

**LITTLE ROCK WASTEWATER UTILITY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
For the Years Ended December 31, 2002 and 2001**

**COBB AND SUSKIE, LTD.  
Certified Public Accountants**

## CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	1 - 2
Management's Discussion and Analysis.....	3 - 14
Financial Statements:	
Balance Sheets.....	15
Statements of Revenue, Expenses and Changes in Net Assets .....	16
Statements of Cash Flows ..	17 - 18
Notes to Financial Statements .....	19 - 26
Required Supplemental Information:	
Schedule of Revenue and Expenses Budgeted and Actual.....	27 - 28
Supplementary Information:	
Schedules of Operating Expenses by Department, Excluding Depreciation (Schedule 1) .....	29 – 31
Schedule of Bonded Indebtedness (Schedule 2).....	32 – 36
Schedule of Insurance Coverage (Schedule 3) .....	37
Single Audit Information and Reports:	
Schedule of Expenditures of Federal Awards .....	38 - 39
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Component Unit Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	40 - 41
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	42 - 43
Schedule of Findings and Questioned Costs in Accordance with OMB Circular A-133.....	44 – 45

## Independent Auditors' Report

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

We have audited the basic financial statements of Little Rock Wastewater Utility (the Utility), a component unit of the City of Little Rock, Arkansas, as of and for the year ended December 31, 2002 and 2001. These financial statements are the responsibility of the Utility'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Little Rock Wastewater Utility as of December 31, 2002 and 2001, 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 10, 2003 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our reports.

The Members of the Little Rock  
Sanitary Sewer Committee  
Page Two

The Management's Discussion and Analysis and the budgetary information on pages and, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 performed 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 States, 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.

Certified Public Accountants  
February 10, 2003

## INTRODUCTION

Little Rock Wastewater Utility (the Utility) is pleased to present its first Annual Financial Report developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled “Basis Financial Statements – Management’s Discussion and Analysis – For State and Local Governments” (GASB 34). The Annual Financial Report is made available via the Internet ([www.lrwu.com](http://www.lrwu.com)). The use of the Internet is consistent with the Utility’s objective to provide greater information to the public in a more efficient manner, reducing paperwork, labor and communications costs.

### Mission

To provide low-cost, safe, high quality sanitary sewer service to the residents of Little Rock, and through planning support the orderly growth of the City with the overall objective of preserving the health and well-being of the residents and the environment.

### Responsibility and Controls

The Utility is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions.

The Utility’s system of internal accounting controls is evaluated on an ongoing basis by internal financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

One member of the Little Rock Sanitary Sewer Committee along with the CEO and department managers forms the budget committee. This committee establishes the goals and financial objectives that are to be obligated in the coming year and future years. Each month, financial statements are presented to the Little Rock Sanitary Sewer Committee to show that operations are being conducted according to management’s intentions.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Utility’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Utility in conformity with accounting principles generally accepted in the United States of America.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents management's analysis of the Utility's financial condition and activities for the year.

### **Financial Highlights**

Management believes Little Rock Wastewater Utility's financial condition is stable. The Utility is well within its debt covenants and financial policies and guidelines set by the board. The following are key financial highlights.

- Little Rock Wastewater Utility treated 13.26 billion gallons of wastewater, representing a decrease from fiscal year 2001 of 0.45 billion gallons, or 3.3% respectively.
- Total assets at year-end were \$161 million and exceeded liabilities in the amount of \$50 million. Total net assets were \$111 million, an increase of 2% from 2001.
- Debt service coverage was 143%, exceeding the 130% required by the Bond Covenant.
- Operating revenue grew to \$21.1 million in 2002. This was an increase of 4% or \$0.8 million from 2001 and an increase of 2.4% over the 2002 budget projections.
- Operating expenses before depreciation increased \$1.8 million, which exceeded budget by 0.6%, and increased 13% compared to fiscal year 2001. Operating expenses including depreciation increased \$2 million or 11% from 2002.
- Developer contributions of cash and non-cash items were \$3.4 million, an increase of \$2.8 million or 440% from 2001.

### **Overview of Annual Financial Report**

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Little Rock Wastewater Utility's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Utility's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Utility on an accrual historical cost basis. While the balance sheet provides information about the nature and amount of

resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the 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.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses, as well as important debt coverage data, is provided.

### **Summary of Organization and Business**

The Utility provides retail wastewater collection and treatment service to approximately 62,638 customers within the corporate limits of Little Rock, and to approximately 546 customers in areas contiguous to, but outside of or surrounded by the City's corporate limits. The utility provides wholesale wastewater collection and treatment service to Shannon Hills, and Sewer Improvement Districts 226 and 239.

The facilities of the System include 24 remote, unattended pumping stations and two secondary treatment plants (Adams Field Treatment Plant and Fourche Creek Treatment Plant) that discharge into the Arkansas River. The collection system includes over 120 square miles containing approximately 1,178 miles of public sewers.

The Utility operates under the direction of the Little Rock Sanitary Sewer Committee, which is comprised of five residents, appointed by the City of Little Rock Board of Directors. The Little Rock Board of Directors is required to approve all sewer rate increases and long term financing proposed by the Sewer Committee.

In providing collection and treatment, the Utility incurs considerable expense related to the ongoing operating and capital needs of the Utility. The operating and capital expenditures increase annually due to the combined effects of an aging system; inflation; the need to repair, replace or extend existing service facilities to meet customer service requirements; as well as to meet EPA requirements. The operation expenses are funded by customer

revenue. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers and developers, state revolving loans, sewer revenue bonds, and customer consumption revenues.

## **Financial Analysis**

The comparative financial statements from pages 14 thru 17 and other selected information listed below serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

## **Other Selected Information**

			Change	
	2002	2001	Amount	%
<b>Selected data for analysis:</b>				
Employees at year end	199	191	8	4.2%
Average employees	196	190	6	3.2%
Wastewater customers at year end	63,184	63,242	(58)	-0.1%
Wastewater treated (billions of gallons)	13.26	13.71	(0.45)	-3.3%
<b>Per Average employee:</b>				
Total operating revenues	\$ 107,840	\$ 106,819	\$ 1,021	1.0%
Total operating expenses	\$ 107,497	\$ 100,196	\$ 7,301	7.3%
<b>Revenues per thousand gallons treated:</b>				
Wastewater service revenues	\$ 1.59	\$ 1.48	\$ 0.11	7.7%
<b>Expenses per thousand gallons treated:</b>				
<b>Wastewater services expenses:</b>				
Expenses excluding depreciation	\$ 1.22	\$ 1.05	\$ 0.17	16.6%
Expenses	\$ 1.59	\$ 1.39	\$ 0.20	14.4%
<b>Ratio of operating revenue to:</b>				
Operating expenses	1.00	1.07	(0.06)	-5.9%
Operating expenses net of depreciation	1.30	1.41	(0.11)	-7.6%
Total assets	0.13	0.13	0.00	2.8%
Net assets	0.19	0.18	0.02	8.8%
<b>Debt related ratios:</b>				
Debt to net assets	0.44	0.45	\$ (0.01)	-2.5%



## **General Trends and Significant Events**

Little Rock's population of 183,133 remained constant for December 2001 and December 2002, while the number of customers serviced by the Utility decreased by 58 customers from 63,242 to 63,184 during the same period.

