

LITTLE ROCK WASTEWATER UTILITY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2003 and 2002**

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

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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 years ended December 31, 2003 and 2002. 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, 2003 and 2002, 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 12, 2004, 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
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The Management's Discussion and Analysis and the budgetary information on pages 3 through 17 and 33-34, 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 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 12, 2004

INTRODUCTION

Little Rock Wastewater Utility (the Utility) is pleased to present its second Annual Financial Report developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled “Basic 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). 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 form 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 12.0 billion gallons of wastewater, representing a decrease from fiscal year 2002 of 1.26 billion gallons, or 9.5% respectively.
- Total assets at year-end were \$166.2 million and exceeded liabilities in the amount of \$48.4 million. Total net assets were \$117.8 million, an increase of 6.3% from 2002.
- Debt service coverage was 288%, exceeding the 130% required by the Bond Covenant.
- Operating revenue grew to \$27.8 million in 2003. This was an increase of 31.8% or \$6.7 million from 2002 and an increase of .7% over the 2003 budget projections. The increase from 2002 to 2003 was the result of a 21% rate adjustment implemented in June 2003.
- Operating expenses before depreciation increased \$1.3 million or 7.4% compared to fiscal year 2002, but was less than budget by .2%. Operating expenses including depreciation increased \$1.4 million or 6.4% from 2002.
- Developer contributions of cash and non-cash items were \$3.2 million, a decrease of \$.2 million or 5.3% from 2002.

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 Business and Organization

The Utility provides retail wastewater collection and treatment service to approximately 63,106 customers within the corporate limits of Little Rock, and to approximately 565 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 35 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 121 square miles containing approximately 1,193 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.

Each division and employee of Little Rock Wastewater Utility has made significant contributions in helping the Utility meet the stringent quality standards and provide a better environment for our customers and community.

Reggie A. Corbitt has been Chief Executive Officer of the Little Rock Wastewater Utility for 19 years. During 2003, his most notable accomplishments were increasing the efforts of public education and enhancing the relationship between customers and the City of Little Rock Board of Directors. Under Corbitt's leadership, the Utility took a leading role in creating the first ever urban tree farm planted on the grounds of the Adams Field and Fourche Creek treatment plants. Thousands of Arkansas-native trees were planted on the sites to be given to community organizations, neighborhood associations, and individual residents at little or no cost. Corbitt's plan in executing the partnership with the City of Little Rock and other utilities was to improve the local environment with "releaf."

Corbitt also initiated the creation of an internal task group charged with the duty of finding new or better methods of keeping the customer base informed about Utility functions and activities. The group, consisting of at least one representative from every division, began the monumental task of updating a new website for the Utility with expanded features and user-friendly navigational tools.

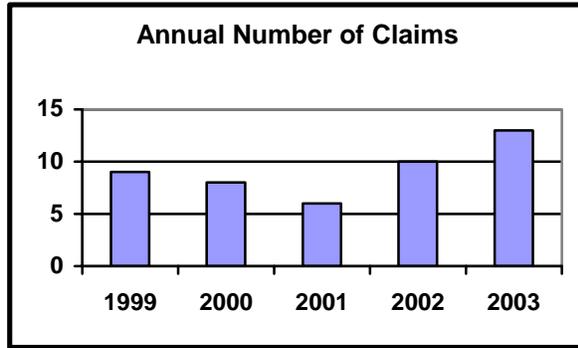
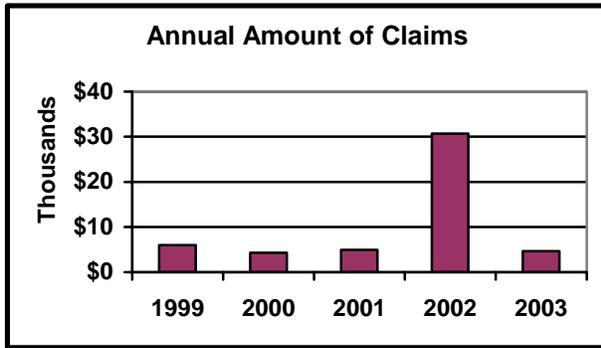
When it relates to public involvement and community relations, Corbitt took an extraordinary role in meeting with community focus groups, church organizations, environmental agencies, homeowners associations, civic groups and many other local organizations as he made regular talks on wastewater issues. Further, he encouraged other Utility personnel to also have an "open door" policy with customers.

Corbitt's area also includes the Legal and the Environmental Health, Safety and Communications departments. Led by Don Hamilton and John Jarratt, respectively, both departments are internal service departments working with all other areas to accomplish overall Utility goals.

Environmental Health, Safety and Communications Departments

The Environmental Health and Safety (EHS) arm of the Utility is almost solely responsible for training Utility employees on various state and federal regulations intended to keep employees injury free. EHS also is responsible for facility and jobsite inspections to ensure that the Utility remains compliant with Arkansas Department of Labor and OSHA standards. In 2003, EHS conducted 140 safety training sessions with a total of 2,240 employees attending the sessions. Through the efforts of the department, the Utility personnel suffered **no** severe injuries.

Over the past five years, there has only been one indemnity claim with lost time. The Environmental Health and Safety department has made it possible for the utility to become the only self-insured independent city organization in the state of Arkansas. By being self-insured, it gives the Utility more control over claims and reduces lost time and medical costs. The annual amount of claims chart shows claims only. The Utility also has an annual administrative and re-insurance cost.



The Communications function of the office provides both internal and external communications efforts for the Utility including but not limited to news bulletins; employee bulletins and newsletters; creating broadcast news releases; providing educational materials to the general public; and other efforts. One of the major contributions in 2003 was the continuance of the *Can the Grease*® program. The program aims to educate customers about the consequences of dumping leftover cooking grease and fat into the sanitary sewer collection system. The program combines good old-fashioned common sense with some helpful motivation in the form of literature and a grease can that is distributed to Utility customers. Nearly 20,000 packets have been distributed. The program has also garnered local, regional, national, and even international attention.

Using the *Can the Grease*® program as a springboard, the Utility also created an educational figure, named Cowboy Slick. In 2003, Cowboy Slick (then portrayed by Mike Ruhl, Lead Systems Analyst) rode his horse, Crisco, delivering the grease education packets as well as made presentations to youth and school groups on the topics of grease education and wastewater treatment.

Legal Department

The Legal Department is led by Don Hamilton, a Little Rock attorney for 41 years. Hamilton performs routine day-to-day legal services for the Utility involving preparation of legal documents, right-of-way acquisitions, and employee claims and rendering such legal advice, as needed. In 2003, he also worked with staff and outside counsel on the \$41-million Utility financing proposal approved by the City Board in December 2003, which was needed for various construction projects for sanitary sewer system improvements and rehabilitation.

Finance & Administration Division

The overall division is responsible for reporting financial data; housing employee records; and purchasing all Utility equipment and supplies. Jim Barham is the Manager of this three section division which includes Accounting, Human Resources, and Purchasing.

