



LITTLE ROCK, ARKANSAS

A Component Unit of the City of Little Rock, Arkansas

Comprehensive Annual

Financial Report

For The Year Ended December 31, 2011

Prepared by:

Little Rock Wastewater Finance Department

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

Comprehensive Annual Financial Report
Year Ended December 31, 2011

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INTRODUCTORY SECTION



Little Rock Wastewater

March 17, 2012

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

The staff of Little Rock Wastewater (LRW) is proud to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2011. 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, 2011. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with LRW. This CAFR was prepared by the Finance Division of LRW with the help of Cobb and Suskie, Ltd.

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

LRW's financial statements have been audited by Cobb and Suskie, Ltd., a firm of licensed certified public accountants. Cobb and Suskie has issued an unqualified (clean) opinion on LRW's financial statements for the year ended December 31, 2011. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors 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 seven-member Little Rock Sanitary Sewer Committee (LRSSC) manages and controls the city's sewer system. The LRSSC and LRW must seek approval of all sewer rate increases and long term financing through the City of Little Rock Board of Directors. The City of Little Rock Board of Directors appoints LRSSC members. The LRSSC in turn hires a Chief Executive Officer. The LRSSC meets on the third Wednesday of each month.

LRW provides wastewater service to its customers. For financial reporting purposes, LRW is considered a component unit of the City of Little Rock, Arkansas. The LRSSC operates and manages LRW with the City of Little Rock having the power to impose its will on LRW. LRW adopts an annual operating, capital, and debt service budget along with associated rates and fees for services; and also issues updates to its Rules and Regulations. LRW recovers the cost of providing wastewater services primarily through user charges and collects a 10.0% Franchise Fee for the City of Little Rock.

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

Factors Affecting Financial Condition

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

Local Economy - The City of Little Rock currently enjoys a favorable economic environment and local indicators point to continued stability. The City of Little Rock is the capital and largest city of Arkansas as well as the governmental, economic, cultural, and financial center of the state. The city and surrounding communities have a mix of industry – state government, centralized health-care centers serving the state, a financial sector, information sector, and a variety of other sectors that are not cyclical. In a national publication, *Kiplinger's Personal Finance*, the City of Little Rock was named as one of the top ten best places to live for the value-conscious. This was based on the cost of living, quality of life, and strong economics. Little Rock placed seventh on the list, which used factors such as population growth, unemployment rate, income growth, and housing costs.

The customer base has continued to grow but at a slower pace from previous years for the domestic and non-domestic users of the Sewer System. The number of domestic customer accounts has increased by 7.11% over the past ten years while non-domestic users have increased by 9.14% over the same time period. The overall growth of total customer accounts for the ten year period is 7.31%, a decrease of .33% from the 2010 audit.

Long-Term Financial Planning – In 2000, the LRSSC and LRW contracted with an engineering firm to evaluate LRW's sewer system capacity. The resulting report titled System Evaluation and Capacity Assurance Plan (SECAP) was finalized in 2002. The report recommended implementing a \$171,000,000 capacity-related capital improvement program over a 15 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, the Sierra Club filed a Complaint in Federal Court concerning non-capacity and capacity related sanitary sewer overflows. The aforementioned

Settlement Agreement mandates LRW meet specific overflow performance standards. For non-capacity sanitary sewer overflows, the performance requirement of six per one-hundred miles of owned and operated sewer lines must be satisfied two (2) consecutive years before 2008. For capacity related overflows, the performance requirement is no overflows unless precipitation amounts are extremely heavy (two-year return frequency); the deadline for this performance level is 2017.

Since the lawsuit, LRW has stayed on a timeline to meet the CAO requirements. In 2009, LRW contracted with RJN Engineering Group to re-evaluate the wastewater system and performed a SECAP update. This update was completed in November 2010 and presented to the LRSSC in December 2010. The RJN report validated previous capital projects in the prior report and identified new capital items for a total estimate of \$324,765,260 in order to complete the CAO.

Also LRW petitioned the courts to extend the CAO completion date by three (3) years; from December 31, 2015 to December 31, 2018. The extension was approved by all parties involved in August, 2011.

With the lawsuit and the updated SECAP being the driving forces behind capital improvements, the strategic capital operating plan schedules projects using a seven-year capital budget outlook that will consist of the following major construction projects:

Fourche Creek Wastewater Treatment Facility Hydraulic Upgrade

The direct discharge of certain industrial wastes to the primary digestion units (called co-digestion) of the Fourche Creek Wastewater Treatment Facility is an acceptable means of treatment for such wastes. Within 2011, LRW directed Sage V Foods flows from the biological treatment units to the primary digesters. With the acceptance of this industrial flow to the primary digesters, biogas production will increase and excessive methane gas will be produced. LRW staff has concluded it would be prudent to develop a facility plan for handling the increased gas production and addressing future flows from industrial users. The 2012 budget allocates \$1,140,000 for a facility plan and the construction of recommended improvements to the digester complex. The project is forecasted to be completed in 2013 at a total cost of \$20,072,800. The 2013 forecast provides \$1,210,000 to complete the Sage V Foods modification and add additional supplemental digester heat. This project will be partially funded through available funds and partially funded with the 2012 sewer revenue bond issue.

Fourche Creek Wastewater Treatment Facility Digester #3 Repair

On April 28, 2011, a welding incident at Fourche Creek Wastewater Treatment Facility caused methane in Primary Digester number 3 to ignite. Following the incident, LRW staff investigated the digester and determined that the structure was damaged. Staff then filed an insurance claim to fully investigate the extent of damage. The insurance company hired an engineering firm to investigate. The firm determined that the structure's roof slab was damaged and recommended replacement. This project calls for the replacement of the roof and supporting columns as well as the replacement of any equipment damaged in the incident. This project is forecasted to be completed by the end of 2012.

This project is to repair and return to service an existing asset. No additional costs are anticipated to operate and maintain the structure once it is complete. Additionally, the damage to this digester was the result of an accident and is covered by LRW's property insurance so the total cost to fund the construction of this project is equivalent to the deductible of \$50,000.

Collection System Rehabilitation Capacity Assurance Projects

The majority of the collection system rehabilitation and capacity assurance projects have been extracted from the 15-year capital improvement plan outlined in the SECAP report and the SECAP update completed in 2010. The total cost of work scheduled for 2012 is \$2,343,000. The 7-year forecast includes over \$130,856,000 for collection system rehabilitation and capacity assurance projects.

Trenchless Sewerline Rehabilitation

Trenchless sewer line rehabilitation is for the renewal of structurally deteriorated line segments that contribute to non-capacity overflows. Trenchless methods include Cured in Place Pipe (CIPP) and Pipe Bursting. Sewer line segments are identified through Sewer System Overflow (SSO) follow-up inspections and routine collection system inspections by LRW crews. The line segments slated for trenchless rehabilitation are typically located in areas where replacement by reconstruction is costly due to site restrictions. Lines identified by LRW as needing rehabilitation are added to the GLES (General Engineering Study) list of projects. Each line segment is evaluated and a ranking value is assigned based on criteria established by LRW. Utilizing the GLES list and ranking system, line segments are scheduled for rehabilitation. LRW is projecting that \$2,000,000 will be needed each year from 2012 to 2018 for rehabilitation of sewer lines by trenchless methods as the lines are identified and added to the GLES list.

Cantrell Road Pump Station Upgrade

The Cantrell Road Pump Station came on-line in 1967. Structurally the facility is in good condition. Mechanically and electrically, the pump station components are in need of replacement. Two bar screens were installed in 1986. Two of the original pumps from 1967 were replaced in 1986. A portion of the switchgear is original while some components were replaced or added in 1986. The station does not have back-up power generation. With portions of the equipment at 44 years old and the remaining at 25 years, the reliability of equipment and availability of replacement parts have and will be an issue. This project calls for replacement of all mechanical and electrical equipment, and installation of back-up power. The Cantrell Road Pump Station Upgrade is scheduled to begin construction in 2013 and be completed by the end of 2015. This project is estimated to cost \$7,950,728 and will be funded by a sewer revenue bond in 2012.

Cantrell Road Pump Station Force Main

The Cantrell Road Pump Station Force Main also came on-line in 1967. Current technology does not allow for the inspection of an active force main. Therefore, the structural condition of the main is unknown. Design life for similar structures can be 50 years. This project calls for the installation of a new force main and the inspection and rehabilitation of the existing force main after the new main is placed in service. This project is expected to begin construction in

2013 and be completed by the end of 2015. This project is estimated to cost \$3,161,106 and will be funded by a projected sewer revenue bond issue in 2012.

Cantrell Road Area In-Line Storage

This four million gallon in-line storage facility will alleviate overflows generated from wet weather flows in the Jimmerson and Cantrell Road areas of the City. In addition, this storage facility will allow the pumping capacity at the Cantrell Road Pump Station to remain the same, which is essential to eliminate further overflows downstream of the pump station along the Riverfront portion of the City. This project is expected to begin construction in 2016 and be completed by the end of 2018. The project is estimated at \$16,987,523 and will be funded by a sewer revenue bond issue in 2016.

Peak Flow Pump Station – Additional Pump

The Peak Flow Pump Station was designed with an empty pump position so the capacity of the station could be readily increased when storage becomes available. The increased capacity of the station will reduce the occurrence of sanitary sewer overflows in the Fourche Creek vicinity with additional storage at either BFI or an additional basin at the Peak Flow Attenuation Facility. The project is scheduled to start in 2014 and completed by the end of 2015. It is estimated to cost \$1,203,695 and will be funded by a sewer revenue bond issued in 2012.

Jamison Pump Station Upgrade

The Jamison Road Pump Station was constructed in 1993. The station consists of five submersible pumps which include two 25 hp and three 150 hp pumps. There are two grinders and screens - one on each of the inlet channels. Dry weather flow at the station is approximately 2 mgd. Peak pumping capacity is approximately 16 mgd. Overall the wet well, valve vault, and building structure are in good condition and the station is functioning as designed. No changes are immediately required but the SECAP recommended installing back-up power, painting the ferrous surfaces at the station, and replacing the grinders with a mechanical bar screen when maintenance of the grinders becomes an issue. This project is expected to begin construction in 2016 and be completed by the end of 2018. The project is estimated to be \$2,184,269 and will be funded by a sewer revenue bond issue in 2016

Adams Field and Mabelvale Pike Storage

These peak flow storage basins are interconnected with the entire service area of LRW. The trunk system of sanitary sewer lines are dependent on one another and the storage volumes and locations are vital in eliminating large overflows that occur within the trunk system. These storage options are also much more cost effective than to up-size a majority of the interceptor network and use those upgrades to store excess wet weather flows. The total capital costs for these projects are estimated at \$77,927,227.

Rock Creek Storage

A 7 million gallon in-line storage facility is essential to store wet weather flows generated along the Rock Creek Interceptor and the western portion of the City. This storage allows for considerable cost savings by not having to upgrade the entire length of sewer that makes up the Rock Creek Interceptor. This project is expected to begin construction in 2012 and be

completed by the end of 2018. The total cost is estimated at \$26,489,701 and will be funded by sewer revenue bonds issued in 2012 and 2016.

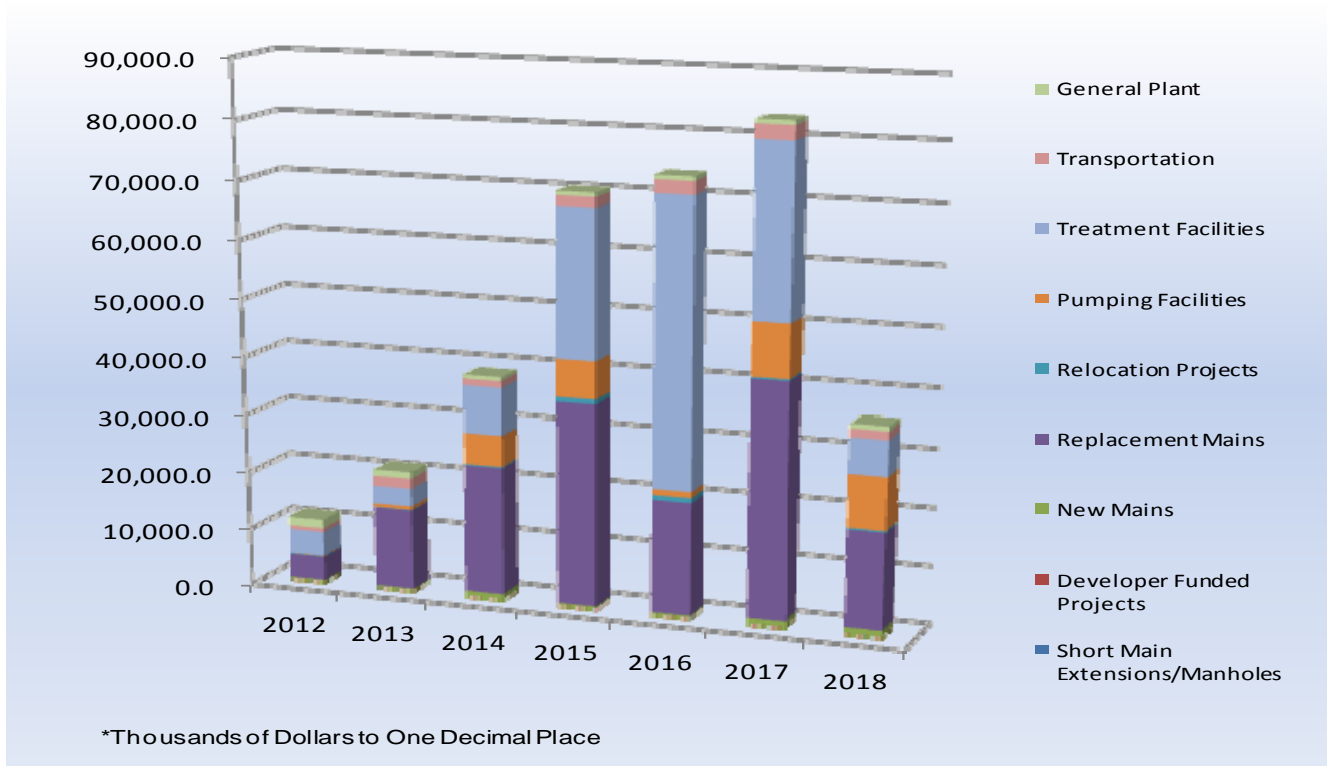
Fourche Creek Wastewater Treatment Facility Phase III - Rehabilitation

Recent improvements to the Fourche Creek Wastewater Treatment Facility have increased the hydraulic capacity of the plant from 36 million gallons per day (MGD) to 45 MGD. This level of hydraulic throughput was needed to address the hydraulic improvements at the Arch Street Pump Station. However, in the 2008 Facility Plan for the plant, the ultimate hydraulic throughput of the plant was placed at 52 MGD to allow for anticipated growth in the industrial port complex. The budget allocates \$13,322,100 in future years for the construction of additional hydraulic improvements and other capital improvements at the Fourche Treatment Facility. This project is scheduled to begin in 2016 and be completed by the end of 2017. The total cost is estimated at \$13,322,092 and will be funded by a sewer revenue bond issue in 2016.

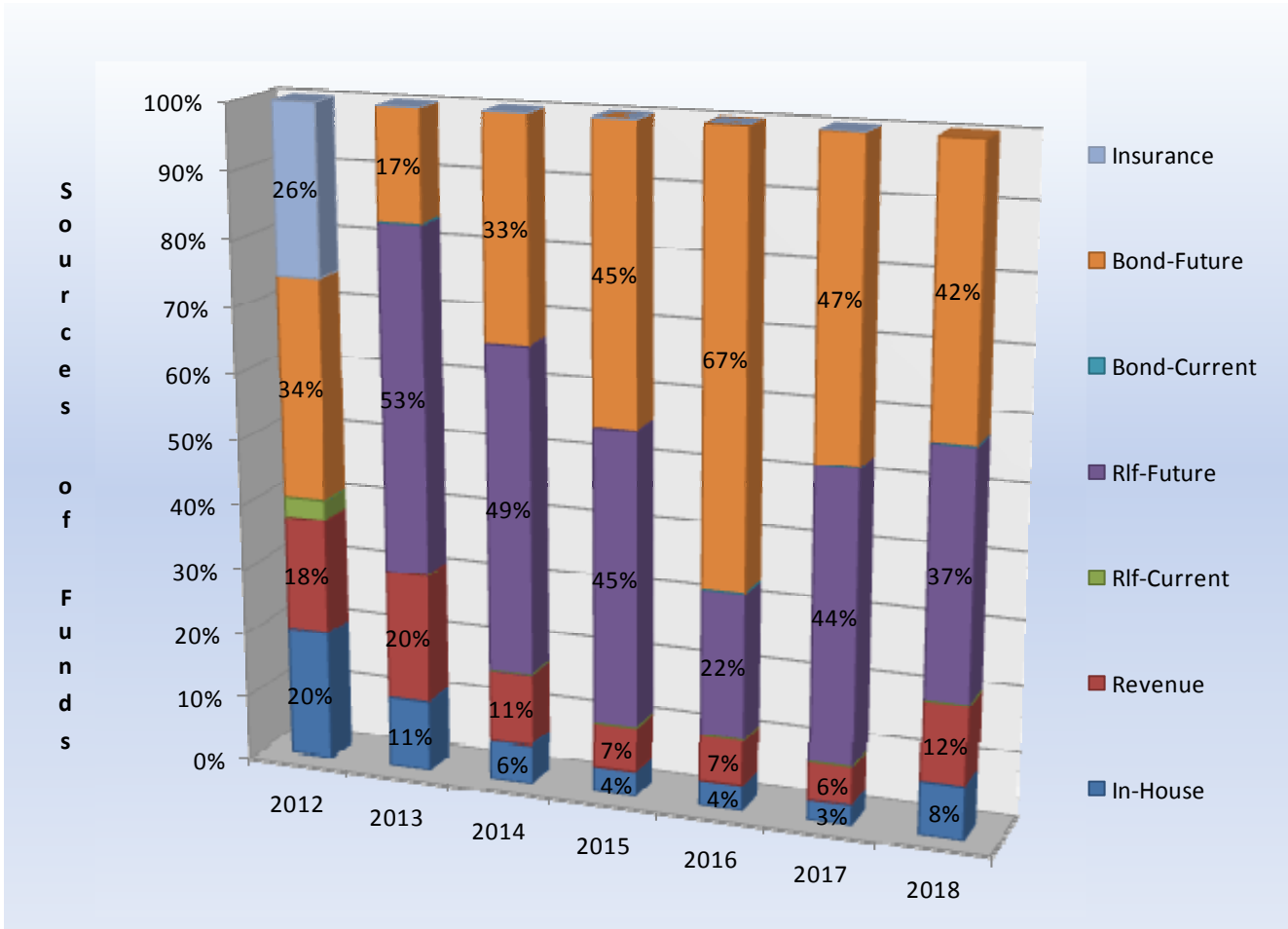
Strategic Capital Operating Plan

The Little Rock Wastewater capital strategic plan includes projects from 2012 through 2018 adjusted by an annual inflation allowance of 5%. Net expenditures of approximately \$333,355,700 are forecasted to be completed through 2018.

