

LITTLE ROCK WASTEWATER UTILITY

LITTLE ROCK, ARKANSAS

A Component Unit of the City of Little Rock, Arkansas

Comprehensive Annual

Financial Report

For The Year Ended December 31, 2005

Prepared by:

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

Little Rock Wastewater Utility Finance Department

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

Comprehensive Annual Financial Report
Year Ended December 31, 2005

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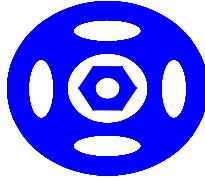
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INTRODUCTORY SECTION



**Little Rock
Wastewater
Utility**



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March 15, 2006

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, 2005. 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, 2005. 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, Ltd. has issued an unqualified (“clean”) opinion on LRWU’s financial statements for the year ended December 31, 2005. 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, Arkansas. 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 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 and surrounding communities have a mix of industry – state government, centralized health-care centers serving the state, a financial sector, information sector, and a variety of other sectors that are not cyclical. The Metro Statistical Area's (MSA) annual growth between 1993 and 2003 has been 3.3%. 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 9.9% over the past ten years while commercial users have increased by 12.2% over the same time period. The overall growth of total customer accounts for the ten year period is 9.4%.

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.

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

1. Upgrade Adams Field Wastewater Treatment Plant: The Adams Field project includes modernizing the preliminary and primary treatment sections of the plant, which were constructed in 1959. Plant capacity will also be upgraded to 94 MGD to mitigate upstream overflows and better manage wet weather peaks. The flow equalization basin required to upgrade capacity will minimize blending primary and secondary effluents during high flows. The construction phase of this project began in 2004 and as of 12/31/05 is 52% complete. The total estimated cost of the improvements (including engineering, administration expenses, and contingencies) is \$25,630,500. The project is scheduled to be completed in 2007.
2. Little Maumelle Basin Wastewater Treatment Plant: A new treatment facility is needed to serve existing customers and future growth in the Little Maumelle River Basin. The pump station that currently serves the area overloads gravity sewers in Murray Park during wet weather, resulting in numerous overflows. The site has been selected and purchased. The project is slated to begin construction in 2007 with an estimated maximum cost of \$49.1 million.
3. Peak Flow Attenuation Facility and Arch Street Pump Station: The Arch Street Pump Station Improvements project and the Peak Flow Attenuation Facility project were combined in 2005. These projects compliment each other in that they both enhance the hydraulic conveyance capacity of the interceptor system through the Fourche Creek Bottoms, thereby reducing sanitary sewer overflows during wet weather events. The detention basins will store volumes of water generated by wet weather events and then discharge into the collection system when flows return to normal. The Arch Street Pump Station, after improvements are constructed, will have a capacity increase of 7 million gallons per day. The combined project cost is \$35.5 million and construction should begin in late 2006.
4. Unsewered Areas: As part of the 2002/2003 rate increase, the Little Rock City Board of Directors allocated a percent of the rates to finance projects to extend new sewer mains into areas previously not served within the Little Rock City Limits. This project started in early 2005 and is scheduled to be completed in 2007 at a cost of \$13 million.

5. Collection System Rehabilitation Capacity Assurance Projects: Collection system rehabilitation and capacity assurance projects scheduled over the next five years have been extracted from the 15-year capital improvement plan outlined in the SECAP report. The 5-year forecast includes over \$47,000,000 for collection system rehabilitation and capacity assurance projects. Projects currently funded by a \$14,000,000 State Revolving Fund loan acquired in 2004 will be completed in 2007.
6. Trenchless Sewerline Rehabilitation: These construction projects fix structurally deteriorated line segments that contribute to non-capacity overflows. The projects include repairs that are located by our line walking crews, which cannot be repaired with conventional construction methods by in-house forces. The Engineering department ranks the line segments to determine priority levels. LRWU normally spends over \$1.0 million each year on these projects.

All of these projects have been or will be funded by either Revolving Loan Funds from the Arkansas Natural Resources Commission or Sewer Revenue Bonds. Total capital expenditures will be in excess of \$181,000,000; with over \$171,000,000 of that allocated to treatment, transmission, and storage improvements to mitigate overflows. With the increase in construction, LRWU is forecasting a rate adjustment of +35% in July 2006.

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 short and 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 159 training events such as Right-To-Know, American Heart CPR/First Aid with AED, Defensive Driving, Confined Spaces, Traffic Control, Excavation Safety, Proper Protective Equipment, Portable Gas-Monitoring Equipment, and other specific safety topics with 2,697 in attendance in 2005. 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 Post-employment benefits – LRWU is a member of a state-sponsored retirement system entitled Arkansas Public Employees Retirement System (APERS). APERS is both an employer and employee contribution plan. The employer contribution rates in 2005 were 11.09% from January 1 to June 30 and 12.54% from July 1 to December 31. APERS has made it mandatory for all new personnel hired on or after July 1, 2005 to contribute 5% of gross salary in conjunction with the employer contributions. Benefits are fully vested upon completing five years of service. Benefits of APERS members are calculated on age, final average salary, years of service, and a benefit factor.

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. Benefits are fully vested up completing five 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 (2005) fiscal year, there were approximately 21 employees receiving these benefits, which are financed on a pay-as-you go basis.

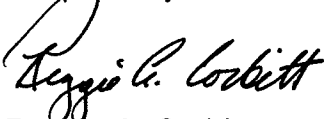
Awards and Acknowledgements


The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Little Rock Wastewater Utility, Little Rock, Arkansas for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2004. This was the first year that LRWU has received this prestigious award. In order to be awarded a Certificate of Achievement, LRWU had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the LRWU finance department and Cobb and Suskie, Ltd.

Respectfully submitted,


Reggie A. Corbitt
Chief Executive Officer


James A. Barham
Manager of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Little Rock
Wastewater Utility,
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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