Weather conditions during the fiscal year 2002 were generally normal. There were no days with temperatures over 100 degrees Fahrenheit and 14 days with rainfall in excess of one inch. June of 2002 was the seventeenth driest June on record, and December of 2002 was the eighth wettest December on record.

In 2002, three comprehensive engineering studies were completed. The information provided by the three studies was used to develop a 15 year capital improvement plan at an estimated \$180,000,000. The Little Maumelle River Sub-basin Sewerage Study was prepared by Carter-Burgess and provided an analysis of wastewater service alternatives for the Little Maumelle River watershed. The System Evaluation and Capacity Assurance Plan was prepared by Montgomery Watson and provided an evaluation of the hydraulic capacity of the sewer collection system and noted deficiencies. The Capital Improvement Plan for Adams Field Treatment Plant was prepared by CH2M Hill and provided a hydraulic analysis of the plant, noted deficiencies, and an outlined improvement plan. Contributions by Utility staff made the completion of the three studies possible.

A comprehensive report on Revenue Requirements and Rates for the Study Period through December 31, 2006 was completed by Utility staff. The rate study was reviewed and certified by the Utility's external auditors Cobb and Suskie LTD, and the consulting engineering firm Black and Veach LLP. This rate analysis was prepared to examine the projected revenue and rate requirements of the wastewater utility using a model developed by Black and Veach LLP.

A two step rate increase was approved with Ordinance Number 18,752 dated September 17, 2002, which was necessary to provide revenues for anticipated operating and capital needs in 2003 and beyond. The first phase of 22% was implemented September 18, 2002. The second phase of 21% will become effective June 1, 2003.

A change in the method of billing residential customers was also approved on September 17, 2002. Residential customers serviced by Little Rock Wastewater Utility are now billed for sewer service based on a winter month average from the period of October 2001 through March 2002. This change was made to reflect a more accurate measure of the amount of water used that enters the sewer system.

The construction phase for Revolving Loan Phase IV was completed September 2002. This loan, in the amount of \$12 million, was initiated August 1999 and was used to fund collection system improvements throughout the system.

During fiscal year 2002, a three-year plan to reduce dry weather over flows (Plan 66) was developed by Utility staff. Plan 66 includes the addition of 15 new positions; vehicles and equipment needed for the additional 15 employees; procedures to enforce grease removal from commercial traps; and a public awareness program educating the public on the effects of grease in the collection system.

In 2002 the Utility launched a massive campaign to educate customers on the proper disposal of cooking grease. The **Can the Grease** program consists of the distribution of metal containers and other materials that will motivate customers to store, then dispose of leftover fats. Other efforts include informational brochures; presentations to individual residents, neighborhood associations, civic and social groups and other organizations; exhibits at large community gatherings; and additional informational methods.

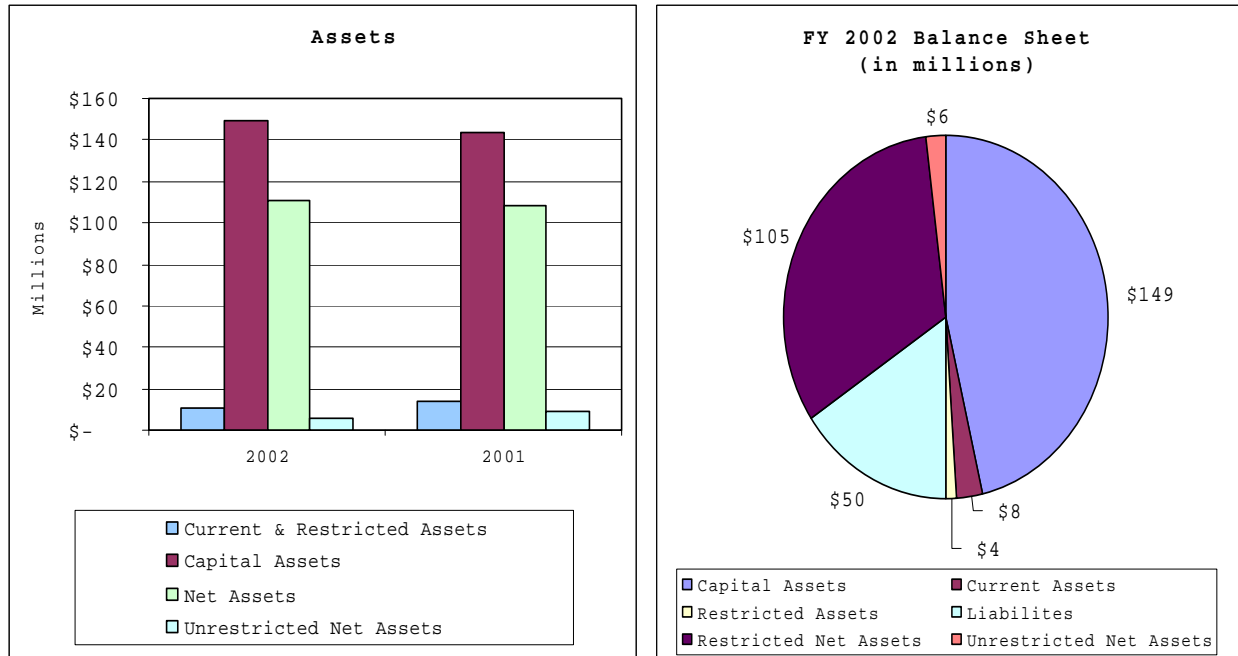


Average daily wastewater flow to Little Rock Wastewater Utility's treatment facilities actually decreased from 37.5 million gallons per day in 2001 to 36.3 million gallons per day in 2002. Because of Little Rock's relatively flat population growth rate, year-to-year variations in wastewater flow are largely driven by the weather. Rain induced infiltration and inflow that enters leaks in the collection network are a significant contributor to the total plant flow.

The Utility implemented a rate subsidy program on September 17, 2002. This program provides reduced sewer service rates for all customers that meet the household income requirements. The Utility partners with the City of Little Rock's Neighborhood Services and the Department of Public Works, Solid Waste Division for submittal and approval of applications. If approved, the customer will pay the minimum service availability charge for the size water meter located at the customers' address.

## Financial Condition

The Utility's financial condition remained stable. The recent approval of a two-step rate increase will provide a continued stability of liquid assets, reliable plants and system needs, and a reasonable level of unrestricted net assets.