Of the \$333,355,700 forecasted through 2018 over \$17,670,000 will be completed by in-house construction crews, \$30,326,000 from revenues, \$332,000 from current State Revolving Loans, \$127,627,700 from future State Revolving Loans, \$3,000,000 from insurance, and \$154,400,000 from proposed sewer revenue bonds.



Project Funding Comparison



In 2008 LRW contracted with Raftelis Financial Consultants, Inc. to review and update LRW's ancillary charges; to conduct a feasibility study of alternative system growth charges (System Development Fees); to analyze LRW's cost of wastewater collection, treatment and disposal services; recommend adjustments to the wastewater rate structure; and to conduct an asset management study of LRW's property, plant, and equipment. MWH Global assisted Raftelis with the asset management elements of this project. The results along with updated Raftelis rate model based on 2012 requirements will be presented to the City of Little Rock Board of Directors in mid-2012. It is estimated that a rate increase of 14% in 2012, 8% in 2013, 7% in 2014, 10% in 2015, 10% in 2016, 0% in 2017, 4% in 2018, and 6% in 2019 will be needed in order to issue new debt and meet daily obligations.

Financial Policies

LRW is accounted for as an Enterprise Fund, which is a proprietary fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of LRW is that the cost (including depreciation) of

providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations, maintenance, financing and related debt issues, and billing and collection.

Flow of Funds Policy - The flow of funds is established based on parity bond ordinances. The most recent bond ordinance is #20,046. The ordinance states that rates charged for services of the System are fixed by ordinances of the City and all System revenues shall be paid into a special fund designated "Sewer Fund" (or Revenue Fund). The System revenues so deposited in the Revenue Fund are pledged and applied in sequence to: (a) current expenses of maintenance and operations; (b) payment, pro rata, into the bond fund being maintained in connection with the Parity Bonds and any Additional Bonds that require monthly deposits; (c) payment, pro rata, into the bond fund being maintained in connection with the Subordinate Bonds; (d) payment into the Deprecation Fund (3% of System Revenues remaining after disbursement into (a), (b), and (c) from above; (e) any surplus in the Revenue Fund after making all disbursements and providing for all funds described above may be used for any lawful purpose related to the System authorized by the LRSSC.

Sewer Revenue Fund

All gross revenues are deposited into the Sewer Revenue Fund as collected. Monies deposited in the Sewer Revenue Fund shall be first used to pay all Operation and Maintenance Expenses. The revenues of the System not actually required to pay Operation and Maintenance Expenses (the "Net Revenues") shall be transferred from the Revenue Fund to the other funds, in the order of priority, in the manner set forth in the Bond Ordinance.

Bond Fund

The following shall be deposited in the Bond Fund:

1. Such amounts, in equal monthly installments, by the 10th of the month following the month of closing, and on or before the 10th of each month thereafter, as will be sufficient to pay the interest scheduled to come due on the bonds' next interest payment date, less any amount already on deposit therein for such purposes derived from the proceeds of the bonds or from any other lawfully available source.
2. Additional sums as necessary to provide for the Trustee's fees and expenses and any arbitrage rebate payment due to be paid to the United States Treasury under Section 148(f) of the code.

Reserve Fund

As long as the funds on deposit in the Reserve Fund created for the benefit of all bonds are equal to the Reserve Fund Requirement, no deposits need to be made to the credit on the Reserve Fund. However, should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then subject and subordinate to making the required deposits to the credit of the Bond Fund, LRW shall transfer from the Net Revenues in the Revenue Fund and deposit to the credit of the Reserve Fund, by the 10th day of each month, such amounts in equal monthly installments to accumulate within at least a 24 month period equal to the

Reserve Fund Requirement. The money on deposit in the Reserve Fund may be used to pay the principal and interest on all bonds at any time there are not sufficient funds on deposit in the Bond Fund for such purposes.

Depreciation Fund

Three percent (3%) of the remaining money in the Revenue Fund at the end of each month after all payments required to be made from the revenue fund have been made and all deficiencies accumulated from prior months have been paid shall continue to be paid to the Depreciation Fund established in connection with the System, and shall be held in and paid out from such fund for the following purposes:

-To be used solely for the purpose of paying the cost of replacement made necessary by the depreciation of the System.

Contributions in Aid of Construction Fund

Any monies that may be received by the LRSSC that shall represent contributions in aid of construction shall be deposited in a separate account at the Depository Bank. Such contributions shall not be considered as part of the gross revenues of the System. Payments from such bank account shall be made only for the purposes for which the contributions were made, including any refunds that may become due to any contributor.

Capital Improvements Budget Policy - A budget will be prepared for all capital expenditures contemplated, including completions of active construction projects, projects and capitalized purchases planned for the succeeding calendar year, and all projects for which a commitment of funds is to be made even though the actual expenditure will not occur in the succeeding year.

This actual budget is used for projecting anticipated capital requirements and becomes a vital element in the LRW Operating Plan.

The initial capital budget will be prepared within each division at LRW, assimilated and reviewed by the Manager of Finance, and submitted for approval to the Manager of Engineering Services and Chief Executive Officer.

Subsequent to the CEO's approval, the Capital Budget will be incorporated into the LRW Operating Plan and submitted to the LRSSC for approval.

Upon approval, all proposed expenditures included in the Capital Budget will be classified as "Planned Expenditures." Any of the capital expenditures proposed during the course of the plan year which are not included in the approved capital budget, will be classified as "Unplanned Expenditures."

Expenditures equal to or greater than \$5,000 on construction projects or purchases of new equipment are hereby defined as capital expenditures. Expenditures equal to or greater than \$5,000 on work, equipment parts, or a combination of the two, that add discernible life to an existing depreciated asset are also defined as capital expenditures. In general, expenses

associated with additions, replacements, reconstructions, improvements, or betterments qualify as capital expenditures.

Due to state procurement laws and the nature of capital improvement expenditures, it generally takes more than one (1) fiscal year to complete most capital improvement projects. Therefore many projects carry over from year to year before they are completed and placed into service. LRW does not award a project contract unless it is fully funded. However, many large projects have multiple year and/or multiple phase construction periods. LRW uses several benchmarks of efficiency to ensure capital budget integrity. These include timely completion clauses, aggressive efforts to minimize change orders, and tracking the progress of the overall Capital Improvement Plan (CIP).

The following is a typical schedule for the development of a CIP and an O&M budget:

- January 1 – fiscal year begins.
- July and August – division heads formulate their requests for Operation and Maintenance (O&M) budgets as well as their capital budget requests for the upcoming budget year and the succeeding four years.
- September and October – department supervisors submit their budget requests, which are then combined into the first draft of the overall LRW budget. The finance staff is responsible for combining them for each department's O&M and capital requests, budget revenues, and other expenditures.
- October and November – the CEO, division managers, and directors review the submitted budgets and establish priorities based on need and availability of funds. Any changes resulting from the management reviews are made at that time.
- November – one or more members of the LRSSC, serving as the Budget Subcommittee, review the budget document with LRW staff. Any revisions resulting from the Budget Subcommittee's review are made at that time. The budget is presented at the regularly scheduled November or December LRSSC meeting. The budget for the coming year is considered for approval at that time.

Budget Amendment Policy - Operating or capital budget line item transfers are done on a memorandum basis, submitted by the requesting manager to Finance. The transfer is subject to approval by management but does not need approval by the LRSSC. Emergency funding authorizations and amendments to the approved operating or capital budgets can only be done with approval by the LRSSC.

Revenue Policy - Ordinance No. 19,647 also requires that the LRSSC maintain rates sufficient to produce or yield revenues to produce in each fiscal year an amount adequate to pay all expenses incurred for the operations and maintenance of the System as such expenses shall accrue during the year. The current bond ordinance requires that LRW produce an additional amount equal to 100% of the aggregate amount required to be paid in such year for principal and interest and redemption premiums on bonds payable from the Bond Fund. Another financial target that is used in preparing the five-year financial plan is maintaining a 30-day operating reserve fund balance.

LRW is a component unit of the City of Little Rock and operates as an autonomous enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing and related debt service, and billing and collection. Because LRW operates in a proprietary manner, the major revenue sources are user charges for wastewater services. LRW's revenue requirements are based on cost of service. This includes operating costs, expenditures for capital improvements, and repayment of debt. The description and figures of the revenue sources are covered in the financial overview section of this budget.

Investment Policy - LRW also has an Investment Policy outlined in the bond ordinances that state available monies shall be invested and reinvested at the direction of the LRSSC in eligible investments. Those Eligible Investments shall have a maturity of not longer than five (5) years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity. The primary objectives of the investment policy are 1) preservation of capital; 2) safety of LRW funds; 3) maintenance of sufficient liquidity; 4) maximization of return within acceptable risk constraints; and 5) diversification of investments. The investment policy requires an annual review of its investment policy and strategies.

“Eligible Investments” defined by Arkansas statute (AR § Code 19-1-501) authorizes the Utility to invest in eligible investment securities such as (1) direct or guaranteed obligation of the United States that is backed by the full faith and credit of the U.S. Government; (2) A direct obligations of an agency, instrumentality, or government-sponsored enterprise created by act of the United States Congress and authorized to issue securities or evidences of indebtedness are guaranteed for repayment by the U.S. Government; and (3) A bond of a governmental entity that: (A) Is issued for an essential governmental purpose or is guaranteed by a state agency; and (B) Has a debt rating from a nationally recognized credit rating agency of “A” or better at the time of purchase. or other debt of the state, a school district, a county government, a municipal government, or an authority.

Debt Service Policy - Planned rate increases on a consistent basis are programmed in the Financial Plan, and are mainly driven by the capital improvement program and debt service coverage required both by the revenue bond covenants and by the LRSSC benchmarks for financial management. The parity revenue bond covenants require debt service coverage of 1.2 times or greater (meaning 120% of the current year's debt service requirements must be available that fiscal year to issue new debt). LRW does not have a legal debt limit.

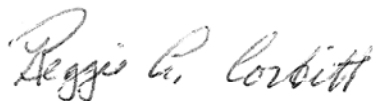
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Little Rock Wastewater, Little Rock, Arkansas for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31,

2010. This was the seventh year in a row that LRW has received this prestigious award. In order to be awarded a Certificate of Achievement, LRW had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one (1) year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Reggie A. Corbitt".

Reggie A. Corbitt
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Little Rock Wastewater
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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.



Linda C. Dandison

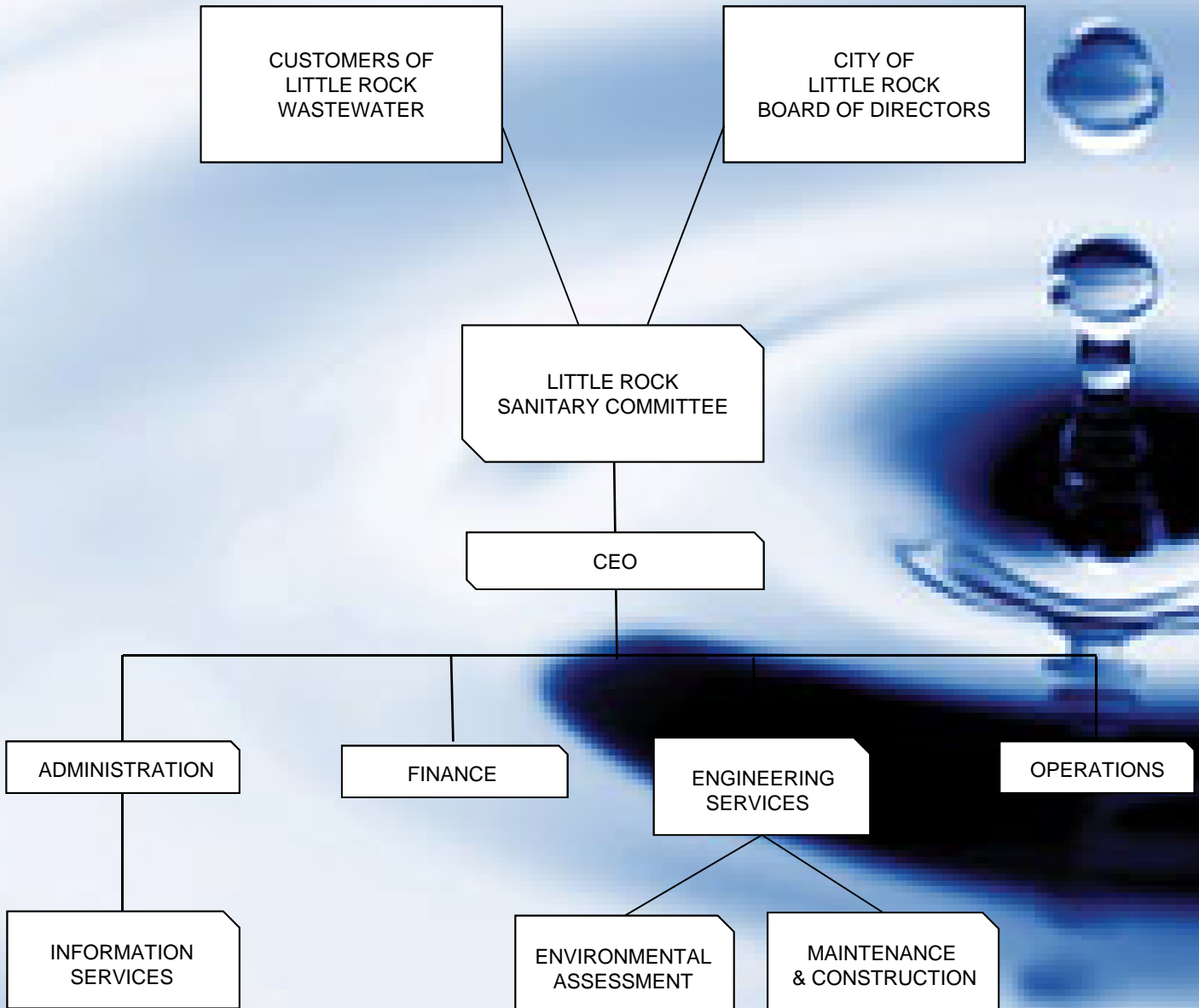
President

Jeffrey R. Emer

Executive Director



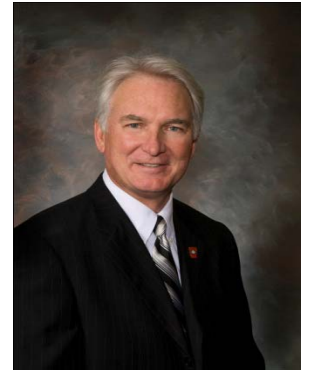
Little Rock Wastewater



2011 LITTLE ROCK SANITARY SEWER COMMITTEE



Cindy C. Miller
Chair



Ken Griffey
Vice Chair



Richard L. Mays Jr.
Member



Marilyn K. Perryman
Secretary



Jean Block
Member



Pete Hornibrook
Member



Reggie A. Corbitt, P.E.
Chief Executive Officer



Maurice Rigsby
Member

EXECUTIVE STAFF

Nancy Trotter – Administration Coordinator
John Jarratt – Administration and Community Relations
Howell Anderson, P.E. – Engineering & Maintenance
Stan Miller - Operations
Stanley Suel - Environmental Assessment

FINANCIAL SECTION



Little Rock
Wastewater

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas, as of and for the years ended December 31, 2011 and 2010, which collectively comprise Little Rock Wastewater's basic financial statements as listed in the table of contents. These financial statements are the responsibility of LRW's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Little Rock Wastewater as of December 31, 2011 and 2010, and the respective changes in financial position 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 16, 2012, on our consideration of the LRW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 19 through 27 and 53, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Members of the Little Rock
Sanitary Sewer Committee
Page Two

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Little Rock Wastewater's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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. The accompanying supplementary information included in the schedules of budgetary comparison, operating expenses, and debt service requirements are prepared for the purpose of additional analysis and are not a requirement of the basic financial statements. The schedule of expenditures of federal awards is prepared for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133 "Audits of State, Local Governments, and Non-Profit Organizations," and is also not a required part of the basic financial statements of Little Rock Wastewater. Such supplementary 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.

Cobb and Juskie, Ltd.

Certified Public Accountants
March 16, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of Little Rock Wastewater (LRW), we offer readers of LRW’s financial statements this narrative overview and analysis of the financial activities of LRW for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is provided in our letter of transmittal, which can be found on pages 3 through 17 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 LRW’s objective to provide greater information to the public in a more efficient manner, reducing paperwork, labor, and communication costs.

Financial Highlights

- Total Assets at year-end were \$426.6 million and exceeded Total Liabilities in the amount of \$263.6 million. Total Net Assets were \$163.0 million, an increase of 3.3% from 2010 and an increase of 4.5% from 2009.
- Operating Revenue decreased to \$41.3 million in 2011. This was a decrease of 1.67% or \$.6 million from 2010 and an increase of 0.84% as compared to the 2011 budget projections.
- Operating Expenses, before Depreciation, decreased by \$1,9 million or 8.3%, compared to fiscal year 2010 and a decrease of \$2.3 million from 2009. Operating Expenses, decreased by \$2.0 million or 6.4% from 2010, which includes Depreciation.
- Debt Service Coverage was 1.33, which exceeds the 1.00 required by the Bond Covenant. In the Statistical Data Section, Schedule 10 – Pledged-Revenue Coverage provides more information on debt service coverage.
- Refunded 2001 Revenue Bond Series with 2011 Revenue Bond Series; saving about \$2 million in interest over the remaining 10 years of the bond.

General Trends

LRW’s customer accounts increased from 2010 by 215 or .32%. Over a ten year period, the customer growth rate averaged 0.6%.

Wastewater Customers	2011	2010	2009
Beginning Customer Accounts	67,622	67,455	67,628
Additional Accounts (net)	215	167	(173)
Ending Customer Accounts	67,837	67,622	67,455

The following chart shows a residential bill based on a consumption of 6 Ccf as of December 31 of each year. These amounts do not include a 10.0% franchise fee that is collected for and paid to the City of Little Rock.