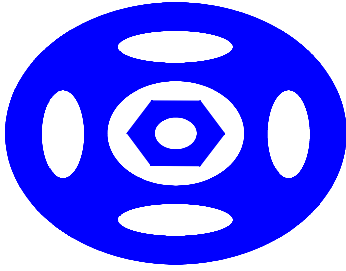


Carla E. Perry

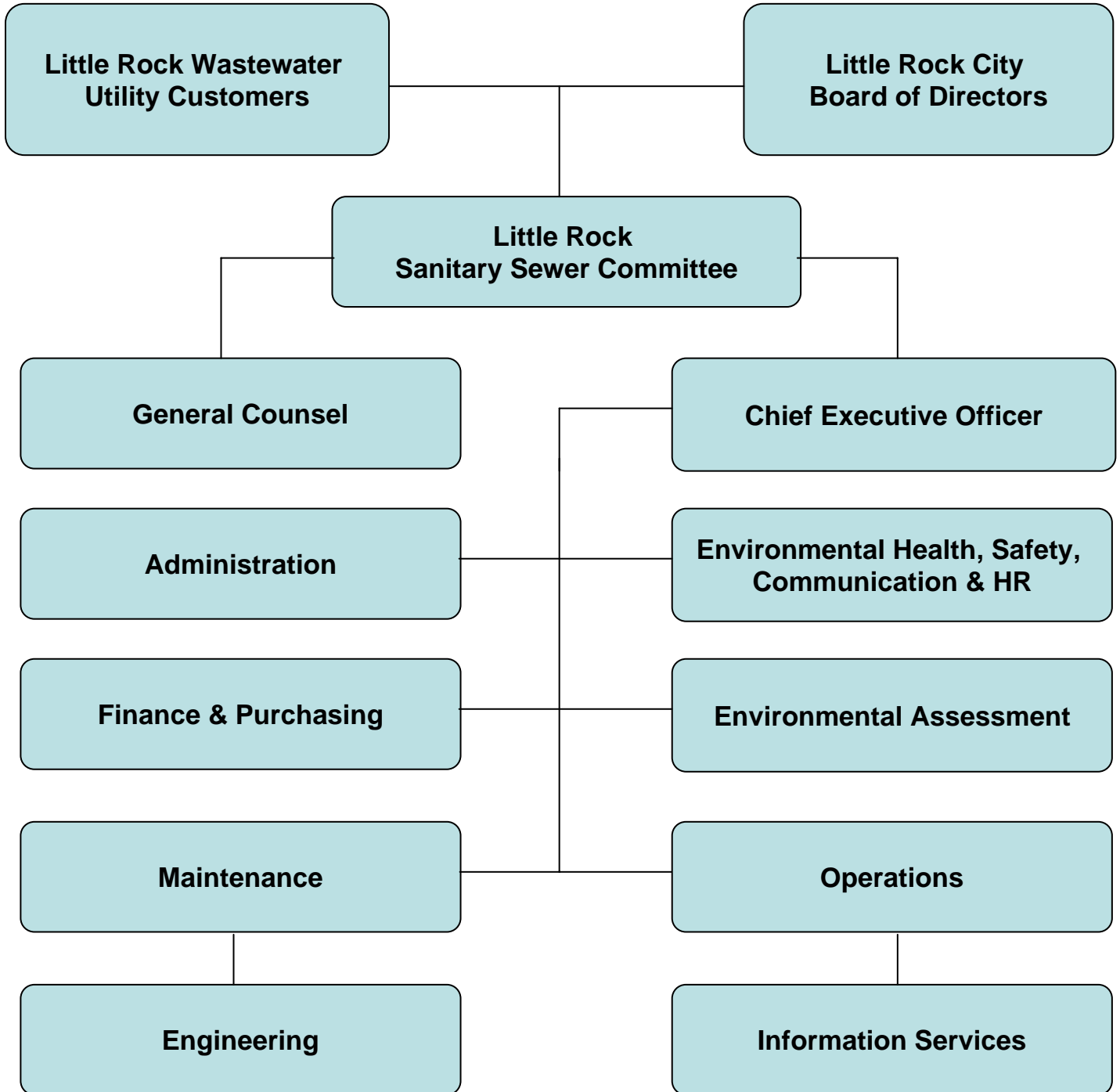
President

Jeffrey R. Emer

Executive Director



LITTLE ROCK WASTEWATER UTILITY'S ORGANIZATIONAL CHART



2005 LITTLE ROCK SANITARY SEWER COMMITTEE



Stuart S. Mackey
Chair



Charles G. Goss
Secretary



Patrick D. Miller
Vice Chair



James R. Pender
Member



Reggie A. Corbitt
Chief Executive Officer



Dale J. Wintroath
Member

EXECUTIVE STAFF

Nancy Trotter - Executive Secretary

Don Hamilton - General Counsel

John Jarrett - Environmental Health, Safety, Communications & HR

Jim Barham - Finance & Purchasing

Howell Anderson - Engineering

Bryan Bull - Information Services

Mack Vought - Maintenance

Stan Miller - Operations

Stan Suel - Environmental Assessment

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FINANCIAL SECTION



COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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(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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, 2005 and 2004. 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Little Rock Wastewater Utility as of December 31, 2005 and 2004, 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 March 7, 2006, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 14 through 20 and 42 - 43, 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 on pages 42 - 58 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
March 7, 2006

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, 2005. 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 - 6 of this report. The comprehensive annual financial report is made available via the Internet (www.lrwu.com). The use of the Internet is consistent with the Utility's objective to provide greater information to the public in a more efficient manner, reducing paperwork, labor, and communications costs.

Financial Highlights

- Total assets at year-end were \$213.1 million and exceeded liabilities in the amount of \$80.8 million. Total net assets were \$132.4 million, an increase of 5.6% from 2004.
- Operating revenue grew to \$30.6 million in 2005. This was an increase of 1.0% or \$.3 million from 2004 and an increase of .8% over the 2005 budget projections.
- Operating expenses before depreciation increased \$1.5 million or 7.6% compared to fiscal year 2004 and was over budget by 3.4%. Operating expenses including depreciation increased \$1.9 million or 7.6% from 2004.
- Debt service coverage was 145%, exceeding the 130% required by the Bond Covenant. LRWU requested and received a revenue bond issue that totaled \$10 million for new construction projects and to pay off the 2004 Short-Term Note.
- Developer contributions of cash and non-cash items showed an increase of \$1.2 million or 37.6% from 2004.

General Trends

The growth rate of LRWU's customer accounts from 2004 to 2005 was 1.2 %. Over a ten year period, the customer growth rate also averaged 1.0 %.

Wastewater Customers	2005	2004	2003
Beginning Customer Accounts	64,395	63,702	63,215
Additional Accounts (net)	797	693	487
Ending Customer Accounts	65,192	64,395	63,702

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 2005 but does plan an adjustment in July 2006.

The following chart shows the average residential bill based on a consumption of 8 Ccf. These amounts do not include a 5% franchise fee that is collected and paid to the City of Little Rock.

Average Residential Bill	2005	2004	2003
	\$24.26	\$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 with another in the initial stages of construction, a maintenance facility, and an administration building. The collection system includes over 122 square miles containing approximately 1,248 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 viewed 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 current upgrade construction of \$23.1 million is over 50% completed. It is estimated that the completion date will be in January 2007. The construction consists of upgrading the primary clarifiers for peak flow increasing from 36 mgd to 94 mgd and the building of an equalization basin to hold 15 million gallons of effluent during high flows.

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. Currently Fourche Creek is being refitted with a new engine generator. The cost is estimated at \$1.7 million but the increase in efficiency of the new equipment should result in an annual energy savings in excess of \$.2 million. It is projected that the upgrade will be completed by the end of 2006.

The Little Maumelle Basin Wastewater Treatment Plant is in the beginning stages of construction. The land site was selected in April 2005 and purchased in December 2005. As of the today, the design and type, either membrane or activated sludge, is still being evaluated. The expected construction cost is \$49.1 million for engineering, construction, administration expenses, and contingencies. Construction is scheduled to begin in 2007.

The Clearwater Maintenance Facility is the operations/maintenance complex on a 36 acre tract that was built in 1989. 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 was built in 2005 and is located near the Clearwater Maintenance Facility. The CEO, Division Managers, Engineering, Information Services, Accounting, HR and Purchasing are all located in the administrative building. This building is also the location for the monthly sewer committee meetings.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to 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 2004-2005 Financial Information

Statement of Net Assets

Total Assets increased by \$33.7 million as compared to the previous fiscal year. Current Assets showed a decrease of 6.5% while Restricted Current Assets reflected an increase of 52.6% from 2004. This increase was due to cash being set aside for several major

construction projects that started in 2004, and a 2005 Sewer Revenue Bond issue in the amount of \$10 million dollars for capital projects. Based on dollar amounts for 2005, Capital Assets summary had the largest change. Capital Assets increased just under \$27 million from 2004. The largest increase came from the line item called Capital Work In Progress (CWIP). CWIP increased from a balance of \$8.3 million in 2004 to \$31.9 million in 2005 with most of the changes coming from the continued capital improvements to Adams Field Wastewater Treatment Plant, sewer line rehabilitation, and the unsewered areas. The line item of Property, Plant, and Equipment increased by \$6.3 million for a total of \$232.2 million in 2005 while Accumulated Depreciation increased by \$5.5 million. Additional information can be found in Note 5 on page 33 of this report.

Current Liabilities showed an increase of 23.5% or \$.4 million. Current Liabilities from Restricted Assets also showed an increase for 2005. The change of 94.3% was for the Construction Contracts Payable increase of \$4.1 million. Non-Current Liabilities had an increase of 46.5% while Total Net Assets showed an increase of 5.6% in 2005. This change reflects the large increase of 25.1% or \$ 3.2 million in Restricted for Capital Activity and Debt Service. This goes back in preparation for several major construction projects that have started or will be started in the near future. Overall Total Liabilities and Net Assets increased by 18.8% or \$33.7 million from 2004.

	FY 2003	FY 2004	FY 2005	Percent Change Last Year
Current Assets	\$ 6,072,035	\$ 7,026,173	\$ 6,573,521	-6.5 %
Restricted Assets	6,282,296	13,587,846	20,735,150	52.6 %
Capital Assets	153,108,875	158,086,437	185,070,970	17.1 %
Other Assets	700,944	774,817	767,264	-1.0 %
Total Assets	<u>166,164,150</u>	<u>179,475,273</u>	<u>213,146,905</u>	18.8 %
Current Liabilities	1,655,808	1,861,393	2,298,280	23.5 %
Current Liabilities from Restricted Assets	2,349,814	4,079,959	7,925,966	94.3 %
Non-current Liabilities	<u>44,371,093</u>	<u>48,151,697</u>	<u>70,552,543</u>	46.5 %
Total Liabilities	<u>48,376,715</u>	<u>54,093,049</u>	<u>80,776,789</u>	49.3 %
Restricted in Capital Assets, Net of Related Debt	107,155,258	107,476,645	112,466,753	4.7 %
Restricted for Capital Activity and Debt Service	6,215,950	12,632,743	15,798,033	25.1 %
Unrestricted	<u>4,416,227</u>	<u>5,272,836</u>	<u>4,105,330</u>	- 22.2 %
Total Net Assets	<u>117,787,435</u>	<u>125,382,224</u>	<u>132,370,116</u>	5.6 %
Total Liabilities and Net Assets	\$ <u>166,164,150</u>	\$ <u>179,475,273</u>	\$ <u>213,146,905</u>	18.8 %

Statement of Revenues, Expenses, and Changes in Net Assets

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

The Total Revenue increased \$.2 million or .8% in 2005. Assessments Levied had a 1.3% increase from 2004. Industrial Surcharge declined by 22.2% or \$.2 million. There were several industrial customers that either moved or changed to a more efficient process in 2005 thus reflecting the decrease. Non-Operating Revenue showed a decrease of 10.8%. Even though interest income was up over \$.2 million from 2004, the Gain on Disposal of Capital Assets showed a one-time earning in 2004 from the sale of LRWU portion of the administration building and other items that amounted to over \$.4 million compared to zero dollars in 2005.

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

Total Expense increased by over \$2 million in 2005. Operating Expense rose in 2005 by 7.6% or \$1.5 million. This is mainly attributable to salaries, benefits such as hospitalization and retirement contributions, fuel, and supplies for collection system maintenance. LRWU granted a 4.0% cost of living wage increase during 2005 and the average number of employees increased from 228 to 240. LRWU continues to follow Plan 66. This plan is an aggressive approach to reduce dry weather overflows in a three-year period by having additional maintenance crews for inspecting and cleaning sewer lines.

Non-Operating Expense had an increase of 8.8% or \$.2 million in 2005. A large majority of the increase comes from the paying of interest, \$2.2 million, compared to a little over \$2.0 million in 2004 on the outstanding bond issues. The unrealized loss on investments increased from \$23,000 in 2004 to \$44,000 in 2005.

