

# **LITTLE ROCK WASTEWATER UTILITY**

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



**Comprehensive Annual**

**Financial Report**

**For The Year Ended December 31, 2004**

**Prepared by:**

**Cobb and Suskie, Ltd.  
Certified Public Accountants  
And**

**Little Rock Wastewater Utility Finance Department**



**LITTLE ROCK WASTEWATER UTILITY**  
**Comprehensive Annual Financial Report**  
**Year Ended December 31, 2004**

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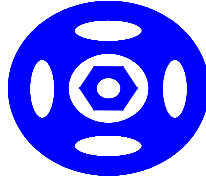
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# **INTRODUCTORY SECTION**

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**Little Rock  
Wastewater  
Utility**



221 E. Capitol  
Little Rock, Arkansas 72202  
501/376-2903  
Fax: 501/376-3541 or 501/688-1463

February 15, 2005

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

The staff of Little Rock Wastewater Utility (“LRWU”) is proud to present the Comprehensive Annual Financial Report (“CAFR”) of the LRWU for the fiscal year ended December 31, 2004. State law requires that every general-purpose local government publish a complete set of audited financial statements for each fiscal year. This report is published to fulfill that requirement for the fiscal year ended December 31, 2004. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with LRWU. This CAFR was prepared by the Finance Department of LRWU and Cobb and Suskie, Ltd.

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

LRWU’s financial statements have been audited by Cobb and Suskie, Ltd., a firm of licensed certified public accountants. Cobb and Suskie have issued an unqualified (“clean”) opinion on LRWU’s financial statements for the year ended December 31, 2004. The independent auditor’s report is located at the front of the financial section of this report.

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

### **Profile of the Government**

The 1933 Arkansas General Assembly enacted Act 132, authorizing all cities and towns in the state to levy user charges against property owners “to construct, own, equip, operate, maintain, and improve” sewage collection and treatment systems. In June 1935, a full-fledged Sanitary Sewer Committee was named and the City of Little Rock Sanitary Sewer System was created. The now five-member Little Rock Sanitary Sewer Committee (LRSSC) manages and

controls the city's sewer system. The LRSSC and LRWU must seek approval of all sewer rate increases and long term financing through the City of Little Rock Board of Directors. The City of Little Rock Board of Directors appoints LRSSC members. The LRSSC in turn hires a Chief Executive Officer. The LRSSC meets on the third Wednesday of each month.

LRWU provides wastewater service to its customers. For financial reporting purposes, LRWU is considered a component unit of the City of Little Rock. The LRSSC operates and manages LRWU with the City of Little Rock having the power to impose its will on LRWU. LRWU adopts an annual operating, capital, and debt service budget along with associated rates and fees for services; and also issues updates to its Rules and Regulations. LRWU recovers the cost of providing wastewater services primarily through user charges and collects a 5% Franchise Fee for the City of Little Rock.

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

### **Factors Affecting Financial Condition**

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

**Local Economy** - The City of Little Rock currently enjoys a favorable economic environment and local indicators point to continued stability. The City of Little Rock is the capital and largest city of Arkansas as well as the governmental, economic, cultural, and financial center of the state. The city has a diverse economy between manufacturing and non-manufacturing. The largest employer for the city is the State of Arkansas with over 28,000 employees.

The customer base has continued to grow for the residential and commercial users of the Sewer System. The number of residential customer accounts has increased by 8.7% over the past ten years while commercial users have increased by 10.9% over the same time period. The overall growth of total customer accounts for the ten year period is 9.2%.

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



Settlement Agreement mandates LRWU meet specific overflow performance standards. For non-capacity sanitary sewer overflows, the performance requirement of six per one-hundred miles of owned and operated sewer lines must be satisfied two consecutive years before 2008. For capacity related overflows, the performance requirement is no overflows unless precipitation amounts are extremely heavy (2-year return frequency); the deadline for this performance level is 2017. In addition to the SECAP projects, the Little Rock City Board of Directors requested that LRWU extend new sewer mains into areas previously not served within the Little Rock City Limits. This project, unsewered area improvements, was approved at a cost of \$13,000,000.

With the lawsuit and SECAP being the driving force behind capital improvements, Engineering Services schedules projects using a five-year capital budget outlook. The next five-year construction phase will consist of upgrades to the Adams Field Wastewater Treatment Plant and Fourche Creek Wastewater Treatment Plant, a proposed new treatment facility in West Little Rock, collection system rehabilitation and capacity assurance projects, pump station improvements, peak flow detention basins, and unsewered area improvements. All of these projects have been or will be funded by either Sewer Revenue Bonds or Revolving Loan Funds from the State of Arkansas. Total capital expenditures will be in excess of \$140,000,000; with over \$106,000,000 of that total allocated to treatment, transmission, and storage improvements to mitigate overflows. With the increase in construction, LRWU is forecasting a rate adjustment of +15% in 2007 followed by adjustments of +3% in years 2008 through 2011.

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

**Risk Management** – In 1997, LRWU became the only self-insured independent city agency in the state of Arkansas. LRWU makes safety and risk management a top priority. The Environmental Health, Safety and Communications department has a full-time Coordinator that manages all aspects of safety and risk management. A Safety Specialist has conducted and outsourced 149 training events such as Right-To-Know, CPR, Defensive Driving, Confined Spaces, Traffic Control, Excavation Safety, Proper Protective Equipment, and other specific safety topics with 2897 in attendance in 2004. The Safety Specialist also conducts routine facility and field health and safety audits to identify unsafe acts and conditions. LRWU also has a safety committee that handles departmental safety concerns, investigations, and assists in field audits. Over the past five years, there has only been one indemnity claim with lost time. LRWU has partnered with a third-party provider for administering reports and claims. As part of the requirement for being self-funded, a designated reserve fund to cover potential losses related to Worker's Compensation claims has been established and the balance is

maintained based on recommendations from the third-party provider. Specific reinsurance currently in place limits LRWU's liability for an individual Workers' Compensation incident to \$275,000.

**Pension and other Postemployment benefits** – LRWU is a member of a state-sponsored retirement system entitled Arkansas Public Employees Retirement System (APERS), which is an employer contribution only plan with the contribution rates in 2004 being 10.00% from January 1 to June 30 and 11.09% from July 1 to December 31. Benefits are fully vested upon completing five years of service. Benefits of APERS members are calculated on age, final average salary, years of service, and a benefit factor.

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

LRWU provides post-retirement health, dental and optical care benefits for certain retirees and their dependents. Employees who meet the retirement guidelines set forth by APERS (28 years of service) are eligible to continue their health coverage. The retiree's rates are the same as employee rates. At the end of the current (2004) fiscal year, there were approximately 16 employees receiving these benefits, which are financed on a pay-as-you go basis.

