stipulate that it may issue debt as long as certain conditions are met. The major criterion is that the net earnings of the system but be at least 1.2 times the year's average combined debt service requirement.

See Notes to the Financial Section #7 - Long-Term Debt for more information.

<sup>a</sup>The yearly total amount includes only that portion of debt that has been borrowed up to year end and not total loan amount on any non-completed project for which the loan is associated with.



Schedule 11

**Little Rock Wastewater**

Pledged-Revenue Coverage,  
Last Ten Fiscal Years

Fiscal Year	Gross Revenue <sup>a</sup>	Direct Operating Expense <sup>b</sup>	Net Revenue Available for Debt Service	At December 31, Fiscal Year			Coverage
				Total Outstanding Debt <sup>f</sup>	# of Years of Outstanding Debt	Avg Yearly Outstanding Debt	
1997	17,473,362	10,882,931	6,590,431	59,244,902	23	2,575,865	2.56
1998	18,441,139	11,753,474	6,687,665	57,510,746	22	2,614,125	2.56
1999	18,125,331	12,166,208	5,959,123	71,366,737	24	2,973,614	2.00
2000	20,921,792	13,019,665	7,902,127	67,846,358	23	2,949,842	2.68
2001	20,687,349	17,379,127	3,308,222	75,341,449	22	3,424,611	1.84
2002 <sup>c</sup>	23,901,105	16,208,850	7,692,255	71,724,832	21	3,415,468	2.25
2003 <sup>d</sup>	30,076,277	17,498,220	12,578,057	68,135,542	20	3,406,777	3.69
2004	30,544,665	19,348,737	11,195,928	136,640,175	24	5,693,341	1.97
2005	31,208,600	20,810,361	10,398,239	144,325,486	23	6,275,021	1.66
2006 <sup>e</sup>	35,953,294	22,088,850	13,864,444	139,992,855	22	6,363,312	2.18

As part of each bond ordinance, LRW may treat any increase in rates for the System enacted subsequent to the first day of such preceding fiscal year as having been in effect during or throughout such fiscal year and may include in Gross Revenues for such fiscal year, the amount that would have been received. Debt Coverage shall not be less than 1.20 of the average annual principal and interest requirements on all outstanding System Bonds and the additional bonds proposed. The ordinance also states that in order to reduce rates, the average annual principal and interest requirement must meet a 1.30 coverage.

See Notes to the Financial Section #7 - Long-Term Debt for more information.

<sup>a</sup>Includes interest on investment income.

<sup>b</sup>See Schedule 4.

<sup>c</sup>Includes an estimated look-back rate increase of \$2.52 Million in Gross Revenues based on September 2002 rate increase.

<sup>d</sup>Includes an estimated look-back rate increase of \$2.09 Million in Gross Revenues based on June 2003 rate increase.

<sup>e</sup>Includes an estimated look-back rate increase of \$4.69 Million in Gross Revenues based on December 2006 rate increase.

<sup>f</sup>Includes all Revolving Loan Fund (RLF) debt payments as if projects were completed and repaying loans.

Schedule 12

**Little Rock Wastewater**

Demographic and Economic Statistics,  
Last Ten Calendar Years

Calendar Year	Population <sup>a</sup>	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Percentage Rate
1997	181,280	43,559,771	24,029	3.4%
1998	183,951	45,814,836	24,906	3.4%
1999	183,951	47,411,302	25,889	4.1%
2000	183,133	47,411,302	25,889	3.1%
2001	183,133	42,503,338	25,889	4.3%
2002	183,133	42,503,338	23,209	4.3%
2003	183,133	42,503,338	23,209	4.6%
2004	183,133	42,503,338	23,209	4.4%
2005	183,133	42,503,338	23,209	4.5%
2006	183,133	42,503,338	23,209	4.6%

<sup>a</sup> 1997 to 1999 is estimated and 2000 to 2006 is from 2000 Census.

Source: Metroplan-Council of Local Governments, DiscoverArkansas.net and Greater Little Rock Chamber of Commerce

Schedule 13

**Little Rock Wastewater**

Principal Employers,

Current Year and Nine Years Ago

Employer	2006			1997		
	Employees	Percentage of Total	Rank	Employees	Percentage of Total	Rank
State of Arkansas	23,377	6.73%	1	24,700	8.32%	1
Federal Government	12,000	3.46%	2	10,000	3.37%	2
University of Arkansas Medical Sciences	8,500	2.45%	3	5,392	1.82%	5
Public School Districts	8,434	2.43%	4	8,000	2.70%	3
Baptist Health	7,000	2.02%	5	5,000	1.69%	6
Little Rock Air Force Base	4,500	1.30%	6	6,890	2.32%	4
Axciom	4,388	1.25%	7	0		
St. Vincent Medical Center	3,500	1.01%	8	2,500	0.84%	9
Entergy Arkansas	2,862	0.82%	9	0		
Veterans Administration Hospitals	2,785	0.80%	10	3,700	1.25%	7
Alltel Corporation				3,621	1.22%	8
Arkansas Children's Hospital				2,496	0.84%	10
Total	<u>77,346</u>	<u>22%</u>		<u>72,299</u>	<u>24%</u>	