Residential Bill	2011	2010	2009
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\$27.73	\$27.73	\$26.39
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Little Rock's wastewater rates remain moderately higher than neighboring utilities. The Little Rock Sanitary Sewer Committee (LRSSC) and LRW have a continual budget plan that allows LRW to project rate adjustments in conjunction with major capital construction and debt issuance.

Little Rock Wastewater System

LRW is regulated by the United States Environmental Protection Agency (EPA) and Arkansas Department of Environmental Quality (ADEQ). These agencies issue permits to LRW for discharge of treated wastewater. Currently, LRW has 26 remote, unattended pumping stations, one tertiary and two secondary treatment facilities, a peak flow attenuation facility, a maintenance facility, and an administration building. The collection system includes over 124 square miles containing approximately 1,346 miles of sewer lines. LRW has received awards from the EPA and the Association of Metropolitan Sewerage Agencies (AMSA). Two of LRW's wastewater treatment plants (Fourche Creek and Adams Field) have been awarded the AMSA Gold award for 100% Permit Compliance for the years 1999-2000. A list of all awards can be viewed on LRW's website.

The Adams Field Wastewater Treatment Facility has been in operation since 1961 and was Little Rock's first wastewater treatment Facility. The facility was put into operation 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. Upgrade construction over the past three (3) years at a cost of \$27.5 million was completed in 2007. The construction consisted of upgrading the primary clarifiers for peak flow and building an equalization basin to hold up to 14 million gallons. The plant has a new Hydraulic Peak Capacity with the maximum capacity consisting of 94 Million Gallons per Day (MGD). The plant is a complete-mix activated sludge plant, serving approximately 70% of the City of Little Rock, and is a two-stage secondary treatment plant, designed to reduce the pollutant load by approximately 90% through a combination of physical and biological processes. Starting in 2007, this treatment facility added the Ultra-Violet disinfection process.

The Fourche Creek Wastewater Treatment Facility has been providing wastewater treatment to the Fourche Creek Valley since 1983, when it was placed in service at a cost of \$19.6 million. The step-feed activated sludge section was brought on line in 1989 at a cost of \$9 million. The Fourche Creek 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 flow is 12 MGD. This treatment plant is currently in the construction stages of being upgraded to accommodate higher peak wet weather flows from the original 36 MGD to approximately 55 MGD in an effort to further mitigate collection system surcharging.



The Little Maumelle Wastewater Treatment Facility is a newly constructed facility that came online in September 2011 and serves the residents of the Little Maumelle River Valley. It is the only treatment facility in Arkansas to have a tertiary treatment process. This activated sludge treatment plant of 4 MGD was built so that it could be expanded to 16 MGD. The facility has odor control and uses Ultra Violet light instead of chemicals. The outfall point (where the disinfected wastewater or effluent will be discharged) has a special diffuser that will scatter the effluent so as not to have one giant flow of treated wastewater. Aesthetically speaking, the facility is completely covered and constructed with a brick façade to match the theme of the nearby Pinnacle Mountain State park. The cost for land, engineering, construction, administration expenses, and contingencies were \$80.9 million.

The Peak Flow Attenuation Facility was placed in service mid-year of 2009 to help improve the hydraulic capacity of the collection system during wet weather events and address wet weather overflows in the western end of the Fourche Creek Bottoms. This project consists of a 50 MDG pump station, 12,000 l.f. of 48-inch force main, two (2) diversion structures, and a 30 million gallon storage facility. This along with an associated project, Arch Street Pump Station rehabilitation and hydraulic upgrade has a project cost of \$54.5 million dollars. It is designed to handle a storm where five (5) inches of rain would fall within 48 hours, which is also referred to as a 'peak flow event'.



The Clearwater Maintenance Facility is the operations/maintenance complex on a 36 acre tract that was built in 1989. LRW jointly owns the building with Central Arkansas Water and the two (2) utilities operate a Fleet Maintenance Department together for the maintenance and repair of vehicles and equipment. About 100 LRW employees in the Maintenance Division work from this facility, making it the home base for the majority of LRW work force.

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

Overview of the Financial Statements

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

The Balance Sheet presents information on all of LRW's assets and liabilities, with the difference between the two (2) reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of LRW is improving or deteriorating.

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

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

Fiscal Year 2009-2011 Financial Information

Balance Sheet

Total Assets decreased by \$2.9 million from 2010 and decreased to \$5.9 million from 2009. Current Assets show a decrease of 17.4% from 2010. This was due the use of bond proceeds (Bond Series 2008 and 2009B) that paid for on-going major construction projects. Noncurrent Assets shows a decrease of 27.7% or \$4.6 million from 2010. This also reflects the use of bond proceeds (Bond Series 2008 and 2009B) for on-going major construction projects. Net Capital Assets has an increase of \$5.5 million from 2010 and a \$46.9 million or 13.4% increase from 2009. The Construction Work in Progress line item increased from \$168.9 million in 2010 to \$170.0 million in 2011. The Accumulated Depreciation category increased by \$6.9 million, from \$108.6 million to \$115.5 million and will show larger increases over the next few years as large capital projects move from the Construction Work in Progress to Capital Assets being

Depreciated line item. The Building, Infrastructure, and Equipment Capital Assets in total increased \$11.2 million from 2010.

Current Liabilities showed a decrease of 18.2% or \$3.1 million. The major change from 2010 to 2011 was a decrease of Construction Contract Payable in the amount of \$2.5 million. The major change from 2009 to 2010 was also an increase in Construction Contract Payable in the amount of \$5.9 million. Noncurrent Liabilities showed a decrease of 2.0% or \$5.3 million for 2011. This reflects LRW paying down the outstanding debt on the bond issues. There was one new bond issue in 2011 and that was to refund the 2001 Bond Series. LRW's bond information can be found in Note 6 on page 43. Total Liabilities decreased by \$8.2 million for 2011.

Total Net Assets had an increase of 3.3% while Total Liabilities and Net Assets showed a decrease of 0.7% in 2011. While Restricted Assets decreased by 40.1% from 2010, the Invested in Capital Assets (Net) remained vertically the same. Unrestricted increased by 367.7% or \$11.4 million. Additional information can be found in Note 4 on page 42 and schedule 1 on page 82 of this report.

	2011	Percent Change	2010	Percent Change	2009
ASSETS					
Current Assets	\$ 17,907,677	-17.4%	\$ 21,691,259	-14.7%	\$ 25,429,619
Noncurrent Assets	11,992,229	-27.7%	16,594,755	-71.0%	57,256,779
Capital Assets (Net)	396,779,857	1.4%	391,315,964	11.8%	349,926,236
Total Assets	426,679,763	-0.7%	429,601,978	-0.7%	432,612,634
LIABILITIES					
Current Liabilities	13,789,076	-18.2%	16,853,767	-23.9%	22,143,378
Noncurrent Liabilities	249,845,777	-2.0%	255,025,950	0.2%	254,584,097
Total Liabilities	263,634,853	-3.0%	271,879,717	-1.8%	276,727,475
NET ASSETS					
Restricted Assets	8,799,064	-40.1%	14,686,120	-5.0%	15,459,117
Invested in Capital Assets, Net of Related Debt	139,771,009	0.1%	139,941,376	0.1%	139,750,917
Unrestricted Assets	14,474,837	367.7%	3,094,765	386.6%	675,125
Total Net Assets	163,044,910	3.3%	157,722,261	1.2%	155,885,159
Total Liabilities and Net Assets	\$ 426,679,763	-0.7%	\$ 429,601,978	-0.7%	\$ 432,612,634

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenue falls into three (3) general categories: assessments levied, industrial surcharges, and other fees and income. Assessments levied are monthly residential/commercial service charge billings. Industrial surcharges consist of fees based on wastewaters having excessive Biochemical Oxygen Demand (BOD), Total Suspended Solids (TSS), Oil and Grease (O&G), 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 from 2011 to 2010 by \$2.2 million or 5.1%. There were no sewer rate increases in 2011 but 2010 had a 5% increase and 2009 had a 4% increase. Assessments Levied had a 0.2% decrease from 2010 but was above projections by 0.4%. Industrial Surcharges decreased by 31.9% or \$0.5 million while Other Fees and Income showed a decrease of 4.9%. Non-Operating Revenue showed a significant increase of 494.5% which reflects a large gain on the Extraordinary Income due to the write-off recognition of a damaged capital asset that is being replaced with insurance proceeds. With the construction of several large projects, LRW's funds available for investment have decreased resulting in decreased interest earned plus interest rates have remained below 1% for most investments. Interest income was only \$151 thousand in 2011, \$147 thousand in 2010, and \$1.7 million in 2009.

Operating Expenses are divided into departments within LRW. Each department tracks its expenses based on the following breakdown: salaries, benefits, supplies, contract services, vehicle maintenance, utilities, insurance, and training and administration. 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 decreased by \$1.0 million in 2011. Operating Expense decreased by 8.3% or \$1.9 million. The staff at LRW made a unified effort to reduce personnel and costs but yet provide the citizens of Little Rock a great service in every department within LRW. LRW is currently in a hiring and wage freeze until a rate increase can be passed. LRW also switched from a self-insured to a fully-insured health care plan that is estimated to save the Utility about \$500,000 on a yearly basis.

Non-Operating Expense had an increase of 7.9% in 2011 along with an increase in Interest Expense that totaled \$200 thousand. This number is expected to grow over the next few years due to needed bond issues to fund capital improvements required to meet demands set forth in Consent Administration Order (CAO) in eliminating sewer overflows.

Change in Net Assets represents an increase of \$3.4 million or 189.7% from 2010 and the change in the ending total net assets of \$5.3 million from last year shows a 3.4% growth.

Additional information can be found on the Statement of Revenues, Expenses, and Changes in Net Assets on page 31 and Budgetary Comparison Schedule on page 60.

	2011	Percent Change	2010	Percent Change	2009
REVENUES:					
Operating Revenues:					
Assessments Levied	\$ 39,685,509	-0.2%	\$ 39,788,224	4.2%	\$ 38,199,675
Industrial Surcharges	1,159,226	-31.9%	1,702,263	90.4%	894,224
Other Fees and Income	498,528	-4.9%	524,353	-22.3%	675,149
Non-Operating Revenues	3,421,558	494.5%	568,733	-45.8%	1,048,689
Total Revenues:	44,764,821	5.1%	42,583,573	4.3%	40,817,737
EXPENSES:					
Operating Expense	21,375,526	-8.3%	23,310,477	-0.5%	23,437,164
Depreciation Expense	7,778,436	0.5%	7,737,659	12.2%	6,895,913
Non-Operating Expense	11,886,485	7.9%	11,018,562	0.9%	10,916,970
Total Expense:	41,040,447	-2.4%	42,066,698	2.0%	41,250,047
Income (Loss) Before Contributions	3,724,374	620.6%	516,873	219.6%	-432,310
Capital Contributions	1,598,275	21.1%	1,320,229	-7.2%	1,422,898
Change in Net Assets	5,322,649	189.7%	1,837,102	85.5%	990,588
Total Net Assets – Beginning	157,722,261	1.2%	155,885,159	0.6%	154,894,569
Total Net Assets – Ending	\$ 163,044,910	3.4%	\$ 157,722,261	1.2%	\$ 155,885,159

Capital Assets and Debt Administration

The cash outflow for LRW on wastewater system capital improvements was \$12.6 million in fiscal year 2011. The major construction project dollars spent on improvements include the Little Maumelle Wastewater Treatment Facility at \$2.9 million, Fourche Creek Hydraulic Upgrade at \$2.5 million, Peak Flow Attenuation Facilities at \$1.9 million, and Collection System Overflow Mitigation projects at \$3.6 million. The remaining classifications of new sewer mains, replacement sewer mains, sewer pumping and treatment facilities, transportation, and general plant make up the remaining \$2.2 million spent on capital assets. Additional information on LRW's capital assets can be found in Note 4 on page 42 of this report.

Usually LRW has a three (3) year period to draw on the loans up to the designated amounts but LRW received an extension on the 2007B for one (1) year. LRW did one sewer bond issue to refund the 2001 issue; saving LRW \$2.0 million over the 10 year period of the bond. The total long-term debt (less bond payable within one year) decreased by \$5.7 million in 2011.

Moody's Investors Service assigned an Aa3 rating with a negative outlook on the City of Little Rock (AR) Sewer Revenue Bonds.

Long-Term Debt	2011	2010	2009
1990 Sewer Revenue	\$ 1,206,128	\$ 1,656,120	\$ 2,088,637
1991 Sewer Revenue	1,033,824	1,419,530	1,790,259
1996 Sewer Revenue	2,747,301	3,062,511	3,366,974
1999 Sewer Revenue	7,677,583	8,232,248	8,766,681
2001 Sewer Revenue	-	18,600,000	19,040,000
2004A Sewer Revenue	19,117,375	20,052,989	20,958,921
2004B Sewer Revenue	11,872,096	12,430,065	12,970,335
2004C Sewer Revenue	11,542,206	12,043,885	12,529,648
2005 Sewer Revenue	7,755,000	8,160,000	8,550,000
2007A Sewer Revenue	58,585,000	59,770,000	60,905,000
2007B Sewer Revenue	16,200,581	16,420,775	13,796,147
2007C Sewer Revenue	71,085,000	71,085,000	71,085,000
2008 Sewer Revenue	15,220,000	15,495,000	15,760,000
2009A Sewer Revenue	8,000,000	6,499,119	2,371,794
2009B Sewer Revenue	6,400,000	6,530,000	6,655,000
2011 Sewer Revenue	17,675,000	-	-
Less Debt Payable, due within one year	<u>\$ (7,285,023)</u>	<u>\$ (6,855,607)</u>	<u>\$ (6,821,384)</u>
Total Long-Term Debt	<u>\$ 248,832,070</u>	<u>\$ 254,601,635</u>	<u>\$ 253,813,012</u>

Additional information on LRW's long-term debt can be found in Note 6 on page 44 of this report.

Economic Factors and Next Year's Budget and Rates

LRW believes that the customer base for its services will continue to grow at a slow pace of less than 1.0%. With the current economical situation, LRW believes that revenue will maintain steady year after year. There is not one major customer that is over 1% of the total revenues (see schedule 12 – Ten Largest Customers). In order for LRW to meet obligations and timelines for capacity and non-capacity overflow litigation, there were several major projects that will need to be completed by December 31, 2018.

LRW has the intention of increasing rates on an annual basis for the years 2012 through 2019. The Little Rock Sanitary Sewer Committee has approved the rate ordinance and has requested to present the rate study/rate ordinance to the Little Rock Board of Directors in the March/April 2012 time frame. The rate proposal includes the following rates; 14% in 2012, 8% in 2013, 7% in 2014, and 5% in 2016 with another rate increase to be proposed in 2015 for the remaining years. The need for the rate increase is based on an updated System Evaluation and Capacity Assurance Plan (SECAP) that has projected \$325 million in capital projects in addition to what has already been accomplished in order to meet the Sierra Club Lawsuit and Consent Administrative Order.

In February 2011, Moody's Investors Service downgraded LRW's rating from Aa2 to Aa3 and placed a negative outlook on the underlying rating of the City of Little Rock (AR) Sewer Revenue Bonds based on the challenges of narrowing reserve levels and debt service coverage along with rate increases necessary to support future debt needs; approximately \$295 million in expected borrowing over the next five (5) years.

With the implementation of GASB Statement 45, LRW has reviewed its health care policies and continues to reduce costs by changing the health care plans. In 2011, LRW changed from a self-funded to a fully-funded health insurance plan that should save LRW \$500,000 annually.

Request for Information

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

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LITTLE ROCK WASTEWATER
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 5,546,257	\$ 6,383,689
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$334,966, in 2011 and \$354,704 in 2010)	2,866,015	2,872,787
Inventories	1,423,355	1,376,013
Prepaid Items	122,257	216,304
Restricted Current Assets		
Restricted for Bond Requirements		
Cash and Cash Equivalents	3,272,132	3,269,490
Accrued Interest Receivable	45,108	122,902
Prepaid Items	1,135,652	1,133,105
Restricted for Construction and Improvement		
Cash and Cash Equivalents	661,529	6,278,176
Construction Receivable	<u>2,835,372</u>	<u>38,793</u>
Total Current Assets	<u>17,907,677</u>	<u>21,691,259</u>
<u>NONCURRENT ASSETS</u>		
Accounts Receivable	-	23,762
Prepaid Other Post-Employment Benefits	<u>726,959</u>	<u>723,044</u>
Total Unrestricted Noncurrent Assets	<u>726,959</u>	<u>746,806</u>
Restricted for Workers' Compensation Fund		
Investments	597,342	573,864
Restricted for Bond Requirements		
Investments	7,250,540	7,426,566
Restricted for Construction and Improvements		
Investments	<u>3,417,388</u>	<u>7,847,519</u>
Total Restricted Noncurrent Assets	<u>11,265,270</u>	<u>15,847,949</u>
Capital Assets (Net of Accumulated Depreciation)	<u>396,779,857</u>	<u>391,315,964</u>
Total Noncurrent Assets	<u>408,772,086</u>	<u>407,910,719</u>
TOTAL ASSETS	<u>\$ 426,679,763</u>	<u>\$ 429,601,978</u>

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

LIABILITIES	2011	2010
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 341,747	\$ 741,228
Franchise Fee Collections Due to City of Little Rock	331,764	324,951
Accrued Wages Payable and Related Liabilities	257,538	277,976
Accrued Expenditures and Other	83,554	400,780
Compensated Absences	739,704	636,391
Current Liabilities Payable from Restricted Assets		
Construction Contracts Payable	2,520,161	4,968,362
Accrued Bond/Note Interest Payable	2,320,950	2,432,017
Bond/Note Payable - Current	7,193,658	7,072,062
Total Current Liabilities	<u>13,789,076</u>	<u>16,853,767</u>
<u>NONCURRENT LIABILITIES</u>		
Bonds/Note Payable (net of unamortized premiums and discount)	249,815,190	255,011,988
Compensated Absences	30,587	13,962
Total Noncurrent Liabilities	<u>249,845,777</u>	<u>255,025,950</u>
Total Liabilities	<u>263,634,853</u>	<u>271,879,717</u>
<u>NET ASSETS</u>		
Restricted		
For Debt Service	8,201,722	8,717,901
For Construction Improvements	-	5,394,355
Workers' Compensation	597,342	573,864
Total Restricted	<u>8,799,064</u>	<u>14,686,120</u>
Invested in Capital Assets, Net of Related Debt	139,771,009	139,941,376
Unrestricted	14,474,837	3,094,765
Total Net Assets	<u>163,044,910</u>	<u>157,722,261</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 426,679,763</u>	<u>\$ 429,601,978</u>