Accounting provides regular reporting of overall financial statements; posting accounts payable and receivable; recording all cost related to the capital improvement program,

as well as processing biweekly and semimonthly payrolls. Through joint efforts with the Legal and Engineering Services divisions, the Utility secured \$41-million in construction loans. As a result of the Average Winter Consumption (AWC) method of billing, the accounting staff has assumed a major role in providing customer service which has included increased calls from customers about sewer rates and reviewing in excess 600 accounts to determine if the AWC rate has changed since previous AWC periods.

In the area of Human Resources (HR), a wide range of tasks and actions falling collectively under "Employee Relations" are performed daily. Tasks can encompass anything from implementing a family-friendly employee benefit such as healthy heart assessments and fitness club memberships, to the coordination of the annual United Way campaign. During 2003, HR assisted in implementing a new security procedure for entrances to all Utility facilities by employees. The section also processed

36	hires
1	rehire
27	promotions
1	transfer
18	terminations

On the Purchasing side, employees provide support by coordinating the purchase and inventory of all Utility equipment and supplies in accordance with all state and federal regulatory requirements. During this last year, the department worked with the Maintenance Division in securing bids for over \$700,000 in new equipment.

Other contributions were the update of software packages for each area for the enhancement of day-to-day functions. Employees also received training on topics specifically related to job duties. In participating in the training and seminars, several employees were awarded with job certifications or recertifications such as the Certified Public Purchasing Officer and Certified Professional Public Buyer.

Engineering Services Division

Engineering Services provides the technical support for the planning and expansion of the Utility's collection and treatment systems. Thad Luther, P.E., is the Manager of the Engineering Services Division which includes the Geographic Information System/Survey, Construction Administration / New Mains, and Rehabilitation / Design / Technical Support departments.

Engineering Services continued the same standard of excellence that exists throughout the Utility by setting new records in that area of Utility operation in 2003. The dollar amount of developer funded sewer projects reviewed and approved by Engineering Services hit an all-time high at \$4.28 million. Service line inspections conducted in 2003 hit a record at 1,221. In addition to record-setting activities, Engineering Services also:

- Reviewed and inspected 908 new manholes and sewer lines that were added to the collection system
- Completed 21 individual project surveys to support improvements designed by engineering staff
- Updated 330 pages of the Utility's Map Atlas
- Contributed \$585,000 to street, highway, and drainage improvements by relocating sanitary sewers in conflict with proposed construction plans
- Coordinated and prepared engineering documentation to secure construction loans in the amount of \$41-million to fund sewer infrastructure improvements

Information Services Division

The overall division is responsible for Utility hardware; network and network operating systems; databases; enterprise software; and the maintenance and administration of all other electronic or analog equipment utilized. Bryan Bull is Director of this area which includes Network Administration, Database Administration, and Instrumentation.

Some of the major accomplishments for this division were the upgrade of the storage area networks (SAN), that created an increased processing efficiency of the hardware. Other accomplishments include the replacement of the operating system for the network and work stations from Microsoft Windows 2000 to Microsoft Windows XP; installation of the latest technology to enhance Supervisor Control and Data Acquisition (SCADA), spatial database engine (SDE), and gas leak detection system.

The division also played a leading role in upgrading security at all Utility facilities through controlled-access entrances. On a daily basis, the division provides "helpdesk" operations for 20 production servers and 160 work stations in four locations spread throughout the City of Little Rock.

Maintenance and Construction Division

The basic functionality of Maintenance and Construction Division includes investigating complaints, inspecting, cleaning, repairing, and some replacement of all sanitary sewer lines within the collection system. Mack Vought is the Manager of the Maintenance and Construction Services Division which includes the Construction and Repairs, Cleaning and Inspection, and Facilities and Equipment departments. Maintenance crews work primarily from the Clearwater Operations/Maintenance Complex, while other personnel, 23 employees, work at the Utility's two treatment plants, as well as provide service and maintenance to the pump stations and administration office.

During 2003, all three departments worked more closely together as the division developed the Plan 66 initiative. Plan 66 is a three-year plan to reduce dry weather overflows to no more than 66 per year. The implementation of Plan 66 includes the addition of new positions, vehicles, and equipment. The plan also includes procedures to provide grease education for residential, commercial, and industrial customers through public education methods such as meetings, handouts, signage, and brochures inserted in Utility bills.

The Maintenance and Construction Division contracted the treatment of 10,716 feet of mainline with an environmentally-friendly chemical substance that removes tree roots from sewer lines. This new process maximizes rehabilitation funds by eliminating the need for crews to manually clean the mainline. The division also:

- Completed 28 capital projects totaling \$1-million
- Hand and hydro cleaned 2.6-million feet of sewer lines
- Cleared 381,052 feet of right-of-way
- Repaired 193 broken sewer lines
- Maintained all engine/generators on line without major repairs
- Completed installation of irrigation system at both treatment plants for Partnership with Nature program

Operations Division

The primary function of the Operations Division is the treatment of wastewater from customers of the Utility. Rick Barger, P.E., Manager of Operations, oversees the Utility's two treatment plants, Fourche Creek and Adams Field. The combined average day design for the plants is 52-million gallons per day (mgd) through a process of mechanical, biological, and chemical treatment.

Below are a few accolades from the year 2003:

- Maintained a compliance rating of 99.9 percent for the National Pollution Discharge Elimination System (NPDES)
- Generated an estimated \$730-thousand cost savings by utilizing biogas production to power the Fourche Creek treatment process
- Applied 5,821 dry tons of solids to land applications. These soil nutrients were added to approximately 1300 acres of wheat and Bermuda crops that were harvested as cattle feed
- Started process of upgrading Adams Field by having a completed engineering report and an approved construction loan of \$23-million. The improvements will increase treatment peak capacity from 72-mgd to 94-mgd and afford 14-mgd in wet weather equalization

Environmental Assessment Division

The Environmental Assessment Division is not only the "enforcement officer" for industrial and commercial users but also for the Utility itself. The division has the overall role of sampling, inspecting, and tracking environmental data to comply with applicable federal, state and local regulations. Stan Suel, Director of Environmental Assessment heads up the three departments that make up the division: Central laboratory, Industrial User Relations, and Commercial User Relations/Sample Collection.

Daily activities performed by the division include protecting the biological treatment units at the Utility's two treatment plants; regulating the discharge from industrial and

commercial customers; and assess the Environmental Protection Agency's (EPA) compliance requirements on the effluent discharge from the treatment plants. A few of the specific accomplishments in 2003 were:

- Conducted and analyzed a total of 34,055 tests with 83 percent conducted on the treatment plants and 17 percent for industrial and other miscellaneous requests
- No deficiencies found during the annual inspection by the Arkansas Department of Environmental Quality
- Traced several unauthorized discharges, such as wax debris and other chemicals, from the treatment plant back to industrial users resulting in the implementation of corrective measures by the industrial user

In regulating industrial and commercial users, the division not only enforces regulations but also recognizes users with good compliance records by sending excellence and merit awards to those industries. For the sixth year, the division has awarded one industry with the Pollution Prevention Award, which was given to Odom's Tennessee Pride Sausage, Inc. in 2003.