Change in Net Assets of \$.6 million represents a decrease of 8.0% from 2004 but the change in the ending total net assets of \$7.0 million from last year shows a 5.6% growth.

Additional information can be found on the Statement of Revenues, Expenses, and Changes in Net Assets on page 24 and Schedule of Operating Expenses by Department on page 44.

	FY 2003	FY 2004	FY 2005	Percent Change Last Year
Revenues:				
Operating Revenues:				
Assessments Levied	\$ 26,984,440	\$ 28,992,505	\$ 29,374,828	1.3 %
Industrial Surcharge	382,001	796,528	619,707	-22.2 %
Other Fees and Income	444,949	506,555	614,972	21.4 %
Non-Operating Revenue	369,841	689,859	615,104	-10.8 %
Total Revenues:	28,181,231	30,985,447	31,224,611	.8 %
Expenses:				
Operating Expense	17,498,220	19,348,737	20,810,362	7.6 %
Depreciation Expense	4,924,975	5,098,192	5,496,016	7.8 %
Non-Operating Expense	2,073,166	2,138,783	2,327,071	8.8 %
Total Expense:	24,496,361	26,585,712	28,633,449	7.7 %
Income (Loss) Before Contributions	3,684,870	4,399,735	2,591,162	-41.1 %
Capital Contributions	3,248,525	3,195,054	4,396,730	37.6 %
Change in Net Assets	6,933,395	7,594,789	6,987,892	-8.0 %
Total Net Assets – Beginning	110,854,042	117,787,435	125,382,224	6.4 %
Total Net Assets – Ending	\$ 117,787,435	\$ 125,382,224	132,370,116	5.6 %

Capital Assets and Debt Administration

The cash outflow for LRWU on wastewater system capital improvements was \$21.4 million in fiscal year 2005. A vast majority of the money was spent on improvements to Adams Field WWTP with a cost of \$7.1 million, Collection Rehabilitation projects at \$6.6 million, General Plant projects at \$3.3 million, and Trenchless Sewerline Rehabilitation at \$1.1 million. Other major construction expenditures were the unsewered areas, Little Maumelle Basin WWTP, and Peak Flow Detention Facility at costs of \$.8 million, \$.6 million and \$.2 million, respectively. The remaining classifications of new sewer mains, replacement sewer mains, sewer pumping and treatment plant, and transportation make up the difference of \$1.7 million spent on capital assets. Additional information on LRWU's capital assets can be found in Note 5 on page 33 of this report.

The LRSSC, with approval from the City of Little Rock Board of Directors, submitted and received a \$10 million Sewer Revenue Bond issue in 2005. This bond had an A1 bond rating by Moody's Investors Service. The bond issue was for the purpose of financing certain costs of constructing extensions, betterments, and improvements to the sewer system and to pay off the 2004 Short-Term Note. The three current long-term loans (2004A, 2004B, and 2004C) received through Arkansas Natural Resources Commission were for the upgrade to Adams Field Wastewater Treatment Plant, rehabilitation of the sewer collection facilities, and sewer mains for remaining unsewered areas in the City of Little Rock. Currently all three projects are still ongoing. These loans were in the amounts of \$23.1 million, \$14 million and \$13 million

respectively. 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 total long-term debt (less bond payable within one year) increased by \$22.4 million in 2005. This amount is expected to increase significantly in the coming years.

Long-Term Debt	2005	2004	2003
1990 Sewer Revenue	\$3,657,150	\$4,011,965	\$4,353,002
1991 Sewer Revenue	3,134,700	3,438,827	3,731,145
1996 Sewer Revenue	4,484,479	4,740,450	4,987,691
1999 Sewer Revenue	10,716,479	11,160,309	11,587,953
2001 Sewer Revenue	20,635,000	20,995,000	21,340,000
2004A Sewer Revenue	10,574,355	1,550,202	
2004B Sewer Revenue	8,287,650	1,220,168	
2004C Sewer Revenue	1,193,930	207,029	
2004 Short Term Note	0	3,316,918	
2005 Sewer Revenue	10,000,000		
Less Debt Payable, due within one year	<u>(2,131,200)</u>	<u>(2,489,171)</u>	<u>(1,628,698)</u>
Total Long-Term Debt	<u>\$70,552,543</u>	<u>\$48,151,697</u>	<u>\$44,371,093</u>

Additional information on LRWU's long-term debt can be found in Note 7 on page 34 of this report.

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%. In order for LRWU to meet obligations and timelines for capacity and non-capacity overflow litigation, there are several major projects that are scheduled to start sometime in 2006. The Peak Flow Attenuation Facility & pump station (projected at \$35.5 million) and the Little Maumelle Basin Wastewater Treatment Plant (projected at \$49.1 million) are slated to be revenue bond issues. LRWU is currently going through a rate study and is estimating a rate adjustment of +35% for July 2006.

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 45090, Little Rock, AR 72214-45090.

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LITTLE ROCK WASTEWATER UTILITY
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS

<u>CURRENT ASSETS</u>	2005	2004
Cash and Cash Equivalents	\$ 3,048,454	\$ 3,087,603
Accounts Receivable, Less Allowance for Doubtful Accounts of \$232,951 in 2004 and \$199,865 in 2003	1,713,797	1,660,908
Accrued Interest Receivable	16,994	-
Current Portion of Other Receivables	169,911	735,243
Inventories	1,160,988	1,054,850
Prepaid Expenses and Other Current Assets	463,377	487,569
Total Current Assets	6,573,521	7,026,173
 <u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	15,275,764	11,501,846
Investments	5,342,399	2,025,492
Accrued Interest Receivable	31,769	24,515
Construction Receivables	85,218	35,993
Total Restricted Assets	20,735,150	13,587,846
 <u>CAPITAL ASSETS</u>		
	185,070,970	158,086,437
 <u>OTHER ASSETS</u>		
Unamortized Bond Issuance Costs	767,264	667,761
Other Receivables, Less Current Portion	-	107,056
Total Other Assets	767,264	774,817
 TOTAL ASSETS	 \$ 213,146,905	 \$ 179,475,273

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

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>	<u>2005</u>	<u>2004</u>
Payable from Current Assets:		
Accounts Payable	\$ 823,718	\$ 587,561
Accrued Expenses	1,474,562	1,273,832
 Total Current Liabilities Payable from Current Assets	 <u>2,298,280</u>	 <u>1,861,393</u>
 Payable from Restricted Assets:		
Construction Contracts Payable	5,107,028	955,103
Accrued Interest	687,738	635,685
Current Maturities of Revenue Bonds	2,131,200	2,489,171
 Total Current Liabilities Payable from Restricted Assets	 <u>7,925,966</u>	 <u>4,079,959</u>
 Total Current Liabilities	 <u>10,224,246</u>	 <u>5,941,352</u>
 Long-Term Debt, Less Current Maturities	 <u>70,552,543</u>	 <u>48,151,697</u>
 Total Liabilities	 <u>80,776,789</u>	 <u>54,093,049</u>
 <u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Liabilities	112,466,753	107,476,645
Restricted for Capital Activity and Debt Service	15,798,033	12,632,743
Unrestricted	4,105,330	5,272,836
 Total Net Assets	 <u>132,370,116</u>	 <u>125,382,224</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 213,146,905</u>	 <u>\$ 179,475,273</u>

LITTLE ROCK WASTEWATER UTILITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

<u>OPERATING REVENUES</u>	2005	2004
Sewer Charges	\$ 29,374,828	\$ 28,992,505
Industry Surcharges	619,707	796,528
Connection Fees	214,625	165,229
Other	400,347	341,326
Total Operating Revenues	<u>30,609,507</u>	<u>30,295,588</u>
 <u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>	 <u>20,810,362</u>	 <u>19,348,737</u>
Operating Income Before Depreciation	<u>9,799,145</u>	<u>10,946,851</u>
 <u>PROVISION FOR DEPRECIATION</u>		
Collection System	3,236,714	2,837,213
Pumping Plant	677,507	669,519
Adams Field	156,769	175,436
Fourche	672,126	673,569
General Plant	752,900	742,455
Total Provision for Depreciation	<u>5,496,016</u>	<u>5,098,192</u>
 OPERATING INCOME	 <u>4,303,129</u>	 <u>5,848,659</u>
 <u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	599,093	249,077
Interest Expense	(2,174,967)	(2,032,069)
Amortization of Bond Issuance Costs	(99,825)	(83,287)
Gain (Loss) on Disposal of Capital Assets	(8,272)	440,359
Unrealized Gain (Loss) on Investments	(44,007)	(23,427)
Other	16,011	423
Total Nonoperating Income (Expense)	<u>(1,711,967)</u>	<u>(1,448,924)</u>
 INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	 <u>\$ 2,591,162</u>	 <u>\$ 4,399,735</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, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	\$ 2,591,162	\$ 4,399,735
CAPITAL CONTRIBUTIONS	<u>4,396,730</u>	<u>3,195,054</u>
CHANGE IN NET ASSETS	6,987,892	7,594,789
NET ASSETS, BEGINNING OF YEAR	<u>125,382,224</u>	<u>117,787,435</u>
NET ASSETS, END OF YEAR	<u>\$ 132,370,116</u>	<u>\$ 125,382,224</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, 2005 AND 2004