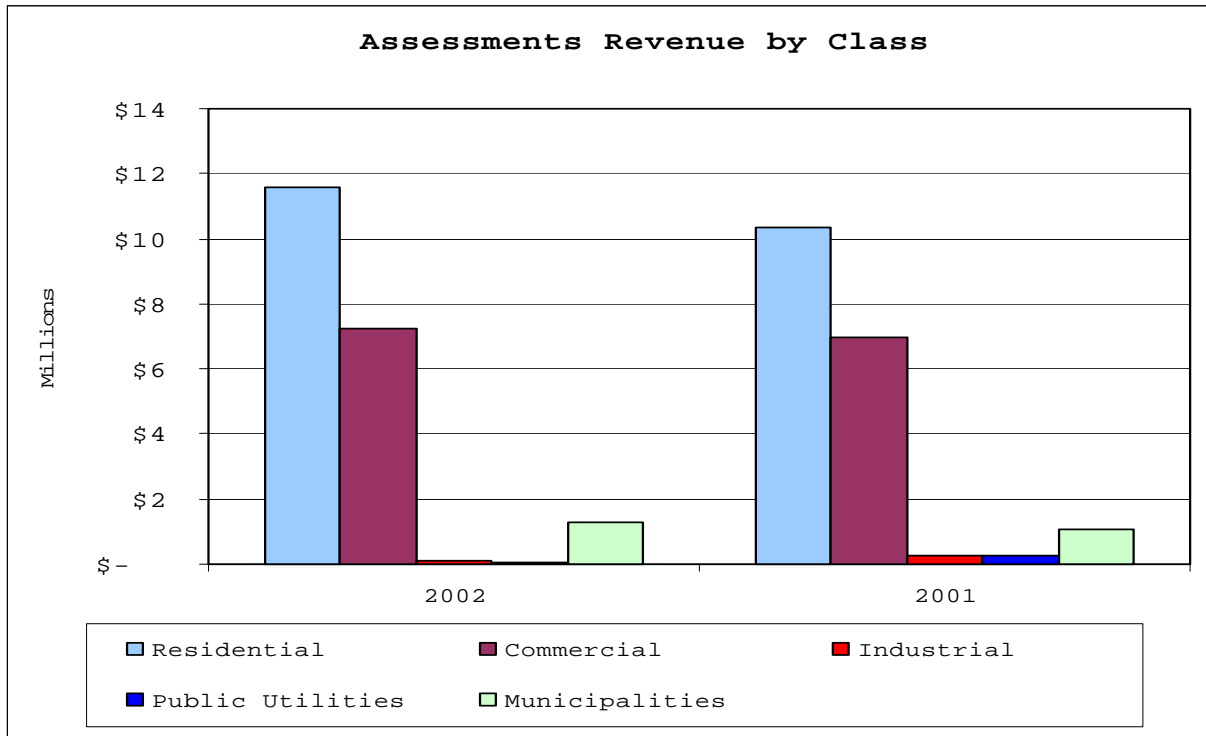


Total assets grew \$2.1 million or 1.3%, with \$5.3 million represented by additions to capital assets. Current, restricted, and other assets were represented by a decrease of \$3.2 million.

Operating revenues were 4.0% greater than 2001 while accounts receivable at year-end was 13% more than year-end 2001.

## Results of Operations

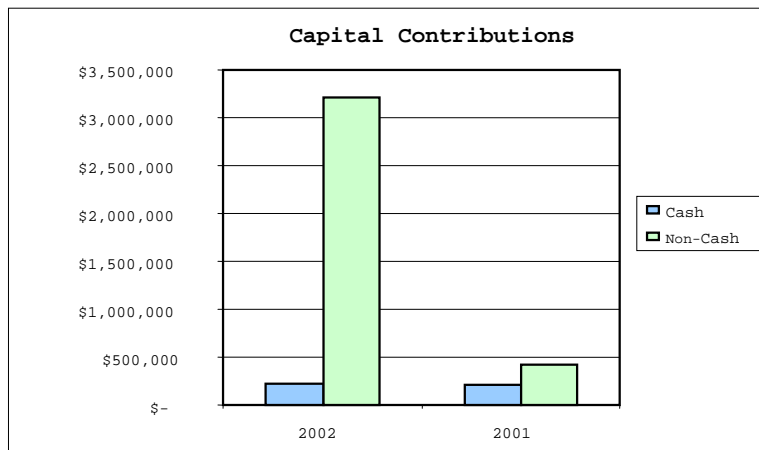
**Operating Revenue:** Revenues from operations fall into three general categories: assessments levied, industrial surcharge, and other fees and income. Assessments levied are monthly residential/commercial service charge billings. Industrial surcharge is fees based on wastewaters having excessive Biochemical Oxygen Demand (BOD) or Total Suspended Solids (TSS) or Oil and Grease (O&G) discharge. Other fees and income are permit fees, connection fees, inspection fees, sewer dump permits, and co-generation revenue. The Utility has five types of classes of wastewater customers: residential, commercial, industrial, public utilities, and municipalities. The following chart depicts wastewater service revenues from assessments levied for the last two years.



The Utility increased sewer rates in September 2002 by 22%. This increased the average residential bill from \$ 16.50 to \$ 19.98 a month. The Utility also changed the billing process for residential customers from actual usage to Actual Winter Consumption (AWC). The AWC is based on the average monthly consumption from the period October 2001 through March 2002.

The average realized rate from wastewater treatment was \$1.59 per thousand gallons in 2002 and \$1.48 in 2001, an increase of 7.7%.

**Capital Contributions**

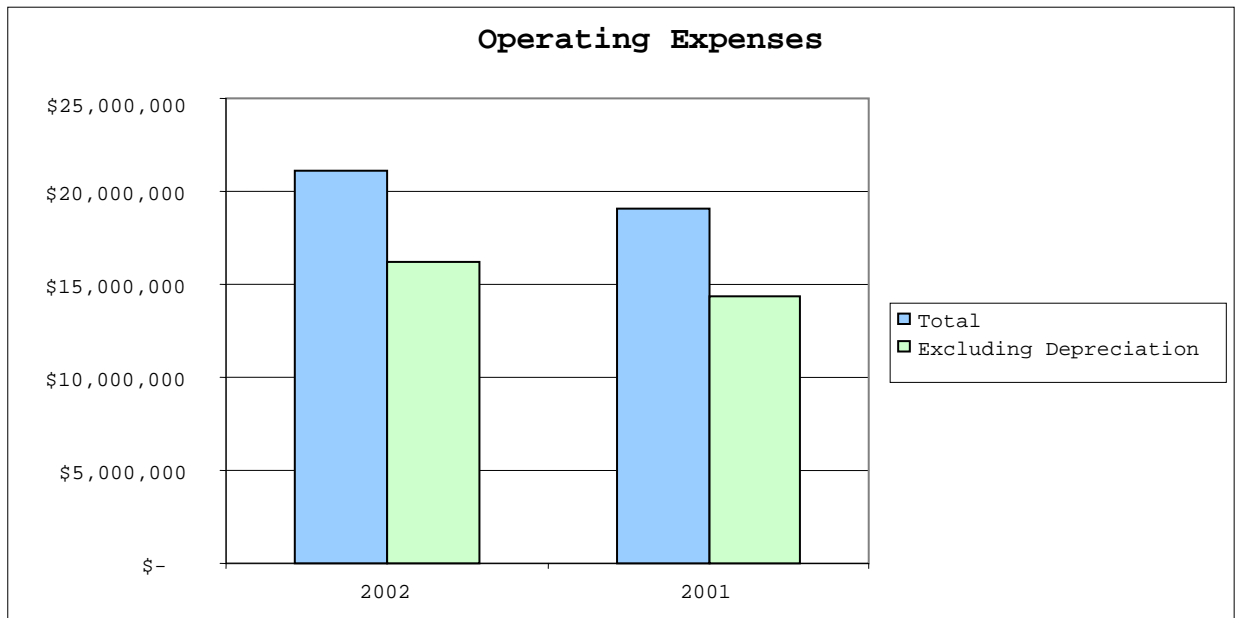


Cash capital contributions were \$224,000 for 2002 compared to \$210,000 for 2001. Non-cash capital contributions were \$3.2 million compared to \$424,000 for 2001. The total capital contributions increased 440% from 2001.

**Expenses:** The Utility operates and maintains a wastewater collection and treatment system. The wastewater system includes two wastewater treatment plants; 24 remote, unattended pumping stations; and 120 square miles of a collection system that is approximately 1,178 miles of public sewer.