Financial Analysis

The comparative financial statements from pages 18 thru 22 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

	2003	2002	Change	
			Amount	%
Selected data for analysis:				
Employees at year end	214	199	15	7.5%
Average employees	203	196	7	3.6%
Wastewater customers at year end	63,671	63,184	487	.8%
Wastewater treated (billions of gallons)	12.00	13.26	(1.26)	-9.5%
Per Average employee:				
Total operating revenues	\$ 137,002	\$ 107,840	\$ 29,162	27.0%
Total operating expenses	\$ 110,459	\$ 107,497	\$ 2,392	2.8%
	2003	2002	Amount	%
Revenues per thousand gallons treated:				
Wastewater service revenues	\$ 2.32	\$ 1.59	\$.73	45.4%
Expenses per thousand gallons treated:				
Wastewater services expenses:				
Expenses excluding depreciation	\$ 1.46	\$ 1.22	\$.24	19.3%
Expenses	\$ 1.87	\$ 1.59	\$.28	17.6%

Ratio of operating revenue to:

Operating expenses	1.24	1.00	.24	23.6%
Operating expenses net of depreciation	1.59	1.30	.29	21.9%
Total assets	.17	0.13	.04	27.5%
Net assets	.24	0.19	.05	23.8%

Debt related ratios:

Debt to net assets	.41	.44	\$ (.03)	-6.0%
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General Trends and Significant Events

Little Rock's population of 186,333 increased by 873 between December 2002 and December 2003, while the number of customers serviced by the Utility increased by 487 customers from 63,184 to 63,671 during the same period.

Weather conditions during the fiscal year 2003 were generally normal. There were seven days with temperatures over 100 degrees Fahrenheit and 12 days with rainfall in excess of one inch. It was the second straight year and five out of the last six years for below normal rainfall. The most rainfall that fell in the Little Rock area in one day was 2.22" during the month of July.

Average daily wastewater flow to Little Rock Wastewater Utility's treatment facilities actually decreased from 36.3 million gallons per day in 2002 to 32.9 million gallons per day in 2003. 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.

In 2003, LRWU started the first five-year phase of a 15 year capital improvement plan. LRWU submitted two bond ordinances and one short-term financing to the City of Little Rock's Board of Directors. Those three items were approved in December, 2003. One of the two bond ordinances is a \$23 million capital improvement project on the Adams Field Treatment Plant. The firm of CH2M Hill provided a preliminary engineering report on improving the raw sewage pumping capacity by upgrading equipment and facilities. The other bond ordinance in the amount of \$14 million is designated for work on the hydraulic capacity of the sewer collection system and the reduction of sewer overflows. The short-term financing of \$4 million includes work on the Fourche Creek Treatment Plant, new sewer mains, and ineligible land and easement costs. The revolving loan funds for the two bond ordinances should be available in April 2004. The closing on the \$4 million short-term financing took place in January 2004.

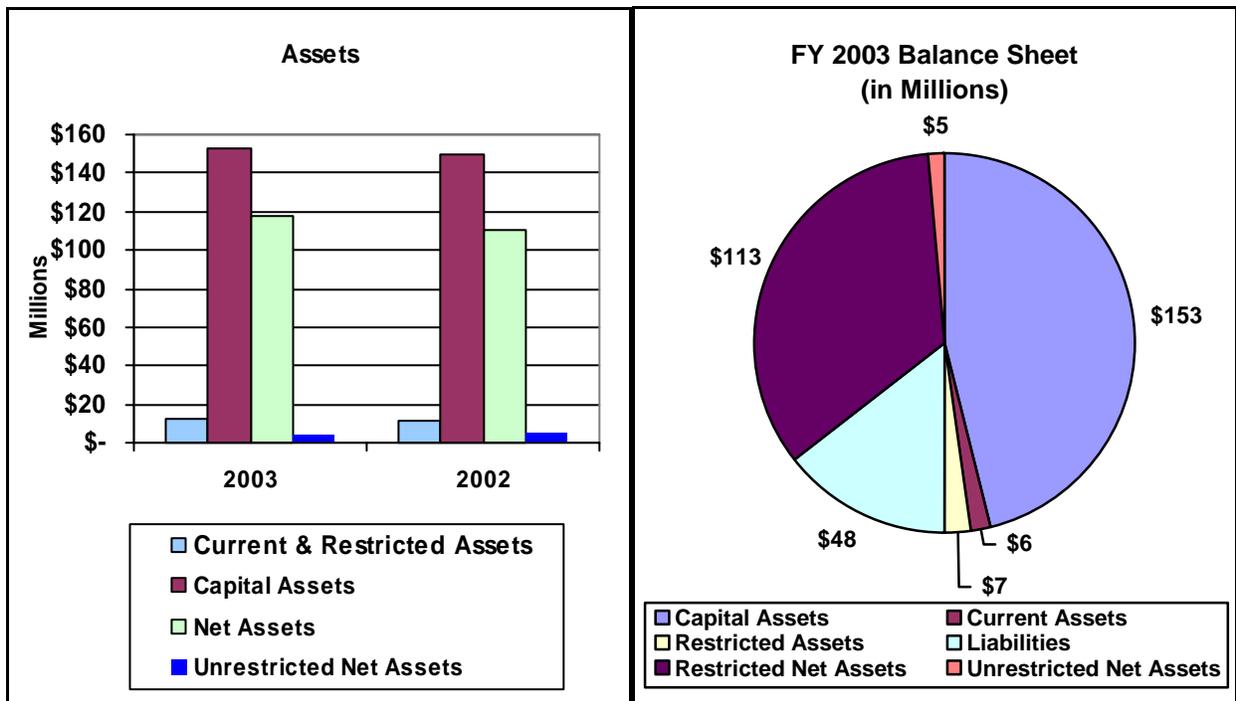
The second phase of a two step rate increase was implemented June 1, 2003. The

current sewer rate, that was approved with Ordinance Number 18,752 dated September 17, 2002, had an increase of 21%. The first phase had a rate increase of 22% that was implemented September 18, 2002. The two step rate increase was necessary to provide revenues for anticipated operating and capital needs in 2003 and beyond.

The implementation of the Average Winter Consumption (AWC) method of billing for residential customers has not only provided a more accurate measure of the amount of water used that enters the sewer system but has provided a reliable level of monthly revenue to meet operating and capital expenditures.

