



## **LITTLE ROCK, ARKANSAS**

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

### **Comprehensive Annual**

### **Financial Report**

**For the Years Ended December 31, 2016  
and 2015**

**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**  
For the Years Ended December 31, 2016 and 2015

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# INTRODUCTORY SECTION



# Little Rock Wastewater

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May 10, 2017

To Little Rock Water Reclamation Commission,  
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 years ended December 31, 2016 and 2015. State law requires 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, 2016. 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 Department of LRW.

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 LRW 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 **BKD, LLP.**, a firm of licensed certified public accountants. BKD has issued an unmodified (clean) opinion on LRW's financial statements for the years ended December 31, 2016 and 2015. The independent auditor's report is located at the front of the financial section of this report.

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

## **Profile of the Government**

The 1933 Arkansas General Assembly Enacted Act 132, authorizing all cities and towns in the state to levy user charges against property owners "to construct, own, equip, operate, maintain and improve" sewage collection and treatment systems. In June 1935, a full-fledged Sanitary Sewer Committee was named and the City of Little Rock Sanitary Sewer System was created. The seven-member group in 2015 changed the governing board from Little Rock Sanitary Sewer Committee (LRSSC) to Little Rock Water Reclamation Commission (LRWRC). The LRWRC manages and controls the City's sewer system. The LRWRC 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 LRWRC members. The LRWRC in turn hires a Chief Executive Officer. The LRWRC 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 LRWRC 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 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 LRWRC 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 Department and reviewed by the budget subcommittee before final approval from the LRWRC. Financial overviews are available for review at each monthly LRWRC meeting to show operations are being conducted in accordance 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 LRW operates.

#### **Local Economy**

The City of Little Rock (the City) currently enjoys a favorable economic environment and local indicators point to continued stability. The City 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, a financial sector, information sector and a variety of other sectors that are not cyclical. In a 2013 national publication, *Kiplinger's Personal Finance*, the City of Little Rock was selected as the number one best place to live for small- and mid-size cities. This was based on the cost of living, quality of life, education system and strong economics. Also, Little Rock was named the 9<sup>th</sup> Happiest City according to Gallup.

The customer base has continued to grow at a slow but steady pace from previous years for the domestic and non-domestic users of the City of Little Rock Sanitary Sewer System (the System). The number of domestic customer accounts has increased by 3.5% over the past 10 years while non-domestic users have increased by .53% over the same period. The overall growth of total customer accounts for the 10-year period is 3.16%, an increase of 0.2% from the 2015.

#### **Long-Term Financial Planning**

The Capital Improvement Plan (CIP) is a multi-year plan to address capital projects outlined in the System Evaluation and Capacity Assurance Plan (SECAP), the SECAP update, and routine expenditures to maintain infrastructure and replace aging fleet and equipment. The SECAP was completed in 2002 and adopted as part of the Sierra Club Settlement Agreement dated September 12, 2001. In 2006, Arkansas Department of Environmental Quality (ADEQ) and LRW signed a Consent Administrative Order (CAO) to address sanitary sewer overflows. The deadline to complete all the requirements of the CAO was set at January 1, 2016. In 2010, RJN Group was selected to provide LRW with an update to the SECAP report. In 2011, the deadline to complete the requirements of the CAO was extended three years to December 31, 2018. During 2015 the direction of the capital improvements for capacity related overflows changed from wet weather storage facilities to collection system upgrades and renewal. The Rock Creek Storage Facility and the Cantrell Road Area In-Line Storage Facility projects were canceled and replaced by Collection



System Overflow Mitigation Projects. Because of these changes, the deadline to complete all the requirements of the CAO and the Settlement Agreement was extended to December 31, 2023. The ten-year plan contained in the 2017 budget represents the capital expenditures required to meet the goals of the SECAP plan from the study completed in 2002, the updated study from 2010, and the new Collection System Overflow Mitigation Projects by December 31, 2023. The plan is updated annually to reflect the latest priorities, updated cost estimates, and available funding. Total costs remaining that are associated with the CAO is estimated at \$190.1 million. Note 8, Litigation, of the audit discusses the Settlement Agreement in more detail.