The total wastewater operating expense including depreciation increased by \$2 million, or 10.7% from 2001. This is mainly attributable to salaries for new employees, overtime wages for collection system maintenance, benefits such as hospitalization and retirement contributions, depreciation on capital assets, and supplies for collection system maintenance.

Operating expenses, including and excluding depreciation for the last two years are pictured below:



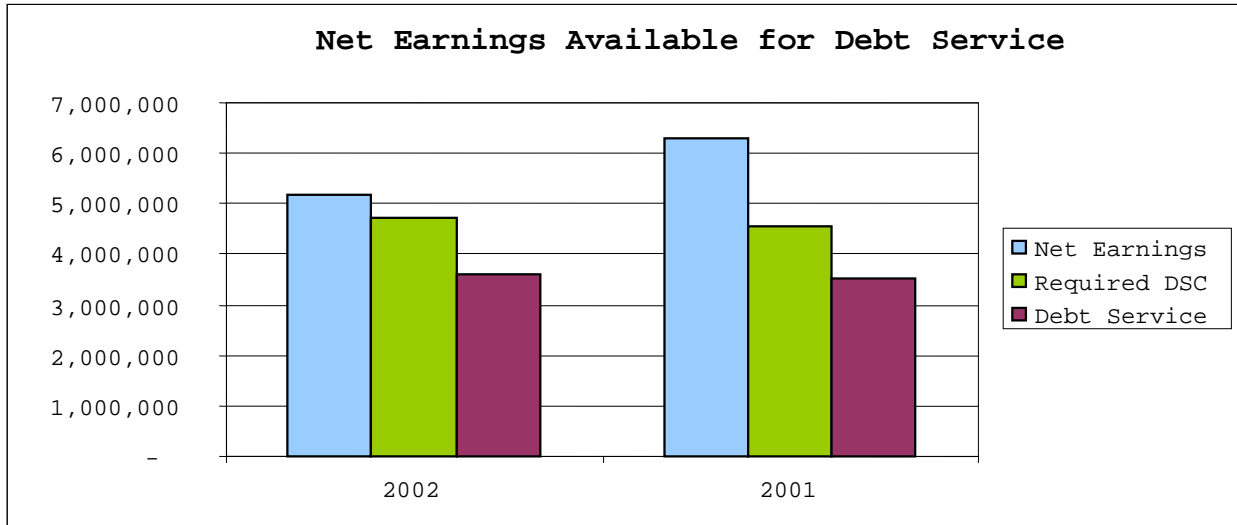
The average wastewater operating expense per thousand gallons treated increased from \$1.39 to \$1.59 or 14.4%. Before depreciation, the average change was from \$1.05 to \$1.22 or 16.6%.

	Actual Amounts in 000s					
	2002		2001		Variance	%
Depreciation Expense	\$ 4,860	23%	\$ 4,658	24%	\$ 202	4%
Wages	8,423	40%	7,629	40%	794	10%
Employee Benefits	3,187	15%	2,568	13%	619	24%
Supplies	1,595	8%	1,439	8%	156	11%
Contract Services	1,777	8%	1,521	8%	256	17%
Vehicles	464	2%	435	2%	29	7%
Utilities	1,256	6%	1,293	7%	(37)	-3%
Other Operating	716	3%	677	4%	39	6%
Capital Work In Progress	(1,209)	-6%	(1,182)	-6%	(27)	2%
<b>Total Operating Exp</b>	<b>\$21,069</b>	<b>100%</b>	<b>\$19,038</b>	<b>100%</b>	<b>\$2,031</b>	<b>78%</b>

Wages and employee benefits combined increased 13.6% from 2001 to 2002. The Utility granted a 4% cost of living wage increase during 2002, and the average number of employees increased from 190 to 196. Contract services increased 17%, primarily as a result of obtaining legal representation for discussions with the EPA.

### **Rate Covenant**

In the Bond Resolution, the Utility covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Utility, together with other income, that will yield annual Net Earnings in the fiscal year equal to at least one hundred thirty percent (130%) of the sum of the annual debt service payments. Net earnings for the debt service are defined as net income adjusted for capital expenditures plus interest income. The rate covenant in the Bond Resolution obligates the Utility to review rates from time to time and to revise such rates and charges as necessary to meet payments due for principal and interest on all System Bonds when due, to pay the operation and maintenance expenses of the System, and to deposit the amounts required to be paid into the Depreciation Fund and the Debt Service Reserve Fund. Revenue bond debt service coverage for the last two fiscal years was 143% and 179%, respectively.



**Capital Assets and Long-Term Debt**

The investment in plant and equipment grew \$5.3 million during 2002. Total debt to capital assets remained around 32% for both fiscal years 2002 and 2001.

Debt payments increased with the 1999 Sewer Revenue Revolving Loan payment beginning October 2002.

**Final Comments**

The Utility has adopted a strategic plan that guides Board and staff actions toward its mission of providing affordable, efficient, and reliable wastewater services. Continued capital investment is another significant strategy. Total projected capital expenditures over the next 5 years are \$96.4 million, which includes a new treatment plant facility, upgrading current treatment plant facilities, unsewered areas, collection system rehabilitation, and capacity assurance projects. The Utility is also examining its work practices to find more efficient and productive methods of sewer treatment so that its financial condition will continue to strengthen.

LITTLE ROCK WASTEWATER UTILITY  
BALANCE SHEETS  
DECEMBER 31, 2002 AND 2001

<u>ASSETS</u>		
	<u>2002</u>	<u>2001</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 4,488,549	\$ 7,252,863
Accounts Receivable, less Allowance for Doubtful Accounts of \$172,120 in 2002 and \$178,135 in 2001	1,310,563	1,159,172
Accrued Interest Receivable	0	12,284
Inventories	1,023,090	973,971
Prepaid Expenses and Other Current Assets	<u>476,697</u>	<u>286,366</u>
Total Current Assets	<u>7,298,899</u>	<u>9,684,656</u>
 <u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	1,434,481	2,023,609
Investments	2,063,846	2,040,000
Accrued Interest Receivable	11,145	22,845
Construction Receivables	<u>140,757</u>	<u>311,448</u>
Total Restricted Assets	<u>3,650,229</u>	<u>4,397,902</u>
 <u>CAPITAL ASSETS</u>		
	<u>149,245,501</u>	<u>143,874,608</u>
 <u>OTHER ASSETS</u>		
Unamortized Bond Issuance Costs	<u>776,653</u>	<u>874,973</u>
TOTAL ASSETS	<u>\$160,971,282</u>	<u>\$158,832,139</u>

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



LIABILITIES AND NET ASSETS

	<u>2002</u>	<u>2001</u>
<u>CURRENT LIABILITIES</u>		
Payable from Current Assets:		
Accounts Payable	\$ 273,359	\$ 222,904
Accrued Expenses	<u>1,424,372</u>	<u>1,347,519</u>
Total Current Liabilities Payable from Current Assets	<u>1,697,731</u>	<u>1,570,423</u>
Payable from Restricted Assets:		
Construction Contracts Payable	153,691	1,256,516
Accrued Interest	671,412	401,967
Current Maturities of Revenue Bonds	<u>1,594,616</u>	<u>1,820,787</u>
Total Current Liabilities Payable from Restricted Assets	<u>2,419,719</u>	<u>3,479,270</u>
Total Current Liabilities	<u>4,117,450</u>	<u>5,049,693</u>
<u>LONG-TERM DEBT</u>		
Revenue Bonds Payable, Less Current Maturities	<u>45,999,792</u>	<u>45,162,078</u>
Total Liabilities	<u>50,117,242</u>	<u>50,211,771</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Liabilities	101,756,334	97,364,749
Restricted for Capital Activity and Debt Service	3,496,538	3,141,386
Unrestricted	<u>5,601,168</u>	<u>8,114,233</u>
Total Net Assets	<u>110,854,040</u>	<u>108,620,368</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$160,971,282</u>	 <u>\$158,832,139</u>