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

LITTLE ROCK WASTEWATER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES</u>		
Sewer Charges	\$ 39,685,509	\$ 39,788,224
Industry Surcharges	1,159,226	1,702,263
Connection Fees	33,597	30,011
Other	464,931	494,342
Total Operating Revenues	<u>41,343,263</u>	<u>42,014,840</u>
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	13,997,893	15,992,624
Supplies	2,220,871	1,662,988
Contract Services	2,390,989	2,524,181
Vehicle Expenses	443,134	652,114
Utilities	1,470,380	1,551,441
Administrative	852,259	927,129
Total Operating Expenses	<u>21,375,526</u>	<u>23,310,477</u>
<u>PROVISION FOR DEPRECIATION</u>		
Building and Improvements	501,005	1,140,042
Infrastructure - Collections, Pumping, & Treatments	5,549,760	4,815,601
Equipment	1,727,671	1,782,016
Total Provision for Depreciation	<u>7,778,436</u>	<u>7,737,659</u>
OPERATING INCOME	<u>12,189,301</u>	<u>10,966,704</u>
<u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	151,072	147,124
Interest Expense	(10,673,854)	(10,770,853)
Amortization of Bond Issuance Costs	(316,595)	(210,609)
Gain (Loss) on Disposal of Capital Assets	(60,727)	(30,932)
Gain (Loss) on Investments	266,225	353,193
Other	73,261	62,246
Total Nonoperating Income (Expense)	<u>(10,560,618)</u>	<u>(10,449,831)</u>
<u>EXTRAORDINARY ITEMS</u>		
Extraordinary Income	2,931,000	-
Extraordinary Loss	(835,309)	-
	<u>2,095,691</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	3,724,374	516,873
CAPITAL CONTRIBUTIONS	<u>1,598,275</u>	<u>1,320,229</u>
CHANGE IN NET ASSETS	5,322,649	1,837,102
NET ASSETS, BEGINNING OF YEAR	<u>157,722,261</u>	<u>155,885,159</u>
NET ASSETS, END OF YEAR	<u>\$ 163,044,910</u>	<u>\$ 157,722,261</u>

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

LITTLE ROCK WASTEWATER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 40,561,218	\$ 41,073,314
Other Receipts	488,693	456,728
Payments to Employees	(13,902,308)	(16,468,057)
Payments to Suppliers	(2,667,694)	(1,548,895)
Payments for Contractual Services	(2,390,989)	(2,278,637)
Payments for Utilities	(1,470,380)	(1,551,441)
Other Payments	(1,187,873)	(1,167,896)
Net Cash Provided by (Used by)		
Operating Activities	19,430,667	18,515,116
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(14,854,941)	(53,838,430)
Proceeds from Disposal of Property and Equipment	74,332	176,542
Principal Paid on Indebtedness	(24,515,760)	(6,614,888)
Interest Paid on Indebtedness	(10,839,383)	(11,133,343)
Net Proceeds from Issuance of Indebtedness	19,175,878	7,437,729
Net Cash Provided by (Used by) Capital and Related Financing Activities	(30,959,874)	(63,972,390)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest on Investments	228,866	562,727
Proceeds from Sale of Investments	11,178,267	48,879,272
Purchase of Investments	(6,329,363)	(7,491,379)
Net Cash Provided by (Used by) Investing Activities	5,077,770	41,950,620
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (6,451,437)	\$ (3,506,654)

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

LITTLE ROCK WASTEWATER
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of Year	\$ 15,931,355	\$ 19,438,009
Net Increase (Decrease) in Cash and Cash Equivalents	(6,451,437)	(3,506,654)
End of Year	\$ 9,479,918	\$ 15,931,355
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:</u>		
Operating Income	\$ 12,189,301	\$ 10,966,704
Adjustments:		
Depreciation	7,778,436	7,737,659
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	30,534	(484,798)
(Increase) Decrease in Inventories	(47,342)	(59,835)
(Increase) Decrease in Prepaid Items and Other Assets	90,132	10,399
Increase (Decrease) in Accounts Payable	(392,668)	186,358
Increase (Decrease) in Accrued Expenses	(217,726)	158,629
Net Cash Provided by Operating Activities	\$ 19,430,667	\$ 18,515,116
 <u>RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS</u>		
Current Assets - Cash and Cash Equivalents	\$ 5,546,257	\$ 6,383,689
Restricted for Bond Requirements	3,272,132	3,269,490
Restricted for Contruction and Improvement	661,529	6,278,176
Total Cash and Cash Equivalents	\$ 9,479,918	\$ 15,931,355

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

During 2011 and 2010, the Utility received donated sewer lines capitalized in the amount of \$1,568,219 and \$1,320,229, respectively.

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Reporting Entity**

The financial statements of the Little Rock Wastewater (LRW), a component unit (Enterprise Fund) of the City of Little Rock, conform to generally accepted accounting principles for state and local governments. 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 67,837 and 67,622 customers at December 31, 2011 and 2010, respectively. LRW is financially accountable to the City of Little Rock because the City's Board of Directors must approve any rate adjustments and debt issuances.

B. **Basis of Accounting**

LRW is a proprietary fund of the City and its financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. In accordance with paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, 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.

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

Restricted – Consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. **Basis of Accounting** (Continued)

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

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

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

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

C. **Cash and Cash Equivalents**

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. **Investments**

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

E. **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2011 and 2010 are more fully explained in Note 3.

F. **Inventory**

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

G. **Restricted Assets**

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

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

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

H. **Unamortized Bond Issuance Costs**

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. **Capital Assets and Capital Contributions**

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

J. **Compensated Absences**

Employees earn Personal Time Off (PTO) as the only paid personal leave as it covers time away from the workplace for vacation, personal time, funeral, illness, etc. There are no restrictions on how much PTO can be accrued and no deadline to use the time accrued, but there is a "use or lose" policy for any balance over 300 hours at December 31 of each year. Employees accumulate PTO each pay period based on length of service. The rate of accrual for any given year in the first twelve months is 18 days, one through five years accrue 20 days, six through fifteen years accrue 25 days, sixteen through twenty-five years accrue 30 days, and twenty-five years and up accrue 35 days. Net changes in the liability for compensated absences are summarized in Note 7.

K. **Pension Plan**

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

L. **Other Post Employment Benefits**

Effective for the year beginning January 1, 2007, the Utility implemented Government Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employees for Post Employment Benefits Other Than Pensions." This statement establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenses and related liabilities. The effect of GASB 45 is more fully explained in Note 11.

M. **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
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Reclassifications

Amounts have been reclassified in the 2010 financial statements to conform to the presentation in the 2011 and 2010 comparative financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

A reconciliation of cash, cash equivalents, and investments per the statement of cash flows to the balance sheet as of December 31, 2011 and 2010, respectively, follows:

	December 31, 2011			
	Cash and Cash Equivalents			Investments
	Cash			
	Cash	Equivalents	Total	
Unrestricted Assets	\$ 6,137,436	\$ -	\$ 6,137,436	\$ 4,014,730
Restricted Assets				
Bond Requirements	-	3,272,132	3,272,132	7,250,540
Construction and Improvements	-	70,350	70,350	-
Total Restricted Assets	-	3,342,482	3,342,482	7,250,540
Total	\$ 6,137,436	\$ 3,342,482	\$ 9,479,918	\$ 11,265,270
	December 31, 2010			
	Cash and Cash Equivalents			Investments
	Cash			
	Cash	Equivalents	Total	
Unrestricted Assets	\$ 8,354,998	\$ -	\$ 8,354,998	\$ 2,460,424
Restricted Assets				
Bond Requirements	92,164	3,177,325	3,269,490	7,426,566
Construction and Improvements	-	4,306,867	4,306,867	5,960,959
Total Restricted Assets	92,164	7,484,192	7,576,356	13,387,525
Total	\$ 8,447,163	\$ 7,484,192	\$ 15,931,355	\$ 15,847,949

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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 bonds or other interest-bearing securities of the United States, the State of Arkansas, Arkansas political subdivisions or agencies or instrumentalities of these agencies.

Included in the Utility's total cash balances of \$6,137,436 and \$8,447,163 at December 31, 2011 and 2010, respectively, are deposits with financial institutions of \$6,136,936 at December 31, 2011 and \$8,446,663 at December 31, 2010. These deposits were fully covered by either FDIC insurance or appropriate collateralization at these respective dates.

Investments

Arkansas statute (AR § Code 19-1-501) authorizes the Utility to invest in eligible investment securities such as (1) direct or guaranteed obligations of the United States that is backed by the full faith and credit of the U.S. Government; (2) A direct obligation of an agency, instrumentality, or government-sponsored enterprise created by act of the United States Congress and authorized to issue securities or evidences of indebtedness are guaranteed for repayment by the U.S. Government; and (3) A bond or other debt of the state, a school district, a county government, a municipal government, or an authority of a governmental entity that: (A) Is issued for an essential governmental purpose or is guaranteed by a state agency; and (B) Has a debt rating from a nationally recognized credit rating agency of "A" or better at the time of purchase.

Cash equivalents and investments at December 31, 2011 and 2010 consisted of Federated Treasury Obligations or U.S. Government Obligations, stated at fair values of \$14,607,752 and \$23,332,141, respectively. Net unrealized gain (loss) for each of the years ended December 31, 2011 and 2010, was \$266,225 and \$353,193, respectively.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

December 31, 2011						
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating
Cash Equivalents and Investments						
Cash Equivalents:						
Federated Treasury Obligation	\$ 3,342,482	\$ 3,342,482	\$ -	\$ -	\$ -	AA+/Aaa
Investments:						
Federal Home Loan Bank	9,349,937	-	400,432	4,943,865	4,005,640	AA+/Aaa
Fannie Mae	1,915,333	-	-	-	1,915,333	AA+/Aaa
	<u>11,265,270</u>	<u>-</u>	<u>400,432</u>	<u>4,943,865</u>	<u>5,920,973</u>	
	<u>\$ 14,607,752</u>	<u>\$ 3,342,482</u>	<u>\$ 400,432</u>	<u>\$ 4,943,865</u>	<u>\$ 5,920,973</u>	

December 31, 2010						
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating
Cash Equivalents and Investments						
Cash Equivalents:						
Federated Treasury Obligation	\$ 7,484,192	\$ 7,484,192	\$ -	\$ -	\$ -	AAA/Aaa
Investments:						
Federal Home Loan Bank	4,935,907	-	-	3,414,447	1,002,350	AAA/Aaa
Federal Home Loan Mtg Corp	5,612,268	-	519,110	5,612,268	-	AAA/Aaa
Federal Farm Credit Bank	1,675,039	-	-	1,675,039	-	AAA/Aaa
Federal National Mortgage Assn	2,262,155	-	2,262,155	-	-	AAA/Aaa
Freddie Mac	1,362,580	-	1,362,580	-	-	AAA/Aaa
	<u>15,847,949</u>	<u>-</u>	<u>4,143,845</u>	<u>10,701,754</u>	<u>1,002,350</u>	
	<u>\$ 23,332,141</u>	<u>\$ 7,484,192</u>	<u>\$ 4,143,845</u>	<u>\$ 10,701,754</u>	<u>\$ 1,002,350</u>	

Interest Rate Risk

Arkansas statute (AR Code § 19-1-504) limits the eligible investment securities to having a maturity of not longer than five (5) years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity.

The Utility has several Sewer Revenue Bond Issues that require a debt reserve account. Most of these investments have maturities that are longer than five years. The Utility has no expectations that the investment will be sold before maturity.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligation. The Utility manages its credit risk by investing exclusively in government-issued treasuries and agencies. All of the Utility's investments at December 31, 2011 and 2010 are insured or registered and held by the Utility or its agent in the Utility's name.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Trade Receivables, Current	\$ 2,866,015	\$ 2,896,549
Trade Receivables, Past Due	334,966	354,704
Total	<u>3,200,981</u>	<u>3,251,253</u>
Allowance for Uncollectibles, Beginning of Year	(354,704)	(302,608)
Writeoff of Uncollectibles	343,624	314,743
Provision for Bad Debt Expense	<u>(323,886)</u>	<u>(366,839)</u>
Allowance for Uncollectibles, End of Year	<u>(334,966)</u>	<u>(354,704)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	2,866,015	2,896,549
Less Noncurrent Amount	<u>-</u>	<u>23,762</u>
Current Accounts Receivable	<u>\$ 2,866,015</u>	<u>\$ 2,872,787</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 was as follows:

2011	Balance 12/31/10	Additions	Retirements	Balance 12/31/11
Capital assets not being depreciated:				
Land and Right-of-Way	\$ 3,362,076	\$ 75,215	\$ -	\$ 3,437,291
Construction in Progress	168,926,779	14,039,576	12,928,659	170,037,696
Total capital assets not being depreciated	<u>172,288,855</u>	<u>14,114,791</u>	<u>12,928,659</u>	<u>173,474,987</u>
Capital assets being depreciated:				
Building and Improvements	54,938,738	396,289	693,606	54,641,421
Infrastructure-Collection & Treatment	232,308,933	9,501,105	144,499	241,665,539
Equipment	40,413,748	2,955,910	838,351	42,531,307
Total capital assets being depreciated	<u>327,661,419</u>	<u>12,853,304</u>	<u>1,676,456</u>	<u>338,838,267</u>
Less accumulated depreciation for:				
Buildings and Improvements	21,977,285	1,116,242	355,130	22,738,397
Infrastructure-Collections & Treatment	64,459,552	4,946,331	70,084	69,335,799
Equipment	22,197,473	1,715,863	454,135	23,459,201
Total accumulated depreciation	<u>108,634,310</u>	<u>7,778,436</u>	<u>879,349</u>	<u>115,533,397</u>
Capital Assets, Net	<u>\$ 391,315,964</u>	<u>\$ 19,189,659</u>	<u>\$ 13,725,766</u>	<u>\$ 396,779,857</u>

2010	Balance 12/31/09	Additions	Retirements	Balance 12/31/10
Capital assets not being depreciated:				
Land and Right-of-Way	\$ 3,125,891	\$ 236,185	\$ -	\$ 3,362,076
Construction in Progress	130,107,253	38,819,526	-	168,926,779
Total capital assets not being depreciated	<u>133,233,144</u>	<u>39,055,711</u>	<u>-</u>	<u>172,288,855</u>
Capital assets being depreciated:				
Building and Improvements	54,910,035	54,603	25,900	54,938,738
Infrastructure-Collection & Treatment	223,098,082	9,238,811	27,960	232,308,933
Equipment	39,738,236	923,490	247,978	40,413,748
Total capital assets being depreciated	<u>317,746,353</u>	<u>10,216,904</u>	<u>301,838</u>	<u>327,661,419</u>
Less accumulated depreciation for:				
Buildings and Improvements	20,849,925	1,140,042	12,682	21,977,285
Infrastructure-Collections & Treatment	59,648,030	4,815,601	4,079	64,459,552
Equipment	20,555,306	1,782,016	139,849	22,197,473
Total accumulated depreciation	<u>101,053,261</u>	<u>7,737,659</u>	<u>156,610</u>	<u>108,634,310</u>
Capital Assets, Net	<u>\$ 349,926,236</u>	<u>\$ 41,534,956</u>	<u>\$ 145,228</u>	<u>\$ 391,315,964</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 4: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2011 and 2010 included capitalized construction period interest of \$100,985 and \$109,174 that was incurred in each respective year.

Depreciation expense was \$7,778,436 and \$7,737,659 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals, were \$1,568,219 and \$1,320,229 for the years ended December 31, 2011 and 2010, respectively.

NOTE 6: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds for which the changes in the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>				Amount Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
Sewer Revenue Bonds	\$ 261,457,242	\$ 19,175,878	\$ 24,515,760	\$ 256,117,360	\$ 7,250,023
Unamortized Bond Premium (Discount)	<u>626,808</u>	<u>594,506</u>	<u>329,826</u>	<u>891,488</u>	<u>(56,365)</u>
	<u>\$ 262,084,050</u>	<u>\$ 19,770,384</u>	<u>\$ 24,845,586</u>	<u>\$ 257,008,848</u>	<u>\$ 7,193,658</u>
	<u>2010</u>				
	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Sewer Revenue Bonds	\$ 260,634,401	\$ 7,437,729	\$ 6,614,888	\$ 261,457,242	\$ 6,855,607
Unamortized Bond Premium (Discount)	<u>630,972</u>	<u>210,609</u>	<u>214,773</u>	<u>626,808</u>	<u>167,934</u>
	<u>\$ 261,265,373</u>	<u>\$ 7,648,338</u>	<u>\$ 6,829,661</u>	<u>\$ 262,084,050</u>	<u>\$ 7,023,541</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6: LONG-TERM DEBT (CONTINUED)

Sewer revenue bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>December 31, 2011</u>	<u>Amount Due Within One Year</u>
1990	4.00%	2014	\$ 1,206,128	\$ 468,171
1991	4.00%	2014	1,033,823	401,289
1996	3.50%	2019	2,747,298	326,341
1999	3.75%	2022	7,677,586	575,657
2004A	3.25%	2027	19,117,375	966,269
2004B	3.25%	2027	11,872,093	576,254
2004C	3.25%	2027	11,542,206	518,116
2005	3.00% to 4.375%	2025	7,755,000	415,000
2007A	3.63% to 5.00%	2037	58,585,000	1,225,000
2007B	2.75%	2029	16,200,851	724,281
2007C	4.25% to 5.00%	2037	71,085,000	-
2008	3.50% to 5.75%	2038	15,220,000	285,000
2009A	2.00%	2032	8,000,000	163,645
2009B	2.00%	2039	6,400,000	130,000
2011	2.00% to 5.00%	2022	17,675,000	510,000
Total			<u>\$ 256,117,360</u>	<u>\$ 7,285,023</u>

The Arkansas Natural Resource Commission (ARNC) currently administers Federal and State programs that provide assistance through loans and grants for water and wastewater. These loans (Revolving Loan Funds – RLFs) fund revenue bonds issues to the City of Little Rock, Arkansas, for the purpose of financing costs of construction extensions, betterments, and improvements to the sewer system.

1990 Sewer Revenue Bond

The Series 1990 Bond was issued in December 1990 in the amount of \$7,000,000 to finance the construction of extensions, betterments, and improvements to the sewer system collection system and to pay the cost of issuing the 1990 RLF. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for April 2014.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6: LONG-TERM DEBT (CONTINUED)

1991 Sewer Revenue Bond

The Series 1991 Bond was issued in April 1991 in the amount of \$6,000,000 to finance the construction of extensions, betterments, and improvements to the sewer system collection system and to pay the cost of issuing the 1991 Bond. This Bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for April 2014.