Financial Condition

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

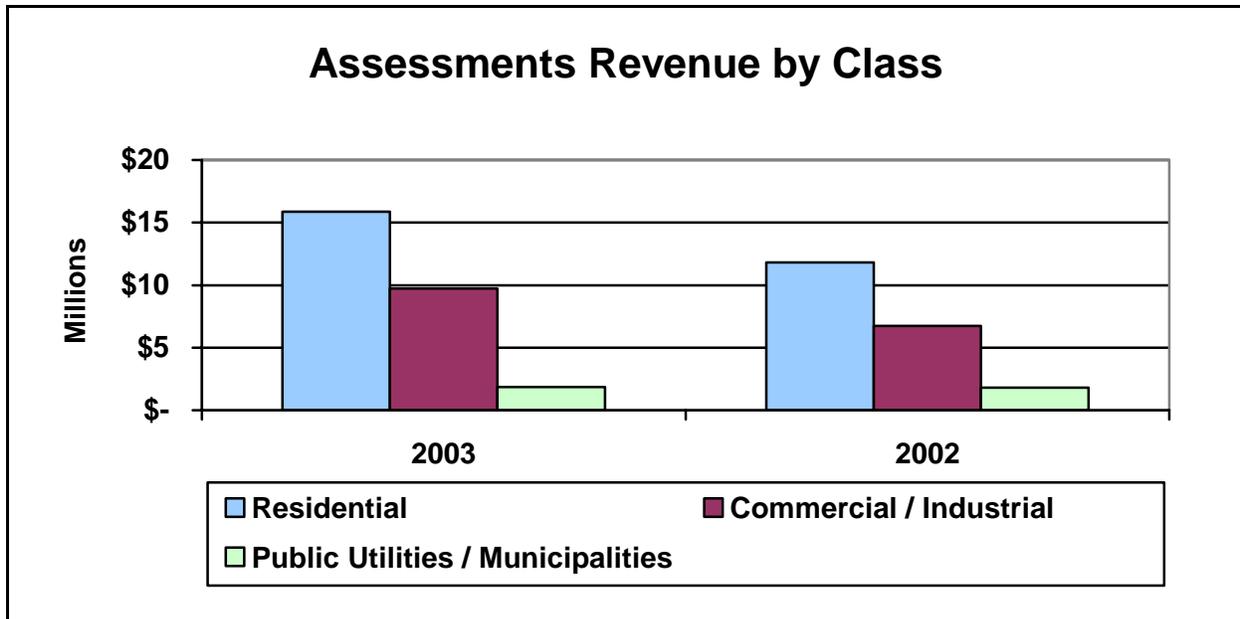


Total assets grew \$5.2 million or 4.7%, with \$3.8 million represented by additions to capital assets. Also, there was a shift in assets from current to restricted in preparation for the capital improvement projects over the next 15 years.

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.

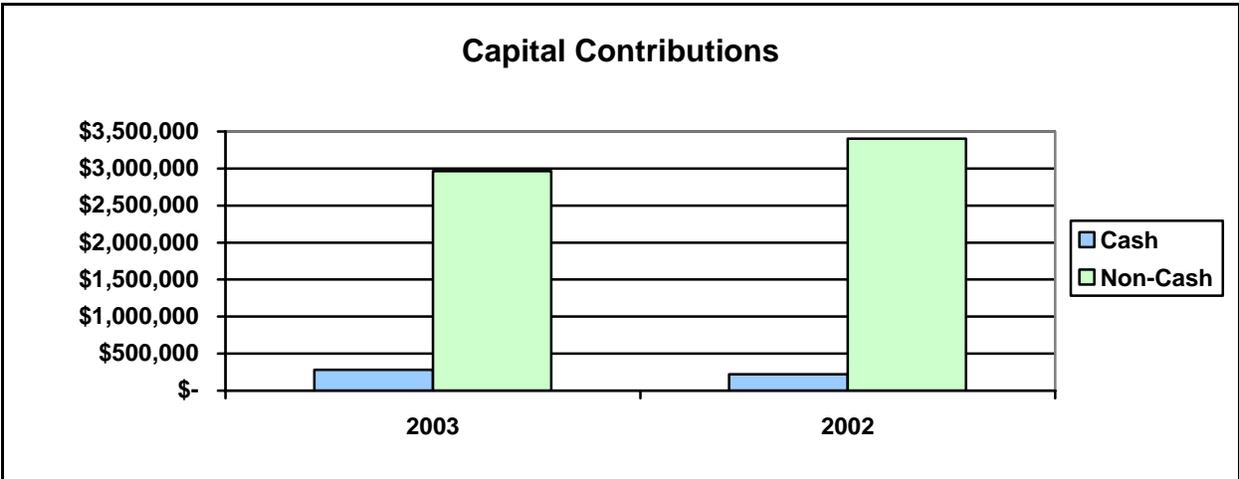


The Utility increased sewer rates in June 2003 by 21%. This increased the average residential bill from \$ 19.88 to \$ 24.26 a month. The Utility continued using the Actual Winter Consumption (AWC) billing process that was initiated in September 2002 for residential customers. The AWC is based on the average monthly consumption from the period October through March. Once the AWC has been established, it is permanent and will not change for future AWC periods.

The average realized rate from wastewater treatment was \$2.31 per thousand gallons in 2003 and \$1.59 in 2002, an increase of 45.3%.

Capital Contributions

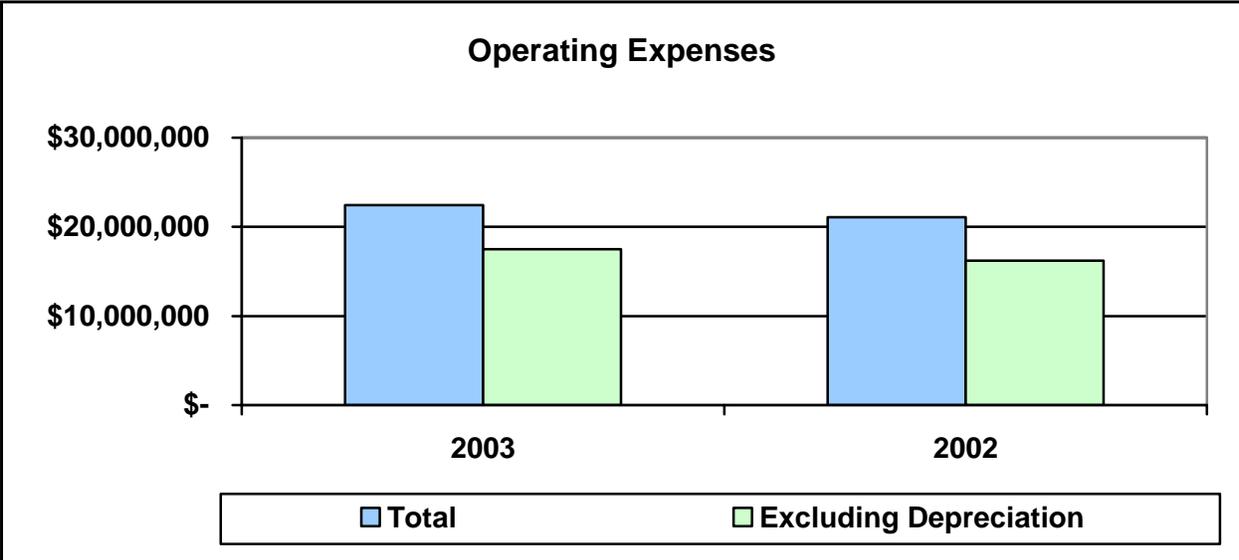
Cash capital contributions were \$285,000 for 2003 compared to \$224,000 for 2002. Non-cash capital contributions were \$2.9 million compared to \$3.2 million for 2002. The total capital contributions decreased 6.5% from 2002.



Expenses: The Utility operates and maintains a wastewater collection and treatment system. The wastewater system includes two wastewater treatment plants; 35 remote, unattended pumping stations; and 121 square miles of a collection system that is approximately 1,193 miles of public sewer.