LITTLE ROCK WASTEWATER UTILITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>OPERATING REVENUES</u>		
Sewer Charges	\$ 20,306,520	\$ 18,980,598
Industry Surcharges	498,152	696,202
Connection Fees	85,000	88,041
Other	<u>246,914</u>	<u>530,772</u>
Total Operating Revenues	<u>21,136,586</u>	<u>20,295,613</u>
<u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>	<u>16,208,850</u>	<u>14,379,127</u>
Operating Income Before Depreciation	<u>4,927,736</u>	<u>5,916,486</u>
<u>PROVISION FOR DEPRECIATION</u>		
Collection System	2,488,525	2,086,633
Pumping Plant	672,963	673,423
Adams Field	333,004	521,513
Fourche	660,722	659,353
General Plant	<u>705,254</u>	<u>717,154</u>
Total Provision for Depreciation	<u>4,860,468</u>	<u>4,658,076</u>
OPERATING INCOME	<u>67,268</u>	<u>1,258,410</u>
<u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	244,519	391,736
Interest Expense	(1,702,432)	(1,693,272)
Amortization of Bond Issuance Costs	(86,847)	(256,807)
Gain (Loss) on Disposal of Capital Assets	(29,257)	(18,078)
Unrealized Gain (Loss) on Investments	23,846	0
Other	<u>285,226</u>	<u>(422,218)</u>
Total Nonoperating Income (Expense)	<u>(1,264,945)</u>	<u>(1,998,639)</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	(1,197,677)	(740,229)
CAPITAL CONTRIBUTIONS	3,431,349	635,301
NET ASSETS, BEGINNING OF YEAR	<u>108,620,368</u>	<u>108,725,216</u>
NET ASSETS END OF YEAR	<u>\$110,854,040</u>	<u>\$108,620,368</u>

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

LITTLE ROCK WASTEWATER UTILITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 21,155,886	\$ 20,753,993
Cash Payments to Suppliers and Employees	<u>(17,423,817)</u>	<u>(14,399,910)</u>
Net Cash Provided by (Used by) Operating Activities	<u>3,732,069</u>	<u>6,354,083</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(6,858,804)	(7,808,561)
Proceeds from Disposal of Property and Equipment	326,234	197,380
Principal Paid on Revenue Bonds	(1,820,787)	(1,855,200)
Interest Paid on Revenue Bonds	(1,432,987)	(1,886,960)
Net Proceeds from Sewer Revenue Bonds	<u>2,432,330</u>	<u>6,074,916</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(7,354,014)</u>	<u>(5,278,425)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Investments	0	(2,040,000)
Interest on Investments	<u>268,503</u>	<u>404,532</u>
Net Cash Provided by (Used by) Investing Activities	<u>268,503</u>	<u>(1,635,468)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,353,442)	(559,810)
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of Year	<u>9,276,472</u>	<u>9,836,282</u>
End of Year	<u>\$ 5,923,030</u>	<u>\$ 9,276,472</u>

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

LITTLE ROCK WASTEWATER UTILITY  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:</b>		
Operating Income	\$ 67,268	\$ 1,258,410
Adjustments:		
Depreciation	4,860,468	4,658,076
Change in Operating Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	19,300	458,380
(Increase) Decrease in Inventories	(49,119)	(123,252)
(Increase) Decrease in Prepaid Expenses and Other Assets	(190,331)	(2,573)
(Increase) Decrease in Accounts Payable and Accrued Expenses	<u>(975,517)</u>	<u>105,042</u>
Net Cash Provided by Operating Activities	<u>\$ 3,732,069</u>	<u>\$ 6,354,082</u>

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING  
AND FINANCING ACTIVITIES:**

During 2002 and 2001, the Utility received donated sewer lines capitalized in the amount of \$3,431,349 and \$635,381, respectively.

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

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity - The financial statements of the Little Rock Wastewater Utility (the Utility), a component unit (Enterprise Fund) of the City of Little Rock, conform to generally accepted accounting principles for state and local governments. The Utility provides sewer services for the greater Little Rock area. These services primarily consist of treatment and disposal of sewer water, inspection of sewer lines, construction of sewer treatment plants, rehabilitation projects, and spot repairs. The vast majority of the Utility's customers are residential; however, the Utility also services commercial businesses. The Utility had 63,186 and 63,224 customers at December 31, 2002 and 2001, respectively.
- B. Basis of Accounting - The Utility utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

In accordance with paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, the Utility 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. During the year ended December 31, 2002 the Utility adopted GASB statement No. 34, as more fully detailed in the following paragraph.

- C. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement which directly affect the Little Rock Wastewater Utility include the following:
- (1). For the first time the financial statements include a Management Discussion and Analysis (MD&A) section providing an analysis of the Utility's overall financial position and results of operations.
  - (2). Required supplemental information, which consists of schedules of budgeted and actual revenue and expenses.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- C. (Continued)  
These changes are reflected in the accompanying financial statements (including notes to financial statements). The Utility has elected to implement the general provisions of the Statement in the current year report. Additional requirements of GASB Statement No. 34 include full accrual accounting focus on major funding, and reporting of infrastructure assets. Inasmuch as the Utility has been using the accrual basis of accounting, these additional provisions have had no effect upon the accompanying financial statements.
- D. Cash and Cash Equivalents - The Utility 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.
- E. 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 non-operating income (expense) in the accompanying statements of income.
- F. Inventory - Materials, supplies and fuel inventories are valued at the lower of average cost or market value.
- G. Property, Plant and Equipment - Property, plant and equipment include assets which have been contributed to the Utility. 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). 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).
- 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.
- I. 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.

LITTLE ROCK WASTEWATER UTILITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Reclassifications

Certain amounts in the 2001 financial statements have been reclassified to conform to the GASB No. 34 more fully described in Note 1C.

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statements of cash flows to the balance sheets as of December 31, 2002 and 2001, respectively, follows:

	2002		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at beginning of year	\$ 7,252,863	\$ 2,023,609	\$ 9,276,472
Net Increase (Decrease)	<u>(2,764,314)</u>	<u>(589,128)</u>	<u>(3,353,442)</u>
Cash at End of Year	<u>\$ 4,488,549</u>	<u>\$ 1,434,481</u>	<u>\$ 5,923,030</u>
	2001		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at beginning of year	\$ 5,744,374	\$ 4,091,908	\$ 9,836,282
Net Increase (Decrease)	<u>1,508,489</u>	<u>(2,068,299)</u>	<u>(559,810)</u>
Cash at End of Year	<u>\$ 7,252,863</u>	<u>\$ 2,023,609</u>	<u>\$ 9,276,472</u>

Included in the Utility's total cash balances of \$5,923,030 and \$9,443,901 (restricted and unrestricted) at December 31, 2002 and 2001, respectively, are deposits with financial institutions as follows.