	2005	2004
<u>CASH FLOWS FROM OPERATING</u>		
<u>ACTIVITIES</u>		
Cash Received from Customers	\$ 29,956,129	\$ 29,888,000
Other Receipts	400,347	341,326
Payments to Employees	(14,547,195)	(13,284,194)
Payments to Suppliers	(1,618,655)	(1,341,977)
Payments for Contractual Services	(1,647,811)	(1,760,496)
Payments for Utilities	(1,204,433)	(1,277,665)
Other Payments	(1,237,185)	(1,410,238)
Net Cash Provided by (Used by) Operating Activities	10,101,197	11,154,756
 <u>CASH FLOWS FROM CAPITAL AND</u>		
<u>RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(23,874,063)	(7,072,074)
Proceeds from Disposal of Property and Equipment	557,060	678,191
Principal Paid on Indebtedness	(5,035,661)	(2,336,322)
Interest Paid on Indebtedness	(2,122,914)	(2,050,350)
Net Proceeds from Issuance of Indebtedness	26,879,208	6,926,491
Other	16,011	20,097
Net Cash Provided by (Used by) Capital and Related Financing Activities	(3,580,359)	(3,833,967)
 <u>CASH FLOWS FROM INVESTING</u>		
<u>ACTIVITIES</u>		
Interest on Investments	574,845	235,538
Purchase of Investments	(3,360,914)	-
Net Cash Provided by (Used by) Investing Activities	(2,786,069)	235,538
 Net Increase (Decrease) in Cash and Cash Equivalents	\$ 3,734,769	\$ 7,556,327

LITTLE ROCK WASTEWATER UTILITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of Year	\$ 14,589,449	\$ 7,033,122
Net Increase (Decrease) in Cash and Cash Equivalents	3,734,769	7,556,327
End of Year	\$ 18,324,218	\$ 14,589,449
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:</u>		
Operating Income	\$ 4,303,129	\$ 5,848,659
Adjustments:		
Depreciation	5,496,016	5,098,192
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(52,889)	(66,262)
(Increase) Decrease in Inventories	(106,138)	25,355
(Increase) Decrease in Prepaid Expenses and Other Assets	24,192	43,227
Increase (Decrease) in Accounts Payable	236,157	389,613
Increase (Decrease) in Accrued Expenses	200,730	(184,028)
Net Cash Provided by Operating Activities	\$ 10,101,197	\$ 11,154,756

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

During 2005 and 2004, the Utility received donated sewer lines capitalized in the amount of \$4,396,730 and \$3,195,054, 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, 2005 AND 2004

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 65,192 and 64,395 customers at December 31, 2005 and 2004, 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. 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.
- D. Investments - Investments are stated at fair value and consist of debt securities with original maturities in excess of three months when purchased. Unrealized gains and losses are included as nonoperating income (expense) in the accompanying statements of income.

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2005 and 2004 are more fully explained in Note 4.
- F. Inventory - Materials, supplies, and fuel inventories are valued at the lower of average cost or market value.
- G. Capital Assets – Capital Assets consist of property, plant and equipment and include assets which have been contributed to the Utility. These assets, consisting primarily of donated sewer lines, are recorded at the donor's cost (which approximates fair market value at the transfer date for those assets). Capital assets are defined by the Utility as assets with an initial, individual cost of at least \$5,000 and an estimated useful life in excess of 5 years. Depreciation is computed using the straight-line method of depreciation with estimated useful lives of 10 to 50 years for buildings and improvements, 5 to 25 years for machinery and equipment, and 50 years for collection systems (primarily sewer lines).
- H. Unamortized Bond Issuance Costs - Costs associated with the issuance of bonds are capitalized as bond issuance costs and amortized over the life of the related bonds.
- I. Basis of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the balance sheets as of December 31, 2005 and 2004, respectively, follows:

	<u>2005</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$3,087,603	11,501,846	\$14,589,449
Net Increase (Decrease)	<u>(39,149)</u>	<u>3,773,918</u>	<u>3,734,769</u>
Cash at End of Year	<u>\$3,048,454</u>	<u>15,275,764</u>	<u>\$18,324,218</u>
	<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>

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

Included in the Utility's total cash balances of \$18,324,218 and \$14,589,449 (restricted and unrestricted) at December 31, 2005 and 2004, respectively, are deposits with financial institutions which are categorized as to credit risk as follows.

	<u>2005</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 18,324,218	\$ 18,272,002
Uninsured, Uncollateralized	<u>-</u>	<u>-</u>
Total	<u>\$ 18,324,218</u>	<u>\$ 18,272,002</u>

LITTLE ROCK WASTEWATER UTILITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

	<u>2004</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 14,589,449	\$ 14,788,954
Uninsured, Uncollateralized	<u> -</u>	<u> -</u>
Total	<u>\$ 14,589,449</u>	<u>\$ 14,788,954</u>

NOTE 3: INVESTMENTS

Investments at December 31, 2005 and 2004 consisted of U.S. Government Obligations, stated at fair values of \$5,342,399 and \$2,025,492. These securities were acquired at a cost of \$5,400,914 at December 31, 2005 and \$2,040,000 at December 31, 2004. Net unrealized gain (loss) on these securities for each of the years ended December 31, 2005 and 2004, was \$(41,951) and \$(23,427), respectively.

All of the Utility's investments carry the explicit guarantee of the U.S. Government. The Utility has managed its exposure to fair value losses arising from increasing interest rates by purchasing investments in 2005 with a maturity of less than four months.

Investments are categorized as follows to give an indication of the level of credit risk assumed by 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, 2005 and 2004 are categorized as Category 1.

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Trade Receivables, Current	\$ 1,713,797	\$ 1,660,908
Trade Receivables, Past Due	209,831	232,951
Total	<u>1,923,628</u>	<u>1,893,859</u>
Allowance for Uncollectibles, Beginning of Year	(232,951)	(199,865)
Writeoff of Uncollectibles	223,262	202,097
Provision for Bad Debt Expense	<u>(200,142)</u>	<u>(235,183)</u>
Allowance for Uncollectibles, End of Year	<u>(209,831)</u>	<u>(232,951)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	<u>\$ 1,713,797</u>	<u>\$ 1,660,908</u>

Other Receivables at December 31, 2005 and 2004 consisted of the following amounts due from Central Arkansas Water for the sale of a building in the original amount of \$1,223,650.

	<u>2005</u>	<u>2004</u>
Current	\$ 169,911	\$ 735,243
Noncurrent	<u>-</u>	<u>107,056</u>
Total	<u>\$ 169,911</u>	<u>\$ 842,299</u>

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2005 and 2004 was as follows:

2005	Balance 12/31/04	Additions	Retirements	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 2,704,008	\$ 4,814		\$ 2,708,822
Construction in Progress	8,330,153	31,753,919	8,197,027	31,887,045
Total capital assets not being depreciated	<u>11,034,161</u>	<u>31,758,733</u>	<u>8,197,027</u>	<u>34,595,867</u>
Capital assets being depreciated:				
Building and Improvements	36,215,809	230,080		36,445,889
Collections Systems	160,072,086	7,438,768		167,510,854
Machinery and Equipment	24,388,556	1,571,269	354,824	25,605,001
Total capital assets being depreciated	<u>220,676,451</u>	<u>9,240,117</u>	<u>354,824</u>	<u>229,561,744</u>
Less accumulated depreciation for:				
Buildings and Improvements	17,138,175	668,891		17,807,066
Collections Systems	40,755,529	3,370,046		44,125,575
Machinery and Equipment	15,730,471	1,457,079	33,550	17,154,000
Total accumulated depreciation	<u>73,624,175</u>	<u>5,496,016</u>	<u>33,550</u>	<u>79,086,641</u>
Capital Assets, Net	<u>\$ 158,086,437</u>	<u>\$ 35,502,834</u>	<u>\$ 8,518,301</u>	<u>\$ 185,070,970</u>
2004	Balance 12/31/03	Additions	Retirements	Balance 12/31/04
Capital assets not being depreciated:				
Land	\$ 2,646,435	\$ 191,088	\$ 133,515	\$ 2,704,008
Construction in Progress	17,045,717	13,185,591	21,901,155	8,330,153
Total capital assets not being depreciated	<u>19,692,152</u>	<u>13,376,679</u>	<u>22,034,670</u>	<u>11,034,161</u>
Capital assets being depreciated:				
Building and Improvements	37,717,542	123,701	1,625,434	36,215,809
Collections 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
Total capital assets being depreciated	<u>203,072,079</u>	<u>19,680,761</u>	<u>2,076,389</u>	<u>220,676,451</u>
Less accumulated depreciation for:				
Buildings and Improvements	17,417,536	716,899	996,260	17,138,175
Collections Systems	37,785,831	2,970,545	847	40,755,529
Machinery and Equipment	14,451,989	1,410,748	132,266	15,730,471
Total accumulated depreciation	<u>69,655,356</u>	<u>5,098,192</u>	<u>1,129,373</u>	<u>73,624,175</u>
Capital Assets, Net	<u>\$ 153,108,875</u>	<u>\$ 27,959,248</u>	<u>\$ 22,981,686</u>	<u>\$ 158,086,437</u>

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 5: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2005 and 2004 included capitalized construction period interest of \$312,208 and \$23,633 that was incurred in each respective year.

Depreciation expense was \$ 5,496,016 and \$5,098,192 for the years ended December 31, 2005 and 2004, respectively. The Utility's depreciation policy is described in Note 1.