The total wastewater operating expense including depreciation has increased by \$1.4 million, or 6.4% from 2002. 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:



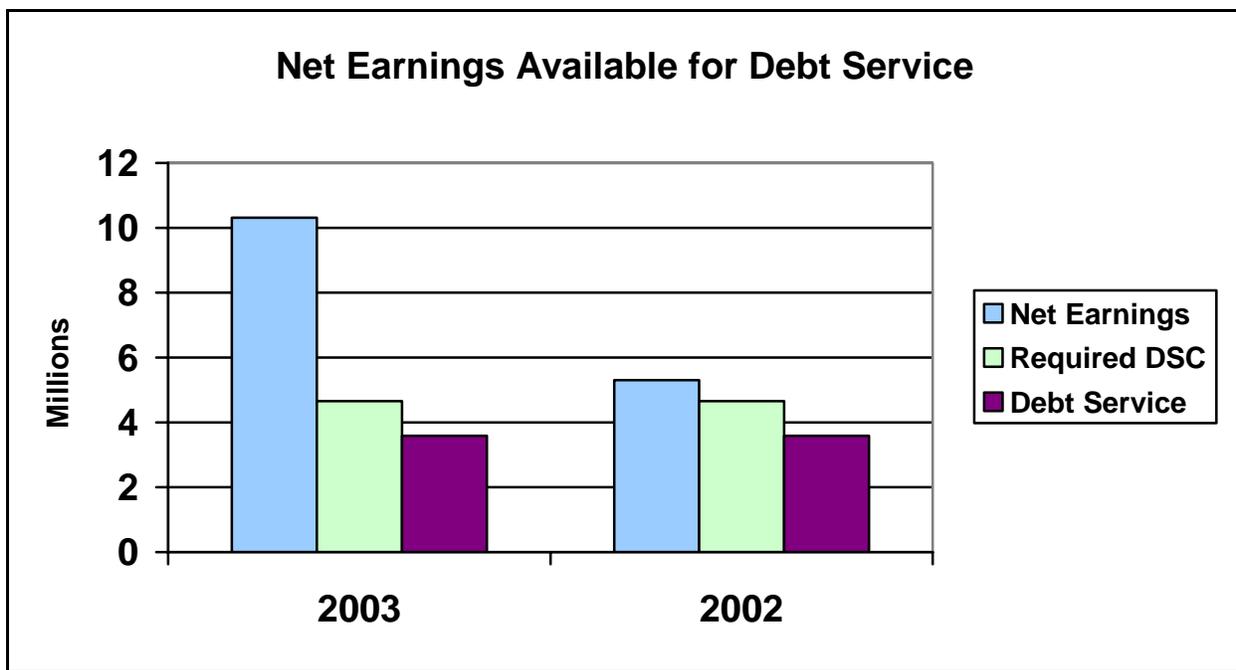
The average wastewater operating expense per thousand gallons treated increased from \$1.59 to \$1.87 or 17.6%. Before depreciation, the average change was from \$1.22 to \$1.46 or 19.3%.

	Actual Amounts in 000s					
	2003		2002		Variance	%
Depreciation Expense	\$ 4,925	22%	\$ 4,860	23%	\$ 65	1%
Wages	9,117	41%	8,423	40%	694	8%
Employee Benefits	3,643	16%	3,187	15%	456	14%
Supplies	1,560	7%	1,595	8%	(35)	-2%
Contract Services	1,783	8%	1,777	8%	6	0%
Vehicles	522	2%	464	2%	58	13%
Utilities	1,216	6%	1,256	6%	(40)	-3%
Other Operating	981	4%	716	3%	265	37%
Capital Work In Progress	(1,323)	-6%	(1,209)	-6%	(114)	9%
Total Operating Expense	\$22,308	100%	\$21,069	100%	\$1,239	77%

Wages and employee benefits combined increased 9.9% from 2002 to 2003. The Utility granted a 3% cost of living wage increase during 2003, and the average number of employees increased from 196 to 203. Other operating expenses increased 37% with increased public/employee relation costs.

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 purposes of the prior bond ordinances means gross revenues of the System less the amounts required to pay the operating and maintenance expenses of the System, excluding depreciation. 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 288% and 137%, respectively.



Capital Assets and Long-Term Debt

The investment in plant and equipment grew \$5.3 million or 5.2% during 2003.

Debt payments remained constant through 2003. Future debt payments will increase in 2004 and beyond with the passing of three city ordinance for loans of \$23.1 million and \$14 million along with a \$4 million short-term note.

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 \$142 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, 2003 AND 2002

ASSETS

<u>CURRENT ASSETS</u>	<u>2003</u>	<u>2002</u>
Cash and Cash Equivalents	\$ 2,866,388	\$ 4,488,549
Accounts Receivable, less Allowance for Doubtful Accounts of \$199,865 in 2003 and \$172,120 in 2002	1,594,646	1,310,563
Inventories	1,080,205	1,023,090
Prepaid Expenses and Other Current Assets	<u>530,796</u>	<u>476,697</u>
Total Current Assets	<u>6,072,035</u>	<u>7,298,899</u>
<u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	4,166,734	1,434,481
Investments	2,048,919	2,063,846
Accrued Interest Receivable	10,976	11,145
Construction Receivables	<u>55,667</u>	<u>140,757</u>
Total Restricted Assets	<u>6,282,296</u>	<u>3,650,229</u>
<u>CAPITAL ASSETS</u>	<u>153,108,875</u>	<u>149,245,501</u>
<u>OTHER ASSETS</u>		
Unamortized Bond Issuance Costs	<u>700,944</u>	<u>776,653</u>
TOTAL ASSETS	<u>\$ 166,164,150</u>	<u>\$ 160,971,282</u>

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

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>	<u>2003</u>	<u>2002</u>
Payable from Current Assets:		
Accounts Payable	\$ 197,948	\$ 273,359
Accrued Expenses	1,457,860	1,424,372
	<hr/>	<hr/>
Total Current Liabilities		
Payable from Current Assets	1,655,808	1,697,731
	<hr/>	<hr/>
Payable from Restricted Assets:		
Construction Contracts Payable	66,346	153,691
Accrued Interest	654,770	671,412
Current Maturities of Revenue Bonds	1,628,698	1,594,616
	<hr/>	<hr/>
Total Current Liabilities		
Payable from Restricted		
Assets	2,349,814	2,419,719
	<hr/>	<hr/>
Total Current Liabilities	4,005,622	4,117,450
	<hr/>	<hr/>
<u>LONG-TERM DEBT</u>		
Revenue Bonds Payable, Less Current		
Maturities	44,371,093	45,999,792
	<hr/>	<hr/>
Total Liabilities	48,376,715	50,117,242
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of		
Related Liabilities	107,155,258	101,756,334
Restricted for Capital Activity and		
Debt Service	6,215,950	3,496,538
Unrestricted	4,416,227	5,601,168
	<hr/>	<hr/>
Total Net Assets	117,787,435	110,854,040
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 166,164,150</u>	<u>\$ 160,971,282</u>

LITTLE ROCK WASTEWATER UTILITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