1996 Sewer Revenue Bond

The Series 1996 Bond was issued in January 1996 in the amount of \$6,000,000 to finance the construction of extensions, betterments, and improvements to the unsewered areas in the City and to pay the cost of issuing the 1996 Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for April 2019.

1999 Sewer Revenue Bond

The Series 1999 Bond was issued in July 1999 in the amount of \$12,000,000 to finance the construction of extensions, betterments, and improvements to the sewer collection system and to pay the cost of issuing the 1999 Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for October 2022.

2004A Sewer Revenue Bond

The Series 2004A Bond was issued in March 2004 in the amount of \$23,100,000 to finance the construction extensions, betterments, and improvements to the Adams Field Wastewater Treatment Facility and to pay the cost of issuing the 2004A Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for April 2027.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6: LONG-TERM DEBT (CONTINUED)

2004B Sewer Revenue Bond

The Series 2004B Bond was issued in March 2004 in the amount of \$14,000,000 to finance the construction of extensions, betterments, and improvements to the sewer system collection systems and to pay the cost of issuing the 2004B Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for October 2027.

2004C Sewer Revenue Bond

The Series 2004C Bond was issued in March 2004 in the amount of \$13,000,000 to finance the construction of extensions, betterments, and improvements to the unsewered areas within the City of Little Rock and to pay the cost of issuing the 2004C Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for October 2028.

2005 Sewer Revenue and Refunding Bond

The Series 2005 Bond was issued in May 2005 in the amount of \$10,000,000 to finance the construction of extensions, betterments, and improvements to the sewer system collection system and the Clearwater Administration Building, to pay the premium for a financial guaranty insurance policy, to pay off the 2004 Short-Term Note, and to pay the cost of issuing the 2005 Sewer Bond. These bonds are special obligations of the Issuer with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal payments are due annually on May 1 and interest payments are due semiannually on May 1 and November 1. The final payment is scheduled for May 2025.

2007A Sewer Revenue Bond

The Series 2007A Bond was issued in May 2007 in the amount of \$63,050,000 to finance the construction of extensions, betterments, and improvements to the sewer system peak flow equalization basin, to establish a debt service reserve for the Series 2007A Bond, and to pay the cost of issuing the 2007A Bond. These bonds are special obligations of the Issuer with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal payments are due annually on June 1 and interest payments are due semiannually on June 1 and December 1. The final payment is scheduled for June 2037.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6: LONG-TERM DEBT (CONTINUED)

2007B Sewer Revenue Bond

The Series 2007B Bond was issued in July 2007 in the amount of \$18,000,000 to finance the construction of extensions, betterments, and improvements to the sewer system collection system within the City of Little Rock and designated collection system projects and to pay the cost of issuing the 2007B Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for October 2029.

2007C Sewer Revenue Bond

The Series 2007C Bond was issued in September 2007 in the amount of \$71,085,000 to finance the improvements to the Fourche Creek Wastewater Treatment Facility and the construction of the Little Maumelle Wastewater Treatment Facility, to pay the premium for a financial guaranty insurance policy, and to pay the cost of issuing the 2007C Bond. These bonds are special obligations of the Issuer with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal payments are due annually starting on October 1, 2024 and interest payments are due semiannually on April 1 and October 1. The final payment is scheduled for October 2037.

2008 Sewer Revenue Bond

The Series 2008 Bond was issued in December 2008 in the amount of \$16,000,000 to finance the improvements to the Fourche Creek Wastewater Treatment Facility and the construction of the Little Maumelle Wastewater Treatment Facility to establish a debt service reserve for the Series 2008 Bond, and to pay the cost of issuing the 2008 Sewer Bond. These bonds are special obligations of the Issuer with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal payments are due annually starting on October 1 and interest payments are due semiannually on April 1 and October 1. The final payment is scheduled for October 2038.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6: LONG-TERM DEBT (CONTINUED)

2009A Sewer Revenue Bond

The Series 2009A Bond was issued in March 2009 in the amount of \$8,000,000 to finance the improvements to the Arch Street Pump Station and to pay the cost of issuing the 2009A Bond. This bond is a special obligation through the ANRC with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on April 15 and October 15. The final payment is scheduled for April 2032.

2009B Sewer Revenue Bond

The Series 2009B Bond was issued in November 2009 in the amount of \$6,655,000 to finance the improvements to the Fourche Creek Wastewater Treatment Facility and the construction of the Little Maumelle Wastewater Treatment Facility, to establish a debt service reserve for the Series 2009B Bond, and to pay the cost of issuing the 2009B Sewer Bond. These bonds are special obligations of the Issuer with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal payments are due annually starting on December 1, and interest payments are due semiannually on June 1 and December 1. The final payment is scheduled for December 2039.

2011 Sewer Revenue and Refunding Bond

The Series 2011 Bond was issued in July 2011 in the amount of \$17,675,000 to refinance the 2001 Sewer Revenue Bond, to establish a debt service reserve for the Series 2011 Bond, and to pay the cost of issuing the 2011 Sewer Bond. These bonds are special obligations of the Issuer with permission from the City of Little Rock, Arkansas, payable solely from the net revenues of the sewer system. Principal and interest payments are due semiannually on February 1 and August 1. The final payment is scheduled for August 2022.

As of December 31, 2011, the Utility had remaining draws on the 2007B Bond of \$408,602.

The 1990, 1991, 1996, 1999, 2004A, 2004B, 2004C, 2007B, and 2009A Series Sewer Revenue Bonds are subordinate to the 2005, 2007A, 2007C, 2008, 2009B, and 2011 Series Revenue Bonds.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6: LONG-TERM DEBT (CONTINUED)

In addition to the \$256,117,360 balance of Sewer Revenue Bonds outstanding at December 31, 2011, an additional \$408,602 will, as previously described, be drawn in fulfillment of current bond issues, for a total Sewer Revenue Bond indebtedness of \$256,525,962.

The annual requirements to amortize sewer revenue bond indebtedness outstanding, and scheduled, including interest, as of December 31, 2011, are as follows:

Year Ending December 31,	Principal	Interest	Total
2012	\$ 7,285,023	\$ 10,570,448	\$ 17,855,471
2013	7,759,601	10,348,744	18,108,345
2014	8,017,476	10,071,604	18,089,080
2015	8,297,397	9,798,910	18,096,307
2016	8,567,624	9,521,381	18,089,005
2017 to 2021	47,599,738	42,828,379	90,428,117
2022 to 2026	44,088,498	34,157,444	78,245,942
2027 to 2031	49,639,382	25,215,256	74,854,638
2032 to 2036	59,741,223	12,579,370	72,320,593
2037 to 2039	15,530,000	804,453	16,334,453
Total	<u>\$ 256,525,962</u>	<u>\$ 165,895,989</u>	<u>\$ 422,421,951</u>

Interest expense incurred during construction amounted to \$100,985 and \$109,174 all of which was capitalized to construction in progress in the years ended December 31, 2011, and December 31, 2010, respectively.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7: COMPENSATED ABSENCES

Net changes in the liability for compensated absences for the years ended December 31, 2011 and 2010 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2011	\$ 650,354	\$ 133,703	\$ 13,766	\$ 770,291	\$ 739,704
2010	\$ 853,765	\$ 4,309	\$ 207,720	\$ 650,354	\$ 636,391

NOTE 8: LITIGATION

A. Sierra Club

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 sanitary sewer overflows (SSOs), 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 awarded on December 13, 2002 and paid in full in 2003. There were no further sums due to the plaintiffs in this litigation; accordingly, LRW's financial statements as of December 31, 2011, 2010 and 2009, respectively, do not include any provisions of potential liability with regard to this litigation.

However, pursuant to the settlement agreement between the plaintiff and LRSSC, the Court retained jurisdiction for the purpose of enforcing the provisions of the settlement agreement incorporated by reference in the judgment. Under the provisions of the settlement, LRSSC is required to follow certain reporting, notice, and maintenance procedures, as well as the requirement of completion of a study to address sanitary sewer overflows in the system. These requirements are specified in the settlement agreement, and the schedules for developing, adopting, and implementing the necessary programs and improvements within specified deadlines, which LRSSC has done or is doing, are set forth in a separate System Evaluation and Capacity Assurance Plan (SECAP).

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8: LITIGATION (CONTINUED)

A. **Sierra Club** (Continued)

Management is of the opinion that LRW is generally in compliance with the provisions of the settlement agreement; and due to LRW's success in the past two consecutive years in reducing non-capacity SSOs, LRW is deemed to have complied with all provision of the settlement related to non-capacity SSOs. Due to various delays in the acquisition of the proposed Little Maumelle Plant site, selection of the treatment process, adoption of the necessary rate ordinance (adopted on November 28, 2006), as well as delay in securing necessary financing to comply with the Settlement Agreement (as provided in the SECAP approved by LRSSC), the sewage treatment facility was not completed as originally proposed, but was completed in July 2011.

Management completed annual reports for 2011, as required by both the CAO and the settlement agreement each year, which detailed compliance actions taken during the year 2011. The Sierra Club report was presented by staff to the LRSSC at its monthly meeting February 15, 2012, and then sent to the attorney for the Sierra Club. The annual report required by the Consent Administrative Order (CAO) was delivered to Arkansas Department of Environmental Quality (ADEQ) February 28, 2012, with a copy sent to the City of Little Rock Board of Directors on February 28, 2012. Prior such reports, starting in 2002, were all approved by LRSSC.

Management expects to remain in compliance with the Settlement Agreement 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.

B. **ADEQ**

On March 9, 2006, staff representatives of ADEQ and Little Rock Wastewater (LRW) entered into a CAO addressing certain issues including, but not limited to, maintenance practices, secondary treatment bypasses at the Adams Field Wastewater Treatment Facility, administrative requirements, design and performance provisions, monitoring, measurement and program modifications, a sanitary sewer overflow plan, a system evaluation and capacity assurance plan, audits, communications, and money penalties for failure of compliance with performance and specific project deadlines. Such penalties for noncompliance range from \$100 to \$500 per day, depending upon the duration of any violation of the proposed CAO noncompliance.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8: LITIGATION (CONTINUED)

B. ADEQ (Continued)

On September 6, 2011, Amendment No. 1 to the Consent Administrative Order was approved by ADEQ and LRW, extending the deadline for the obligations under the settlement agreement until December 31, 2018. Amendment No. 1 also required LRW submit to ADEQ a schedule of activities necessary to maintain compliance with the updated SECAP previously submitted to ADEQ. The updated SECAP was completed by RJN Group in February of 2011.

The CAO will not terminate until such time as full compliance has been achieved and LRW is given written notice of termination by ADEQ. Management is of the opinion that LRW is presently in compliance with the CAO and is diligently working to complete the various projects mandated by Amendment No. 1 to the CAO in accordance with the implementation schedule set forth therein. Management expects to remain on schedule with the CAO throughout its term. The ultimate deadline for compliance with the implementation schedule for completion of the projects required by the CAO is December 31, 2018.

LRW has progressed in 2011 with the required projects, including completion of construction of the Peak Flow Attenuation Facility in January 2011. Completion date schedules for LRW projects are set forth in Amendment No. 1 to the CAO, with the last project to be completed by December 31, 2018. Also, the Fourche Creek Wastewater Treatment Facility upgrades were scheduled for completion. LRW started the first of four phases in 2009 and the second phase in January 2010. Schedule 1 – Disinfection – was completed in January 2011. Schedule 2 – Secondary Clarifier with the cost of \$10,066,544.03 – was completed October 2011. The third phase will address headworks, bioreactor, and primary clarifier with a project cost estimate of \$13,322,092 to be complete in 2017.

Management is of the opinion that LRW staff is in compliance with the CAO and is diligently working to complete the other projects under the circumstances in accordance with the schedule set forth in Amendment No. 1 to the CAO.

Management expects to remain in compliance with the CAO for the duration and continue efforts to complete the projects required by the CAO.

C. Commercial Customer

A commercial customer of LRW claimed past sewer overcharges in the sum of \$290,000, alleging that an appreciable quantity of water use does not reach the sewer system, therefore entitling the customer to credit for past sewer service charges paid. LRW has stated that this customer has been in violation of its compliance order and schedule, dated August 23, 2001, as well as its pretreatment ordinance for violating certain provisions of the order, ordinance, and the industrial wastewater discharge permit issued by LRW.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8: LITIGATION (CONTINUED)

C. **Commercial Customer** (Continued)

This customer currently owes LRW on account for unpaid sewer service in the amount of approximately \$67,000, which the parties have tried to resolve without success. A flow meter was installed in August of 2009 to measure the flow accurately so that any credit could be determined. Accurate flow monitoring is needed to accurately calculate extra strength surcharge and volumetric rates as outlined in the applicable rate ordinances in effect during the disputed time frames.

This customer filed suit on June 26, 2009, against both LRW and Central Arkansas Water (CAW) seeking a preliminary injunction to stop collection and get credit on account, which was denied by the court by order dated June 26, 2009. Previously, LRW held a show cause hearing on May 13, 2009, for various violations by the plaintiff of a compliance order and schedule, as well as ordinances, and LRW administrative order was entered against this customer on July 24, 2009, ordering compliance with the show cause order, which the plaintiff appealed to the Pulaski Circuit Court. On September 27, 2010, the Pulaski County Circuit Court entered a judgment denying all relief requested by the customer and upheld the Order on Show Cause which directed the customer to pay the \$67,000 in arrearages. The customer appealed from that order. The Arkansas Supreme Court affirmed the circuit court's order, concluding this issue.

D. **Other**

LRW had a lawsuit in U.S Federal District Court, involving a former employee's claim for wrongful termination. Plaintiff sought unspecified punitive and compensatory damages. However, the District Court recently granted summary judgment in favor of LRW. Plaintiff has filed appeal from the summary judgment order, but management expects the court's decision to be affirmed.

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$1,026,243 at December 31, 2011, for the expansion of plant capacity.

NOTE 10: PENSION BENEFITS

A. **Defined Contribution Plan**

LRW offers a voluntary 401(a) qualified Pension Plan to all of its employees. Those employees hired after December 31, 2008 must wait five years before they are eligible to participate in the 401(a). The following breakdown shows both LRW's and the employee's percent contribution that is calculated on an employee's base salary and years of service.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 10: PENSION BENEFITS (CONTINUED)

A. **Defined Contribution Plan** (Continued)

<u>Years of Service</u>	<u>LRW</u>	<u>Employee</u>	<u>Vesting</u>
Less than 5 years	1%	2%	None
More than 5 years, but less than 10 years	2%	4%	100%
More than 10 years	3%	6%	100%

The Pension expense is recorded for the amount of LRW's required contribution, determined in accordance with the terms of the plan. The employee contributions are pre-tax. Total employee and employer contributions were approximately \$833,567 and \$874,951 in 2011 and 2010, respectively.

B. **Arkansas Public Employees Retirement System (APERS)**

LRW participates in a cost-sharing multiple-employer pension plan created by the Arkansas Legislature and administered by the Arkansas Public Employees Retirement System (APERS). Members participate in a contributory plan or a noncontributory plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching five years of service and are established by state statute. The authority for establishing and amending funding policies and benefits offered reside within state statute Title 24 of the Arkansas Code Annotated. The employer's contributions are actuarially determined on an annual basis. The following methods were used in the actuarial valuations based on information from <http://www.apers.org/annualreports/index.php>.

Valuation Date	June 30, 2011
Actuarial Cost Method	Ultimate Entry Age Normal
Amortization Method	Level Percent-of-Payroll (State and Local) Level Dollar (General Assembly)
Remaining Amortization	30 Year Open (State and Local) 17 Year Closed (General Assembly)
Asset Valuation Method	4-Year Smoothed Market with 25% Corridor

APERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201, by calling (501) 682-7800 or (800) 682-7377, or by downloading a PDF file at <http://www.apers.org/annualreports/index.php>.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 10: PENSION BENEFITS (CONTINUED)

B. Arkansas Public Employees Retirement System (APERS) (Continued)

Contributions to the noncontributory plan were approximately \$1,429,008, \$1,414,317 and \$1,453,385 for the plan years ended June 30, 2011, 2010, and 2009, respectively, and represented 12.46%, 11.00%, and 11.01%.

Employees hired on or after July 1, 2005, are subject to mandatory employee contributions of 5% of compensation. For the plan years ended June 30, 2011, 2010, and 2009, the 5% mandatory employee contributions were \$115,629, \$124,121, and \$124,775, respectively, and are not included in the amount above.

NOTE 11: OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

Little Rock Wastewater's (LRW) single-employer defined benefit post employment healthcare plan, Little Rock Wastewater Healthcare Plan (LRWHP), provides medical benefits to eligible retired employees and their beneficiaries. Employees are eligible for retiree medical coverage, including dental, prescription drug and vision benefits, if they are eligible for retirement plan benefits under the Arkansas Public Employees System. Retiree Medical Benefits cease at age 65 or upon the retiree signing a waiver of coverage.

Participants included in the actuarial valuation include retirees and survivors, and active employees who may be eligible to participate in the Plan upon retirement. Arkansas statute (ACT 664) provides that any Utility employee vested in the retirement plan and 55 years of age or older may continue to receive the same medical benefits as active employees after retirement provided either the Utility or retiree pays both the employer and employee contributions to the health care plan. LRW is required to pay actual claims. The cost of retiree health care benefits is recognized as an expense as liabilities are incurred. For the year 2010, there were 25 retirees plus 19 dependants on the LRWHP. Retiree premiums are set yearly with 2011 ranging from \$100 to \$300, which are paid directly to LRW. LRW funded approximately 100% of the postretirement healthcare benefit costs, which totaled \$60,574 for the fiscal year ended December 31, 2011.

The Little Rock Sanitary Sewer Committee assigns the authority amend the benefit provisions of the plan based on recommendations by the LRWHP. This post employment healthcare plan is administered by Regions Bank Trust Department. LRWHP does not issue a stand-alone financial report. For inquiries relating to the plan, please contact the Little Rock Wastewater, Finance Division (In Care Of LRWHP), 11 Clearwater Dr, Little Rock, AR 72204.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 11: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

A. **Plan Description** (Continued)

The contribution requirements are based on the most current actuarial valuations (last bi-annual was completed for December 2010) of the plan. Little Rock Wastewater makes every effort to contribute on a monthly basis toward the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The unfunded liabilities of this plan are amortized over an open, 30-year period using the Projected Unit Credit Cost Method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years, except that the effect of changes made to benefit provisions of the plan in 2007 over a closed ten-year period.