Total capital expenditures of \$31.4 million are planned for 2017. Of this amount, \$22.5 million relates to carryover projects and \$8.9 million is proposed for new capital projects

The Utility estimates that capital improvements required over the next ten years, both to comply with the Settlement Agreement and the CAO and for routine capital improvements, will cost \$331.7 million and will include the following:

#### **Collection System Rehabilitation Capacity Assurance Projects**

Various rehabilitation projects are forecast to require expenditures totaling over \$151,716,000 over the next ten years through 2026. The total cost of work scheduled during 2017 is \$14,170,479 and will be funded with system revenues and sewer revenue bonds issued in 2013 and 2016. The balance of the cost will be funded with System revenues and sewer revenue bonds to be issued in 2018, 2020, 2022, and 2024.

#### **Trenchless Sewer Line Rehabilitation**

Trenchless sewer line rehabilitation is for the renewal of structurally deteriorated line segments that contribute to non-capacity overflows. The line segments for trenchless rehabilitation are typically located in areas where replacement by reconstruction is costly due to site restrictions. For 2017, \$2,500,000 is forecasted for trenchless rehabilitation work. The Utility is projecting that \$20,420,000 will be needed in total for years 2017 to and including 2026. This project is being funded with System revenues and sewer revenue bonds issued in 2016, 2018, 2020, 2022, and 2024.

#### **Large Diameter Pipe Inspection and Rehabilitation**

A large diameter pipe inspection and rehabilitation program is planned to begin in 2018 to address the renewal of structurally deteriorated line segments. The initial inspection is forecasted to begin in 2018 and is estimated at \$4,000,000. The identified line segments will be prioritized and placed on a rehabilitation schedule. The rehabilitation is estimated at \$3,000,000 annually with a total cost of \$25,000,000 through 2025 and will be funded by System revenues and revenue bonds issued in 2018, 2020, 2022, and 2024.

#### **Scott Hamilton Drive Peak Flow Facility**

The SECAP identified the need for additional storage to complement the existing storage facility located at Scott Hamilton Drive. The total capital cost for this project is estimated at \$21,378,307 with funding sources from the Series 2012 Bonds, Revolving Loan Fund (RLF) 2016A, and System revenues. In conjunction with prior year costs of \$6,461,129, estimated expenditures for 2017 are \$6,069,094 and \$8,848,084 for years 2018-2019.

### **Adams Field Wastewater Treatment Facility – Parallel Treatment Installation/Disinfection**

To help reduce wet-weather overflows, LRW plans to increase the peak flow treatment capacity of its Adams Field Wastewater Treatment Facility (AFWTF) to 94 millions of gallons per day (MGD) by installing Mega-Disk pile cloth media filtration as additional treatment facilities that will be operated in parallel with the existing activated sludge facilities. The preliminary engineering report and the design are expected to be complete in 2017, and project construction to be completed by 2019. The total capital cost for this project is estimated at \$18,651,400 with the construction beginning in 2017 and completed by 2019. The funding source will be sewer revenue bonds RLF 2016A.

### **Adams Field Wastewater Treatment Facility – Asset Renewal Phase I**

The AFWTF was placed into service as a primary treatment plant in 1961 with the addition of secondary treatment in 1972. The plant went through some modifications in the 1980s. In the mid-2000s, the plant was again modified to reduce odors, eliminate risks associated with chlorine gas storage, and accommodate flows up to 94 MGD through primary treatment for a period of hours. Through these modifications, some facility assets were renewed or replaced to accommodate the intent of the modifications. However, no formal asset management plan (AMP) has been developed to evaluate and plan for the replacement or renewal of depreciated, unreliable, or dysfunctional assets that could threaten the health and environment of the Arkansas River. While the AMP is being developed in another project, this project sets aside monies to allow for the systematic replacement of identified assets targeted for replacement or renewal at the AFWTF. A preliminary engineering study is scheduled to be completed in 2017 to develop the progress reports. The project design and construction for the selected treatment option is forecasted to begin in 2017 and complete in 2022. The total project cost is estimated at \$34,319,300 and will be funded by System revenues and sewer revenue bonds from the 2016A, 2019, and 2020 RLF issues.