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 \$4,396,730 and \$3,195,054 for the years ended December 31, 2005 and 2004, respectively.

NOTE 7: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds and other indebtedness for which the changes in the year ended December 31, 2005 and 2004 are as follows:

	<u>2005</u>				Amount Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
Sewer Revenue Bond	\$ 47,323,950	\$ 27,078,536	\$ 1,718,743	\$ 72,683,743	\$ 2,131,200
Sewer Reserve Note	3,316,918		3,316,918	-	
	<u>\$ 50,640,868</u>	<u>\$ 27,078,536</u>	<u>\$ 5,035,661</u>	<u>\$ 72,683,743</u>	<u>\$ 2,131,200</u>
	<u>2004</u>				Amount Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
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:

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7: LONG-TERM DEBT (CONTINUED)

<u>Series</u>	<u>Interest Rate</u>	<u>Outstanding at Maturity Date</u>	<u>December 31, 2005</u>	<u>Amount Due Within One Year</u>
1990	4.0%	2004 to 2014	\$3,657,150	\$369,149
1991	4.0%	2004 to 2014	3,134,700	316,413
1996	3.5%	2004 to 2019	4,484,479	265,008
1999	3.5%	2004 to 2022	10,716,479	460,630
2001	4.00% to 5.125%	2004 to 2022	20,635,000	375,000
2004A	3.25%	2004 to 2027	10,574,355	-
2004B	3.25%	2004 to 2027	8,287,650	-
2004C	3.25%	2004 to 2027	1,193,930	-
2005	3.00% to 4.375%	2006 to 2025	10,000,000	345,000
Total			<u>\$72,683,743</u>	<u>\$2,131,200</u>

Payment dates for the revenue bonds are as follows:

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

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

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7: LONG-TERM DEBT (CONTINUED)

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

In March, 2004, the City of Little Rock, Arkansas authorized a Sewer Revenue Bond issue of \$23,100,000, \$14,000,000, and \$13,000,000 to be issued by ANRC, for the purpose of financing the costs of constructing extensions, betterments, and improvements to the Adams Field Treatment Plant, the Utility's collection system, and unsewered areas. As of December 31, 2005, the Utility had drawn \$10,574,355, \$8,287,650, and \$1,193,930 respectively, on these bond issues, with additional draws of \$12,525,645, \$5,712,350, and \$11,806,070 remaining. These draws, which amount to \$30,045,065 in the aggregate, will be made as the aforementioned construction progresses.

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

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

In addition to the \$72,683,743 balance of Sewer Revenue Bonds outstanding at December 31, 2005, an additional \$30,045,065 will, as previously described, be drawn in fulfillment of current bond issues, for a total Sewer Revenue Bond indebtedness of \$102,727,808.

The annual requirements to amortize sewer revenue bond indebtedness outstanding, and scheduled, including interest, as of December 31, 2005, are as follows:

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 7: LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
2006	\$ 2,131,200	\$ 2,201,431	\$ 4,332,631
2007	2,625,215	2,496,617	5,121,832
2008	3,653,185	3,219,421	6,872,606
2009	4,256,753	3,506,318	7,763,071
2010	4,404,107	3,353,963	7,758,070
2011 to 2015	24,545,187	14,232,539	38,777,726
2016 to 2020	29,673,133	8,929,011	38,602,144
2021 to 2025	24,782,880	3,362,717	28,145,597
2026 to 2030	6,656,148	295,661	6,951,809
Total	<u>\$ 102,727,808</u>	<u>\$ 41,597,678</u>	<u>\$ 144,325,486</u>

Interest expense incurred during construction amounted to \$312,208 and \$26,633 all of which was capitalized to construction in progress in the years ended December 31, 2005 and December 31, 2004, respectively.

NOTE 8: LITIGATION

The Little Rock Sanitary Sewer Committee (LRSSC) was a defendant, along with the City of Little Rock, in a lawsuit filed in the U.S. District Court on January 13, 2000, by the Sierra Club. The plaintiff alleged violations of the Clean Water Act and the Resource Conservation and Recovery Act for alleged sewer overflows, and sought injunctions for the alleged violations as well as penalties. LRSSC and the plaintiff entered into a written settlement agreement releasing LRSSC's liability for any alleged violations up to the settlement agreement dated September 12, 2001. A judgment approving this settlement was filed on November 16, 2001, subject to an award of the plaintiff's statutory attorneys' fees, which were paid on January 13, 2003; and on December 23, 2003 the LRSSC paid the plaintiff \$20,149 in satisfaction of its liability for the plaintiff's court costs. As of December 31, 2003, there were no further sums due to the plaintiffs in this litigation. Accordingly, the Utility's financial statements as of December 31, 2005 and 2004, respectively, do not include any provisions of potential liability with regard to this litigation.

However, in accordance with the settlement agreement between the plaintiff and LRSSC, the Court retained jurisdiction for the purpose of enforcing the provisions of

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 8: LITIGATION (CONTINUED)

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

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

On February 11, 2004, staff representatives of Arkansas Department of Environmental Quality ("ADEQ") and Little Rock Wastewater 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

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 8: LITIGATION (CONTINUED)

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 to comply with performance and deadlines based on civil penalties of \$100 to \$500 per day, depending upon the duration of any violation of the proposed CAO. Numerous drafts of proposed CAO's containing various provisions regarding these issues have been exchanged since November 1, 2004, and the most recent draft dated January 25, 2006 was discussed and tentatively agreed on at that date by the Utility's staff.

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

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$14,855,425 at December 31, 2005, for the expansion of plant capacity.

NOTE 10: PENSIONS AND OTHER POST EMPLOYMENT BENEFITS

- A. Defined Contribution Plan – The Utility offers a voluntary 401 (a) qualified Pension Plan to all of its employees. Employee contributions are matched dollar for dollar as a percentage of employee wages based upon years of service. Total employer contributions were approximately \$379,631 and \$357,605 in 2005 and 2004, 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 participated in a contributory plan or a noncontributory plan. The plan

LITTLE ROCK WASTEWATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Prior to July 1, 2005, voluntary contributory plan members were required to contribute 5.0% of their annual salary to APERS. The employer's contributions are actuarially determined on an annual basis. The authority for establishing and amending both funding policies and benefits offered rests with APERS. No employees participated in this voluntary contributory plan for the years ended June 30, 2005 and 2004. Contributions to the plan are also actuarially determined on an annual basis. Contributions to the plan were approximately \$1,164,043, \$933,118 and \$824,595 for the plan years ended June 30, 2005, 2004, and 2003, respectively, and represented 11.09%, 10.0%, and 10.0% of covered payroll for each of the plan years, respectively. Employees hired on or after July 1, 2005 are subject to mandatory employee contribution of 5% of compensation. For the period July 1, 2005 to December 31, 2005, the 5% mandatory employee contributions were \$8,432 and are included in the above amounts.

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, 21 retirees are eligible to receive these benefits. These benefits are funded from current operations of the Utility. Expenditures for such postretirement benefits amounted to \$139,432 and \$134,899 for the years ended December 31, 2005 and 2004, respectively.

NOTE 11: CONCENTRATIONS

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$577,497 and \$550,931 for the years ended December 31, 2005 and 2004, 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 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.

LITTLE ROCK WASTEWATER UTILITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 12: RISK MANAGEMENT (CONTINUED)

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, 2004 to December 31, 2005:

Liability balance, January 1, 2004	\$11,809
Claims and changes in estimates	4,571
Claims payments	<u>(4,071)</u>
Liability balance, December 31, 2004	12,309
Claims and changes in estimates	4,093
Claims payments	<u>(13,673)</u>
Liability balance, December 31, 2005	<u><u>\$ 2,729</u></u>

LITTLE ROCK WASTEWATER UTILITY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

	Original and Final Budget	Actual	Variance Over (Under)
<u>OPERATING REVENUES</u>			
Sewer Charges	\$ 29,052,200	\$ 29,374,828	\$ 322,628
Industry Surcharges	740,000	619,707	(120,293)
Connection Fees	192,000	214,625	22,625
Other	389,040	400,347	11,307
Total Operating Revenues	<u>30,373,240</u>	<u>30,609,507</u>	<u>236,267</u>
<u>OPERATING EXPENSES, EXCLUDING DEPRECIATION</u>			
Committee	36,500	63,259	26,759
Management	1,495,689	1,679,354	183,665
Finance and Administration	2,086,556	2,267,862	181,306
Engineering	2,590,077	2,737,634	147,557
Information Systems	1,510,133	1,624,004	113,871
Maintenance	9,451,718	9,705,193	253,475
Operations	3,879,343	3,888,079	8,736
Environmental Assessment CWIP	1,361,084 (2,287,198)	1,393,315 (2,548,338)	32,231 (261,140)
Total Operating Expenses, Excluding Depreciation	<u>20,123,902</u>	<u>20,810,362</u>	<u>686,460</u>
Operating Income Before Depreciation	<u>10,249,338</u>	<u>9,799,145</u>	<u>(450,193)</u>
<u>PROVISION FOR DEPRECIATION</u>			
Collection System	3,537,582	3,236,714	(300,868)
Pumping Plant	740,485	677,507	(62,978)
Adams Field	171,341	156,769	(14,572)
Fourche	734,603	672,126	(62,477)
General Plant	822,886	752,900	(69,986)
Total Provision for Depreciation	<u>6,006,897</u>	<u>5,496,016</u>	<u>(510,881)</u>
OPERATING INCOME (LOSS)	<u>4,242,441</u>	<u>4,303,129</u>	<u>60,688</u>

See independent auditors' report on required supplementary information.