2002

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Amount Insured or Collateralized</u>
<u>\$ 5,923,030</u>	<u>\$ 6,026,908</u>	<u>\$ 6,026,908</u>

2001

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Amount Insured or Collateralized</u>
<u>\$ 9,276,472</u>	<u>\$ 9,443,961</u>	<u>\$ 9,443,961</u>

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 3: INVESTMENTS

Investments are categorized as follows to give an indication of the level of credit risk assumed by the Utility at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Utility or by its agent in the Utility'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 the Utility'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 the Utility's name. All of the Utility's investments at December 31, 2002 and 2001 were included in Category 1.

Investments at December 31, 2002 consisted of debt securities, stated at fair value of \$2,063,846, which were acquired at a cost of \$2,040,000. Investments at December 31, 2001 consisted of debt securities booked at original cost, which approximated fair value. Net unrealized gain on these securities as of December 31, 2002 and 2001 was \$23,846 and \$0, respectively.

NOTE 4: CAPITAL ASSETS

A summary of property, plant and equipment follows for the years ended December 31:

	2002	2001
Land	\$ 2,643,426	\$ 2,643,426
Buildings and Improvements	37,312,268	36,705,490
Collection Systems	134,169,363	130,269,452
Machinery and Equipment	23,484,005	22,967,766
Construction in Progress	<u>16,896,058</u>	<u>11,784,198</u>
Total Cost	214,505,120	204,370,332
Accumulated Depreciation	<u>(65,259,619)</u>	<u>(60,495,724)</u>
Property, Plant and Equipment, Net	<u>\$149,245,501</u>	<u>\$143,874,608</u>

Construction in Progress at December 31, 2002 and 2001 included capitalized construction period interest of \$419,071 and \$334,215 that was incurred in each respective year.

Depreciation expense was \$4,860,468 and \$4,658,076 for the years ended December 31, 2002 and 2001, respectively.



LITTLE ROCK WASTEWATER UTILITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 5: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals, were \$3,431,349 and \$635,381 for the years ended December 31, 2002 and 2001, respectively.

NOTE 6: REVENUE BONDS

Revenue bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding at December 31, 2002</u>
1990	4.0%	2002 to 2014	\$ 4,680,796
1991	4.0%	2002 to 2014	4,012,111
1996	3.5%	2002 to 2019	5,226,501
1999	3.5%	2002 to 2022	12,000,000
2001	4.00% to 5.125%	2002 to 2022	<u>21,675,000</u>
Total			<u>\$ 47,594,408</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

The Arkansas Development Finance Authority (ADFA) 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 the Utility 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

LITTLE ROCK WASTEWATER UTILITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 6: REVENUE BONDS (CONTINUED)

In July, 1999, the City of Little Rock, Arkansas authorized \$12,000,000 of Sewer Revenue Bonds, Series 1999 (to be issued by the ADFA as above), for the purpose of financing the costs of constructing extensions, betterments, and improvements to the sewer system. The Utility had drawn \$9,567,670 of these funds as of December 31, 2001, and the balance of \$2,432,330 during the year ended December 31, 2002.

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.

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

The annual requirements to amortize recorded bond indebtedness outstanding, including interest, as of December 31, 2002 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,594,616	\$ 1,994,673	\$ 3,589,289
2004	1,653,241	1,932,552	3,585,793
2005	1,718,742	1,868,048	3,586,790
2006	1,786,200	1,801,090	3,587,290
2007	1,855,692	1,731,401	3,587,093
2008 to 2012	10,422,540	7,511,780	17,934,320
2013 to 2017	12,730,476	5,196,819	17,927,295
2018 to 2022	<u>15,832,901</u>	<u>2,094,061</u>	<u>17,926,962</u>
Total	<u>\$ 47,594,408</u>	<u>\$ 24,130,424</u>	<u>\$ 71,724,832</u>

Interest expense incurred during construction, amounted to \$419,071 and \$334,215 all of which was capitalized to construction in progress in the years ended December 31, 2002 and December 31, 2001, respectively.

NOTE 7: LITIGATION

The Little Rock Sanitary Sewer Committee (LRSSC) is 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.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 7: LITIGATION (CONTINUED)

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 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 being agreed to by both parties. On December 13, 2002 the Court awarded the sum of \$92,636 for plaintiff's legal fees. The Court has not decided plaintiff's claim for \$44,263 for costs to be assessed against the city and LRSCC, but a decision is expected soon.

In accordance with the settlement agreement between the plaintiff and LRSSC, judgment was entered as to LRSSC's liability for past alleged violations of the Clean Water Act, and all other claims against LRSCC were dismissed with prejudice, except the aforementioned award of plaintiff's attorneys' fees. Under the provisions of the settlement, LRSSC is required to follow certain reporting, notice, and maintenance procedures, as well as to finishing the existing study to address sanitary sewer overflows with the goal of eliminating them, and then developing, adopting, and implementing the necessary program within certain deadlines. Management is of the opinion that the Utility is in compliance with the provisions of the judgment and settlement agreement and will 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 the next 15 years, according to the current engineering estimates.

The Utility's financial statements as of December 31, 2002 and 2001, respectively, include a provision of \$135,000 and \$150,000 for potential liability with regard to this litigation.

NOTE 8: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$1,035,022 at December 31, 2002 for the expansion of plant capacity.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 9: DEFINED CONTRIBUTION PLAN

The Utility offers a voluntary 401(a) Qualified Pension Plan to all of its employees. Employee contributions are matched dollar for dollar as a percentage of employee wages based upon years of service. Total employer contributions were approximately \$279,682 and \$251,900 in 2002 and 2001, respectively.

NOTE 10: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)

The Utility 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.

Contributory plan members are required to contribute 6.0% of their annual salary to APERS. The employer's contributions are actuarially determined on an annual basis. No employees participated in this contributory plan for the years ended June 30, 2002 and 2001. Contributions to the noncontributory plan are also actuarially determined on an annual basis. Contributions to the noncontributory plan were approximately \$680,690, \$517,000 and \$460,000 for the plan years ended June 30, 2002, 2001 and 2000, respectively, and represented 10.00%, 8.00% and 7.00% of covered payroll for each of the plan years, respectively.

NOTE 11: CONCENTRATIONS

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$628,058 and \$526,000 for the years ended December 31, 2002 and 2001, respectively, and are included as operating expenses in the accompanying statements of income.