### **Adams Field WTF Asset Renewal – Phase II**

Based on current trends and in anticipation of future regulatory requirements on nutrient removal, LRW created a project for projected upgrades to facilities through the design phase for nutrient removal. Estimated expenditures through 2026 are \$5,860,000.

### **Fourche Creek Wastewater Treatment Facility Phase III – Rehabilitation**

Recent improvements to the Fourche Creek Wastewater Treatment Facility (FCWTF) increased the hydraulic capacity of the plant from 36 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 55 MGD to allow for anticipated growth in the industrial port complex. Construction is scheduled to begin in 2017 and be completed by the end of 2018. The total cost is estimated at \$8,734,626 and will be funded by sewer revenue bonds RLF 2016A and System revenues.

### **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. The project is scheduled to start in 2019 and be completed in 2020. Estimated total costs is \$2,289,565.

### **Two Rivers Park Station**

The Two Rivers Park Pump Station would allow the Walton Heights area sewer to operate independently during all wasting activities at Little Maumelle Wastewater Treatment Facility (LMWTF). The Walton Heights gravity line valve must be shut during wasting or the flows from the LMWTF will back up in the lines and cause stoppages and overflows. This project would allow the flexibility to waste at the treatment plant when needed. The project is scheduled to start in 2019 and finish in 2020. Estimated total costs is \$3,524,436 with funding coming from the 2018 RLF.

### **Capitalized Interest**

Capitalized interest is allocated among the projects associated with each sewer revenue bond or revolving loan fund. It has been Little Rock Wastewater's practice to include incurred interest payments during the construction period as part of the disbursements from the revolving loan fund. The estimated capitalized interest is based on amounts and timing of the withdrawals on the projects. Estimated capitalized interest over the next ten-year period is \$14,048,028.

### **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 like private business enterprises. The intent of LRW is that the cost (including depreciation) of providing goods or services to the 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 City of Little Rock Bond Ordinance is #20,604. 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 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 LRWRC.

### **Sewer Revenue Fund**

All gross revenues are deposited into the Sewer Revenue Fund. Monies deposited in the Sewer Revenue Fund shall first be 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 principal and interest scheduled to come due on the bonds’ next principal and 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.

**Bond Reserve Fund**

If the funds on deposit in the Bond 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 individual Bond Reserve Funds. However, should the Bond 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 Bond 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 Bond 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 about the System, and shall be held in and paid out from such fund for the following purpose:

To be used solely for 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 LRWRC 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 Projects Fund**

Any monies derived from the proceeds of Sewer Revenue Bond issues, State Revolving Loan Fund issues, or transfers from the Revenue Fund to finance major capital improvement projects.

## **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 is prepared by each department at LRW, assimilated and reviewed by the Director of Finance, and submitted for approval to both the Director of Engineering & CEO.

After the CEO's approval, the Capital Budget will be incorporated into the LRW Operating Plan and submitted to the LRWRC 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 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 – department 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 – department heads and 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. The CEO, directors, department heads and supervisors review the submitted budgets and establish priorities based on need and availability of funds.

- September (continued) – any changes resulting from management reviews are made at that time. One or more members of the LRWRC, serving as the Budget Subcommittee, reviews the budget document with LRW staff. Any revisions resulting from the Budget Subcommittee’s review are made at that time.
- October – the budget is presented at the regularly scheduled LRWRC meeting.
- November – the budget is considered for approval at the regularly scheduled LRWRC meeting.

### **Budget Amendment Policy**

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

### **Revenue Policy**

City of Little Rock Ordinance No. 21,080 also requires that the LRWRC 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 that 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.

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 like a private business enterprise, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the 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.

### **Operating Cash Reserve Policy**

Resolution No 2012-12 created a 60-day operating cash reserve of operations and maintenance, revenue funded capital, and debt principal and interest requirements by December 31, 2019 and set a minimum cash operating balance of 45 days effective immediately. This resolution also gives the CEO and staff to take all other necessary action if reserve levels drop below minimum to adjust expenses and replenish reserves.