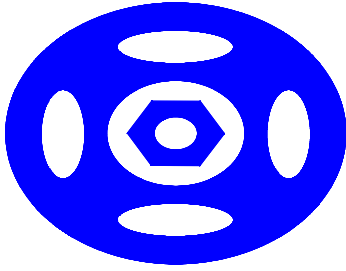
Respectfully submitted,



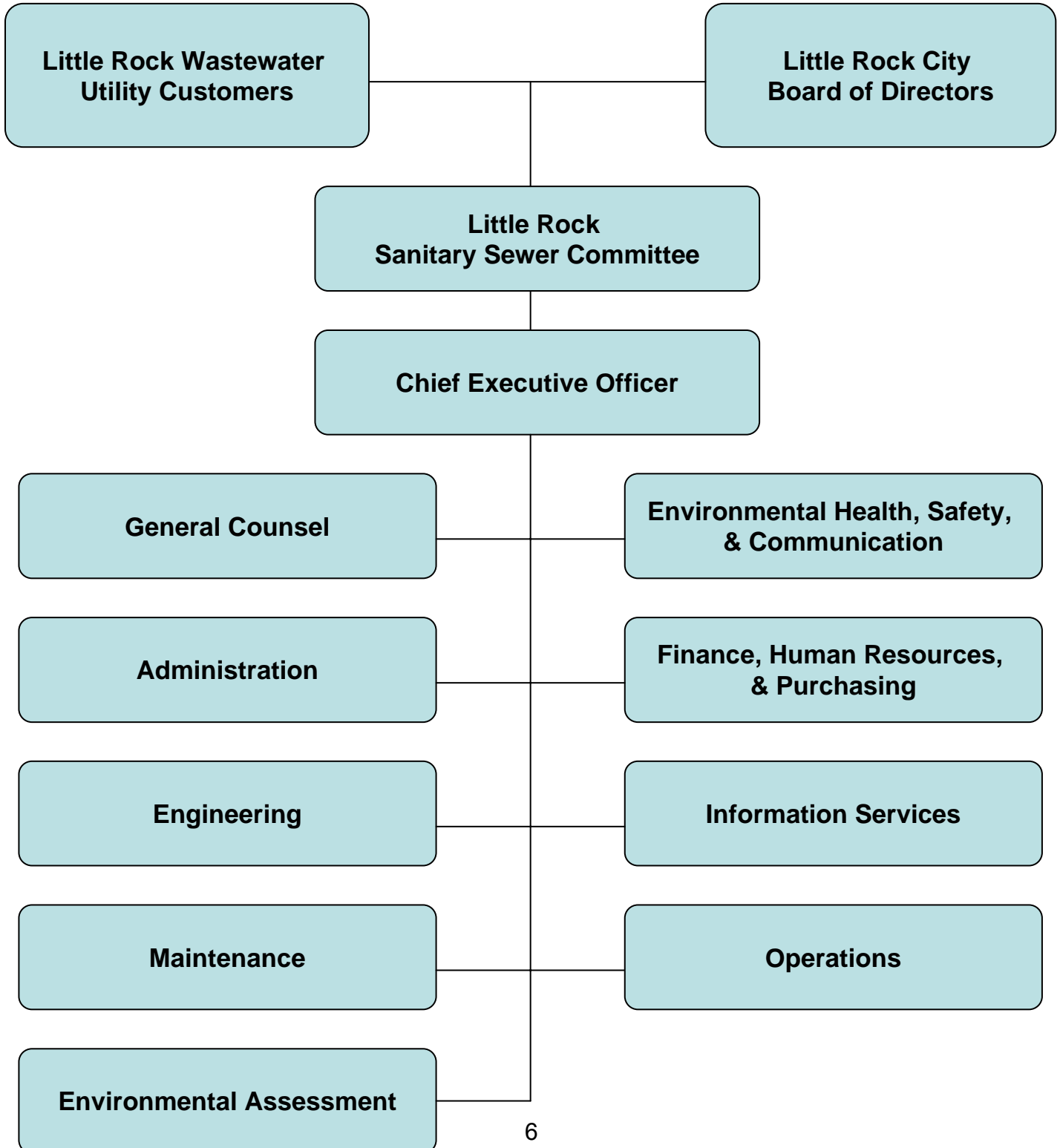
Reggie A. Corbitt  
Chief Executive Officer

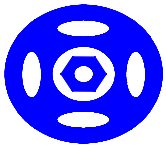


James A. Barham  
Manager, Finance and Administration



# LITTLE ROCK WASTEWATER UTILITY'S ORGANIZATIONAL CHART





# 2004 LITTLE ROCK SANITARY SEWER COMMITTEE



**Dale J. Wintroath**  
Chair



**Stuart S. Mackey**  
Vice Chair



**Patrick D. Miller**  
Secretary



**Charles G. Goss**  
Member



**Reggie A. Corbitt**  
Chief Executive Officer



**James R. Pender**  
Member

## **EXECUTIVE STAFF**

**Nancy Trotter, Executive Secretary**

**Don Hamilton, General Counsel**

**John Jarrett, Environmental Health, Safety & Communications**

**Jim Barham, Finance & Administration**

**Thad Luther, Engineering**

**Bryan Bull, Information Services**

**Mac Vought, Maintenance**

**Rick Barger, Operations**

**Stan Suel, Environmental Assessment**

# **FINANCIAL SECTION**

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# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

One Financial Centre • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675  
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

## Independent Auditors' Report

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

We have audited the 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, 2004 and 2003. 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, 2004 and 2003, 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 23, 2005, 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 Management's Discussion and Analysis and the budgetary information on pages 11 through 17 and 36-37, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

The Members of the Little Rock  
Sanitary Sewer Committee  
Page Two

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

Our audits were 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 State, Local Governments, and Non-Profit Organizations," and the supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*Cobb and Suskie, Ltd.*  
Certified Public Accountants  
February 23, 2005



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Little Rock Wastewater Utility (LRWU), we offer readers of LRWU's financial statements this narrative overview and analysis of the financial activities of LRWU for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2-5 of this report. The comprehensive annual financial report is made available via the Internet ([www.lrwu.com](http://www.lrwu.com)). The use of the Internet is consistent with the Utility's objective to provide greater information to the public in a more efficient manner, reducing paperwork, labor, and communications costs.

### Financial Highlights

- Total assets at year-end were \$179.5 million and exceeded liabilities in the amount of \$54.1 million. Total net assets were \$125.4 million, an increase of 6.5% from 2003.
- Operating revenue grew to \$30.3 million in 2004. This was an increase of 8.9% or \$2.5 million from 2003 and an increase of 1.2% over the 2004 budget projections.
- Operating expenses before depreciation increased \$1.8 million or 10.4% compared to fiscal year 2003 and was over budget by .9%. Operating expenses including depreciation increased \$2.3 million or 10.0% from 2003.
- Debt service coverage was 255%, exceeding the 130% required by the Bond Covenant. LRWU requested and received three revolving loan funds from Arkansas Soil and Water that totaled \$50.1 million for new construction.
- Developer contributions of cash and non-cash items showed a balance of \$3.2 million, a decrease of 1.6% from 2003.

### General Trends

The growth rate of LRWU's customer accounts from 2003 to 2004 was 1.1%. Over a ten year period, the customer growth rate also averaged 0.9%.

<b>Wastewater Customers</b>	<b>2004</b>	<b>2003</b>
Beginning Customer Accounts	63,671	63,184
Additional Accounts (net)	693	487
Ending Customer Accounts	64,364	63,671

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

LRWU did not have a rate adjustment in 2004 and does not plan for an increase in 2005. The

following chart show the average residential bill based on a consumption of 8 Ccf. The 2003 average reflects a mid-year rate adjustment of 21%. These amounts do not include a 5% franchise fee that is collected and paid to the City of Little Rock.

Average Residential Bill	2004	2003
	\$24.26	\$22.12

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

**Little Rock Wastewater Utility System**

LRWU is regulated by the United States Environmental Protection Agency (EPA) and Arkansas Department of Environmental Quality (ADEQ). These agencies issue permits to LRWU for discharge of treated wastewater. Currently, LRWU has 26 remote, unattended pumping stations, two secondary treatment plants, a maintenance facility, and an administration building. The collection system includes over 122 square miles containing approximately 1,229 miles of sewer lines. LRWU has received awards from the EPA and the Association of Metropolitan Sewerage Agencies (AMSA). LRWU’s two wastewater treatment plants have been awarded the AMSA Gold award for 100% Permit Compliance for the years 1999-2000. A list of all awards can be located on LRWU’s website.

The Adams Field Wastewater Treatment Plant has been in operation since 1961 and was Little Rock’s first wastewater treatment plant. The plant was put into operations at a cost of \$3.5 million and was only equipped with primary treatment. Secondary treatment facilities were added in the early 1970’s at a cost of \$6.2 million. The plant is now rated as a 36 million gallons per day (mgd) complete-mix activated sludge plant, serving approximately 70% of the City of Little Rock. The plant is a two-stage “secondary” treatment plant, designed to reduce the pollutant load by approximately 90% through a combination of physical and biological processes.

The Fourche Creek Wastewater Treatment Plant provides wastewater treatment to the Fourche Creek Valley since its inception in 1981 at a cost of \$19.6 million. The activated sludge section was put on line in 1989 at a cost of \$9 million. The plant is also a two-stage, or “secondary” treatment facility. It has an installed treatment capacity of 16 mgd, or a population equivalent of 120,000 persons. The plant’s annual average dry weather influent sewage quantity is 15 mgd.

The Clearwater Maintenance Facility is the operations/maintenance complex on a 36 acre tract that was built in 1989. LRWU jointly owns the building with Central Arkansas Water and the two utilities together operate a Fleet Maintenance Department for the maintenance and repair of vehicles and equipment. About 100 LRWU employees in the Maintenance Division work

from this facility, making it the home base for the majority of LRWU work force.

The Administration Building is currently located in the downtown area of Little Rock. A new facility is under construction near the Clearwater Maintenance Facility and it is anticipated it will be completed in June 2005. The CEO, Division Managers, Engineering, Information Services, Accounting, Human Resources, and Purchasing Departments are all located in this building.