Sources: Greater Little Rock Chamber of Commerce & State of Arkansas ([www.discoverArkansas.net](http://www.discoverArkansas.net))

Schedule 14

**Little Rock Wastewater**

Number of Employees by Identifiable Activity,  
Last Ten Fiscal Years

	Full-time-Equivalent Employees as of December 31,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Administration										
Executive Administrator	1	1	1	1	1	1	1	1	1	1
Safety & Communications	2	2	2	2	2	3	3	4	4	4
Human Resources	3	4	4	2	2	2	2	2	2	2
Finance/Accounting	8	8	7	7	7	7	7	7	8	8
Information Services <sup>a</sup>	12	12	13	23	22	10	10	12	12	12
Legal	1	1	1	1	1	1	1	1	1	1
Clerical	13	15	12	17	16	17	17	18	16	18
Engineering <sup>a</sup>	29	26	27	15	15	28	31	32	32	33
Sewer Plant Maintenance	12	11	12	12	12	20	21	20	20	13
Sewer Systems Maintenance	80	78	78	73	77	89	92	103	105	110
Sewer Plant Operations	24	24	24	24	22	22	22	22	22	22
Environmental Assessment	15	15	15	15	15	15	15	17	17	17
<b>Total Employees</b>	<b>200</b>	<b>197</b>	<b>196</b>	<b>192</b>	<b>192</b>	<b>215</b>	<b>222</b>	<b>239</b>	<b>240</b>	<b>241</b>

<sup>a</sup> GIS personnel were moved from Engineering to Information Services in 2000 and back to Engineering in 2002.

Schedule 15

**Little Rock Wastewater**

Operating and Capital Indicators,  
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 <sup>a</sup>
Wastewater Treatment										
Miles of Sewer	1,041	1,071	1,092	1,116	1,139	1,164	1,198	1,229	1,248	1,270
Number of Treatment Plants	2	2	2	2	2	2	2	2	2	2
Treatment Capacity (MGD)	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	110.0
Daily engineering maximum plant capacity (MGD)	36.63	34.63	33.73	34.58	36.93	35.97	33.39	37.35	32.21	30.92
Unused Capacity (MGD)	15.37	17.37	18.27	17.42	15.07	16.03	18.61	14.65	19.79	79.08
Percent of capacity utilized	70%	67%	65%	67%	71%	69%	64%	72%	62%	28%

Note: MGD = millions of gallons per day. Additional operating indicators can be found in schedules 6 and 7 of statistical section.

<sup>a</sup>Adams Field Wastewater Treatment Plant improvements were completed that allowed capacity to go from 36 MGD to 94 MGD.

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**OTHER REQUIRED REPORTS**



**Little Rock**  
**Wastewater**

# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

One Financial Centre • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675  
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Michael L. Cobb

Anne Suskie Pinyan

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Component Unit Financial Statements Performed in Accordance with *Government Auditing Standards*

The Members of the Little Rock  
Sanitary Sewer Committee  
Little Rock, Arkansas

We have audited the financial statements of the business-type activities of Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas, as of and for the year ended December 31, 2006, and have issued our report thereon dated February 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Little Rock Wastewater's internal control over financial reporting as a bases for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on Little Rock Wastewater's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Little Rock Wastewater's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



The Members of the Little Rock  
Sanitary Sewer Committee  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Little Rock Wastewater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Sanitary Sewer Committee, management, and federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
February 16, 2007

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Anne Suskie Pinyan

## Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

The Members of the Little Rock  
Sanitary Sewer Committee  
Little Rock, Arkansas

### Compliance

We have audited the compliance of Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. Little Rock Wastewater's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Little Rock Wastewater's management. Our responsibility is to express an opinion on LRW's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Little Rock Wastewater's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the LRW's compliance with those requirements.

In our opinion, Little Rock Wastewater complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Little Rock Wastewater is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Little Rock Wastewater's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Sanitary Sewer Committee, management, and federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
February 16, 2007

LITTLE ROCK WASTEWATER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITORS' RESULTS

A. Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- |       |   |                              |   |
|-------|---|------------------------------|---|
| (i)   | Material weakness(es) identified?   | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No            |
| (ii)  | Reportable condition(s) identified that are not considered to be material weaknesses? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| (iii) | Noncompliance material to financial statements noted?                                 | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No            |

B. Federal Awards:

Internal control over major programs:

- |      |   |                              |   |
|------|---|------------------------------|---|
| (i)  | Material weakness(es) identified?   | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No            |
| (ii) | Reportable condition(s) identified that are not considered to be material weaknesses? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |

Type of auditors' report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133  Yes  No

LITTLE ROCK WASTEWATER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED)

B. Federal Awards (Continued):

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Environmental Protection Agency - Passed Through the Arkansas Department of Pollution Control and Ecology - State Revolving Fund Program

Dollar threshold used to distinguish  
between type A and type B programs:                \$ 512,356

Auditee qualified as low-risk auditee?                X Yes       No

II. FINANCIAL STATEMENT FINDINGS

None reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings and questioned costs for federal awards which require disclosure under Sec. 510 of OMB A-133.