B. **Funding Policy**

LRW's health care plan switched from a self-insured to a fully-insured plan in 2011. Premium rates are set on an annual basis with members of LRWHP and an outside benefits consulting firm and are approved by the Little Rock Sanitary Sewer Committee. LRW's budget policy maintains that total benefits should be no more than 35% of total salaries each year. As a part of benefits, the health insurance plans are adjusted accordingly.

C. **Annual OPEB Cost and Net OPEB Obligation**

For 2011, 2010 and 2009, LRW's annual OPEB cost (expense) was \$56,659, \$51,435 and \$50,018, respectively, and the ARC was \$47,893, \$47,893 and \$49,024, respectively. The following table shows the components of LRW's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution	\$ 47,893	\$ 47,893	\$ 49,024
Interest on net OPEB obligation	(18,193)	(23,417)	(6,570)
Adjustment to annual required contribution	<u>26,959</u>	<u>26,959</u>	<u>7,564</u>
Annual OPEB cost (expense)	56,659	51,435	50,018
Contributions made	<u>(60,574)</u>	<u>(439,953)</u>	<u>(290,686)</u>
Increase (Decrease) in net OPEB	(3,914)	(388,518)	(240,668)
Net OPEB obligation-beginning of year	<u>(723,044)</u>	<u>(334,526)</u>	<u>(93,858)</u>
Net OPEB obligation-end of year	<u>\$ (726,958)</u>	<u>\$ (723,044)</u>	<u>\$ (334,526)</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 11: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

C. **Annual OPEB Cost and Net OPEB Obligation** (Continued)

The components of the ARC calculation reflecting a 30-year amortization of unfunded obligations and a 10-year amortization of gain due to changes in plan is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Service Cost (one-year)	\$ 252,307	\$ 252,307	\$ 223,536
30-Year Amortization	841,780	841,780	871,698
10-Year Amortization	(1,049,327)	(1,049,327)	(1,122,780)
Interest Cost	<u>3,133</u>	<u>3,133</u>	<u>76,570</u>
ARC	<u>\$ 47,893</u>	<u>\$ 47,893</u>	<u>\$ 49,024</u>

LRW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 56,659	\$ 60,574	106.91%	\$ (726,958)
2010	51,435	439,953	855.36%	(723,044)
2009	50,018	290,686	581.15%	(334,526)

D. **Funded Status and Funding Progress**

With the most recent actuarial valuation, the plan's assets and liabilities is shown in the table below:

Actuarial Accrued Liability (AAL)	\$(5,676,221)
Less Actuarial Value of Plan Assets	<u>1,243,173</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$(4,433,048)</u>
Funded ratio (actuarial value of plan assets/AAL)	21.90%
Covered payroll	\$12,387,775
Unfunded actuarial accrued liability as a Percentage of covered payroll	35.79%

LITTLE ROCK WASTEWATER
 NOTES TO FINANCIAL STATEMENTS
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NOTE 11: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods used for this fiscal year valuation were as follows:

Actuarial Valuation Date	12/31/2010
Actuarial Cost Method	Projected Unit Credit Cost
Amortization Method	Level Dollar, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Market Value

The actuarial Assumptions include a 7.00% investment rate, net of expenses (because the plan is funded in an irrevocable trust) and an annual health care trend rate of 10% initially, reduced 0.5% annually until reaching an ultimate rate of 5.5% for 2012 and thereafter. Mortality rates were determined using the RP-2000 mortality table for males and females. Retirement rates were provided by the Arkansas Public Employees Retirement System pension valuation. Membership data was based on the census information proved by LRW.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 12: EXTRAORDINARY ITEM

On April 28, 2011, a welding incident at Fourche Creek Wastewater Treatment Plant caused methane in Primary Digester no. 3 to ignite. Following the incident, LRW staff investigated the digester and determined that the structure was damaged. Staff then filed an insurance claim with Travelers Property Casualty Company of America to fully investigate the extent of damage. The insurance company hired an engineering firm to investigate. The engineering firm determined that the structure's roof slab, columns, sludge mixing system, and some small equipment were damaged and recommended replacement.

The loss of the digester, equipment, and the estimated cost to remove the roof slab, columns, and associated equipment was recorded as an extraordinary loss for 2011.

Net book value of damaged structure and equipment	\$ 338,475
Estimated cost to remove	<u>496,823</u>
Extraordinary expense for the year ended 12/31/11	<u>\$ 835,308</u>

The engineering firm hired by Travelers Property Casualty Company of America reviewed the specifications and plans for replacement of the digester and determined nothing submitted was considered an upgrade to the digester. The replacement cost will be covered at 100% with the exception of the \$50,000 deductible required in the policy. The estimated cost of the digester replacement, less \$50,000, was recorded as an extraordinary income in 2011.

Estimated cost to replace Primary Digester no. 3	\$2,981,000
Deductible	<u>(50,000)</u>
Extraordinary income for the year ended 12/31/11	<u>\$2,931,000</u>

NOTE 13: CONCENTRATIONS

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$689,815 and \$680,051 for the years ended December 31, 2011 and 2010, respectively, and are included as operating expenses in the accompanying statements of income.

NOTE 14: 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; and 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
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 14: RISK MANAGEMENT (CONTINUED)

The Utility maintains a self-funded workers' compensation plan. All employees are covered by the plan. It is self-funded to a maximum of \$350,000 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, 2010 to December 31, 2011:

Liability balance, January 1, 2010	\$	50,900
Claims and changes in estimates		9,117
Claims payments		<u>(6,091)</u>
Liability balance, December 31, 2010		53,926
Claims and changes in estimates		21,799
Claims payments		<u>(25,474)</u>
Liability balance, December 31, 2011	\$	<u>50,251</u>

NOTE 15: SUBSEQUENT EVENTS

Little Rock Wastewater did not have any recognized or nonrecognized subsequent events occur after December 31, 2011, the date of the statement of financial position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through March 16, 2012, the date the financial statements were available to be issued.

LITTLE ROCK WASTEWATER
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance Over (Under)
<u>OPERATING REVENUE</u>			
Sewer Charges	\$ 39,526,368	\$ 39,685,509	\$ 159,141
Industry Surcharges	960,000	1,159,226	199,226
Connection Fees	-	33,597	33,597
Other	541,800	464,931	(76,869)
Total Operating Revenues	<u>41,028,168</u>	<u>41,343,263</u>	<u>315,095</u>
<u>OPERATING EXPENSES EXCLUDING DEPRECIATION</u>			
Committee	60,300	57,206	(3,094)
Management	1,594,713	1,599,583	4,870
Finance and Administration	2,463,057	2,190,868	(272,189)
Engineering	1,472,217	1,232,208	(240,009)
Information Systems	2,043,143	1,599,514	(443,629)
Maintenance	10,294,746	8,908,526	(1,386,220)
Operations	5,263,786	4,315,704	(948,082)
Environmental Assessment	<u>1,657,552</u>	<u>1,471,917</u>	<u>(185,635)</u>
Total Operating Expenses, Excluding Depreciation	<u>24,849,514</u>	<u>21,375,526</u>	<u>(3,473,988)</u>
Operating Income Before Depreciation	<u>16,178,654</u>	<u>19,967,737</u>	<u>3,789,083</u>
<u>PROVISION FOR DEPRECIATION</u>			
Building and Improvement	523,865	501,005	-
Infrastructure-Collection & Treatment	5,802,984	5,549,760	-
Equipment	<u>1,806,501</u>	<u>1,727,671</u>	<u>-</u>
Total Provision for Depreciation	<u>8,133,350</u>	<u>7,778,436</u>	<u>(354,914)</u>
OPERATING INCOME (LOSS)	<u>8,045,304</u>	<u>12,189,301</u>	<u>4,143,997</u>
<u>NONOPERATING INCOME (EXPENSE)</u>			
Interest Income	247,000	151,072	(95,928)
Interest Expense	(10,746,308)	(10,673,854)	72,454
Amortization of Bond Issuance Costs	(206,838)	(316,595)	(109,757)
Gain (Loss) on Disposal of Capital Assets	-	(60,727)	(60,727)
Gain (Loss) on Investments	3,600	266,225	262,625
Other	<u>360,000</u>	<u>73,261</u>	<u>(286,739)</u>
Total Nonoperating Income (Expense)	<u>(10,342,546)</u>	<u>(10,560,618)</u>	<u>(218,072)</u>
<u>EXTRAORDINARY ITEMS</u>			
Extraordinary Income	-	2,931,000	2,931,000
Extraordinary Loss	<u>-</u>	<u>(835,309)</u>	<u>(835,309)</u>
Total Extraordinary Items	<u>-</u>	<u>2,095,691</u>	<u>2,095,691</u>
NET INCOME (LOSS)	<u>\$ (2,297,242)</u>	<u>\$ 3,724,374</u>	<u>\$ 6,021,616</u>

See independent auditors' report on required supplementary information.

LITTLE ROCK WASTEWATER
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date	<u>12/31/2010</u>	<u>7/8/2008</u>	<u>11/29/2006</u>
Actuarial Accrued Liability (AAL)	\$ 5,676,221	\$ 4,841,153	\$ 14,650,000
Less Actuarial Value of Plan Assets	<u>1,203,797</u>	<u>1,152,966</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,472,424</u>	<u>\$ 3,688,187</u>	<u>\$ 14,650,000</u>
Funded ratio (actuarial value of plan assets/AAL)	21.21%	23.82%	0%
Covered payroll	\$ 13,033,208	\$ 12,927,891	\$ 12,001,468
Unfunded actuarial accrued liability as a Percentage of covered payroll	34.23%	28.53%	81.92%

See independent auditors' report on required supplementary information.

LITTLE ROCK WASTEWATER
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Sewer Committee:</u>		
Committee Expense Reimbursement	\$ 46,334	\$ 46,351
Insurance	8,923	9,467
Other	1,949	3,227
Total	<u>57,206</u>	<u>59,045</u>
 <u>Utility Management:</u>		
Salaries	798,607	797,472
Employee Benefits	301,789	277,010
Supplies	68,402	48,691
Contract Services	288,979	233,080
Vehicle Maintenance	14,105	10,342
Utilities	9,667	8,859
Insurance	5,335	6,531
Training and Administration	112,699	121,429
Total	<u>1,599,583</u>	<u>1,503,414</u>
 <u>Finance:</u>		
Salaries	731,544	908,101
Employee Benefits	273,223	346,760
Supplies	17,147	24,922
Contract Services	771,394	753,367
Vehicle Maintenance	3,532	7,352
Utilities	7,092	11,064
Insurance	5,068	5,965
Delinquent Accounts	323,886	366,839
Training and Administration	57,982	61,407
Total	<u>2,190,868</u>	<u>2,485,777</u>
 <u>Engineering:</u>		
Salaries	934,757	1,072,182
Employee Benefits	31,140	192,029
Supplies	53,219	47,046
Contract Services	138,509	153,051
Vehicle Maintenance	34,225	30,646
Utilities	14,603	14,018
Insurance	7,449	5,352
Training and Administration	18,306	14,321
Total	<u>1,232,208</u>	<u>1,528,645</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>Collection System and Facilities/</u>		
<u>Equipment Maintenance:</u>		
Salaries	\$ 4,768,448	\$ 5,207,506
Employee Benefits	1,670,351	2,425,012
Supplies	1,311,035	1,141,868
Contract Services	541,615	512,092
Vehicle Maintenance	341,897	557,728
Utilities	143,535	140,255
Insurance	81,888	67,915
Training and Administration	49,757	65,542
Total	8,908,526	10,117,918
 <u>Operations - Adams, Fourche, and</u>		
<u>Industrial Monitoring:</u>		
Salaries	1,567,809	1,563,900
Employee Benefits	527,140	632,447
Supplies	545,009	177,884
Contract Services	403,065	581,123
Vehicle Maintenance	19,247	18,182
Utilities	1,152,343	1,248,018
Insurance	29,481	31,470
Training and Administration	71,610	88,902
Total	4,315,704	4,341,926
 <u>Technical Services:</u>		
Salaries	826,341	841,804
Employee Benefits	265,401	366,465
Supplies	139,571	141,786
Contract Services	197,188	245,813
Vehicle Maintenance	10,243	13,163
Utilities	137,464	125,498
Insurance	1,000	1,051
Training and Administration	22,306	17,971
Total	1,599,514	1,753,551
 <u>Environmental Assessment</u>		
<u>Department (EAD):</u>		
Salaries	934,348	939,928
Employee Benefits	366,995	422,008
Supplies	86,488	80,791
Contract Services	50,239	45,655
Vehicle Maintenance	19,885	14,701
Utilities	5,676	3,729
Insurance	1,188	1,181
Training and Administration	7,098	12,208
Total	1,471,917	1,520,201
Total Operating Expenses	\$ 21,375,526	\$ 23,310,477

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 1990)

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>4/15</u>	<u>10/15</u>	<u>4/15</u>	<u>10/15</u>	
2012	4%	\$ 231,768	\$ 236,403	\$ 24,123	\$ 19,486	\$ 511,780
2013	4%	241,131	245,954	14,759	9,937	511,781
2014	4%	<u>250,872</u>	<u>-</u>	<u>5,017</u>	<u>-</u>	<u>255,889</u>
		<u>\$ 723,771</u>	<u>\$ 482,357</u>	<u>\$ 43,899</u>	<u>\$ 29,423</u>	<u>\$ 1,279,450</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 1991)

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>4/15</u>	<u>10/15</u>	<u>4/15</u>	<u>10/15</u>	
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>\$ 620,375</u>	<u>\$ 413,448</u>	<u>\$ 37,628</u>	<u>\$ 25,220</u>	<u>\$ 1,096,671</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 1996)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		<u>4/15</u>	<u>10/15</u>	<u>4/15</u>	<u>10/15</u>	
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>\$ 1,465,729</u>	<u>\$ 1,281,569</u>	<u>\$ 212,911</u>	<u>\$ 187,260</u>	<u>\$ 3,147,469</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

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	
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>\$ 3,803,148</u>	<u>\$ 3,874,438</u>	<u>\$ 917,062</u>	<u>\$ 845,754</u>	<u>\$ 9,440,402</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

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	
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>\$ 9,873,421</u>	<u>\$ 9,243,954</u>	<u>\$ 2,764,947</u>	<u>\$ 2,604,516</u>	<u>\$ 24,486,838</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

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	
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>\$ 5,888,204</u>	<u>\$ 5,983,889</u>	<u>\$ 1,771,412</u>	<u>\$ 1,675,727</u>	<u>\$ 15,319,232</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

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	
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>\$ 5,724,580</u>	<u>\$ 5,817,626</u>	<u>\$ 1,832,447</u>	<u>\$ 1,739,426</u>	<u>\$ 15,114,079</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