## **Overview of the Financial Statements**

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

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

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

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

## **Fiscal Year 2003-2004 Financial Information**

### **Statement of Net Assets**

Total assets increased by \$13.3 million as compared to the previous fiscal year. Restricted current assets reflected the largest increase with a 116.3% jump from 2003. This increase was due to cash being set aside for several major construction projects that started in 2004 and for projects that are slated for 2005 and beyond. Net property, plant, and equipment had an overall increase to about \$5 million in 2004. What can be seen in the auditor's financial statements note #5 is the large decrease in capital work in progress and the large increase in property, plant, and equipment. The completion of several capital construction projects such as Rose Creek West Sewershed Rehabilitation for \$5.5 million, sewer main rehabilitation contract line work/pipe bursting for \$5.2 million and certain phases of collection rehabilitation in the amount of \$1.3 million were transferred from construction work in progress to property,

plant, and equipment. The capital work in progress decreased from a balance of \$17.0 million in 2003 to \$8.3 million in 2004; whereas, property, plant, and equipment increased by \$17.7 million for a total of \$223.4 million in 2004.

Current liabilities showed an increase of 12.4% or \$.2 million. Current liabilities from restricted assets also showed an increase for 2004. The increase of 73.6% was related to the growth in construction contracts payable and the addition of the 2004 short-term note causing the rise of bonds payable due within one year. Total net assets showed an increase of 6.4% in 2004. This change reflects the large increase of 103.2% or \$6.4 million in restricted for capital activity and debt service. Again this goes back in preparation for several major construction projects that have started or will be started in the near future.

	FY 2004	FY 2003	Percent Change
Current Assets	\$ 7,026,173	\$ 6,072,035	15.7%
Restricted Assets	13,587,846	6,282,296	116.3%
Property, Plant, and Equipment	158,086,437	153,108,875	3.3%
Other Assets	774,817	700,944	10.5%
Total Assets	<u>179,475,273</u>	<u>166,164,150</u>	8.0%
Current Liabilities	1,861,393	1,655,808	12.4%
Current Liabilities from Restricted Assets	4,079,959	2,349,814	73.6%
Noncurrent Liabilities	48,151,697	44,371,093	8.5%
Total Liabilities	54,093,049	48,376,715	11.8%
Restricted in Capital Assets, Net of Related Debt	107,476,645	107,155,258	0.3%
Restricted for Capital Activity and Debt Service	12,632,743	6,215,950	103.2%
Unrestricted	5,272,836	4,416,227	19.4%
Total Net Assets	<u>125,382,224</u>	<u>117,787,435</u>	6.4%
Total Liabilities and Net Assets	<u>\$ 179,475,273</u>	<u>\$ 166,164,150</u>	8.0%

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

**Operating revenue** from operations falls into three general categories: assessments levied, industrial surcharge, and other fees and income. Assessments levied are monthly residential/commercial service charge billings. Industrial surcharge is fees based on wastewaters having excessive Biochemical Oxygen Demand (BOD) or Total Suspended Solids (TSS) or Oil and Grease (O&G) or Chemical Oxygen Demand (COD) or PH discharge.

Other fees and income are permit fees, connection fees, inspection fees, sewer dump permits, and co-generation revenue.

The total operating revenue increased \$2.5 million or 8.9% in 2004. Assessments levied had a 7.4% increase from 2003. The year 2004 reflects a complete year of a two phase rate adjustment from the approved 2002 rate ordinance. The first phase rate adjustment was 22% in September 2002 and the second phase adjustment was 21% in June 2003. Industrial surcharge rose 108.5% or \$.4 million in 2004. The main reason for the increase was the implementation of COD and PH fees. LRWU also increased and added fees in its consolidated fee schedule. The consolidated fees increased revenues by \$35,000 annually.

**Operating expense** rose in 2004 by 10.6% or \$1.8 million. This is mainly attributable to salaries for new employees, overtime wages for collection system maintenance, benefits such as hospitalization and retirement contributions, and supplies for collection system maintenance. LRWU granted a 4% cost of living wage increase during 2004, and the average number of employees increased from 203 to 228. The majority of new employees are a part of a LRWU initiative called Plan 66. This plan is an aggressive approach to reduce dry weather overflows in a three-year period by having additional maintenance crews for inspecting and cleaning sewer lines.

**Net non operating expense** had a decrease of 14.9% in 2004. LRWU had a \$.5 million gain on disposal of property. This gain was the sale of LRWU interest in the administrative building that was jointly owned with Central Arkansas Water.

**Change in net assets** of \$7.6 million represents the increase in assets to the system and results in the **ending total net assets** of \$125.4 million.

	FY 2004	FY 2003	Percent Change
Operating Revenues:			
Assessments Levied	\$ 28,992,505	\$ 26,984,440	7.4%
Industrial Surcharge	796,528	382,001	108.5%
Other Fees and Income	506,555	444,949	13.8%
Total Operating Revenue	30,295,588	27,811,390	8.9%
Operating Expense	19,348,737	17,498,220	10.6%
Depreciation	5,098,192	4,924,975	3.5%
Operating Income	5,849,659	5,388,195	8.5%
Non Operating (Expense)	(1,448,924)	(1,703,325)	-14.9%
Income (Loss) Before Contributions	4,399,735	3,684,870	19.4%
Capital Contributions	3,195,054	3,248,525	-1.6%
Change in Net Assets	7,594,789	6,933,395	9.5%
Total Net Assets - Beginning	117,787,435	110,854,040	6.3%
Total Net Assets - Ending	\$ 125,382,224	\$ 117,787,435	6.4%

## Capital Assets and Debt Administration

LRWU invested \$5.3 million in wastewater system capital improvements in fiscal year 2004. Major expenditures included sewer mains replacement/rehabilitation for \$2.7 million, transportation vehicles/equipment for \$.9 million and general plant improvements for \$.7 million. LRWU received \$3.2 million in contributions from developers for new development.

The LRSSC with approval from the City of Little Rock Board of Directors submitted and received three new long-term loans and one short-term loan. The three long-term loans received through Arkansas Soil and Water were for the upgrade to Adams Field Wastewater Treatment Plant, rehabilitation of the sewer collection facilities, and sewer mains for remaining unsewered areas in the City of Little Rock. These loans were in the amounts of \$23.1 million, \$14 million and \$13 million respectively. LRWU has a three year period to draw on the loans up to the designated amounts. The payment of principal and interest will begin when the project is completed or when the three year window is reached, whichever comes first. The short term note was a \$4 million note for small capital projects and purchases of land acquisition not allowed for reimbursement under the revolving loan program from Arkansas Soil and Water. The total long-term debt (less bond payable within one year) increased by \$3.8 million in 2004. This amount is expected to increase significantly in the coming years.

<b>Long-Term Debt</b>	<b>2004</b>	<b>2003</b>
1990 Sewer Revenue	\$4,011,965	\$4,353,002
1991 Sewer Revenue	3,438,827	3,731,145
1996 Sewer Revenue	4,740,450	4,987,691
1999 Sewer Revenue	11,160,309	11,587,953
2001 Sewer Revenue	20,995,000	21,340,000
2004A Sewer Revenue	1,550,202	
2004B Sewer Revenue	1,220,168	
2004C Sewer Revenue	207,029	
2004 Short Term Note	3,316,918	
Less Debt Payable, due within one year	<u>(2,489,171)</u>	<u>(1,628,698)</u>
<b>Total Long-Term Debt</b>	<b>\$48,151,697</b>	<b>\$44,371,093</b>

LRWU is within the authorizing ordinance of the debt covenant. Based on the net revenues of the System, there should be a balance equal to at least 130% of the average annual principal and interest requirements on all outstanding bonds to which revenues are pledged. LRWU also has an A1 bond rating by Moody's Investors Service.

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

LRWU believes that the customer base for its services will continue to grow at a normal pace of 1.0%. The 2005 budget does not include any rate increases on any of its services/fees. LRWU's budget includes a \$10 million debt issue. This debt issue will be used to cover the

cost of Adams Field Treatment Plant Rehabilitation work which is not funded with revolving loan funds, land associated with revolving loan projects, mainline rehabilitation projects which are non-eligible costs with revolving loan funds, engine generator building improvements, and to retire the \$4 million short term note.

### **Request for Information**

This financial report is designed to provide a general overview of LRWU's finances for the ratepayers, citizens, city leaders, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Manager of Finance and Administration, P.O. Box 8045, Little Rock, AR 72203-8045.