LITTLE ROCK WASTEWATER UTILITY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<u>OPERATING REVENUES</u>			
Sewer Charges	\$ 19,436,868	\$ 20,306,520	\$ 869,652
Industry Surcharges	627,972	498,152	(129,820)
Connection Fees	70,000	85,000	15,000
Other	<u>510,500</u>	<u>246,914</u>	<u>(263,586)</u>
Total Operating Revenues	<u>20,645,340</u>	<u>21,136,586</u>	<u>491,246</u>
<u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>			
Committee	30,444	33,401	2,957
Management	978,943	1,203,580	224,637
Finance and Administration	1,936,226	1,922,209	(14,017)
Engineering	2,172,455	1,993,996	(178,459)
Information Systems	1,323,322	1,089,746	(233,576)
Maintenance	6,641,255	6,715,050	73,795
Operations	3,264,637	3,338,854	74,217
Environmental Assessment	1,065,499	1,120,645	55,146
CWIP	<u>(1,300,877)</u>	<u>(1,208,631)</u>	<u>92,246</u>
Total Operating Expenses, Excluding Depreciation	<u>16,111,904</u>	<u>16,208,850</u>	<u>96,946</u>
Operating Income Before Depreciation	<u>4,533,436</u>	<u>4,927,736</u>	<u>394,300</u>
<u>PROVISION FOR DEPRECIATION</u>			
Collection System	2,487,799	2,488,525	726
Pumping Plant	672,964	672,963	(1)
Adams Field	333,004	333,004	0
Fourche	667,390	660,722	(6,668)
General Plant	<u>705,331</u>	<u>705,254</u>	<u>(77)</u>
Total Provision for Depreciation	<u>4,866,488</u>	<u>4,860,468</u>	<u>(6,020)</u>
OPERATING INCOME (LOSS)	<u>(333,052)</u>	<u>67,268</u>	<u>400,320</u>

The auditors' report on supplementary schedules

LITTLE ROCK WASTEWATER UTILITY  
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<u>NONOPERATING INCOME (EXPENSE)</u>			
Interest Income	\$ 387,000	\$ 244,519	\$ (142,481)
Interest Expense	(2,005,977)	(1,702,432)	303,545
Amortization of Bond Issuance Costs	(86,847)	(86,847)	0
Gain (Loss) on Disposal of Capital Assets	5,000	(29,257)	(34,257)
Unrestricted Gain (Loss) on Investments	0	23,846	23,846
Other	<u>6,000</u>	<u>285,226</u>	<u>279,226</u>
Total Non-operating Income (Expense)	<u>(1,694,824)</u>	<u>(1,264,945)</u>	<u>429,879</u>
 NET INCOME (LOSS)	 <u>\$ (2,027,876)</u>	 <u>\$ (1,197,677)</u>	 <u>\$ 830,199</u>

The auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT,  
EXCLUDING DEPRECIATION (SCHEDULE 1)  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Sewer Committee:</u>		
Committee Expense Reimbursement	\$ 16,948	\$ 8,589
Insurance	5,347	5,438
Other	<u>11,106</u>	<u>10,608</u>
Total	<u>33,401</u>	<u>24,635</u>
<u>Utility Manager:</u>		
Salaries	574,674	499,541
Employee Benefits	274,241	160,689
Supplies	25,836	10,521
Contract Services	171,597	79,372
Vehicle	6,290	3,200
Utilities	19,548	14,864
Insurance	3,492	3,405
Other	<u>127,902</u>	<u>94,173</u>
Total	<u>1,203,580</u>	<u>865,765</u>
<u>Finance:</u>		
Salaries	650,065	583,015
Employee Benefits	234,646	202,017
Supplies	89,919	72,634
Contract Services	701,364	606,364
Vehicle Maintenance	2,933	4,588
Utilities	38,752	44,921
Insurance	4,387	3,738
Other	<u>200,142</u>	<u>225,503</u>
Total	<u>1,922,209</u>	<u>1,742,780</u>
<u>Engineering:</u>		
Salaries	1,225,468	988,656
Employee Benefits	455,398	234,492
Supplies	44,414	17,003
Contract Services	170,336	12,602
Vehicle Maintenance	33,356	22,055
Utilities	18,804	15,715
Insurance	4,866	4,027
Other	<u>41,354</u>	<u>23,411</u>
Total	<u>1,993,996</u>	<u>1,317,961</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT,  
EXCLUDING DEPRECIATION (SCHEDULE 1)(CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Collection System and Facilities/ Equipment Maintenance:</u>		
Salaries	\$ 3,666,228	\$ 3,358,475
Employee Benefits	1,370,656	1,100,826
Supplies	972,970	927,980
Contract Services	135,650	141,614
Vehicle Maintenance	396,947	359,216
Utilities	52,432	65,836
Insurance	64,338	54,392
Other	<u>55,829</u>	<u>40,814</u>
Total	<u>6,715,050</u>	<u>6,049,153</u>
 <u>Operations - Adams, Fourche and Industrial Monitoring:</u>		
Salaries	1,163,283	1,044,174
Employee Benefits	390,386	331,210
Supplies	124,295	133,418
Contract Services	460,292	412,562
Vehicle Maintenance	872	24,097
Utilities	1,074,139	1,109,384
Insurance	33,866	26,671
Other	<u>91,721</u>	<u>85,918</u>
Total	<u>3,338,854</u>	<u>3,167,434</u>
 <u>Technical Services</u>		
Salaries	503,126	577,402
Employee Benefits	178,301	297,249
Supplies	210,685	175,460
Contract Services	106,714	230,378
Vehicle Maintenance	8,685	16,085
Utilities	43,223	36,647
Insurance	473	1,100
Other	<u>38,539</u>	<u>63,980</u>
Total	<u>1,089,746</u>	<u>1,398,301</u>



LITTLE ROCK WASTEWATER UTILITY  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT,  
EXCLUDING DEPRECIATION (SCHEDULE 1)(CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Environmental Assessment Department (EAD):</u>		
Salaries	\$ 640,029	577,260
Employee Benefits	284,199	241,937
Supplies	127,242	101,760
Contract Services	30,715	37,666
Vehicle Maintenance	14,634	5,414
Utilities	8,668	5,684
Insurance	1,528	330
Other	<u>13,630</u>	<u>24,870</u>
Total	<u>1,120,645</u>	<u>994,921</u>
Costs Allocated to Construction	<u>(1,208,631)</u>	<u>(1,181,823)</u>
Total Operating Expenses	<u>\$ 16,208,850</u>	<u>\$ 14,379,127</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)  
DECEMBER 31, 2002

Sewer Revenue Bonds (Series 1990)

Year of Maturity	Interest Rate	<u>Principal Payable</u>		<u>Interest Payable</u>		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2003	4%	\$ 162,274	165,520	93,616	90,370	511,780
2004	4%	168,830	172,207	87,060	83,683	511,780
2005	4%	175,651	179,164	80,239	76,725	511,779
2006	4%	182,747	186,402	73,143	69,488	511,780
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%	<u>250,872</u>	<u>-</u>	<u>5,017</u>	<u>-</u>	<u>255,889</u>
		<u>\$2,443,903</u>	<u>\$2,236,893</u>	<u>\$626,778</u>	<u>\$577,896</u>	<u>\$ 5,885,470</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)(CONTINUED)  
DECEMBER 31, 2002

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	
2003	4%	\$ 139,092	141,874	80,242	77,460	438,668
2004	4%	144,712	147,606	74,623	71,729	438,670
2005	4%	150,558	153,569	68,777	65,765	438,669
2006	4%	156,640	159,773	62,694	59,561	438,668
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%	<u>215,033</u>	<u>-</u>	<u>4,301</u>	<u>-</u>	<u>219,334</u>
		<u>\$2,094,775</u>	<u>\$1,917,336</u>	<u>\$537,240</u>	<u>\$495,343</u>	<u>\$ 5,044,694</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)(CONTINUED)  
DECEMBER 31, 2002