LITTLE ROCK WASTEWATER UTILITY
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31, 2005 (CONTINUED)

	Original and Final Budget	Actual	Variance Over (Under)
<u>NONOPERATING INCOME</u>			
<u>(EXPENSE)</u>			
Interest Income	\$200,000	\$599,093	399,093
Interest Expense	(2,140,505)	(2,174,967)	(34,462)
Amortization of Bond Issuance Costs	(74,697)	(99,825)	(25,128)
Gain (Loss) on Disposal of Capital Assets	3,600	(8,272)	(11,872)
Unrestricted Gain (Loss) on Investments		(44,007)	(44,007)
Other	2,400	16,011	13,611
Total Nonoperating Income (Expense)	<u>(2,009,202)</u>	<u>(1,711,967)</u>	<u>\$297,235</u>
NET INCOME (LOSS)	<u>\$2,233,239</u>	<u>\$2,591,162</u>	<u>\$357,923</u>

See independent auditors' report on required supplementary information.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<u>Sewer Committee:</u>		
Committee Expense Reimbursement	\$ 30,892	\$ 17,965
Insurance	11,539	6,646
Other	20,828	15,357
Total	63,259	39,968
<u>Utility Manager:</u>		
Salaries	813,453	676,518
Employee Benefits	347,608	271,853
Supplies	49,613	17,594
Contract Services	133,330	152,122
Vehicle Maintenance	8,427	8,176
Utilities	13,790	13,197
Insurance	7,854	4,407
Other	305,279	290,774
Total	1,679,354	1,434,641
<u>Finance:</u>		
Salaries	806,206	706,374
Employee Benefits	310,943	262,693
Supplies	133,901	101,751
Contract Services	631,802	593,442
Vehicle Maintenance	2,977	796
Utilities	71,022	43,352
Insurance	16,969	3,924
Delinquent Accounts	200,142	235,183
Other	93,900	91,129
Total	2,267,862	2,038,644
<u>Engineering:</u>		
Salaries	1,665,518	1,498,893
Employee Benefits	702,527	622,027
Supplies	93,604	61,586
Contract Services	188,170	136,587
Vehicle Maintenance	19,102	12,395
Utilities	22,632	15,790
Insurance	5,745	5,509
Other	40,336	45,460
Total	2,737,634	2,398,247

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<u>Collection System and Facilities/</u>		
<u>Equipment Maintenance:</u>		
Salaries	\$ 5,323,997	\$ 4,899,629
Employee Benefits	2,408,994	2,068,712
Supplies	1,019,852	896,395
Contract Services	255,854	273,137
Vehicle Maintenance	455,329	318,781
Utilities	68,066	68,642
Insurance	80,626	88,996
Other	92,475	71,726
Total	9,705,193	8,686,018
 <u>Operations - Adams, Fourche, and</u>		
<u>Industrial Monitoring:</u>		
Salaries	1,424,050	1,342,173
Employee Benefits	600,823	520,360
Supplies	185,629	194,204
Contract Services	436,546	420,745
Vehicle Maintenance	8,727	7,186
Utilities	1,085,028	1,067,873
Insurance	38,961	44,291
Other	108,315	115,570
Total	3,888,079	3,712,402
 <u>Technical Services:</u>		
Salaries	660,435	595,241
Employee Benefits	279,697	231,383
Supplies	357,344	335,122
Contract Services	177,041	159,946
Vehicle Maintenance	7,978	4,459
Utilities	86,651	60,682
Insurance	1,529	1,060
Other	53,329	36,129
Total	1,624,004	1,424,022

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
<u>Environmental Assessment</u>		
<u>Department (EAD):</u>		
Salaries	\$ 821,563	\$ 784,717
Employee Benefits	375,830	328,679
Supplies	124,945	150,293
Contract Services	28,811	24,817
Vehicle Maintenance	8,775	5,766
Utilities	6,165	8,129
Insurance	1,698	1,725
Other	25,528	19,620
Total	1,393,315	1,323,746
Costs Allocated to Construction	(2,548,338)	(1,708,951)
Total Operating Expenses	\$ 20,810,362	\$ 19,348,737

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS
DECEMBER 31, 2005

Sewer Revenue Bonds (Series 1990)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
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>\$ 1,937,148</u>	<u>\$ 1,720,002</u>	<u>\$ 365,863</u>	<u>\$ 327,118</u>	<u>\$ 4,350,131</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

Sewer Revenue Bonds (Series 1991)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
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>\$ 1,660,413</u>	<u>\$ 1,474,287</u>	<u>\$ 313,598</u>	<u>\$ 280,389</u>	<u>\$ 3,728,687</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

Sewer Revenue Bonds (Series 1996)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
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	164,585	48,078	45,247	419,666
2013	3.5%	167,466	170,397	42,367	39,436	419,666
2014	3.5%	173,379	176,413	36,454	33,420	419,666
2015	3.5%	179,500	182,641	30,333	27,192	419,666
2016	3.5%	185,837	189,089	23,995	20,743	419,664
2017	3.5%	192,399	195,766	17,434	14,067	419,666
2018	3.5%	199,192	202,678	10,641	7,155	419,666
2019	3.5%	206,200	-	3,609	-	209,809
		<u>\$2,326,785</u>	<u>\$2,157,694</u>	<u>\$ 610,853</u>	<u>\$ 570,135</u>	<u>\$ 5,665,467</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

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	
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>\$ 5,308,482</u>	<u>\$ 5,407,997</u>	<u>\$ 1,986,388</u>	<u>\$ 1,886,855</u>	<u>\$14,589,722</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

Sewer Revenue Bonds (Series 2001)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		<u>2/1</u>	<u>8/1</u>	<u>2/1</u>	<u>8/1</u>	
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>\$ 10,190,000</u>	<u>\$ 10,445,000</u>	<u>\$ 6,118,893</u>	<u>\$ 5,875,059</u>	<u>\$ 32,628,952</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

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 (CONTINUED)
DECEMBER 31, 2005

Sewer Revenue Bonds (Series 2004B)

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

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

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 BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2005

Sewer Revenue Bonds (Series 2005)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		05/01	11/01	05/01	11/01	
2006	3.000%	\$ 345,000	\$ -	\$ 202,758	\$ 197,583	\$ 745,341
2007	3.000%	355,000	-	197,583	192,258	744,841
2008	3.000%	370,000	-	192,258	186,709	748,967
2009	3.500%	380,000	-	186,709	180,059	746,768
2010	3.125%	390,000	-	180,059	173,965	744,024
2011	3.250%	405,000	-	173,965	167,384	746,349
2012	4.000%	415,000	-	167,384	159,084	741,468
2013	4.000%	435,000	-	159,084	150,384	744,468
2014	4.000%	450,000	-	150,384	141,384	741,768
2015	4.000%	470,000	-	141,384	131,984	743,368
2016	5.000%	490,000	-	131,984	119,734	741,718
2017	4.000%	510,000	-	119,734	109,534	739,268
2018	4.100%	535,000	-	109,534	98,566	743,100
2019	5.000%	555,000	-	98,566	84,691	738,257
2020	4.200%	585,000	-	84,691	72,406	742,097
2021	4.375%	605,000	-	72,406	59,172	736,578
2022	4.375%	635,000	-	59,172	45,281	739,453
2023	4.375%	660,000	-	45,281	30,844	736,125
2024	4.375%	690,000	-	30,844	15,750	736,594
2025	4.375%	720,000	-	15,750	-	735,750
		<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ 2,519,530</u>	<u>\$ 2,316,772</u>	<u>\$ 14,836,302</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER UTILITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

<u>Bonds Payable December 31, 2004</u>	<u>Cash Received in 2005</u>	<u>Principal Repayments in 2005</u>	<u>Bonds Payable December 31, 2005</u>	<u>Total Expenditures in 2005</u>
\$ 4,011,965	\$ -	\$ 354,815	\$ 3,657,150	\$ -
3,438,827	-	304,127	3,134,700	-
4,740,450	-	255,969	4,484,481	-
11,160,309	-	443,830	10,716,479	-
1,550,202	9,024,153	-	10,574,355	9,024,153
1,220,168	7,067,482	-	8,287,650	7,067,482
207,029	986,901	-	1,193,930	986,901
<u>\$ 26,328,950</u>	<u>\$ 17,078,536</u>	<u>\$ 1,358,741</u>	<u>\$ 42,048,745</u>	<u>\$ 17,078,536</u>

LITTLE ROCK WASTEWATER UTILITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 2005 are included in the statements of cash flows in the Utility's financial statements. State Revolving Fund bonds payable of \$42,048,743 at December 31, 2005 are included in Note 7 to the Utility's financial statements. Total expenditures in 2005 are included in acquisition and construction of capital assets in the statements of cash flows in the Utility's financial statements.