LITTLE ROCK WASTEWATER UTILITY  
BALANCE SHEETS  
DECEMBER 31, 2004 AND 2003

ASSETS

<u>CURRENT ASSETS</u>	2004	2003
Cash and Cash Equivalents	\$ 3,087,603	\$ 2,866,388
Accounts Receivable, less Allowance for Doubtful Accounts of \$232,951 in 2004 and \$199,865 in 2003	1,660,908	1,594,646
Current Portion of Other Receivables	735,243	-
Inventories	1,054,850	1,080,205
Prepaid Expenses and Other Current Assets	487,569	530,796
Total Current Assets	7,026,173	6,072,035
<u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	11,501,846	4,166,734
Investments	2,025,492	2,048,919
Accrued Interest Receivable	24,515	10,976
Construction Receivables	35,993	55,667
Total Restricted Assets	13,587,846	6,282,296
<u>CAPITAL ASSETS</u>	158,086,437	153,108,875
<u>OTHER ASSETS</u>		
Unamortized Bond Issuance Costs	667,761	700,944
Other Receivables, less Current Portion	107,056	-
Total Other Assets	774,817	700,944
TOTAL ASSETS	\$ 179,475,273	\$ 166,164,150

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



LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>	<u>2004</u>	<u>2003</u>
Payable from Current Assets:		
Accounts Payable	\$ 587,561	\$ 197,948
Accrued Expenses	<u>1,273,832</u>	<u>1,457,860</u>
Total Current Liabilities Payable from Current Assets	<u>1,861,393</u>	<u>1,655,808</u>
Payable from Restricted Assets:		
Construction Contracts Payable	955,103	66,346
Accrued Interest	635,685	654,770
Current Maturities of Revenue Bonds	<u>2,489,171</u>	<u>1,628,698</u>
Total Current Liabilities Payable from Restricted Assets	<u>4,079,959</u>	<u>2,349,814</u>
Total Current Liabilities	<u>5,941,352</u>	<u>4,005,622</u>
Long-Term Debt, Less Current Maturities	<u>48,151,697</u>	<u>44,371,093</u>
Total Liabilities	<u>54,093,049</u>	<u>48,376,715</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Liabilities	107,476,645	107,155,258
Restricted for Capital Activity and Debt Service	12,632,743	6,215,950
Unrestricted	<u>5,272,836</u>	<u>4,416,227</u>
Total Net Assets	<u>125,382,224</u>	<u>117,787,435</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 179,475,273</u></u>	<u><u>\$ 166,164,150</u></u>

LITTLE ROCK WASTEWATER UTILITY  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

<u>OPERATING REVENUES</u>	<u>2004</u>	<u>2003</u>
Sewer Charges	\$ 28,992,505	\$ 26,984,440
Industry Surcharges	796,528	382,001
Connection Fees	165,229	108,500
Other	341,326	336,449
Total Operating Revenues	<u>30,295,588</u>	<u>27,811,390</u>
 <u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>	 <u>19,348,737</u>	 <u>17,498,220</u>
Operating Income Before Depreciation	<u>10,946,851</u>	<u>10,313,170</u>
 <u>PROVISION FOR DEPRECIATION</u>		
Collection System	2,837,213	2,596,879
Pumping Plant	669,519	667,294
Adams Field	175,436	328,660
Fourche	673,569	661,625
General Plant	742,455	670,517
Total Provision for Depreciation	<u>5,098,192</u>	<u>4,924,975</u>
 OPERATING INCOME	 <u>5,848,659</u>	 <u>5,388,195</u>
 <u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	249,077	174,887
Interest Expense	(2,032,069)	(1,976,233)
Amortization of Bond Issuance Costs	(83,287)	(82,006)
Gain (Loss) on Disposal of Capital Assets	440,359	23,782
Unrealized Gain (Loss) on Investments	(23,427)	(14,927)
Other	423	171,172
Total Nonoperating Income (Expense)	<u>(1,448,924)</u>	<u>(1,703,325)</u>
 INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	 <u>\$ 4,399,735</u>	 <u>\$ 3,684,870</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  
(CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	\$ 4,399,735	\$ 3,684,870
CAPITAL CONTRIBUTIONS	3,195,054	3,248,525
NET ASSETS, BEGINNING OF YEAR	<u>117,787,435</u>	<u>110,854,040</u>
NET ASSETS, END OF YEAR	<u>\$ 125,382,224</u>	<u>\$ 117,787,435</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, 2004 AND 2003

	2004	2003
<u>CASH FLOWS FROM OPERATING</u>		
<u>ACTIVITIES</u>		
Cash Received from Customers	\$ 29,888,000	\$ 27,190,858
Other Receipts	341,326	336,449
Payments to Employees	(13,284,194)	(11,471,928)
Payments to Suppliers	(1,341,977)	(1,746,426)
Payments for Contractual Services	(1,760,496)	(1,783,370)
Payments for Utilities	(1,277,665)	(1,215,527)
Other Payments	(1,410,238)	(1,434,106)
Net Cash Provided by (Used by) Operating Activities	11,154,756	9,875,950
<u>CASH FLOWS FROM CAPITAL AND</u>		
<u>RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(7,072,074)	(6,375,957)
Proceeds from Disposal of Property and Equipment	678,191	857,660
Principal Paid on Indebtedness	(2,336,322)	(1,594,617)
Interest Paid on Indebtedness	(2,050,350)	(1,999,172)
Net Proceeds from Issuance of Indebtedness	6,926,491	-
Other	20,097	171,172
Net Cash Provided by (Used by) Capital and Related Financing Activities	(3,833,967)	(8,940,914)
<u>CASH FLOWS FROM INVESTING</u>		
<u>ACTIVITIES</u>		
Interest on Investments	235,538	175,056
Net Cash Provided by (Used by) Investing Activities	235,538	175,056
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 7,556,327	\$ 1,110,092

LITTLE ROCK WASTEWATER UTILITY  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of Year	\$ 7,033,122	\$ 5,923,030
Net Increase (Decrease) in Cash and Cash Equivalents	7,556,327	1,110,092
End of Year	\$ 14,589,449	\$ 7,033,122
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:</u>		
Operating Income	5,848,659	5,388,195
Adjustments:		
Depreciation	5,098,192	4,924,975
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(66,262)	(284,083)
(Increase) Decrease in Inventories	25,355	(57,115)
(Increase) Decrease in Prepaid Expenses and Other Assets	43,227	(54,099)
Increase (Decrease) in Accounts Payable	389,613	(75,411)
Increase (Decrease) in Accrued Expenses	(184,028)	33,488
Net Cash Provided by Operating Activities	\$ 11,154,756	\$ 9,875,950

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES:

During 2004 and 2003, the Utility received donated sewer lines capitalized in the amount of \$3,195,054 and \$3,248,525, 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, 2004 AND 2003

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, and 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 64,364 and 63,671 customers at December 31, 2004 and 2003, 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.

- C. GASB 34 - In accordance with Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued by The Governmental Accounting Standards Board (GASB), the accompanying financial statements include the following:
1. 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.

Additional requirements of GASB Statement No. 34 include full accrual accounting, focus on major funding, and reporting of infrastructure assets.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- C. GASB 34 (Continued) - 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, 2004 and 2003 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

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- H. Property, Plant and Equipment (Continued) - 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).
- 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, 2004 and 2003, respectively, follows:

	<u>2004</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 2,866,388	\$ 4,166,734	\$ 7,033,122
Net Increase (Decrease)	<u>221,215</u>	<u>7,335,112</u>	<u>7,556,327</u>
Cash at End of Year	<u>\$ 3,087,603</u>	<u>\$ 11,501,846</u>	<u>\$ 14,589,449</u>
	<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>



LITTLE ROCK WASTEWATER UTILITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

Included in the Utility's total cash balances of \$14,589,449 and \$7,033,122 (restricted and unrestricted) at December 31, 2004 and 2003, respectively, are deposits with financial institutions as follows.