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	
2003	3.50%	\$ 118,369	120,440	91,464	89,392	419,665
2004	3.50%	122,549	124,693	87,285	85,140	419,667
2005	3.50%	126,875	129,095	82,958	80,738	419,666
2006	3.50%	131,355	133,653	78,478	76,180	419,666
2007	3.50%	135,993	138,373	73,841	71,461	419,668
2008	3.50%	140,793	143,257	69,039	66,575	419,664
2009	3.50%	145,765	148,316	64,068	61,518	419,667
2010	3.50%	150,911	153,552	58,922	56,281	419,666
2011	3.50%	156,239	158,974	53,594	50,860	419,667
2012	3.50%	161,756	164,586	48,078	45,247	419,667
2013	3.50%	167,466	170,397	42,367	39,436	419,666
2014	3.50%	173,379	176,413	36,454	33,420	419,666
2015	3.50%	179,500	182,641	30,333	27,192	419,666
2016	3.50%	185,837	189,089	23,995	20,743	419,664
2017	3.50%	192,399	195,766	17,434	14,067	419,666
2018	3.50%	199,192	202,678	10,641	7,155	419,666
2019	3.50%	<u>206,200</u>	<u>-</u>	<u>3,609</u>	<u>-</u>	<u>209,809</u>
		<u>\$2,694,578</u>	<u>\$2,531,923</u>	<u>\$ 872,560</u>	<u>\$ 825,405</u>	<u>\$ 6,924,466</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)(CONTINUED)  
DECEMBER 31, 2002

Sewer Revenue Bonds (Series 1999)

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>4/15</u>	<u>10/15</u>	<u>4/15</u>	<u>10/15</u>	
2003	3.75%	\$ 204,110	207,937	225,000	221,173	858,220
2004	3.75%	211,836	215,808	217,274	213,302	858,220
2005	3.75%	219,854	223,976	209,256	205,134	858,220
2006	3.75%	228,176	232,454	200,934	196,656	858,220
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%	<u>413,460</u>	<u>421,194</u>	<u>15,650</u>	<u>7,898</u>	<u>858,202</u>
		<u>\$5,944,282</u>	<u>\$6,055,718</u>	<u>\$2,637,918</u>	<u>\$2,526,464</u>	<u>\$ 17,164,382</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)(CONTINUED)  
DECEMBER 31, 2002

Sewer Revenue Bonds (Series 2001)

Year of Maturity	Interest Rate	Principal		Interest		Payable 8/1	Total Annual Requirement
		2/1	8/1	2/1	8/1		
2003	4.00%	\$ 165,000	170,000	514,628	511,328		1,360,956
2004	4.00%	170,000	175,000	507,928	504,528		1,357,456
2005	4.00%	180,000	180,000	501,028	497,428		1,358,456
2006	4.00%	185,000	190,000	493,828	490,128		1,358,956
2007	4.00%	195,000	195,000	486,328	482,428		1,358,756
2008	4.00%	200,000	205,000	478,528	474,528		1,358,056
2009	4.00%	210,000	215,000	470,428	466,228		1,361,656
2010	4.05%	220,000	220,000	461,928	457,473		1,359,401
2011	4.15%	225,000	230,000	453,018	448,350		1,356,368
2012	4.25%	235,000	240,000	443,577	438,583		1,357,160
2013	4.35%	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	4.65%	795,000	815,000	357,758	339,273		2,307,031
2017	4.75%	830,000	855,000	320,325	300,613		2,305,938
2018	4.80%	875,000	895,000	280,306	259,306		2,309,612
2019	4.85%	1,020,000	1,045,000	237,827	213,091		2,515,918
2020	5.00%	1,175,000	1,205,000	187,750	158,375		2,726,125
2021	5.00%	1,230,000	1,270,000	128,250	97,500		2,725,750
2022	5.00%	<u>1,300,000</u>	<u>1,330,000</u>	<u>65,750</u>	<u>33,250</u>		<u>2,729,000</u>
		<u>\$10,705,000</u>	<u>\$10,970,000</u>	<u>\$7,642,477</u>	<u>\$7,388,343</u>		<u>\$ 36,705,820</u>

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
 SCHEDULE OF INSURANCE COVERAGE (SCHEDULE 3)  
 DECEMBER 31, 2002

<u>Property Insured</u>	<u>Policy Period</u>	<u>Annual Premium</u>	<u>Coverage</u>
Boiler and Machinery	1-1-03 to 1-1-04	\$ 9,537	\$ 91,866,325
Property:			
LRWWU - LR Building	8-1-02 to 8-1-03	2,354	1,057,166
LRWWU - Clearwater Building	8-1-02 to 8-1-03	2,844	1,277,293
LRWWU - Paragon Building	8-1-02 to 8-1-03	573	257,500
Other Real Property and Contents	1-1-03 to 1-1-04	52,174	94,948,599

See auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2002

<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 Department Of Pollution Control and Ecology - 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
Totals			

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



<u>Bonds Payable December 31, 2001</u>	<u>Cash Received in 2002</u>	<u>Principal Repayments in 2002</u>	<u>Bonds Payable December 31, 2002</u>	<u>Total Expenditures in 2002</u>
\$ 4,995,861	\$	\$ 315,065	\$ 4,680,796	\$
4,282,167		270,056	4,012,111	
5,457,167		230,666	5,226,501	
<u>9,567,670</u>	<u>2,432,330</u>	<u></u>	<u>12,000,000</u>	<u>2,432,330</u>
<u>\$ 24,302,865</u>	<u>\$2,432,330</u>	<u>\$ 815,787</u>	<u>\$ 25,919,408</u>	<u>\$ 2,432,330</u>

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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 Utility (the Utility), 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 the Utility's financial statements.

NOTE 3: PURPOSE OF FUNDS RECEIVED

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

NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS

Principal repayments in 2002 are included in the statements of cash flows in the Utility's financial statements. Bonds payable of \$25,919,408 at December 31, 2002 are included in Note 6 to the Utility's financial statements. Total expenditures in 2002 are included in acquisition and construction of capital assets in the statements of cash flows in the Utility's financial statements.

Independent Auditors' Report on Compliance  
and on Internal Control Over Financial Reporting 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 Little Rock Wastewater Utility (the Utility), a component unit of the City of Little Rock, Arkansas, as of and for the year ended December 31, 2002, and have issued our report thereon dated February 10, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Little Rock Wastewater Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Little Rock Wastewater Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period

The Members of the Little Rock  
Sanitary Sewer Committee  
Page Two

by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting 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.

Certified Public Accountants  
February 10, 2003

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 Utility (the Utility), 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, 2002. Little Rock Wastewater Utility'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 Utility's management. Our responsibility is to express an opinion on the Utility'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 Utility'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 Utility's compliance with those requirements.

In our opinion, Little Rock Wastewater Utility 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, 2002.

Internal Control Over Compliance

The management of Little Rock Wastewater Utility is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Utility'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 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 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.

Certified Public Accountants  
February 10, 2003

LITTLE ROCK WASTEWATER UTILITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 IN ACCORDANCE WITH OMB CIRCULAR A-133  
 FOR THE YEAR ENDED DECEMBER 31, 2002

I. SUMMARY OF AUDITORS' RESULTS

A. Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- (i) Material weakness(es) identified?  Yes  No
- (ii) Reportable condition(s) identified that are not considered to be material weaknesses?  Yes  None reported
- (iii) Noncompliance material to financial statements noted?  Yes  No

B. Federal Awards:

Internal control over major programs:

- (i) Material weakness(es) identified?  Yes  No
- (ii) Reportable condition(s) identified that are not considered to be material weaknesses?  Yes  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

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

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2002

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED)

B. Federal Awards (Continued):

Dollar threshold used to distinguish  
between type A and type B programs: \$ 300,000

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.