<u>OPERATING REVENUES</u>	2003	2002
Sewer Charges	\$ 26,984,440	\$ 20,306,520
Industry Surcharges	382,001	498,152
Connection Fees	108,500	85,000
Other	336,449	246,914
Total Operating Revenues	<u>27,811,390</u>	<u>21,136,586</u>
 <u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>	 <u>17,498,220</u>	 <u>16,208,850</u>
Operating Income Before Depreciation	<u>10,313,170</u>	<u>4,927,736</u>
 <u>PROVISION FOR DEPRECIATION</u>		
Collection System	2,596,879	2,488,525
Pumping Plant	667,294	672,963
Adams Field	328,660	333,004
Fourche	661,625	660,722
General Plant	670,517	705,254
Total Provision for Depreciation	<u>4,924,975</u>	<u>4,860,468</u>
 OPERATING INCOME	 <u>5,388,195</u>	 <u>67,268</u>
 <u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	174,887	244,519
Interest Expense	(1,976,233)	(1,702,432)
Amortization of Bond Issuance Costs	(82,006)	(86,847)
Gain (Loss) on Disposal of Capital Assets	23,782	(29,257)
Unrealized Gain (Loss) on Investments	(14,927)	23,846
Other	171,172	285,226
Total Nonoperating Income (Expense)	<u>(1,703,325)</u>	<u>(1,264,945)</u>
 INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	 <u>\$ 3,684,870</u>	 <u>\$ (1,197,677)</u>

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

LITTLE ROCK WASTEWATER UTILITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	\$ 3,684,870	\$ (1,197,677)
CAPITAL CONTRIBUTIONS	3,248,525	3,431,349
NET ASSETS, BEGINNING OF YEAR	<u>110,854,040</u>	<u>108,620,368</u>
NET ASSETS END OF YEAR	<u>\$ 117,787,435</u>	<u>\$ 110,854,040</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, 2003 AND 2002

	2003	2002
<u>CASH FLOWS FROM OPERATING</u>		
<u>ACTIVITIES</u>		
Cash Received from Customers	\$ 27,190,858	\$ 20,908,972
Other Receipts	336,449	246,914
Payments to Employees	(11,471,928)	(10,728,159)
Payments to Suppliers	(1,746,426)	(1,533,775)
Payments for Contractual Services	(1,783,370)	(2,705,752)
Payments for Utilities	(1,215,527)	(1,168,440)
Other Payments	(1,434,106)	(1,287,691)
Net Cash Provided by (Used by) Operating Activities	9,875,950	3,732,069
 <u>CASH FLOWS FROM CAPITAL AND</u>		
<u>RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(6,375,957)	(6,858,804)
Proceeds from Disposal of Property and Equipment	857,660	326,234
Principal Paid on Revenue Bonds	(1,594,617)	(1,820,787)
Interest Paid on Revenue Bonds	(1,999,172)	(1,432,987)
Net Proceeds from Sewer Revenue Bonds	0	2,432,330
Other	171,172	0
Net Cash Provided by (Used by) Capital and Related Financing Activities	(8,940,914)	(7,354,014)
 <u>CASH FLOWS FROM INVESTING</u>		
<u>ACTIVITIES</u>		
Interest on Investments	175,056	268,503
Net Cash Provided by (Used by) Investing Activities	175,056	268,503
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,110,092	\$ (3,353,442)

LITTLE ROCK WASTEWATER UTILITY
 STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

<u>CASH AND CASH EQUIVALENTS</u>	<u>2003</u>	<u>2002</u>
Beginning of Year	\$ 5,923,030	\$ 9,276,472
Net Increase (Decrease) in Cash and Cash Equivalent	1,110,092	(3,353,442)
End of Year	<u>\$ 7,033,122</u>	<u>\$ 5,925,032</u>

RECONCILIATION OF OPERATING
 INCOME TO NET CASH PROVIDED FROM
 OPERATING ACTIVITIES:

Operating Income	\$ 5,388,195	\$ 67,268
Adjustments:		
Depreciation	4,924,975	4,860,468
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(284,083)	19,300
(Increase) Decrease in Inventories	(57,115)	(49,119)
(Increase) Decrease in Prepaid Expenses and Other Assets	(54,099)	(190,331)
Increase (Decrease) in Accounts Payable	(75,411)	(1,052,370)
Increase (Decrease) in Accrued Expenses	33,488	76,853
Net Cash Provided by Operating Activities	<u>\$ 9,875,950</u>	<u>\$ 3,732,069</u>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING
 ACTIVITIES:

During 2003 and 2002, the Utility received donated sewer lines capitalized in the amount of \$3,248,525 and \$3,431,349, 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, 2003 AND 2002

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 63,671 and 63,184 customers at December 31, 2003 and 2002, 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's 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 THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 elected to implement the general provisions of the Statement in the year ended December 31, 2002. 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 nonoperating income (expense) in the accompanying statements of income.
- F. 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, 2003 and 2002 are more fully explained in Note 4.
- G. Inventory - Materials, supplies, and fuel inventories are valued at the lower of average cost or market value.
- H. 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).

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- I. 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.
- 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.

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the balance sheets as of December 31, 2003 and 2002, respectively, follows:

	<u>2003</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 4,488,549	\$ 1,434,481	\$ 5,923,030
Net Increase (Decrease)	<u>(1,622,161)</u>	<u>2,732,253</u>	<u>1,110,092</u>
Cash at End of Year	<u>\$ 2,866,388</u>	<u>\$ 4,166,734</u>	<u>\$ 7,033,122</u>
	<u>2002</u>		
	<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>

Included in the Utility's total cash balances of \$7,033,122 and \$5,923,030 (restricted and unrestricted) at December 31, 2003 and 2002, respectively, are deposits with financial institutions as follows.

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

<u>2003</u>		
<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Amount Insured or Collateralized</u>
<u>\$ 7,033,122</u>	<u>\$ 7,311,794</u>	<u>\$ 7,311,794</u>
<u>2002</u>		
<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>

NOTE 3: INVESTMENTS

Investments at December 31, 2003 and 2002 consisted of U.S. Government Obligation, stated at fair values of \$2,048,919 and \$2,063,846. These securities were acquired at a cost of \$2,040,000. Net unrealized gain (loss) on these securities for the years ended December 31, 2003 and 2002, was \$(14,927) and \$23,846, respectively.