<u>2004</u>		
<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Amount Insured or Collateralized</u>
<u>\$ 14,589,449</u>	<u>\$ 14,788,954</u>	<u>\$ 14,788,954</u>
<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>

NOTE 3: INVESTMENTS

Investments at December 31, 2004 and 2003 consisted of U.S. Government Obligation, stated at fair values of \$2,025,492 and \$2,048,919. These securities were acquired at a cost of \$2,040,000. Net unrealized gain (loss) on these securities for each of the years ended December 31, 2004 and 2003, was (\$23,427) and (\$14,927), 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, 2004 and 2003 are categorized as follows:

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 3: INVESTMENTS (CONTINUED)

<u>December 31, 2004</u>					
	<u>1</u>	Category <u>2</u>	<u>3</u>	Carrying Value	Fair Value
U.S. Government Obligations	<u>\$ 2,025,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,025,491</u>	<u>\$ 2,025,491</u>
 <u>December 31, 2003</u>					
	<u>1</u>	Category <u>2</u>	<u>3</u>	Carrying Value	Fair Value
U.S. Government Obligations	<u>\$ 2,048,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,048,919</u>	<u>\$ 2,048,919</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Trade Receivables, Current	\$ 1,660,908	\$ 1,594,645
Trade Receivables, Past Due	<u>232,951</u>	<u>199,866</u>
Total	<u>1,893,859</u>	<u>1,794,511</u>
Allowance for Uncollectibles, Beginning of Year	(199,865)	(172,120)
Writeoff of Uncollectibles	236,811	240,429
Provision for Bad Debt Expense	<u>(273,757)</u>	<u>(268,174)</u>
Allowance for Uncollectibles, End of Year	<u>(232,951)</u>	<u>(199,865)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	<u>\$ 1,660,908</u>	<u>\$ 1,594,646</u>

Other Receivables at December 31, 2004 consisted of \$842,299 due from Central Arkansas Water for the sale of a building in the original amount of \$1,223,650.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 4: ACCOUNTS RECEIVABLE (CONTINUED)

Collections of Other Receivables are scheduled by year as follows:

2005	\$ 735,243
2006	<u>107,056</u>
	<u><u>\$ 842,299</u></u>

NOTE 5: CAPITAL ASSETS

A summary of property, plant and equipment follows for the years ended December 31, 2004 and 2003:

	Balance 12/31/03	Additions	Retirements	Balance 12/31/04
Land	\$ 2,646,435	\$ 191,088	\$ 133,515	\$ 2,704,008
Building and Improvements	37,717,542	123,701	1,625,434	36,215,808
Collection Systems	141,654,294	18,426,412	8,620	160,072,086
Machinery and Equipment	23,700,243	1,130,648	442,335	24,388,556
Construction in Progress	<u>17,045,717</u>	<u>13,185,591</u>	<u>21,901,155</u>	<u>8,330,153</u>
Total Cost	222,764,231	33,057,440	24,111,059	231,710,612
Accumulated Depreciation	<u>(69,655,356)</u>	<u>(5,098,192)</u>	<u>(1,129,373)</u>	<u>(73,624,175)</u>
Property, Plant, and Equipment; Net	<u>\$ 153,108,875</u>	<u>\$ 27,959,248</u>	<u>\$ 22,981,686</u>	<u>\$ 158,086,437</u>

Construction in Progress at December 31, 2004 and 2003 included capitalized construction period interest of \$23,633 and \$0, respectively.

Depreciation expense was \$5,098,192 and \$4,924,975 for the years ended December 31, 2004 and 2003, 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 \$3,195,054 and \$3,248,525 for the years ended December 31, 2004 and 2003, respectively.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 7: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds and other indebtedness for which the changes in the year ended December 31, 2004 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Sewer Revenue Bond	\$45,999,791	\$ 2,977,399	\$ 1,653,240	\$47,323,950	\$ 1,718,742
Sewer Reserve Note	-	4,000,000	683,082	3,316,918	770,429
	<u>\$45,999,791</u>	<u>\$ 6,977,399</u>	<u>\$ 2,336,322</u>	<u>\$50,640,868</u>	<u>\$ 2,489,171</u>

Sewer revenue bonds payable consist of the following:

Series	Interest Rate	Outstanding at Maturity Date	December 31, 2004	Amount Due Within One Year
1990	4.0%	2004 to 2014	\$4,011,965	\$354,815
1991	4.0%	2004 to 2014	3,438,827	304,127
1996	3.5%	2004 to 2019	4,740,450	255,970
1999	3.5%	2004 to 2022	11,160,309	443,830
2001	4.00% to 5.125%	2004 to 2022	20,995,000	360,000
2004A	3.25%	2004 to 2027	1,550,202	-
2004B	3.25%	2004 to 2027	1,220,168	-
2004C	3.25%	2004 to 2027	207,029	-
Total			<u>\$47,323,950</u>	<u>\$1,718,742</u>

Payment dates for the revenue bonds are as follows:

Series	Principal and Interest
1990	April 15 and October 15
1991	April 15 and October 15
1996	April 15 and October 15
1999	April 15 and October 15
2001	February 1 and August 1
2004A	April 15 and October 15
2004B	April 15 and October 15
2004C	April 15 and October 15

LITTLE ROCK WASTEWATER UTILITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 7: LONG-TERM DEBT (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
Series 1999 (July 1999)	\$ 12,000,000
Series 2004A (March, 2004)	\$ 23,100,000
Series 2004B (March 2004)	\$ 14,000,000
Series 2004C (March 2004)	\$ 13,000,000

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

In March, 2004 the City of Little Rock authorized a Sewer Revenue Bond issue of \$23,100,000, \$14,000,000, and \$13,000,000 to be issued by ADFA, for the purpose of financing the costs of constructing extensions, betterments, and improvements to the Adams Field Treatment Plant, the Utility's collection system, and unsewered areas. As of December 31, 2004, the Utility had drawn \$1,550,202, \$1,220,168, and \$207,029, respectively, on these bond issues.

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

The annual requirements to amortize sewer revenue bond indebtedness outstanding, including interest, as of December 31, 2004, are as follows:

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 7: LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
2005	\$ 1,718,742	\$ 1,868,048	\$ 3,586,790
2006	1,786,200	1,801,090	3,587,290
2007	2,270,215	2,106,776	4,376,991
2008	3,283,185	2,840,454	6,123,639
2009	3,876,753	3,139,550	7,016,303
2010 to 2014	21,573,731	13,486,716	35,060,447
2015 to 2019	25,986,874	9,072,455	35,059,329
2020 to 2024	24,161,299	3,725,768	27,887,067
2025 to 2029	9,789,552	588,567	10,378,119
Total	<u>\$ 94,446,551</u>	<u>\$ 38,629,424</u>	<u>\$ 133,075,975</u>

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, 2004 are scheduled as follows:

	Principal	Interest	Total
2005	\$ 770,429	\$ 104,108	\$ 874,537
2006	797,910	76,627	874,537
2007	826,372	48,165	874,537
2008	855,849	18,688	874,537
2009	66,358	194	66,552
	<u>\$ 3,316,918</u>	<u>\$ 247,782</u>	<u>\$ 3,564,700</u>

Interest expense incurred during construction amounted to \$26,633 and \$0 all of which was capitalized to construction in progress in the years ended December 31, 2004 and December 31, 2003, respectively.

NOTE 8: LITIGATION

The Little Rock Sanitary Sewer Committee (LRSSC) was a defendant, along with the City of Little Rock, in a lawsuit filed in the U.S. District Court on January 13, 2000, by

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 8: LITIGATION (CONTINUED)

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, 2004 and 2003, respectively, do not include any provisions of potential liability with regard to this litigation.

However, in accordance with the settlement agreement between the plaintiff and LRSSC, the Court retained jurisdiction for the purpose of enforcing the provision 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, which LRSSC has done or is doing. Management is of the opinion that the Utility is generally in compliance with the provisions of the settlement agreement, except that selection of the proposed Little Maumelle Plant site needed to comply with the settlement agreement is behind the schedule in the System Evaluation and Capacity Assurance Plan approved by LRSSC as a consequence of the settlement agreement due to the difficulty in selecting the site necessary for the plant. Further court action could occur as a consequence, if the schedule is not met and plaintiff Sierra Club chooses to challenge LRSSC's compliance with the settlement agreement. Management completed an annual report, as required by the settlement agreement each year, detailing compliance actions taken during the year 2004. This report was approved by LRSSC at its monthly meeting on February 16, 2005. Prior such reports starting with the report for 2003 were all approved by LRSSC. Management expects to remain in compliance with the settlement agreement except for the completion schedule of the Little Maumelle Plant and will in good faith take all reasonable steps in that regard to comply with the provisions of the settlement agreement, which will require the expenditure of substantial sums in excess of \$170,000,000 over a 15 year period, according to the current engineering estimates.