### **Investment Policy**

LRW also has an Investment Policy outlined in the bond ordinances that states available funds shall be invested and reinvested at the direction of the LRWRC in eligible investments. Those Eligible Investments shall have a maturity of no 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 LRW 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 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 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 LRWRC 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 Little Rock Wastewater, Little Rock, Arkansas, for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2015. This was the twelfth year in a row that LRW has received this prestigious award. 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 Debbie Williams, Director of Finance, and the entire staff of LRW Finance.

Respectfully submitted,  
  
Greg Ramon  
Chief Executive Officer



Government Finance Officers Association

Certificate of  
Achievement  
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Reporting

Presented to

**Little Rock Wastewater  
Arkansas**

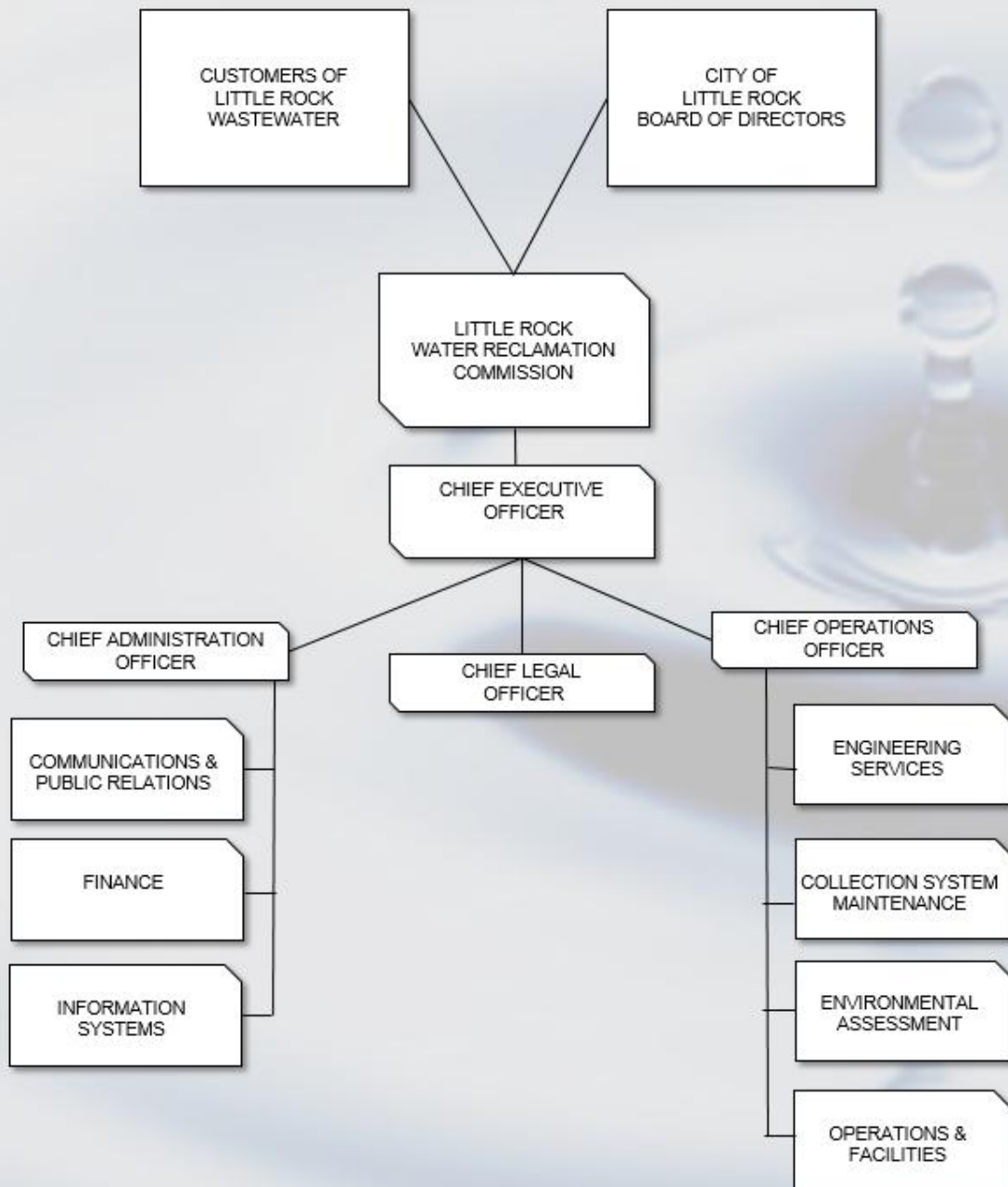
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO



# LITTLE ROCK WASTEWATER ORGANIZATIONAL CHART



# 2016 LITTLE ROCK WATER RECLAMATION COMMISSION

**Marilyn Perryman  
Secretary**



**Richard Mays  
Jr.  
Chair**



**Pete Hornibrook  
Vice Chair**



**Bill Flowers  
Commissioner**

**Ken Griffey  
Commissioner**



**Ganelle Blake  
Commissioner**



**Sonia Fonticiella Rios  
Commissioner**

## EXECUTIVE STAFF

Greg Ramon – Chief Executive Officer

Beckie Hunnicutt – Executive Assistant

John Jarratt – Chief Administration Officer

Jean Block – Chief Legal Officer

Howell Anderson, P.E. – Chief Operating Officer

John Holloway, P.E. – Engineering

Stanley Suel – Environmental Assessment

Debbie Williams - Finance

Walter Collins – Operations

**FINANCIAL SECTION**



**Little Rock**  
**Wastewater**

## Independent Auditor's Report

The Members of the Little Rock  
Water Reclamation Commission  
Little Rock, Arkansas

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Little Rock Wastewater Utility (the Utility), a component unit of the City of Little Rock, Arkansas, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Rock Wastewater Utility as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension/other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Little Rock Wastewater Utility's basic financial statements. The accompanying supplementary information including budgetary comparison schedule, schedule of operating expenses and schedule of bonded indebtedness as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule, schedule of operating expenses and schedule of bonded indebtedness is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule, schedule of operating expenses and schedule of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections as listed in the table of contents have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*BKD, LLP*