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, 2003 and 2002 are categorized as follows:

<u>December 31, 2003</u>					
	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
U.S. Government Obligations	<u>\$ 2,048,919</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 2,048,919</u>	<u>\$ 2,048,919</u>

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 3: INVESTMENTS (CONTINUED)

	December 31, 2002				
	Category 1	2	3	Carrying Value	Fair Value
U.S. Government Obligations	\$ 2,063,846	\$0	\$0	\$ 2,063,846	\$ 2,063,846

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2003 and 2002 consisted of the following:

	2003	2002
Trade Receivables, Current	\$ 1,594,645	\$ 1,350,281
Trade Receivables, Past Due	199,866	132,402
Total	1,794,511	1,482,683
Allowance for Uncollectibles,		
Beginning of Year	(172,120)	(178,135)
Writeoff of Uncollectibles	240,429	178,138
Provision for Bad Debt Expense	(268,174)	(172,123)
Allowance for Uncollectibles,		
End of Year	(199,865)	(172,120)
Accounts Receivables, Net of Allowance for Uncollectibles	\$ 1,594,646	\$ 1,310,563

NOTE 5: CAPITAL ASSETS

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

	2003	2002
Land	\$ 2,646,435	\$ 2,643,426
Building and Improvements	37,717,542	37,312,268
Collection Systems	141,654,294	134,169,363
Machinery and Equipment	23,700,243	23,484,005
Construction in Progress	17,045,717	16,896,058
Total Cost	222,764,231	214,505,120
Accumulated Depreciation	(69,655,356)	(65,259,619)
Property, Plant, and Equipment; Net	\$ 153,108,875	\$ 149,245,501

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 5: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2003 and 2002, included capitalized construction period interest of \$0 and \$419,071 that was incurred in each respective year.

Depreciation expense was \$4,924,975 and \$4,860,468 for the years ended December 31, 2003 and 2002, 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 \$3,248,525 and \$3,431,349 for the years ended December 31, 2003 and 2002, respectively.

NOTE 7: REVENUE BONDS

Revenue bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate</u>	<u>Outstanding at Maturity Date</u>	<u>December 31, 2003</u>
1990	4.0%	2003 to 2014	\$ 4,353,002
1991	4.0%	2003 to 2014	3,731,145
1996	3.5%	2003 to 2019	4,987,691
1999	3.5%	2003 to 2022	11,587,953
2002	4.00% to 5.125%	2003 to 2022	21,340,000
Total			<u>\$ 45,999,791</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
2002	February 1 and August 1

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 7: REVENUE BONDS (CONTINUED)

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

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 all \$12,000,000 of these funds as of December 31, 2002.

In October, 2001, the City of Little Rock, Arkansas, issued \$22,680,000 of Sewer Refunding and Construction Revenue Bonds, Series 2002, 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 2002 Series Revenue Bonds. The 1999 Series Sewer Revenue Bonds are subordinate to the 1990, 1991, 1996, and 2002 Series Revenue Bonds.

The annual requirements to amortize recorded bond indebtedness outstanding, including interest, as of December 31, 2003, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,653,240	\$ 1,932,552	\$ 3,585,792
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	15,832,901	2,094,061	17,926,962
Total	<u>\$ 45,999,791</u>	<u>\$ 22,135,751</u>	<u>\$ 68,135,542</u>

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 7: REVENUE BONDS (CONTINUED)

Interest expense incurred during construction, amounted to \$0 and \$419,071 all of which was capitalized to construction in progress in the years ended December 31, 2003 and December 31, 2002, respectively.

On January 16, 2004 the Utility issued a \$4,000,000 sewer revenue note, which is more fully explained in Note 12.

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, the Utility's financial statements as of December 31, 2003 and 2002, respectively, include provisions of \$0 and \$135,000 for 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, 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. Management is of the opinion that the Utility is in compliance with the provisions of the settlement agreement and is in the process of completing an annual report detailing compliance actions taken during 2003 to be submitted to LRSSC on or before February 18, 2004. The annual report for 2002 submitted to the Sewer

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 8: LITIGATION (CONTINUED)

Committee was approved by opposing counsel last year. Management expects to remain in compliance with the judgment and settlement agreement and will settle the agreement, which will require the expenditure of substantial sums in excess of \$180,000,000 over a 15 year period according to the current engineering estimates.

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$1,491,744 at December 31, 2003, for the expansion of plant capacity.

NOTE 10: PENSIONS AND OTHER POST EMPLOYMENT BENEFITS

- A. 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 \$318,734 and \$279,682 in 2003 and 2002, respectively.
- B. 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, 2003 and 2002. Contributions to the noncontributory plan are also actuarially determined on an annual basis. Contributions to the noncontributory plan were approximately \$824,595 \$680,690 and \$517,000 for the plan years ended June 30, 2003, 2002, and 2001, respectively, and represented 10.0%, 10.00%, and 8.00% of covered payroll for each of the plan years, respectively.

LITTLE ROCK WASTEWATER UTILITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

- C. Post Employment Benefits Other Than Pensions - Little Rock Wastewater Utility postretirement benefits in the form of medical and life insurance coverage to all retirees. Currently, 15 retirees are eligible to receive these benefits. These benefits are funded from current operations of the Utility. Expenditures for such postretirement benefits amounted to \$78,513 and \$61,463 for the years ended December 31, 2003 and 2002, respectively.

NOTE 11: CONCENTRATIONS

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$535,114 and \$628,058 for the years ended December 31, 2003 and 2002, respectively, and are included as operating expenses in the accompanying statements of income.

NOTE 12: SUBSEQUENT EVENT

On January 16, 2004 the Utility issued a \$4,000,000 Sewer Revenue Note. Proceeds will be used for capital improvements which include new sewer mains and treatment plant improvements. The note is payable to a local financial institution in monthly payments of \$72,878, which include interest payments of 3.51%, beginning January 20, 2004. Payments of principal and interest for the years subsequent to December 31, 2003 are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 743,886	\$ 130,651	\$ 874,537
2005	771,183	103,354	874,537
2006	798,752	75,785	874,537
2007	828,154	46,383	874,537
2008	858,025	16,512	874,537
	<u>\$ 4,000,000</u>	<u>\$ 372,685</u>	<u>\$ 4,372,685</u>

LITTLE ROCK WASTEWATER UTILITY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2003

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance <u>Over (Under)</u>
<u>OPERATING REVENUES</u>			
Sewer Charges	\$ 26,316,904	\$ 26,984,440	\$ 667,536
Industry Surcharges	507,444	382,001	(125,443)
Connection Fees	70,800	108,500	37,700
Other	723,852	336,449	(387,403)
Total Operating Revenues	<u>27,619,000</u>	<u>27,811,390</u>	<u>192,390</u>
<u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>			
Committee	31,250	35,175	3,925
Management	1,373,416	1,350,463	(22,953)
Finance and Administration	1,871,590	1,954,603	83,013
Engineering	2,367,949	2,200,516	(167,433)
Information Systems	1,190,221	1,148,192	(42,029)
Maintenance	7,459,163	7,547,433	88,270
Operations	3,617,487	3,440,665	(176,822)
Environmental Assessment CWIP	1,137,459	1,143,712	6,253
	(1,511,135)	(1,322,539)	188,596
Total Operating Expenses, Excluding Depreciation	<u>17,537,400</u>	<u>17,498,220</u>	<u>(39,180)</u>
Operating Income Before Depreciation	<u>10,081,600</u>	<u>10,313,170</u>	<u>231,570</u>
<u>PROVISION FOR DEPRECIATION</u>			
Collection System	2,569,662	2,596,879	27,217
Pumping Plant	660,300	667,294	6,994
Adams Field	325,215	328,660	3,445
Fourche	654,691	661,625	6,934
General Plant	663,490	670,517	7,027
Total Provision for Depreciation	<u>4,873,358</u>	<u>4,924,975</u>	<u>51,617</u>
OPERATING INCOME (LOSS)	<u>5,208,242</u>	<u>5,388,195</u>	<u>179,953</u>