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 8: LITIGATION (CONTINUED)

On February 11, 2004, staff representatives of Arkansas Department of Environmental Quality ("ADEQ") and Little Rock Wastewater Utility ("LRWU") met to discuss provisions in the Sierra Club Settlement Agreement ("Settlement"), and ADEQ requested certain documents from LRWU which were then sent to the United States Environmental Protection Agency ("U.S. EPA") on February 13, 2004 from LRWU. After subsequent telephone conversations, LRWU attended a meeting on August 12, 2004, between U.S. EPA and ADEQ, which they requested for the purpose of further discussion about the Settlement and a possible further agreement with ADEQ imposing certain requirements desired by both ADEQ and U.S. EPA for compliance with certain provisions of the Clean Water Act on issues not covered by the prior Settlement with Sierra Club. Based on subsequent discussions, ADEQ has requested that a Consent Administrative Order ("CAO") be issued addressing certain issues including, but not limited to, maintenance practices, secondary treatment bypasses at the Adams Field Wastewater Treatment Plant, administrative requirements, design and performance provisions, monitoring, measurement and program modifications, sanitary sewer overflow plan, system evaluation and capacity assurance plan, audits, communications and money penalties for failure of compliance with performance and deadlines based on civil penalties of \$100 to \$500 per day, depending upon the duration of any violation of the proposed CAO. On January 11, 2005, LRWU sent the latest revised version of the proposed CAO, which the parties have been negotiating since August, 2004. Apparently, ADEQ is satisfied with the current draft of the CAO, but U.S. EPA is not and wants more concrete deadlines on some projects. It is expected that this CAO will be finalized and issued in the next few months. Termination of the CAO, as provided in Paragraph No. 10 of the current draft, is to occur at such time when all actions required to be taken by the CAO have been completed and LRWU has been notified by ADEQ in writing that this CAO has been satisfied and terminated.

LRWU staff will recommend to the LRSSC approval of the proposed CAO and if the CAO is entered, Management is of the opinion that LRWU will make every effort to comply with its provisions so long as it is in effect. Management expects to comply with the provisions of the proposed CAO, if and when it becomes effective, and also to remain in compliance for the duration of the CAO, which should be lengthy. Thus, management is of the opinion that any unfavorable outcome appears remote.

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$24,269,384 at December 31, 2004, for the expansion of plant capacity.



LITTLE ROCK WASTEWATER UTILITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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 \$357,605 and \$318,734 in 2004 and 2003, 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, 2004 and 2003. Contributions to the noncontributory plan are also actuarially determined on an annual basis. Contributions to the noncontributory plan were approximately \$933,118, \$824,595, and \$680,690 for the plan years ended June 30, 2004, 2003, and 2002, respectively, and represented 10.0%, 10.0%, and 10.0% of covered payroll for each of the plan years, respectively.
- 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 \$134,899 and \$78,513 for the years ended December 31, 2004 and 2003, respectively.

NOTE 11: CONCENTRATIONS

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$550,931 and \$535,114 for the years ended December 31, 2004 and 2003, respectively, and are included as operating expenses in the accompanying statements of income.

NOTE 12: RISK MANAGEMENT

The Utility has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; or

LITTLE ROCK WASTEWATER UTILITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 12: RISK MANAGEMENT (CONTINUED)

natural disasters. Payments and premiums for these policies are recorded as expenses of the Utility. Insurance settlements have not exceeded insurance coverage in any of the past three years.

The Utility maintains a self-funded workers' compensation plan. All full-time employees are covered by the plan. It is self-funded to a maximum of \$275,000 per occurrence per employee. Coverage amounts in excess of this limit have been obtained by means of a stop loss reinsurance policy. The Utility records an estimated liability based on claims made against the Utility. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not yet reported based on historical experience. Settlements have not exceeded coverage in each of the past three years. The following represents the changes in approximate aggregate liabilities of the workers' compensation plan for the Utility for January 1, 2003 to December 31, 2004:

Liability balance, January 1, 2003	\$ 2,931
Claims and changes in estimates	36,369
Claims payments	<u>(27,491)</u>
Liability balance, December 31, 2003	11,809
Claims and changes in estimates	4,571
Claims payments	<u>(4,071)</u>
Liability balance, December 31, 2004	<u>\$ 12,309</u>

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT  
EXCLUDING DEPRECIATION (SCHEDULE 1)  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<u>Sewer Committee:</u>		
Committee Expense Reimbursement	\$ 17,965	\$ 17,666
Insurance	6,646	4,156
Other	15,357	13,353
Total	39,968	35,175
<u>Utility Manager:</u>		
Salaries	676,518	623,196
Employee Benefits	271,853	251,851
Supplies	17,594	18,279
Contract Services	152,122	205,879
Vehicle Maintenance	8,176	6,420
Utilities	13,197	17,149
Insurance	4,407	2,930
Other	290,774	224,759
Total	1,434,641	1,350,463
<u>Finance:</u>		
Salaries	706,374	661,928
Employee Benefits	262,693	241,978
Supplies	101,751	90,886
Contract Services	593,442	584,784
Vehicle Maintenance	796	3,296
Utilities	43,352	44,400
Insurance	3,924	5,650
Delinquent Accounts	-	68,308
Other	326,312	253,373
Total	2,038,644	1,954,603
<u>Engineering:</u>		
Salaries	1,498,893	1,360,499
Employee Benefits	622,027	542,866
Supplies	61,586	56,163
Contract Services	136,587	145,675
Vehicle Maintenance	12,395	32,196
Utilities	15,790	20,238
Insurance	5,509	5,556
Other	45,460	37,323
Total	2,398,247	2,200,516

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, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Collection System and Facilities/ Equipment Maintenance:</u>		
Salaries	\$ 4,899,629	\$ 4,039,729
Employee Benefits	2,068,712	1,671,740
Supplies	896,395	886,242
Contract Services	273,137	276,783
Vehicle Maintenance	318,781	443,187
Utilities	68,642	63,021
Insurance	88,996	87,966
Other	71,726	78,765
Total	<u>8,686,018</u>	<u>7,547,433</u>
 <u>Operations - Adams, Fourche, and Industrial Monitoring:</u>		
Salaries	1,342,173	1,230,369
Employee Benefits	520,360	471,730
Supplies	194,204	135,710
Contract Services	420,745	430,690
Vehicle Maintenance	7,186	12,846
Utilities	1,067,873	1,025,769
Insurance	44,291	43,026
Other	115,570	90,525
Total	<u>3,712,402</u>	<u>3,440,665</u>
 <u>Technical Services:</u>		
Salaries	595,241	531,455
Employee Benefits	231,383	194,122
Supplies	335,122	234,033
Contract Services	159,946	110,236
Vehicle Maintenance	4,459	7,756
Utilities	60,682	34,971
Insurance	1,060	872
Other	36,129	34,747
Total	<u>1,424,022</u>	<u>1,148,192</u>

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, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Environmental Assessment</u>		
<u>Department (EAD):</u>		
Salaries	\$ 784,717	\$ 669,408
Employee Benefits	328,679	268,776
Supplies	150,293	138,488
Contract Services	24,817	29,323
Vehicle Maintenance	5,766	15,955
Utilities	8,129	9,979
Insurance	1,725	1,863
Other	19,620	9,920
Total	<u>1,323,746</u>	<u>1,143,712</u>
Costs Allocated to Construction	<u>(1,708,951)</u>	<u>(1,322,539)</u>
Total Operating Expenses	<u>\$ 19,348,737</u>	<u>\$ 17,498,220</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original and Final Budget	Actual	Variance Over (Under)
<u>OPERATING REVENUES</u>			
Sewer Charges	\$ 29,263,776	\$ 28,992,505	\$ (271,271)
Industry Surcharges	312,000	796,528	484,528
Connection Fees	84,000	165,229	81,229
Other	278,604	341,326	62,722
Total Operating Revenues	<u>29,938,380</u>	<u>30,295,588</u>	<u>357,208</u>
<u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>			
Committee	35,400	39,968	4,568
Management	1,575,333	1,434,641	(140,692)
Finance and Administration	1,964,605	2,038,644	74,039
Engineering	2,456,051	2,398,247	(57,804)
Information Systems	1,406,768	1,424,022	17,254
Maintenance	8,635,666	8,686,018	50,352
Operations	3,680,854	3,712,402	31,548
Environmental Assessment	1,273,340	1,323,746	50,406
CWIP	(1,840,100)	(1,708,951)	131,149
Total Operating Expenses, Excluding Depreciation	<u>19,187,917</u>	<u>19,348,737</u>	<u>160,820</u>
Operating Income Before Depreciation	<u>10,750,463</u>	<u>10,946,851</u>	<u>196,388</u>
<u>PROVISION FOR DEPRECIATION</u>			
Collection System	2,752,022	2,837,213	85,191
Pumping Plant	649,416	669,519	20,103
Adams Field	170,169	175,436	5,267
Fourche	653,344	673,569	20,225
General Plant	720,162	742,455	22,293
Total Provision for Depreciation	<u>4,945,113</u>	<u>5,098,192</u>	<u>153,079</u>
OPERATING INCOME (LOSS)	<u>5,805,350</u>	<u>5,848,659</u>	<u>43,309</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED DECEMBER 31, 2004 (CONTINUED)

	Original and Final Budget	Actual	Variance Over (Under)
<u>NONOPERATING INCOME</u>			
<u>(EXPENSE)</u>			
Interest Income	\$180,000	\$249,077	\$69,077
Interest Expense	(2,101,122)	(2,032,069)	\$69,053
Amortization of Bond Issuance Costs	(78,099)	(83,287)	(\$5,188)
Gain (Loss) on Disposal of Capital Assets	380,385	440,359	\$59,974
Unrestricted Gain (Loss) on Investments		(23,427)	(\$23,427)
Other		423	\$423
Total Nonoperating Income (Expense)	<u>(1,618,836)</u>	<u>(1,448,924)</u>	<u>\$169,912</u>
NET INCOME (LOSS)	<u>\$4,186,513</u>	<u>\$4,399,735</u>	<u>\$213,222</u>

See independent auditors' report on required supplementary information.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2)  
DECEMBER 31, 2004

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>	
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>\$ 2,112,799</u>	<u>\$ 1,899,166</u>	<u>\$ 446,102</u>	<u>\$ 403,843</u>	<u>\$ 4,861,910</u>

See independent auditors' report on supplementary schedules.



LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

Sewer Revenue Bonds (Series 1991)

<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>	
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>\$ 1,810,971</u>	<u>\$ 1,627,856</u>	<u>\$ 382,375</u>	<u>\$ 346,154</u>	<u>\$ 4,167,356</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

Sewer Revenue Bonds (Series 1996)

<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>	
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>\$ 2,453,660</u>	<u>\$ 2,286,790</u>	<u>\$ 693,811</u>	<u>\$ 650,873</u>	<u>\$ 6,085,134</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

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	
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>\$ 5,528,336</u>	<u>\$ 5,631,973</u>	<u>\$ 2,195,644</u>	<u>\$ 2,091,989</u>	<u>\$ 15,447,942</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

Sewer Revenue Bonds (Series 2001)

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>2/1</u>	<u>8/1</u>	<u>2/1</u>	<u>8/1</u>	
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>\$ 10,370,000</u>	<u>\$ 10,625,000</u>	<u>\$ 6,619,921</u>	<u>\$ 6,372,487</u>	<u>\$ 33,987,408</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

Sewer Revenue Bonds (Series 2004A)

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

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

Sewer Revenue Bonds (Series 2004B)

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

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF BONDED INDEBTEDNESS (SCHEDULE 2) (CONTINUED)  
DECEMBER 31, 2004

Sewer Revenue Bonds (Series 2004C)

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

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

<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
Sewer Bonds (2004A Series)	66.458	N/A	\$ 23,100,000
Sewer Bonds (2004B Series)	66.458	N/A	\$ 14,000,000
Sewer Bonds (2004C Series)	66.458	N/A	\$ 13,000,000
Totals			

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



Bonds Payable December 31, 2003	Cash Received in 2004	Principal Repayments in 2004	Bonds Payable December 31, 2004	Total Expenditures in 2004
\$ 4,353,002	\$ -	\$ 341,037	\$ 4,011,965	\$ -
3,731,145	-	292,318	3,438,827	-
4,987,691	-	247,241	4,740,450	-
11,587,953	-	427,644	11,160,309	-
-	1,550,202	-	1,550,202	1,550,202
-	1,220,168	-	1,220,168	1,220,168
-	207,029	-	207,029	207,029
<u>\$ 24,659,791</u>	<u>\$ 2,977,399</u>	<u>\$ 1,308,240</u>	<u>\$ 26,328,950</u>	<u>\$ 2,977,399</u>

LITTLE ROCK WASTEWATER UTILITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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 nonpoint source pollution control program.

NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS

Principal repayments in 2004 are included in the statements of cash flows in the Utility's financial statements. Bonds payable of \$26,328,950 at December 31, 2004 are included in Note 7 to the Utility's financial statements. Total expenditures in 2004 are included in acquisition and construction of capital assets in the statements of cash flows in the Utility's financial statements.

# **STATISTICAL DATA**

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**Little Rock Wastewater Utility  
Revenue Bond Coverage  
Last Ten Years**

Fiscal Year	Gross Revenue (1)	Direct Operating Expense (2)	Net Revenue Available For Debt Service	Debt Service Requirement			Coverage
				Principal	Interest	Total	
1995	18,351,527	9,934,562	8,416,965	1,818,149	3,096,598	4,914,747	1.71
1996	18,236,336	10,127,885	8,108,451	1,770,825	3,102,189	4,873,014	1.66
1997	17,473,362	10,882,931	6,590,431	1,720,112	3,100,115	4,820,227	1.37
1998	18,441,139	11,753,474	6,687,665	1,663,738	3,098,133	4,761,871	1.40
1999	18,125,331	12,166,208	5,959,123	1,709,981	3,309,385	5,019,366	1.19
2000	20,921,792	13,019,665	7,902,127	1,855,200	1,668,838	3,524,038	2.24
2001	20,687,349	14,379,127	6,308,222	785,200	584,916	1,370,116	4.60
2002	21,381,105	16,208,850	5,172,255	1,820,787	1,432,987	3,253,774	1.59
2003	27,986,277	17,498,220	10,488,057	1,594,617	1,999,172	3,593,789	2.92
2004	30,544,665	19,348,737	11,195,928	2,336,322	2,051,129	4,387,451	2.55

(1) Includes interest on investment income.

(2) Excludes depreciation, bond interest and amortization expense.

**Little Rock Wastewater Utility**  
**Selected Financial and Statistical Data**  
**Last Ten Years**

Data	2004	2003	2002	2001
Gross Revenue	30,544,666	27,986,277	21,381,105	20,687,349
Sewer Charges	28,992,505	26,984,440	20,306,520	18,980,598
Industrial Surcharges	796,528	382,001	498,152	696,202
Interest Income	249,077	174,887	244,519	391,736
Other (connection fees & permits)	506,556	444,949	331,914	618,813
Net Income	4,400,268	3,684,870	(1,197,667)	(740,229)
Cash & Cash Equivalents at December 31	14,589,449	7,033,122	5,923,030	9,276,472
Net Proceeds from Sewer Revenue Bonds	6,983,923	-	2,432,330	6,074,916
Acquisition/Construction of Capital Assets	7,072,074	6,375,957	6,858,804	7,808,561
Outstanding Long-Term Debt	48,151,697	44,371,093	45,999,792	45,162,078
Long-Term Debt per Customer Account	748	697	728	719
Gross Revenue per Customer Account	475	440	338	329
Number of Customer Accounts	64,364	63,671	63,184	62,792
Number of Employees - Average	228	203	196	191
Miles of Sewer Lines in Place	1,229	1,198	1,164	1,139

2000	1999	1998	1997	1996	1995
20,921,792	18,125,331	18,441,139	18,191,100	18,236,336	18,351,527
19,366,492	16,979,065	17,114,694	16,740,610	16,911,659	17,068,277
519,779	485,075	540,737	494,056	489,137	464,327
499,722	429,248	540,929	724,988	638,825	672,108
535,799	231,943	244,779	231,446	196,715	146,815
1,424,127	117,518	1,128,591	1,803,482	2,897,753	3,172,710
9,836,282	7,217,679	10,331,495	11,769,675	11,344,163	12,529,223
5,921,808	34,177	815,035	3,400,156	1,784,808	-
9,245,696	4,883,334	6,168,040	10,586,097	6,505,949	5,245,586
40,999,173	36,932,565	38,296,158	39,080,528	37,114,767	36,709,962
658	606	636	656	629	623
336	297	306	305	309	311
62,328	60,988	60,169	59,551	59,002	58,947
192	202	205	209	190	193
1,116	1,092	1,071	1,041	1,032	1,018

**Little Rock Wastewater Utility**  
**Number of Customer Accounts by Class Type**  
**Last Ten Years**

Year	Residential	Commercial	Industrial	Other (2)	Total
2004	57,866	6,028	56	414	64,364
2003	57,245	5,976	54	396	63,671
2002 (1)	56,978	5,849	55	302	63,184
2001	56,747	5,691	56	298	62,792
2000	56,337	5,632	54	305	62,328
1999	55,098	5,538	54	298	60,988
1998	54,336	5,473	56	304	60,169
1997	53,792	5,404	55	300	59,551
1996	53,322	5,344	47	289	59,002
1995	53,247	5,419	49	232	58,947

(1) LRWU audited and reclassified accounts in each class type

(2) includes Public Utilities, Governmental (US, state, county, city), and Public Schools