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	
2012	4.000%	\$ 415,000	\$ -	\$ 167,384	\$ 159,084	\$ 741,468
2013	4.000%	435,000	-	159,084	150,384	744,468
2014	4.000%	450,000	-	150,384	141,384	741,768
2015	4.000%	470,000	-	141,384	131,984	743,368
2016	0.050%	490,000	-	131,984	119,734	741,718
2017	4.000%	510,000	-	119,734	109,534	739,268
2018	4.100%	535,000	-	109,534	98,566	743,100
2019	5.000%	555,000	-	98,566	84,691	738,257
2020	4.200%	585,000	-	84,691	72,406	742,097
2021	4.375%	605,000	-	72,406	59,172	736,578
2022	4.375%	635,000	-	59,172	45,281	739,453
2023	4.375%	660,000	-	45,281	30,844	736,125
2024	4.375%	690,000	-	30,844	15,750	736,594
2025	4.375%	720,000	-	15,750	-	735,750
		<u>\$ 7,755,000</u>	<u>\$ -</u>	<u>\$ 1,386,198</u>	<u>\$ 1,218,814</u>	<u>\$ 10,360,012</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2007A)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		6/01	12/01	6/01	12/01	
2012	4.00%	\$ 1,225,000	\$ -	\$ 1,364,719	\$ 1,340,219	\$ 3,929,938
2013	4.00%	1,275,000	-	1,340,219	1,314,719	3,929,938
2014	4.50%	1,325,000	-	1,314,719	1,284,906	3,924,625
2015	4.54%	1,385,000	-	1,284,906	1,253,744	3,923,650
2016	4.50%	1,445,000	-	1,253,744	1,221,231	3,919,975
2017	5.00%	1,515,000	-	1,221,231	1,183,356	3,919,587
2018	4.00%	1,590,000	-	1,183,356	1,151,556	3,924,912
2019	4.38%	1,650,000	-	1,151,556	1,115,462	3,917,018
2020	4.50%	1,725,000	-	1,115,462	1,076,650	3,917,112
2021	4.50%	1,800,000	-	1,076,650	1,036,150	3,912,800
2022	4.50%	1,880,000	-	1,036,150	993,850	3,910,000
2023	4.75%	1,965,000	-	993,850	947,181	3,906,031
2024	4.75%	2,060,000	-	947,181	898,256	3,905,437
2025	4.75%	2,160,000	-	898,256	846,956	3,905,212
2026	4.75%	2,260,000	-	846,956	793,281	3,900,237
2027	4.75%	2,370,000	-	793,281	736,994	3,900,275
2028	5.00%	2,480,000	-	736,994	674,994	3,891,988
2029	5.00%	2,605,000	-	674,994	609,869	3,889,863
2030	5.00%	2,735,000	-	609,869	541,494	3,886,363
2031	4.375%	2,870,000	-	541,494	469,744	3,881,238
2032	4.375%	3,015,000	-	469,744	403,791	3,888,535
2033	4.75%	3,145,000	-	403,791	334,994	3,883,785
2034	4.75%	3,285,000	-	334,994	256,975	3,876,969
2035	4.75%	3,440,000	-	256,975	175,275	3,872,250
2036	4.75%	3,605,000	-	175,275	89,656	3,869,931
2037	4.75%	3,775,000	-	89,656	-	3,864,656
		<u>\$ 58,585,000</u>	<u>\$ -</u>	<u>\$ 22,116,022</u>	<u>\$ 20,751,303</u>	<u>\$ 101,452,325</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2007B)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2012	2.75%	\$ 359,668	\$ 364,613	\$ 228,380	\$ 223,435	\$ 1,176,096
2013	2.75%	369,627	374,709	218,421	213,339	1,176,096
2014	2.75%	379,862	385,084	208,186	202,964	1,176,096
2015	2.75%	390,380	395,747	197,668	192,301	1,176,096
2016	2.75%	401,189	406,705	186,859	181,343	1,176,096
2017	2.75%	412,298	417,966	175,750	170,082	1,176,096
2018	2.75%	423,713	429,540	164,335	158,508	1,176,096
2019	2.75%	435,445	441,433	152,603	146,615	1,176,096
2020	2.75%	447,503	453,656	140,545	134,392	1,176,096
2021	2.75%	459,893	466,217	128,155	121,831	1,176,096
2022	2.75%	472,628	479,126	115,420	108,922	1,176,096
2023	2.75%	485,715	492,393	102,333	95,655	1,176,096
2024	2.75%	499,163	506,027	88,885	82,021	1,176,096
2025	2.75%	512,984	520,038	75,064	68,010	1,176,096
2026	2.75%	527,188	534,437	60,860	53,611	1,176,096
2027	2.75%	541,786	549,235	46,262	38,813	1,176,096
2028	2.75%	556,788	564,444	31,260	23,604	1,176,096
2029	2.75%	572,205	580,048	15,843	7,975	1,176,071
		<u>\$ 8,248,035</u>	<u>\$ 8,361,418</u>	<u>\$ 2,336,829</u>	<u>\$ 2,223,421</u>	<u>\$ 21,169,703</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2007C)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/1	10/1	4/1	10/1	
2012		\$ -	\$ -	\$ 1,739,384	\$ 1,739,384	\$ 3,478,768
2013		-	-	1,739,384	1,739,384	3,478,768
2014		-	-	1,739,384	1,739,384	3,478,768
2015		-	-	1,739,384	1,739,384	3,478,768
2016		-	-	1,739,384	1,739,384	3,478,768
2017		-	-	1,739,384	1,739,384	3,478,768
2018		-	-	1,739,385	1,739,385	3,478,770
2019		-	-	1,739,385	1,739,385	3,478,770
2020		-	-	1,739,385	1,739,385	3,478,770
2021		-	-	1,739,385	1,739,385	3,478,770
2022		-	-	1,739,385	1,739,385	3,478,770
2023		-	-	1,739,385	1,739,385	3,478,770
2024	4.250%	-	440,000	1,739,385	1,739,385	3,918,770
2025	4.375%	-	460,000	1,730,034	1,730,034	3,920,068
2026	5.000%	-	1,185,000	1,719,972	1,719,972	4,624,944
2027	4.375%	-	1,995,000	1,690,347	1,690,347	5,375,694
2028	4.750%	-	3,755,000	1,646,706	1,646,706	7,048,412
2029	4.750%	-	4,780,000	1,557,525	1,557,525	7,895,050
2030	5.000%	-	6,130,000	1,444,000	1,444,000	9,018,000
2031	5.000%	-	6,445,000	1,290,750	1,290,750	9,026,500
2032	5.000%	-	6,760,000	1,129,625	1,129,625	9,019,250
2033	4.500%	-	7,100,000	960,625	960,625	9,021,250
2034	5.000%	-	7,425,000	800,875	800,875	9,026,750
2035	5.000%	-	7,805,000	615,250	615,250	9,035,500
2036	5.000%	-	8,195,000	420,125	420,125	9,035,250
2037	5.000%	-	8,610,000	215,250	215,250	9,040,500
		<u>\$ -</u>	<u>\$ 71,085,000</u>	<u>\$ 37,833,083</u>	<u>\$ 37,833,083</u>	<u>\$ 146,751,166</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2008)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/01	10/01	4/01	10/01	
2012	\$	-	\$ 285,000	\$ 406,588	\$ 406,587	\$ 1,098,175
2013		-	295,000	400,888	400,887	1,096,775
2014		-	305,000	394,988	394,987	1,094,975
2015		-	320,000	388,888	388,887	1,097,775
2016		-	330,000	382,488	382,487	1,094,975
2017		-	345,000	375,475	375,475	1,095,950
2018		-	360,000	367,928	367,928	1,095,856
2019		-	375,000	359,828	359,828	1,094,656
2020		-	395,000	350,922	350,922	1,096,844
2021		-	415,000	341,047	341,047	1,097,094
2022		-	435,000	330,672	330,672	1,096,344
2023		-	460,000	319,525	319,525	1,099,050
2024		-	485,000	307,450	307,450	1,099,900
2025		-	510,000	294,719	294,719	1,099,438
2026		-	540,000	281,013	281,012	1,102,025
2027		-	570,000	266,163	266,162	1,102,325
2028		-	600,000	250,488	250,487	1,100,975
2029		-	630,000	233,987	233,987	1,097,974
2030		-	665,000	216,663	216,662	1,098,325
2031		-	705,000	198,375	198,375	1,101,750
2032		-	745,000	178,106	178,106	1,101,212
2033		-	785,000	156,688	156,688	1,098,376
2034		-	830,000	134,119	134,119	1,098,238
2035		-	880,000	110,256	110,256	1,100,512
2036		-	930,000	84,956	84,956	1,099,912
2037		-	985,000	58,218	58,218	1,101,436
2038		-	1,040,000	29,900	29,900	1,099,800
	\$	-	\$ 15,220,000	\$ 7,220,338	\$ 7,220,329	\$ 29,660,667

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2009A)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2012	2.00%	\$ -	\$ 163,645	\$ -	\$ 80,000	\$ 243,645
2013	2.00%	165,281	166,935	78,364	76,710	487,290
2014	2.00%	168,603	170,289	75,042	73,356	487,290
2015	2.00%	171,993	173,713	71,652	69,932	487,290
2016	2.00%	175,449	177,205	68,196	66,440	487,290
2017	2.00%	178,977	180,765	64,668	62,880	487,290
2018	2.00%	182,573	184,399	61,072	59,246	487,290
2019	2.00%	186,243	188,105	57,402	55,540	487,290
2020	2.00%	189,987	191,887	53,658	51,758	487,290
2021	2.00%	193,805	195,743	49,840	47,902	487,290
2022	2.00%	197,701	199,677	45,944	43,968	487,290
2023	2.00%	201,675	203,691	41,970	39,954	487,290
2024	2.00%	205,729	207,785	37,916	35,860	487,290
2025	2.00%	209,863	211,963	33,782	31,682	487,290
2026	2.00%	214,081	216,223	29,564	27,422	487,290
2027	2.00%	218,385	220,569	25,260	23,076	487,290
2028	2.00%	222,775	225,003	20,870	18,642	487,290
2029	2.00%	227,253	229,525	16,392	14,120	487,290
2030	2.00%	231,819	234,139	11,826	9,506	487,290
2031	2.00%	236,479	238,845	7,166	4,800	487,290
2032	2.00%	241,223	-	2,412	-	243,635
		<u>\$ 4,019,894</u>	<u>\$ 3,980,106</u>	<u>\$ 852,996</u>	<u>\$ 892,794</u>	<u>\$ 9,745,790</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2009B)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		6/01	12/01	6/01	12/01	
2012	2.00%	\$ -	\$ 130,000	\$ 140,244	\$ 140,244	\$ 410,489
2013	2.00%	-	135,000	138,782	138,782	412,564
2014	2.00%	-	135,000	137,094	137,094	409,189
2015	2.00%	-	140,000	135,069	135,069	410,139
2016	2.00%	-	145,000	132,794	132,794	410,589
2017	2.00%	-	150,000	130,257	130,257	410,514
2018	2.00%	-	155,000	127,257	127,257	409,514
2019	2.00%	-	160,000	124,157	124,157	408,314
2020	2.00%	-	170,000	120,957	120,957	411,914
2021	2.00%	-	175,000	117,557	117,557	410,114
2022	2.00%	-	185,000	113,948	113,948	412,895
2023	2.00%	-	190,000	110,016	110,016	410,033
2024	2.00%	-	200,000	105,979	105,979	411,958
2025	2.00%	-	205,000	101,629	101,629	408,258
2026	2.00%	-	215,000	97,119	97,119	409,238
2027	2.00%	-	225,000	92,281	92,281	409,563
2028	2.00%	-	235,000	87,219	87,219	409,438
2029	2.00%	-	245,000	81,784	81,784	408,569
2030	2.00%	-	260,000	76,119	76,119	412,238
2031	2.00%	-	270,000	69,944	69,944	409,888
2032	2.00%	-	285,000	63,531	63,531	412,063
2033	2.00%	-	295,000	56,763	56,763	408,525
2034	2.00%	-	310,000	49,756	49,756	409,513
2035	2.00%	-	325,000	42,394	42,394	409,788
2036	2.00%	-	340,000	34,675	34,675	409,350
2037	2.00%	-	355,000	26,600	26,600	408,200
2038	2.00%	-	375,000	18,169	18,169	411,338
2039	2.00%	-	390,000	9,263	9,262	408,524
		<u>\$ -</u>	<u>\$ 6,400,000</u>	<u>\$ 2,541,356</u>	<u>\$ 2,541,355</u>	<u>\$ 11,482,711</u>

See independent auditors' report on supplementary schedules.

LITTLE ROCK WASTEWATER
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
DECEMBER 31, 2011

Sewer Revenue Bonds (Series 2011)

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>	
2012		\$ 230,000	\$ 280,000	\$ 330,910	\$ 281,338	\$ 1,122,248
2013		285,000	290,000	278,538	274,263	1,127,800
2014		525,000	540,000	269,913	262,038	1,596,950
2015		785,000	790,000	253,938	246,088	2,075,025
2016		800,000	810,000	237,200	228,200	2,075,400
2017		815,000	830,000	219,088	206,863	2,070,950
2018		845,000	855,000	194,413	181,738	2,076,150
2019		975,000	990,000	168,913	154,288	2,288,200
2020		1,110,000	1,140,000	136,963	109,213	2,496,175
2021		1,160,000	1,190,000	80,713	61,863	2,492,575
2022		1,205,000	1,225,000	42,525	21,438	2,493,963
		<u>\$ 8,735,000</u>	<u>\$ 8,940,000</u>	<u>\$ 2,213,110</u>	<u>\$ 2,027,325</u>	<u>\$ 21,915,435</u>

See independent auditors' report on supplementary schedules.

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LITTLE ROCK WASTEWATER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

<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
Sewer Bonds (2007B Series)	66.458	N/A	18,000,000
Sewer Bonds (2009A Series)	66.458	N/A	<u>8,000,000</u>
Totals			<u>\$ 107,100,000</u>

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

Bonds Payable December 31, 2010	Cash Received in 2011	Principal Repayments in 2011	Bonds Payable December 31, 2011	Total Expenditures in 2011
\$ 1,656,120	\$ -	\$ 449,992	\$ 1,206,128	\$ -
1,419,530	-	385,707	1,033,823	-
3,062,511	-	315,213	2,747,298	-
8,232,248	-	554,662	7,677,586	-
20,052,989	-	935,614	19,117,375	-
12,430,065	-	557,972	11,872,093	-
12,043,885		501,679	11,542,206	
16,420,775	484,844	704,768	16,200,851	484,844
<u>6,499,119</u>	<u>1,500,881</u>	<u>-</u>	<u>8,000,000</u>	<u>1,500,881</u>
<u>\$ 81,817,242</u>	<u>\$ 1,985,725</u>	<u>\$ 4,405,607</u>	<u>\$ 79,397,360</u>	<u>\$ 1,985,725</u>

LITTLE ROCK WASTEWATER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1: GENERAL

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

NOTE 2: BASIS OF ACCOUNTING

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

NOTE 3: PURPOSE OF FUNDS RECEIVED

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

NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS

Principal repayments in 2011 are included in the statements of cash flows in LRW's financial statements. Bonds payable of \$79,397,360 at December 31, 2011, are included in Note 7 to the Utility's financial statements. Total expenditures in 2011 are included in acquisition and construction of capital assets in the statements of cash flows in LRW's financial statements.

STATISTICAL DATA



Little Rock Wastewater

STATISTICAL SECTION – CONTENTS AND EXPLANATIONS (Unaudited)

This part of Little Rock Wastewater’s comprehensive annual financial report presents summary information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Little Rock Wastewater’s overall financial health.

A – FINANCIAL TRENDS INFORMATION

These schedules contain trend information to help the reader understand how LRW’s financial performance and well-being have changed over time.

Net Assets by Component, Last 10 Years	84
Changes in Net Assets	85
Operating Revenues by Source	86
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Nonoperating Revenues and Expenses	88

B – REVENUE CAPACITY INFORMATION

These schedules contain information to help the reader assess LRW’s primary revenue sources.

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C – DEBT CAPACITY INFORMATION

These schedules present information to help the reader in assessing the affordability of LRW’s current levels of outstanding debt and its ability to issue additional debt in the future.

Ratios of Outstanding Debt by Types	93
Pledged-Revenue Coverage	94

D – DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which LRW’s financial activities take place.

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Principal Employers	97

E – OPERATING INFORMATION

These schedules contain information about LRW’s operational activities.

Number of Employees by Identifiable Activity	98
Operating and Capital Indicators	99

Schedule 1

Little Rock Wastewater

Net Assets by Component
Last Ten Fiscal Years

	Fiscal Year				
	2007	2008	2009	2010	2011
Primary Government					
Restricted					
Restricted for Debt Service	\$ 6,760,046	\$ 8,140,653	\$ 9,032,548	\$ 8,717,901	\$ 8,201,722
Restricted for Construction and Improvements	33,517,468	30,756,378	5,836,799	5,394,355	-
Workers Compensation	592,341	604,102	589,770	573,864	597,342
Total Restricted	40,869,855	39,501,133	15,459,117	14,686,120	8,799,064
Invested in Capital Assets, Net of Related Debt	97,102,727	105,750,500	139,750,917	139,941,376	139,771,009
Unrestricted	9,434,483	9,642,936	675,125	3,094,765	14,474,837
Total primary governmental net assets	\$ 147,407,065	\$ 154,894,569	\$ 155,885,159	\$ 157,722,261	\$ 163,044,910

	Fiscal Year				
	2002	2003	2004	2005	2006
Primary Government					
Restricted					
Restricted for Debt Service	\$ 568,804	\$ 568,774	\$ 574,651	\$ 1,062,772	\$ 953,764
Restricted for Construction and Improvements	4,772,813	6,112,193	4,171,856	6,782,779	4,846,417
Workers Compensation	475,078	482,686	489,462	538,649	563,868
Total Restricted	5,816,696	7,163,653	5,235,970	8,384,199	6,364,049
Invested in Capital Assets, Net of Related Debt	100,595,928	105,498,789	108,818,413	115,307,431	126,368,293
Unrestricted	4,441,416	5,124,992	11,327,841	8,678,486	7,257,965
Total primary governmental net assets	\$ 110,854,040	\$ 117,787,433	\$ 125,382,224	\$ 132,370,116	\$ 139,990,307

Schedule 2

Little Rock Wastewater

Changes in Net Assets
Last Ten Fiscal Years

Fiscal Year	Operating Revenue	Operating Expense	Depreciation Expense	Total			Change in Net Assets
				Nonoperating Revenues/(Expenses)	Income/(Loss) before Capital Contributions	Capital Contributions	
2002	\$ 21,136,586	\$ (16,208,850)	\$ (4,860,468)	\$ (1,264,945)	\$ (1,197,677)	\$ 3,431,349	\$ 2,233,672
2003	\$ 27,811,390	\$ (17,498,220)	\$ (4,924,975)	\$ (1,703,325)	\$ 3,684,870	\$ 3,248,525	\$ 6,933,395
2004	\$ 30,295,588	\$ (19,348,737)	\$ (5,098,192)	\$ (1,448,924)	\$ 4,399,735	\$ 3,195,054	\$ 7,594,789
2005	\$ 30,609,507	\$ (20,810,362)	\$ (5,496,016)	\$ (1,711,967)	\$ 2,591,162	\$ 4,396,730	\$ 6,987,892
2006	\$ 30,398,264	\$ (22,088,849)	\$ (5,818,269)	\$ (1,489,023)	\$ 1,002,123	\$ 6,618,066	\$ 7,620,190
2007	\$ 36,360,579	\$ (23,539,563)	\$ (6,179,107)	\$ (2,499,808)	\$ 4,142,101	\$ 3,274,658	\$ 7,416,759
2008	\$ 38,883,908	\$ (23,731,107)	\$ (6,378,990)	\$ (4,645,173)	\$ 4,128,638	\$ 3,358,865	\$ 7,487,503
2009	\$ 39,769,048	\$ (23,437,163)	\$ (6,895,912)	\$ (9,868,281)	\$ (432,308)	\$ 1,422,898	\$ 990,590
2010	\$ 42,014,840	\$ (23,310,477)	\$ (7,737,659)	\$ (10,449,831)	\$ 516,873	\$ 1,320,229	\$ 1,837,102
2011	\$ 41,343,263	\$ (21,375,526)	\$ (7,778,436)	\$ (8,464,927)	\$ 3,724,374	\$ 1,598,275	\$ 5,322,649

Schedule 3

Little Rock Wastewater

Operating Revenues by Source,
Last Ten Fiscal Years

Fiscal Year	Sewer Charges	Industrial Surcharges ^a	Connection Fees	Other Income ^b	Total
2002	\$ 20,306,520	\$ 498,152	\$ 85,000	\$ 246,914	\$ 21,136,586
2003	\$ 26,984,440	\$ 382,001	\$ 108,500	\$ 336,449	\$ 27,811,390
2004	\$ 28,992,505	\$ 796,528	\$ 165,229	\$ 341,326	\$ 30,295,588
2005	\$ 29,374,828	\$ 619,707	\$ 214,625	\$ 400,347	\$ 30,609,507
2006	\$ 29,482,518	\$ 576,499	\$ 172,823	\$ 166,424	\$ 30,398,264
2007	\$ 35,385,796	\$ 626,807	\$ 128,300	\$ 219,676	\$ 36,360,579
2008	\$ 37,658,159	\$ 691,625	\$ 148,913	\$ 385,211	\$ 38,883,908
2009	\$ 38,199,675	\$ 894,224	\$ 35,330	\$ 639,819	\$ 39,769,048
2010	\$ 39,788,224	\$ 1,702,263	\$ 30,011	\$ 494,342	\$ 42,014,840
2011	\$ 39,685,509	\$ 1,159,226	\$ 33,597	\$ 464,931	\$ 41,343,263

^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

Operating Expenses,
Last Ten Fiscal Years

Fiscal Year	Employment Costs	Supplies	Contract Services	Vehicle Maintenance	Utilities	Administrative Costs ^a	Capitalized Items ^b	Subtotal,		Total Operating Expense
								Expense before Depreciation	Depreciation	
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
2006	\$17,511,524	\$1,984,357	\$2,130,193	\$641,644	\$1,470,846	\$1,139,964	\$(2,789,678)	\$22,088,850	\$5,818,269	\$27,907,119
2007 ^c	\$16,164,446	\$2,067,605	\$2,512,370	\$347,790	\$1,409,536	\$1,037,816	\$-	\$23,539,563	\$6,179,107	\$29,718,670
2008	\$15,499,294	\$2,196,815	\$2,662,092	\$571,792	\$1,683,068	\$1,118,046	\$-	\$23,731,107	\$6,378,990	\$30,110,097
2009	\$15,349,826	\$1,864,600	\$3,030,364	\$327,481	\$1,839,095	\$1,025,797	\$-	\$23,437,163	\$6,895,913	\$30,333,076
2010	\$15,992,624	\$1,662,988	\$2,524,181	\$652,114	\$1,551,441	\$927,129	\$-	\$23,310,477	\$7,737,659	\$31,048,136
2011	\$13,997,893	\$2,220,871	\$2,390,989	\$443,134	\$1,470,380	\$852,259	\$-	\$21,375,526	\$7,778,436	\$29,153,962

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

^b Capitalized labor, overhead and supplies

^c Starting in 2007, capitalized items have been excluded with corresponding operating expense category .