Dallas, Texas  
May 10, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

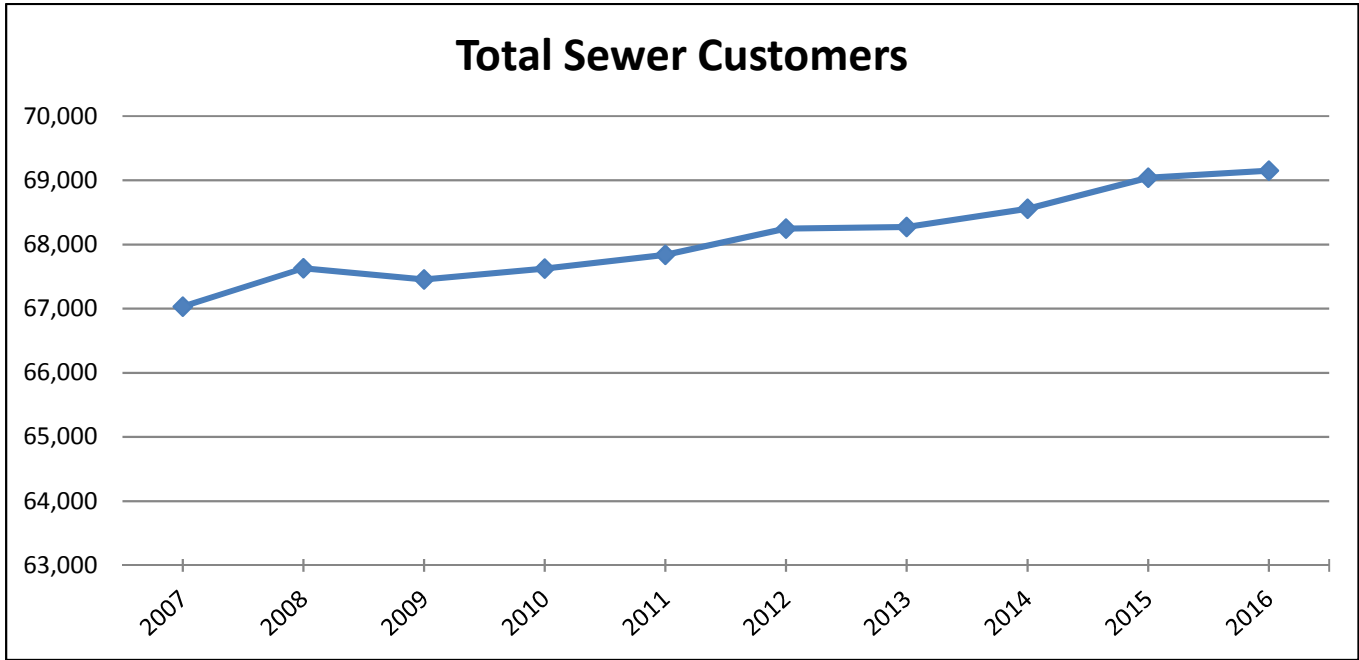
As management of Little Rock Wastewater (LRW), we offer readers of LRW's financial statements this narrative overview and analysis of the financial activities of LRW for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is provided in our letter of transmittal, which can be found on pages 3 through 11 of this report. The comprehensive annual financial report is made available via the internet ([www.lrwu.com](http://www.lrwu.com)). The use of the internet is consistent with 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 and Deferred Outflows of Resources at year-end were \$500.6 million and exceeded Total Liabilities and Deferred Inflows of Resources that totaled \$306.6 million. Total Net Position was \$194.0 million, an increase of 3.4% from 2015 and a decrease of .7% from 2014 (primarily due to the adoption of GASB Statement #68 in 2015). GASB #68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.
- Operating Revenue showed an increase of 4.5% compared to 2015 which is a \$2.3 million increase. This was an increase of 4.4% or \$2.3 million from 2014. LRW implemented the last of a four-step rate increase from the rate ordinance # 20,594 passed in June 2012. The 4.75% rate increase was effective on January 1, 2016.
- Operating Expenses, before Depreciation, increased by \$1.9 million or 8.0%, compared to fiscal year 2015 and an increase of \$2.6 million from 2014. The largest change is \$1.7 million and \$2.3 million Salaries and Benefits from 2015 and 2014. Operating Expenses, including Depreciation, increased by \$2.2 million from fiscal year 2015.
- Debt Service Coverage was 1.86, which exceeds the 1.20 required by the Bond Covenant. In the Statistical Data Section, Schedule 11 – Pledged-Revenue Coverage provides more information on debt service coverage.
- Completed a 2016 Revenue Refunding Bond Issue in the amount of \$18.585 million dollars. This bond advance refunded both the 2008 and 2009B Sewer Revenue Bonds. This new issue had no new construction proceeds. Net Present Value savings on the bond reissue was \$3.8 million dollars.
- In August 2015, the City of Little Rock Board of Directors passed a new Sewer Rate Ordinance. The ordinance included a five-step sewer rate adjustment timeline; 4.75% for January 2017; 4.75% for January 2018; 4.75% for January 2019; 4.75% for January 2020; and 4.75% for January 2021. A majority of this revenue is to fund debt service on future debt issues in 2018, 2019, and 2020.

**General Trends**

LRW’s customer accounts increased from 2015 by 110 or 0.2%. Over a 10-year period, the customer growth rate was 3.06%. As you can see from the chart below, customer growth has slow steady upward movement starting in 2009 to present.



<b>Wastewater Customers</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Beginning Customer Accounts	69,039	68,558	68,272
Additional Accounts (net)	110	481	286
Ending Customer Accounts	69,149	69,039	68,558

The following chart shows a Domestic 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 or the monthly \$1.00 service line replacement fee.

<b>Domestic Bill</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	\$32.04	\$31.71	\$31.71

Little Rock’s wastewater rates remain moderately higher than neighboring utilities. The Little Rock Water Reclamation Commission (LRWRC) 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 30 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 1,384 miles of sewer lines. The National Association of Clean Water Agencies (NACWA) awarded LRW three Gold Peak Performance Awards for the third year in a row in 2015. LRW's three treatment facilities, FCWTF, AFWTF and LMWTP were recognized for consistently meeting all National Pollutant Discharge Elimination System (NPDES) permit limits with no violations.