STATISTICAL DATA



Schedule 1

Little Rock Wastewater Utility

Net Assets by Component,

Last Five Fiscal Years

	Fiscal Year				
	2001	2002	2003	2004	2005
Primary government					
Invested in capital assets, net of related debt	\$ 97,364,749	\$ 101,756,334	\$ 107,155,258	\$ 107,476,645	\$ 112,466,753
Restricted	3,141,386	3,496,538	6,215,950	12,632,743	15,798,033
Unrestricted	8,114,233	5,601,168	4,416,227	5,272,836	4,105,330
Total primary governmental net assets	<u>\$ 108,620,368</u>	<u>\$ 110,854,040</u>	<u>\$ 117,787,435</u>	<u>\$ 125,382,224</u>	<u>\$ 132,370,116</u>

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

Schedule 2

Little Rock Wastewater Utility

Changes in Net Assets,
Last Five Fiscal Years

Fiscal Year	Operating Revenue	Operating Expense	Operating Income	Total			Change in Net Assets
				Nonoperating Revenues/ (Expenses)	Income/(Loss) before Capital Contributions	Capital Contributions	
2001	\$ 20,295,613	\$ 14,379,127	\$ 1,258,410	\$ (1,258,410)	\$ (740,229)	\$ 635,301	\$ (104,928)
2002	21,136,586	16,208,850	67,268	(67,268)	(1,197,677)	3,431,349	2,233,672
2003	27,811,390	17,498,220	5,388,195	(1,703,325)	3,684,870	3,248,525	6,933,395
2004	30,295,588	19,348,737	5,848,659	(1,448,924)	4,399,735	3,195,054	7,594,789
2005	30,609,507	20,810,362	4,303,129	(1,711,967)	2,591,162	4,396,730	6,987,892

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

Schedule 3

Little Rock Wastewater Utility

Operating Revenues by Source,
Last Ten Fiscal Years

Fiscal Year	Sewer Charges	Industrial Surcharges ^a	Connection Fees	Other Income ^b	Total
1996	\$ 16,911,659	\$ 489,137	\$ 130,880	\$ 65,835	\$ 17,597,511
1997	16,740,610	494,056	163,620	67,826	17,466,112
1998	17,114,694	540,737	175,850	68,929	17,900,210
1999	16,979,065	485,075	150,279	81,664	17,696,083
2000	19,366,492	519,779	115,500	420,299	20,422,070
2001	18,980,598	696,202	88,041	530,772	20,295,613
2002	20,306,520	498,152	85,000	246,914	21,136,586
2003	26,984,440	382,001	108,500	336,449	27,811,390
2004	28,992,505	796,528	165,229	341,326	30,295,588
2005	29,374,828	619,707	214,625	400,347	30,609,507

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

^b Includes permit fees, sewer dump permits, and co-generation revenue.

Schedule 4

Little Rock Wastewater Utility

Operating Expenses,

Last Ten Fiscal Years

Fiscal Year	Employment Costs	Supplies	Contract Services	Vehicle Maintenance	Utilities	Administrative Costs ^a	Less Capitalized Items ^b	Subtotal,		Total Operating Expense
								Expense before Depreciation	Depreciation	
1996	\$ 7,141,414	\$ 924,573	\$ 1,130,332	\$ 398,464	\$ 1,280,476	\$ 430,139	\$ (1,177,513)	\$ 10,127,885	3,478,423	\$ 13,606,308
1997	7,387,079	973,937	1,338,420	399,626	1,353,337	530,140	(1,099,608)	10,882,931	3,729,681	14,612,612
1998	7,865,576	1,115,748	1,676,171	352,528	1,145,312	639,501	(1,041,362)	11,753,474	3,824,552	15,578,026
1999	8,535,353	1,162,486	1,518,927	346,344	1,140,794	587,301	(1,124,997)	12,166,208	4,114,637	16,280,845
2000	8,979,511	1,327,214	1,505,752	440,718	1,246,006	651,561	(1,131,097)	13,019,665	4,677,362	17,697,027
2001	10,196,946	1,438,772	1,520,544	434,657	1,293,051	676,980	(1,181,823)	14,379,127	4,658,076	19,037,203
2002	11,610,711	1,595,353	1,776,670	463,714	1,255,564	715,469	(1,208,631)	16,208,850	4,860,468	21,069,318
2003	12,759,646	1,559,800	1,783,370	521,657	1,215,530	980,756	(1,322,539)	17,498,220	4,924,975	22,423,195
2004	14,809,248	1,756,942	1,760,801	357,558	1,277,660	1,095,479	(1,708,951)	19,348,737	5,098,192	24,446,929
2005	16,541,643	1,964,885	1,851,550	511,315	1,353,354	1,135,952	(2,548,338)	20,810,361	5,496,015	26,306,376

^a Includes committee, insurance, other (training & development, travel, delinquent accounts, & bank service charges) expenses

^b Capitalized labor, overhead and supplies

Schedule 5

Little Rock Wastewater Utility

Nonoperating Revenues and Expenses,
Last Ten Fiscal Years

Fiscal Year	Interest Expense	Interest Revenue	Bond Amortization Expense	Gain/Loss		Unrealized Gain/Loss on Investments	Other Gain/Loss	Total Nonoperating Revenue/Expense
				on Disposal Capital Assets				
1996	\$ (1,774,239)	\$ 638,825	\$ (59,659)	\$ 46,199	\$ -	\$ 55,424	\$	(1,093,450)
1997	(1,699,976)	724,988	(66,018)	(37,376)	0	28,364		(1,050,018)
1998	(1,642,577)	540,929	(63,700)	(68,976)	0	40,731		(1,193,593)
1999	(1,737,906)	429,248	(66,085)	29,907	13,728	33,388		(1,297,720)
2000	(1,718,438)	499,722	(89,287)	(9,696)	0	16,783		(1,300,916)
2001	(1,693,272)	391,736	(256,807)	(18,078)	0	(422,218)		(1,998,639)
2002	(1,702,432)	244,519	(86,847)	(29,257)	23,846	285,226		(1,264,945)
2003	(1,976,233)	174,887	(82,006)	23,782	(14,927)	171,172		(1,703,325)
2004	(2,032,069)	249,077	(83,287)	440,359	(23,427)	423		(1,448,924)
2005	(2,174,967)	599,093	(99,825)	(8,272)	(44,007)	16,011		(1,711,967)

Schedule 6

Little Rock Wastewater Utility

New Construction Permits,
Last Ten Fiscal Years

Fiscal Year	Residential	Commercial	Total New Construction Permits
1996	487	83	570
1997	450	83	533
1998	633	108	741
1999	609	96	705
2000	559	75	634
2001	489	104	593
2002	555	98	653
2003	650	109	759
2004	736	112	848
2005	940	143	1,083

Schedule 7

Little Rock Wastewater Utility

Number of Sewer Customers^a by Type,
Last Ten Fiscal Years

Fiscal Year	Residential	Commercial	Industrial	Other ^b	Total
1996	53,322	5,344	78	289	59,033
1997	53,792	5,404	86	300	59,582
1998	54,336	5,473	87	304	60,200
1999	55,098	5,538	85	298	61,019
2000	56,337	5,632	85	305	62,359
2001	56,747	5,691	87	298	62,823
2002 ^c	56,978	5,849	86	302	63,215
2003	57,245	5,976	85	396	63,702
2004	57,866	6,028	87	414	64,395
2005	58,610	6,090	82	410	65,192

^a Active billed accounts as of December 31

^b Includes public utilities, governmental (US, state, county, city), and public schools

^c LRWU audited and reclassified accounts in each class type

Schedule 8A

Little Rock Wastewater Utility

Sewer Rates (Inside City),

Last Ten Fiscal Years

Base Rate ^c (Meter Size)	Fiscal Year				
	2001	2002 ^a	2003 ^b	2004	2005
5/8"	\$ 2.57	\$ 9.00	\$11.00	\$ 11.00	\$ 11.00
3/4"	3.85	10.65	12.90	12.90	12.90
1"	6.42	14.25	17.25	17.25	17.25
1.5"	12.84	23.35	28.25	28.25	28.25
2"	20.55	34.20	41.40	41.40	41.40
3"	38.53	59.55	72.00	72.00	72.00
4"	64.22	95.75	115.85	115.85	115.85
6" or larger	128.45	186.30	225.40	225.40	225.40
Volumetric Rate ^d	\$ 1.31	\$ 1.83	\$ 2.21	\$ 2.21	\$ 2.21

Base Rate ^c (Meter Size)	Fiscal Year				
	1996	1997	1998	1999	2000
5/8"	\$ 2.57	\$ 2.57	\$ 2.57	\$ 2.57	\$ 2.57
3/4"	3.85	3.85	3.85	3.85	3.85
1"	6.42	6.42	6.42	6.42	6.42
1.5"	12.84	12.84	12.84	12.84	12.84
2"	20.55	20.55	20.55	20.55	20.55
3"	38.53	38.53	38.53	38.53	38.53
4"	64.22	64.22	64.22	64.22	64.22
6" or larger	128.45	128.45	128.45	128.45	128.45
Volumetric Rate ^d	\$ 1.31	\$ 1.31	\$ 1.31	\$ 1.31	\$ 1.31

^a New step rate increase started Sept 17, 2002 and implemented new billing process called Average Winter Consumption

^b Next step rate increase started Jun 1, 2003

^c Rate charge from 1996 to Sept 16, 2002 started with zero water consumed and from Sept 17, 2002 to present includes 200 cubic feet