Schedule 5

Little Rock Wastewater

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	on Investments	Gain/Loss			
2002	\$ (1,702,432)	\$ 244,519	\$ (86,847)	\$ (29,257)	\$ 23,846	\$ 285,226	\$ (1,264,945)		
2003	\$ (1,976,233)	\$ 174,887	\$ (82,006)	\$ 23,782	\$ (14,927)	\$ 171,172	\$ (1,703,325)		
2004	\$ (2,032,069)	\$ 249,077	\$ (83,287)	\$ 440,359	\$ (23,427)	\$ 423	\$ (1,448,924)		
2005	\$ (2,174,967)	\$ 599,093	\$ (99,825)	\$ (8,272)	\$ (44,007)	\$ 16,011	\$ (1,711,967)		
2006	\$ (2,176,779)	\$ 865,470	\$ (90,610)	\$ (104,896)	\$ 3,186	\$ 14,606	\$ (1,489,023)		
2007	\$ (5,406,220)	\$ 2,532,165	\$ (123,826)	\$ -	\$ 498,806	\$ (733)	\$ (2,499,808)		
2008	\$ (9,340,837)	\$ 5,421,585	\$ (206,391)	\$ (155,504)	\$ (382,174)	\$ 18,148	\$ (4,645,173)		
2009	\$ (10,585,725)	\$ 1,659,793	\$ (218,686)	\$ (102,683)	\$ (650,102)	\$ 29,122	\$ (9,868,281)		
2010	\$ (10,770,853)	\$ 147,124	\$ (210,609)	\$ (30,932)	\$ 353,193	\$ 62,246	\$ (10,449,831)		
2011	\$ (10,673,854)	\$ 151,072	\$ (316,595)	\$ (60,727)	\$ 266,225	\$ 2,168,952	\$ (8,464,927)		

Schedule 6

Little Rock Wastewater

New Construction/Inspections Completed,
Last Ten Fiscal Years

Fiscal Year	Residential	Commercial	Total New Construction Permits
2002	571	99	670
2003	666	122	788
2004	738	119	857
2005	940	143	1,083
2006	986	132	1,118
2007	849	103	952
2008	564	108	672
2009	423	118	541
2010	385	69	454
2011	371	124	495

Schedule 7

Little Rock Wastewater

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

Fiscal Year	Residential	Commercial	Industrial	Other ^b	Total
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
2006	59,085	6,099	80	506	65,770
2007	60,223	6,309	86	415	67,033
2008	60,773	6,348	84	423	67,628
2009	60,646	6,302	82	425	67,455
2010	60,862	6,262	74	424	67,622
2011	61,030	6,304	74	429	67,837

^a Active billed accounts as of December 31

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

^c LRW audited and reclassified accounts in each class type

Schedule 8A

Little Rock Wastewater

Sewer Rates (Inside City),

Last Ten Fiscal Years

Base Rate ^c (Meter Size)	Fiscal Year Ending				
	2007 ^f	2008 ^g	2009 ^h	2010 ⁱ	2011
5/8"	\$ 13.66	\$14.07	\$ 14.63	\$ 15.37	\$ 15.37
3/4"	16.02	16.50	17.15	18.02	18.02
1"	21.42	22.07	22.95	24.10	24.10
1.5"	35.09	36.14	37.58	39.46	39.46
2"	51.42	52.96	55.08	57.83	57.83
3"	89.42	92.11	95.79	100.58	100.58
4"	143.89	148.20	161.84	161.84	161.84
6" or larger	279.95	288.35	299.88	314.87	314.87
Volumetric Rate ^d	\$ 2.74	\$ 2.83	\$ 2.94	\$ 3.09	\$ 3.09

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

^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

^e In Nov 2006, City of Little Rock Board of Directors approved a five step rate increase that will effected rates from 2007 to 2010.

^f There were two, of an approved five step, rate increases in 2007; 15% on January 1 and 8% on July 1.

^g The third of a five step rate increase; 3% on January 1.

^h The fourth of a five step rate increase; 4% on January 1.

ⁱ The last of a five step rate increase; 5% on January 1.

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

Schedule 8B

Little Rock Wastewater

Sewer Rates (Outside City),

Last Ten Fiscal Years

Base Rate ^c (Meter Size)	Fiscal Year Ending				
	2007 ^f	2008 ^g	2009 ^h	2010 ⁱ	2011
5/8"	\$ 20.49	\$ 21.11	\$ 21.95	\$ 23.05	\$ 23.05
3/4"	24.09	24.82	25.81	27.10	27.10
1"	32.11	33.07	34.39	36.11	36.11
1.5"	52.66	54.24	56.41	59.23	59.23
2"	78.68	81.04	84.28	88.50	88.50
3"	134.14	138.16	143.69	150.87	150.87
4"	215.86	222.34	231.23	242.79	242.79
6" or larger	419.92	432.52	449.82	472.31	472.31
Volumetric Rate ^d	\$ 4.12	\$ 4.24	\$ 4.41	\$ 4.63	\$ 4.63

Base Rate ^c (Meter Size)	Fiscal Year Ending				
	2002 ^a	2003 ^b	2004	2005	2006 ^e
5/8"	\$ 13.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50
3/4"	16.00	19.40	19.40	19.40	19.40
1"	21.40	25.85	25.85	25.85	25.85
1.5"	35.05	42.40	42.40	42.40	42.40
2"	52.35	63.35	63.35	63.35	63.35
3"	89.30	108.00	108.00	108.00	108.00
4"	143.65	173.80	173.80	173.80	173.80
6" or larger	279.40	338.10	338.10	338.10	338.10
Volumetric Rate ^d	\$ 1.97	\$ 2.75	\$ 3.32	\$ 3.32	\$ 3.32

^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

^e In Nov 2006, City of Little Rock Board of Directors approved a five step rate increase that will effected rates from 2007 to 2010.

^f There were two, of an approved five step, rate increases in 2007; 15% on January 1 and 8% on July 1.

^g The third of a five step rate increase; 3% on January 1.

^h The fourth of a five step rate increase; 4% on January 1.

ⁱ The last of a five step rate increase; 5% on January 1.

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

Schedule 9

Little Rock Wastewater

Ratios of Outstanding Debt by Type,
Last Ten Fiscal Years

Fiscal Year	Principal Only			Total		
	Revenue Bonds	Revolving Fund Loans ^a	Notes	Amount	Per Capita	As a Share of Personal Income
2002	21,675,000	25,919,408	-	47,594,408	259.89	1.12%
2003	21,340,000	24,659,791	-	45,999,791	251.18	1.08%
2004	20,995,000	26,328,950	3,316,918	50,640,868	276.53	1.19%
2005	30,635,000	42,048,744		72,683,744	396.89	1.71%
2006	29,915,000	57,177,864		87,092,864	475.57	1.75%
2007	163,305,000	64,288,425		227,593,425	1,242.78	4.31%
2008	177,480,000	70,978,477		248,458,477	1,356.71	4.98%
2009	181,995,000	88,471,455		270,466,455	1,476.89	5.83%
2010	179,640,000	81,817,242		261,457,242	1,351.03	5.33%
2011	176,720,000	79,397,360		256,117,360	1,323.44	4.92%

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

See Notes to the Financial Section #6 - Long-Term Debt for more information.

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

Schedule 10

Little Rock Wastewater

Pledged-Revenue Coverage,
Last Ten Fiscal Years

Fiscal Year	Gross Revenue ^a	Direct Operating Expense ^b	Net Revenue Available For Debt Service	At December 31, Fiscal Year			Coverage
				Total Outstanding Debt ^f	# of Years of Outstanding Debt	Avg Yearly Outstanding Debt	
2002 ^c	\$ 23,901,105	\$(16,208,850)	\$ 7,692,255	\$ 102,915,857	21	\$ 4,900,755	1.57
2003 ^d	\$ 30,076,277	\$(17,498,220)	\$12,578,057	\$ 97,504,179	20	\$ 4,875,209	2.58
2004	\$ 30,544,665	\$(19,348,737)	\$11,195,928	\$ 164,668,331	25	\$ 6,586,733	1.70
2005	\$ 31,208,600	\$(20,810,361)	\$10,398,239	\$ 169,600,556	24	\$ 7,066,690	1.47
2006 ^e	\$ 35,953,294	\$(22,088,850)	\$13,864,444	\$ 139,992,855	22	\$ 6,363,312	2.18
2007 ^g	\$ 43,429,090	\$(23,539,563)	\$19,889,527	\$ 436,244,778	30	\$ 14,541,493	1.37
2008 ^h	\$ 47,882,812	\$(23,731,107)	\$24,151,705	\$ 454,758,950	30	\$ 15,158,632	1.59
2009 ⁱ	\$ 43,416,841	\$(23,467,164)	\$19,949,677	\$ 460,867,355	30	\$ 15,362,245	1.30
2010	\$ 42,161,964	\$(23,310,477)	\$18,851,487	\$ 441,050,765	29	\$ 15,208,647	1.24
2011	\$ 41,494,335	\$(21,375,526)	\$20,118,809	\$ 422,421,951	28	\$ 15,086,498	1.33

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

See Notes to the Financial Section #6 - Long-Term Debt for more information.

^a Includes interest on investment income.

^b See Schedule 4.

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

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

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

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

^g Includes an estimated look-forward rate increases of \$1.090 Million, \$1,498 Million, and \$1,947 Million in Gross Revenues based on approved Jan 1, 2008, Jan 1, 2009 and Jan 1, 2010 rate increases.

^h Includes an estimated look-forward rate increases of \$1,555 Million, and \$2,021 Million in Gross Revenues based on approved Jan 1, 2009 and Jan 1, 2010 rate increases.

ⁱ Includes an estimated look-forward rate increases of \$1,988 Million in Gross Revenues based on approved Jan 1, 2010 rate increases.

Schedule 11

Little Rock Wastewater

Demographic and Economic Statistics,
Last Ten Calendar Years

Calendar Year	Population ^a	Personal Income ^b	Per Capita Personal Income	Unemployment Percentage Rate
2002	183,133	\$ 4,250,333,797	\$ 23,209	4.3%
2003	183,133	\$ 4,250,333,797	\$ 23,209	4.6%
2004	183,133	\$ 4,250,333,797	\$ 23,209	4.4%
2005	183,133	\$ 4,250,333,797	\$ 23,209	4.5%
2006	183,133	\$ 4,966,933,226	\$ 23,209	4.6%
2007	183,133	\$ 5,284,485,848	\$ 23,209	4.7%
2008	183,133	\$ 4,985,063,393	\$ 23,209	4.5%
2009	183,133	\$ 4,642,787,816	\$ 23,209	5.9%
2010	193,524	\$ 4,906,220,448	\$ 23,209	7.2%
2011	193,524	\$ 5,205,408,552	\$ 26,898	6.7%

^a Used 2000 Census and 2010 Census

^b Personal Income is a calculation of per capita income multiplied by the population

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

Schedule 12

Little Rock Wastewater

Ten Largest Sewer Customers,
Current Year and Nine Years Ago

Fiscal Year 2011		
Customer	Amount	Percent
1. University of Arkansas Medical Science	\$ 388,490	0.98 %
2. Odom Sausage	379,169	0.96
3. Baptist Medical Center	350,617	0.88
4. Sage V Foods	303,335	0.76
5. Central Arkansas Water	223,003	0.56
6. St. Vincents Infirmary	170,428	0.43
7. VA Hospital	154,078	0.39
8. Coleman/Turner Dairy	143,656	0.36
9. Coca-Cola Bottling	127,933	0.32
10. Arkansas Children's Hospital	108,124	0.27
Subtotal	2,348,833	5.92
Balance from other customers	37,336,676	94.08
Grand Totals ^a	<u>\$ 39,685,509</u>	<u>100.00 %</u>

Fiscal Year 2002		
Customer	Amount	Percent
1. Odom Sausage	\$ 201,496	0.76 %
2. Baptist Medical Center	181,135	0.73
3. University of Arkansas Medical Science	150,420	0.64
4. City of Shannon Hills	115,665	0.54
5. Coca Cola Bottling	94,015	0.51
6. Gold Star Dairy	86,433	0.38
7. Jack Wilson Trmt	79,715	0.37
8. St. Vincents Infirmary	78,961	0.32
9. V.A. Hospital	68,760	0.28
10. Ozark Point	64,861	0.27
Subtotal	1,121,461	4.80
Balance from other customers	19,185,059	95.20
Grand Totals ^a	<u>\$ 20,306,520</u>	<u>100.00 %</u>

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

Schedule 13

Little Rock Wastewater

Principal Employers,

Current Year and Nine Years Ago

Employer	2011			2002		
	Employees	Percentage of Total	Rank	Employees	Percentage of Total	Rank
State of Arkansas	32,200	10.28%	1	28,100	9.46%	1
Local Government	28,800	9.19%	2	-	-	
Federal Government	9,200	2.94%	3	9,400	3.17%	2
University of Arkansas Medical Sciences	8,500	2.71%	4	5,392	1.82%	6
Public School Districts	6,211	1.98%	5	8,868	2.99%	3
Baptist Health	7,000	2.23%	6	7,000	2.36%	4
Little Rock Air Force Base	4,500	1.44%	7	5,445	1.83%	5
Veterans Administration Hospitals	3,500	1.12%	8	2,700	0.91%	10
Axiom	4,388	1.40%	9	-	-	-
Entergy Arkansas	2,738	0.87%	10	3,254	1.10%	9
Arkansas Children's Hospital				3,293	1.11%	8
ALLTEL Corp				4,000	1.35%	7
Total	107,037	34%		77,452	26%	

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

Schedule 14

Little Rock Wastewater

Number of Employees by Identifiable Activity,
Last Ten Fiscal Years

	Full-time-Equivalent Employees as of December 31									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Administration:										
Executive Administrator	1	1	1	1	1	1	1	1	1	1
Safety & Communications	3	3	4	4	4	4	5	4	4	4
Human Resources	2	2	2	2	2	2	2	2	2	2
Finance/Accounting	7	7	7	8	8	9	12	12	12	10
Information Services ^a	10	10	12	12	12	12	16	13	13	10
Legal	1	1	1	1	1	1	2	1	0	0
Clerical	17	17	18	16	18	15	10	11	10	9
Engineering ^a	28	31	32	32	33	35	28	30	29	27
Sewer Plant Maintenance	20	21	20	20	13	18	12	23	21	21
Sewer Systems Maintenance	89	92	103	105	110	112	114	106	94	90
Sewer Plant Operations	22	22	22	22	22	22	24	21	20	20
Environmental Assessment	15	15	17	17	17	19	17	17	16	16
Total Employees	215	222	239	240	241	250	243	241	222	210

^a GIS personnel were moved from Engineering to Information Services in 2000 and back to Engineering in 2002 and back to Information Services in 2008.

Schedule 15

Little Rock Wastewater

Operating and Capital Indicators,
Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006 ^a	2007	2008	2009	2010	2011 ^b
Wastewater Treatment Miles of Sewer	1,164	1,198	1,229	1,248	1,270	1,293	1,314	1,312	1,320	1,346
Number of Treatment Plants	2	2	2	2	2	2	2	2	2	3
Treatment Capacity (MGD)										
- Biological Treatment	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	56.0
- Hydraulic Peak Capacity	108.0	108.0	108.0	108.0	130.0	130.0	130.0	130.0	130.0	144.0
Daily engineering maximum plant capacity (MGD)	35.97	33.39	37.35	32.21	30.92	32.71	35.18	40.63	40.58	35.55
Unused Capacity (MGD)	16.03	18.61	14.65	19.79	21.08	19.29	16.82	11.37	11.42	20.45
Percent of capacity utilized	69%	64%	72%	62%	59%	63%	68%	78%	78%	63%

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

^a Adams Field Wastewater Treatment Plant improvements were completed that allowed peak hydraulic capacity to go from 72 MGD to 94 MGD.

^b Little Maumelle Treatment Facility became operational on August 8, 2011.

OTHER REQUIRED REPORTS



Little Rock
Wastewater

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

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

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

We have audited the financial statements of the business-type activities of Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control.

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

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

The Members of the Little Rock
Sanitary Sewer Committee
Page Two

Compliance and Other Matters

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

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

Coll and Suskie, Ltd.

Certified Public Accountants
March 16, 2012

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on 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 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect each of its major federal programs for the year ended December 31, 2011. Little Rock Wastewater's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Little Rock Wastewater's management. Our responsibility is to express an opinion on Little Rock Wastewater's compliance based on our audit.

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

In our opinion, Little Rock Wastewater complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Little Rock Wastewater is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Little Rock Wastewater's internal control over compliance with the 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 internal compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Little Rock Wastewater's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of the Sanitary Sewer Committee, management, and federal awarding agencies and pass-through entities and 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 16, 2012

LITTLE ROCK WASTEWATER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION I: SUMMARY OF AUDITORS' RESULTS

1. Type of Report Issued, Financial Statements
The independent auditors' report expresses an unqualified opinion on the basic financial statements.
2. Significant Deficiencies, Financial Statements
No significant deficiencies were disclosed during the audit of the basic financial statements.
3. Material Noncompliance, Financial Statements
No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant Deficiencies, Major Programs
No significant deficiencies were disclosed during the audit of the major federal award programs.
5. Type of Report Issued, Compliance
The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit Findings Under Section 510(a)
As reported below, there were no audit findings relative to the major federal award programs.
7. Major Programs
Environmental Protection Agency CFDA Number 66.458.
8. Threshold between Type A and Type B Programs
The threshold for distinguishing Type A and B programs was \$300,000.
9. Type of Auditee
Little Rock Wastewater qualified as a low-risk auditee as that term is defined by OMB Circular A-133.

Section II: FINANCIAL STATEMENT FINDINGS

1. Significant Deficiencies
None
2. Significant Deficiencies – Prior Year
None

Section III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. Significant Deficiencies
None
2. Significant Deficiencies – Prior Year
None