**Little Rock Wastewater Utility**  
**Top Ten Customers**  
**For Year Ended 2004**

<b>User</b>	<b>Revenue from Assessments (1)</b>	<b>Percent of Total Revenue From Assessments</b>
U of A - Medical Science	286,042	0.99%
Odom Sausage	274,020	0.95%
Baptist Medical Center	233,454	0.81%
City of Little Rock	219,303	0.76%
Central Arkansas Water	184,818	0.64%
City of Shannon Hills	155,749	0.54%
Coca Cola Bottling	131,038	0.45%
Veterans Administration Hospitals	130,769	0.45%
St. Vincent's Hospitals	128,115	0.44%
Coleman Dairy	111,988	0.39%

(1) Revenues shown are from assessments levied only, which are based upon volumetric & availability charges. Revenues for sewer surcharges, connection fees, and miscellaneous charges are not included. Percentages shown reflect a comparison of individual customer's assessments to total revenue from assessments of \$28,992,505

**Little Rock Wastewater Utility  
Daily Average of Effluent Flow  
Last Ten Years**

	Adams WWTP		Fourche WWTP		Total	
	<u>Average</u>	<u>Maximum</u>	<u>Average</u>	<u>Maximum</u>	<u>Average</u>	<u>Maximum</u>
1995	17.69	36.00	12.73	16.00	30.42	52.00
1996	22.43	36.00	12.45	16.00	34.88	52.00
1997	21.60	36.00	15.03	16.00	36.63	52.00
1998	21.42	36.00	13.21	16.00	34.63	52.00
1999	19.90	36.00	13.83	16.00	33.73	52.00
2000	18.64	36.00	15.94	16.00	34.58	52.00
2001	22.51	36.00	14.42	16.00	36.93	52.00
2002	21.82	36.00	14.15	16.00	35.97	52.00
2003	19.38	36.00	14.01	16.00	33.39	52.00
2004	23.30	36.00	13.95	16.00	37.25	52.00

Amounts for both wastewater treatment plants and totals are based on millions-of-gallons daily (mgd)

**Little Rock Wastewater Utility  
Schedule of Insurance  
December 31, 2004**

TYPE OF INSURANCE / COMPANY	INSURANCE IN FORCE	COVERAGE
Property Building & Contents - Ramsey, Krug, Farrell & Lensing	Property insurance plan with a total building and contents limit of \$105,307,514 million. Per occurrence deductible of \$50,000. Values are adjusted annually. Policy contains Co-Insurance Clause of agreement by LRWU to carry 100% insurance coverage on replacement costs at time of loss.	All risks except for flood earthquake, war, & nuclear hazard.
Equipment - Ramsey, Krug, Farrell & Lensing	Equipment insurance plan covering a total of owned equipment at replacement cost of \$1,034,825 and rented/leased equipment cost of \$70,000. Per occurrence deductible of \$500.	damage/replacement
Boiler and Machinery - Thomas Insurance Co.	Commercial Insurance; Annual inspection by Insurance Co. for State of Arkansas Dept of Labor Per occurrence on combined deductible of \$50,000. Coverage includes on total limit per breakdown is \$25,100,000, whereas, property damage is \$25,000,000 and in addition to property damage is \$100,000.	
Vehicle Liability Insurance - Municipal League	Coverage on owned and non-owned (automobiles, trucks, heavy equipment) under the control of LRWU. \$1,000 on collision deductible only per occurrence on property damage liability. Limit of \$25,000 on bodily injury/death one person in one accident, \$50,000 for bodily injury/death of two or more persons in any one accident, and \$25,000 for injury or destruction of property of others.	Bodily injury and property damage
Workers' Compensation Ins. - Self-Insured - Safety National Casualty Corp. for Excess Workers' Compensation	Self-insured and partnered with Central Arkansas Water in program. Self-Insured retention per occurrence is \$275,000 and Employers' liability maximum limit of indemnity per occurrence is \$1,000,000. Claims are handled by a third party administrator - Management Claims Solution, Inc.	Bodily injury by accident or occupational disease
Public Employee Blanket Bond Faithful performance - Meadors & Adams, Inc.	Honesty and faithful performance coverage for LRWU employees. Excess coverage liability limits are in effect for certain high exposure officials. - \$250,000 - CEO - \$250,000 – Manager of Finance & Administration - \$25,000 all other employees	Blanket coverage

**Little Rock Wastewater Utility  
Rates  
(per month)  
December 31, 2004**

Unaudited

**Residential, Commercial, & Industrial Customer Rates and Information**

Residential, commercial, & industrial rates are based on a Service Availability Charge or base rate and a Volumetric Charge, determined by the amount of water used. These two components determine the amount of the monthly bill.

**Service Availability Charge**

Rates Effective June 1, 2003

Size Water Meter Furnishing Water	Inside City Limits	Outside City Limits
5/8"	\$ 11.00	\$ 16.50
3/4"	\$ 12.90	\$ 19.40
1"	\$ 17.25	\$ 25.85
1 1/2"	\$ 28.25	\$ 42.40
2"	\$ 41.40	\$ 63.35
3"	\$ 72.00	\$108.00
4"	\$115.85	\$173.80
6" or larger	\$225.40	\$338.10

**Volumetric Charge**

(for all water consumed over 200 cu. ft. per month)

Rates Effective June 1, 2003

Volume of Water Consumed	Inside City Limits	Outside City Limits
Per 100 cu. ft	\$2.21	\$3.32

**Average Winter Consumption (AWC)**

The billing process for residential customers changed when the City of Little Rock Board of Directors passed Ordinance 18,752 on September 17, 2002. Previously, residential customers paid for actual water usage.

Now, customers are billed on the average winter consumption (AWC). The AWC is based on the billing months of October, November, December, January, February, and March. The customer must have consumption greater than zero in three of the six months. Once the average is computed, the customer is assigned an AWC.

Those new residential customers who do not meet the criteria will be billed on actual until an AWC can be calculated. The AWC calculations for the new customers are done in April of each year.

## Wastewater Rate Subsidy Program

A customer may qualify for payment of sewer rates payable according to the Wastewater Rate Subsidy Program by submitting a written application, as provided by the City of Little Rock Department of Public Works, Solid Waste Division for the Solid Waste Fee Increase Subsidy Program, and if approved by Little Rock Wastewater Utility, such customer will pay the minimum service availability charge for the size water meter located at the customer's residence.

## Connection Fees

The following fees are applicable to all new facilities connecting a building sewer to the Little Rock sewer system.

Fees are based upon water meter size. Any new connections or additions to existing facilities which are currently served by the sewer system, but which will not require installation of any additional or larger water meter shall pay a connection fee equivalent to the meter required for the additional load as determined by the Utility. If a connection fee has been paid in the past for the water meter now in service, no additional connection fee is required.

### Single Family Residential, Commercial, Industrial or other Non-residential

5/8" or 3/4"	water meter (each)	\$100.00
1"	water meter (each)	\$250.00
1 1/2"	water meter (each)	\$500.00
2"	water meter (each)	\$800.00
3"	water meter (each)	\$1,600.00
4"	water meter (each)	\$2,500.00
6"	water meter (each)	\$5,000.00
8"	water meter (each)	\$8,000.00
10"	water meter (each)	\$11,500.00
Multi-Unit Residential Developments (each)		\$100.00

## Building Sewer Permits and Fees

A building sewer permit is required for all residential, commercial and industrial connections to the sanitary sewer system. The owner or agent must use a special form provided by LRWU to request the permit and the application is supplemented by any plans, specifications or other information considered pertinent. A permit and inspection fee for residential, commercial and industrial building sewer connections is required at the time the application is filed. At the same time, a connection fee must be paid in proportion to the sewage treatment capacity required by the connected facility based on a schedule adopted by the Sewer Committee of Little Rock Wastewater Utility.

## Wastewater Treatment

Commercial and industrial customers are required to provide wastewater treatment as necessary to comply with the LRWU Ordinance and any facilities necessary for compliance are provided, operated and maintained at the customer's expense. Detailed plans describing such facilities and operating procedures must be submitted to LRWU for review and approval.

The pretreatment ordinance was developed to regulate the discharge of industrial wastewater to the public sewer system. In addition to regulating the public sewer systems, this ordinance gives LRWU the authority to penalize violators that disturb the public sewer system.

All rate ordinances can be found on the LRWU's website ([www.lrwu.com](http://www.lrwu.com)).

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## **OTHER REQUIRED REPORTS**

# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

One Financial Centre • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675  
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

## 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, 2004, and have issued our report thereon dated February 23, 2005. 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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  
Page Two

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

*Cobb and Sustie, Ltd.*

Certified Public Accountants  
February 23, 2005

# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

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

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

### Compliance

We have audited the compliance of Little Rock Wastewater 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, 2004. 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, 2004.

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

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

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
February 23, 2005



LITTLE ROCK WASTEWATER UTILITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED)

B. Federal Awards (Continued):

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?  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.