^d Per 100 cubic feet

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

Schedule 8B

Little Rock Wastewater Utility

Sewer Rates (Outside City),

Last Ten Fiscal Years

Base Rate ^c (Meter Size)	Fiscal Year				
	2001	2002 ^a	2003 ^b	2004	2005
5/8"	\$ 3.86	\$ 13.50	\$ 16.50	\$ 16.50	\$ 16.50
3/4"	5.78	16.00	19.40	19.40	19.40
1"	9.63	21.40	25.85	25.85	25.85
1.5"	19.26	35.05	42.40	42.40	42.40
2"	30.83	52.35	63.35	63.35	63.35
3"	57.80	89.30	108.00	108.00	108.00
4"	96.33	143.65	173.80	173.80	173.80
6" or larger	192.68	279.40	338.10	338.10	338.10
Volumetric Rate ^d	\$ 1.97	\$ 2.75	\$ 3.32	\$ 3.32	\$ 3.32

Base Rate ^c (Meter Size)	Fiscal Year				
	1996	1997	1998	1999	2000
5/8"	\$ 3.86	\$ 3.86	\$ 3.86	\$ 3.86	\$ 3.86
3/4"	5.78	5.78	5.78	5.78	5.78
1"	9.63	9.63	9.63	9.63	9.63
1.5"	19.26	19.26	19.26	19.26	19.26
2"	30.83	30.83	30.83	30.83	30.83
3"	57.80	57.80	57.80	57.80	57.80
4"	96.33	96.33	96.33	96.33	96.33
6" or larger	192.68	192.68	192.68	192.68	192.68
Volumetric Rate ^d	\$ 1.97	\$ 1.97	\$ 1.97	\$ 1.97	\$ 1.97

^a New step rate increase started Sept 17, 2002 and implemented new billing process called Average Winter Consumption

^b Next step rate increase started Jun 1, 2003

^c Rate charge from 1996 to Sept 16, 2002 started with zero water consumed and from Sept 17, 2002 to present includes 200 cubic feet

^d Per 100 cubic feet

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

Schedule 9

Little Rock Wastewater Utility

Ten Largest Sewer Customers,
Current Year and Five Years Ago

Fiscal Year 2005		
Customer	Amount	Percent
1. U of A Medical Science Center	\$ 317,050	1.08 %
2. Odom Sausage	250,554	0.85
3. Baptist Medical Center	214,143	0.73
4. Central Arkansas Water	180,271	0.61
5. City of Shannon Hills	174,374	0.59
6. St. Vincent's Hospital	139,524	0.47
7. Coleman Dairy	99,103	0.34
8. V.A Hospital	93,971	0.32
9. Arkansas Children's Hospital	84,801	0.29
10. Coca-Cola Bottling	79,333	0.27
Subtotal	1,633,124	5.56
Balance from other customers	27,741,704	94.44
Grand Totals ^a	<u>\$ 29,374,828</u>	<u>100.00 %</u>

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

^a Grand Totals are based on Sewer Charges from Schedule 3.

Schedule 10

Little Rock Wastewater Utility

Ratios of Outstanding Debt by Type,
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds	Revolving Fund Loans	Notes	Total		
				Amount	Per Capita	As a Share of Personal Income
1996	\$ 24,830,000	\$ 13,664,770	\$ -	\$ 38,494,770	\$ 212.35	0.10%
1997	23,930,000	16,584,923	-	40,514,923	223.49	0.09%
1998	22,995,000	16,900,562	-	39,895,562	216.88	0.09%
1999	22,020,000	16,688,328	-	38,708,328	210.43	0.08%
2000	21,000,000	21,854,373	-	42,854,373	234.01	0.09%
2001	22,680,000	24,302,865	-	46,982,865	256.55	0.10%
2002	21,675,000	25,919,408	-	47,594,408	259.89	0.11%
2003	21,340,000	24,659,791	-	45,999,791	251.18	0.11%
2004	20,995,000	26,328,950	3,316,918	50,640,868	276.53	0.12%
2005	30,635,000	42,048,744	-	72,683,744	396.89	0.17%

Notes: LRWU's bond covenants stipulate that it may issue debt as long as certain conditions are met. The major criterion is that the net earnings of the system must be at least 1.3 times the highest combined debt service requirement.

Schedule 11

Little Rock Wastewater Utility

Pledged-Revenue Coverage,

Last Ten Fiscal Years

Fiscal Year	Gross Revenue ^a	Direct Operating Expense ^b	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 ^c	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	2,050,350	4,386,672	2.55
2005 ^d	31,208,600	20,810,361	10,398,239	5,035,661	2,122,914	7,158,575	1.45

^a Includes interest on investment income.

^b See Schedule 4.

^c The 2001 Sewer Revenue Bond included the advance refund of the 1993 Sewer Revenue Bond

^d The 2005 Sewer Revenue Bond included the payoff of the 2004 Short-Term Note

Schedule 12

Little Rock Wastewater Utility

Demographic and Economic Statistics,
Last Ten Calendar Years

Calendar Year	Population ^a	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Percentage Rate
1996	181,280	\$ 37,608,349	\$ 20,746	3.3%
1997	181,280	43,559,771	24,029	3.4%
1998	183,951	45,814,836	24,906	3.4%
1999	183,951	47,623,074	25,889	4.1%
2000	183,133	47,411,302	25,889	3.1%
2001	183,133	47,411,302	25,889	4.3%
2002	183,133	42,503,338	23,209	4.3%
2003	183,133	42,503,338	23,209	4.6%
2004	183,133	42,503,338	23,209	4.4%
2005	183,133	42,503,338	23,209	4.5%

^a 1996 to 1999 is estimated and 2000 to 2005 is from the 2000 Census

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

Schedule 13

Little Rock Wastewater Utility

Principal Employers,

Current Year and Nine Years Ago

Employer	2005			1996		
	Employees	Percentage of Total	Rank	Employees	Percentage of Total	Rank
State of Arkansas	28,100	8.69%	1	22,900	10.22%	1
Federal Government	9,400	2.91%	2	9,900	4.42%	2
University of Arkansas Medical Sciences	8,500	2.63%	3	5,392	2.41%	5
Public School Districts	7,868	2.43%	4	8,000	3.57%	3
Baptist Health	7,571	2.34%	5	5,000	2.23%	6
Little Rock Air Force Base	4,500	1.39%	6	6,890	3.07%	4
Acxiom	4,388	1.36%	7	--	--	
St. Vincent Medical Center	3,400	1.05%	8	2,500	1.12%	8/9
Entergy Arkansas	2,881	0.89%	9	--	--	
Veterans Administration Hospitals	2,785	0.86%	10	3,700	1.65%	7
Alltel Corporation				2,500	1.12%	8/9
Arkansas Children Hospitals				2,496	1.11%	10
Total	79,393	25%		69,278	31%	

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

Schedule 14

Little Rock Wastewater Utility

Number of Employees by Identifiable Activity,
Last Ten Fiscal Years

	Full-time-Equivalent Employees as of December 31,									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Administration:										
Executive Administrator	1	1	1	1	1	1	1	1	1	1
Safety & Communications	1	2	2	2	2	2	3	3	4	4
Human Resources	1	3	4	4	2	2	2	2	2	2
Finance/Accounting	10	8	8	7	7	7	7	7	7	8
Information Services ^a	10	12	12	13	23	22	10	10	12	12
Legal	1	1	1	1	1	1	1	1	1	1
Clerical	16	13	15	12	17	16	17	17	18	16
Engineering ^a	28	29	26	27	15	15	28	31	32	32
Sewer Plant Maintenance	12	12	11	12	12	12	20	21	20	20
Sewer Systems Maintenance	79	80	78	78	73	77	89	92	103	105
Sewer Plant Operations	24	24	24	24	24	22	22	22	22	22
Environmental Assessment	16	15	15	15	15	15	15	15	17	17
Total Employees	199	200	197	196	192	192	215	222	239	240

^a GIS personnel were moved from Engineering to Information Services in 2000 and back to Engineering in 2002.

Schedule 15

Little Rock Wastewater Utility

Operating and Capital Indicators,
Last Ten Fiscal Years

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Wastewater Treatment										
Miles of Sewer	1,032	1,041	1,071	1,092	1,116	1,139	1,164	1,198	1,229	1,248
Number of Treatment Plants	2	2	2	2	2	2	2	2	2	2
Treatment Capacity (MGD)	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0
Daily engineering maximum plant capacity (MGD)	34.88	36.63	34.63	33.73	34.58	36.93	35.97	33.39	37.35	32.21
Unused Capacity (MGD)	17.12	15.37	17.37	18.27	17.42	15.07	16.03	18.61	14.65	19.79
Percent of capacity utilized	67%	70%	67%	65%	67%	71%	69%	64%	72%	62%

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

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OTHER REQUIRED REPORTS



COBB AND SUSKIE, LTD.

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Michael L. Cobb

Anne Suskie Pinyan

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

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

We have audited the financial statements the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, 2005, and have issued our report thereon dated March 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Little Rock Wastewater 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 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 Suskie, Ltd.

Certified Public Accountants
March 7, 2006

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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, 2005. 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, 2005.

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Cobb and Suskie, Ltd.

Certified Public Accountants
March 7, 2006

LITTLE ROCK WASTEWATER UTILITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 IN ACCORDANCE WITH OMB CIRCULAR A-133
 FOR THE YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF AUDITORS' RESULTS

A. Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

B. Federal Awards:

Internal control over major programs:

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

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

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

LITTLE ROCK WASTEWATER UTILITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED)

B. Federal Awards (Continued):

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? 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.