See independent auditors' report on supplementary schedules

LITTLE ROCK WASTEWATER UTILITY
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance <u>Over (Under)</u>
<u>NONOPERATING INCOME</u>			
<u>(EXPENSE)</u>			
Interest Income	\$ 207,000	\$ 174,887	\$ (32,113)
Interest Expense	(2,039,739)	(1,976,233)	63,506
Amortization of Bond Issuance Costs	(128,430)	(82,006)	46,424
Gain (Loss) on Disposal of Capital Assets	2,500	23,782	21,282
Unrestricted Gain (Loss) on Investments	-	(14,927)	(14,927)
Other	17,000	171,172	154,172
Total Nonoperating Income (Expense)	<u>(1,941,669)</u>	<u>(1,703,325)</u>	<u>238,344</u>
NET INCOME (LOSS)	<u>\$ 3,266,573</u>	<u>\$ 3,684,870</u>	<u>\$ 418,297</u>

See independent 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, 2003 AND 2002

	2003	2002
<u>Sewer Committee:</u>		
Committee Expense Reimbursement	\$ 17,666	\$ 16,948
Insurance	4,156	5,347
Other	13,353	11,106
Total	35,175	33,401
 <u>Utility Manager:</u>		
Salaries	623,196	574,674
Employee Benefits	251,851	274,241
Supplies	18,279	25,836
Contract Services	205,879	171,597
Vehicle Maintenance	6,420	6,290
Utilities	17,149	19,548
Insurance	2,930	3,492
Other	224,759	127,902
Total	1,350,463	1,203,580
 <u>Finance:</u>		
Salaries	661,928	650,065
Employee Benefits	241,978	234,646
Supplies	90,886	89,919
Contract Services	584,784	701,364
Vehicle Maintenance	3,296	2,933
Utilities	44,400	38,752
Insurance	5,650	4,387
Delinquent Accounts	68,308	0
Other	253,373	200,143
Total	1,954,603	1,922,209
 <u>Engineering:</u>		
Salaries	1,360,499	1,225,468
Employee Benefits	542,866	455,398
Supplies	56,163	44,414
Contract Services	145,675	170,336
Vehicle Maintenance	32,196	33,356
Utilities	20,238	18,804
Insurance	5,556	4,866
Other	37,323	41,354
Total	2,200,516	1,993,996

See independent 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, 2003 AND 2002

	2003	2002
<u>Collection System and Facilities/</u>		
<u>Equipment Maintenance:</u>		
Salaries	\$ 4,039,729	\$ 3,666,228
Employee Benefits	1,671,740	1,370,656
Supplies	886,242	972,970
Contract Services	276,783	135,650
Vehicle Maintenance	443,187	396,947
Utilities	63,021	52,432
Insurance	87,966	64,338
Other	78,765	55,829
Total	7,547,433	6,715,050
 <u>Operations - Adams, Fourche, and</u>		
<u>Industrial Monitoring:</u>		
Salaries	1,230,369	1,163,283
Employee Benefits	471,730	390,386
Supplies	135,710	124,295
Contract Services	430,690	460,292
Vehicle Maintenance	12,846	872
Utilities	1,025,769	1,074,139
Insurance	43,026	33,866
Other	90,525	91,721
Total	3,440,665	3,338,854
 <u>Technical Services</u>		
Salaries	531,455	503,126
Employee Benefits	194,122	178,301
Supplies	234,033	210,685
Contract Services	110,236	106,714
Vehicle Maintenance	7,756	8,685
Utilities	34,971	43,223
Insurance	872	473
Other	34,747	38,539
Total	1,148,192	1,089,746

See independent 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, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>Environmental Assessment</u>		
<u>Department (EAD):</u>		
Salaries	\$ 669,408	\$ 640,029
Employee Benefits	268,776	284,199
Supplies	138,488	127,242
Contract Services	29,323	30,715
Vehicle Maintenance	15,955	14,634
Utilities	9,979	8,668
Insurance	1,863	1,528
Other	9,920	13,630
Total	<u>1,143,712</u>	<u>1,120,645</u>
Costs Allocated to Construction	<u>(1,322,539)</u>	<u>(1,208,631)</u>
Total Operating Expenses	<u>\$ 17,498,220</u>	<u>\$ 16,208,850</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)
December 31, 2003

Sewer Revenue Bonds (Series 1990)

<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>	
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%	250,872	-	5,017	-	255,889
		<u>\$ 2,281,629</u>	<u>\$ 2,071,373</u>	<u>\$ 533,162</u>	<u>\$ 487,526</u>	<u>\$ 5,373,690</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
 SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)
 December 31, 2003

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	
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%	215,033	-	4,301	-	219,334
		<u>\$ 1,955,683</u>	<u>\$ 1,775,462</u>	<u>\$ 456,998</u>	<u>\$ 417,883</u>	<u>\$ 4,606,026</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)
December 31, 2003

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	
2004	3.5%	\$ 122,548	\$ 124,693	\$ 87,285	\$ 85,140	\$ 419,666
2005	3.5%	126,875	129,095	82,958	80,738	419,666
2006	3.5%	131,355	133,653	78,478	76,180	419,666
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	164,586	48,078	45,247	419,667
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>\$ 2,576,208</u>	<u>\$ 2,411,483</u>	<u>\$ 781,096</u>	<u>\$ 736,013</u>	<u>\$ 6,504,800</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
 SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)
 December 31, 2003

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	
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%	413,460	421,194	15,650	7,898	858,202
		<u>\$ 5,740,172</u>	<u>\$ 5,847,781</u>	<u>\$ 2,412,918</u>	<u>\$ 2,305,291</u>	<u>\$ 16,306,162</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)
December 31, 2003

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>	
2004	4.000%	\$ 170,000	\$ 175,000	\$ 507,928	\$ 504,528	\$ 1,357,456
2005	4.000%	180,000	180,000	501,028	497,428	1,358,456
2006	4.000%	185,000	190,000	493,828	490,128	1,358,956
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>\$ 10,540,000</u>	<u>\$ 10,800,000</u>	<u>\$ 7,127,849</u>	<u>\$ 6,877,015</u>	<u>\$ 35,344,864</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
 SCHEDULE OF INSURANCE COVERAGE (SCHEDULE 3)
 DECEMBER 31, 2003

<u>Property Insured</u>	<u>Annual Policy Period</u>	<u>Premium</u>	<u>Coverage</u>
Boiler and Machinery	1-1-04 to 1-1-05	\$ 10,015	\$ 94,162,983
Property:			
LRWWU - LR Building	8-1-03 to 8-1-04	1,321	1,083,595
LRWWU - Clearwater Building	8-1-03 to 8-1-04	1,599	1,309,225
LRWWU - Paragon Building	8-1-03 to 8-1-04	11	263,938
Other Real Property and Contents	1-1-04 to 1-1-05	70,384	97,322,314

See independent auditors' report on supplementary schedules.

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, 2003, and have issued our report thereon dated February 12, 2004. 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 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.

The Members of the Little Rock
Sanitary Sewer Committee
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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 12, 2004