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 1970s at a cost of \$6.2 million. The latest facility upgrade was completed in 2007 at cost of \$27.5 million. 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 FCWTF 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 design stages of being upgraded to accommodate higher peak wet weather flows from the original 36 MGD to approximately 55 MGD 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 for disinfection. 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 was \$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 MGD pump station, 12,000 linear feet (LF) 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 part of a system created to reduce the effects of designated storm events, also referred to as 'peak flow events', where so many inches of rain accumulate within 48 hours.



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 share a Fleet Maintenance Department for the maintenance and repair of vehicles and equipment. About 90 LRW employees in the Maintenance department work from this facility, making it the home base for most LRW work force.

The Clearwater Administration Building was built in 2005 and is located near the Clearwater Maintenance Facility. The CEO, Department 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 LRWRC 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) Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; and 3) Statement of Cash Flows.

The Statement of Net Position presents information on all LRW's assets, deferred outflows, liabilities, and deferred inflows with the difference between the four (4) reported as net position. Over time, increases or decreases in net position 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 Position reflect the results of the business activities over the course of the most recent fiscal year and information as to how the net position changed during the year. All changes in net position 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.

A major change to the 2015 LRW financials was the implementation (and initial adjusting entries for change in accounting principle) of The Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* ("GASB 68") GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, including their proportionate share of the collective net pension liability of cost-sharing multiple-employer plans and to more comprehensively and comparably measure the annual costs of pension benefits. Only the net position at the beginning of fiscal year 2015 was restated because of the implementation.

## **Fiscal Year 2014-2016 Financial Information**

### **Statement of Net Position**

Total Assets increased by \$8.5 million from 2015 and increased by \$6.5 million from 2014. This change was primarily due to the increase in Net Capital Assets which increased \$11.62 million in 2016 and \$12.05 million in 2015. Note 4 page 43 of the audit provides a breakdown between classes of additions and retirements.

With the advance refunding of the 2008 and 2009B Revenue Bonds in 2016, a deferred outflow of resources occurred based on carrying value of the old debt and new price. In 2015, 2005, 2007A and 2007C Revenue Bonds were advance refunded. The balance of \$1.7 million in 2016 and \$8.8 million from 2015 will be amortized over the remaining life, Nov 2038 for the 2016 bond and May 2025 for the 2015 bond, of the refunding debt. A new item to the Deferred Outflows in 2015 was the pension funding related to the implementation of GASB Statement #68. Note 10(B)-Pension Benefits (APERS) and Note 14-Advanced Refunding provide greater detail on these Deferred Outflows of Resources.

Current Liabilities showed an increase of 12.7% or \$2.0 million. The biggest contributing line item is Bond/Note Payable current increasing \$1.8 million. LRW's bond information can be found in Note 6 starting on page 44. Noncurrent Liabilities showed an increase of 1.6% or \$4.5 million for 2016 due to \$4 million increase in net pension liability. Additional information for GASB statement #68 Pension liability can be found on page 68 and 69. Total Liabilities increased by \$6.5 million from 2015.

In 2016, Total Net Position had an increase of \$6.3 million or 3.3%, including a change of \$4.6 million from income before contributions, and \$1.7 million from capital contributions. The Restricted Net Position decreased by \$6.4 million or 51.1% from 2015. This was due to the reduction in debt service under the 2016 Bond Refunding issue. Net Investment in Capital Assets showed an increase of 5.9% or \$9.8 million and Unrestricted Net Position increased by \$2.9 million.

	2016	Percent Change	2015	Percent Change	2014
<b><u>ASSETS</u></b>					
Current Assets	\$ 26,980,444	-3.49%	\$ 27,955,399	0.86%	\$ 27,717,547
Noncurrent Unrestricted & Restricted Assets	8,592,042	-20.29%	10,778,723	-56.91%	25,016,300
Capital Assets (Net)	448,700,337	2.66%	437,077,029	2.83%	425,029,345
Total Assets	484,272,823	1.78%	475,811,151	-0.41%	477,763,192
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>					
Bond Refunding	10,862,627	11.58%	9,735,252	3213.19%	293,833
Pension Funding	5,452,853	78.59%	3,053,329	100.00%	0
Total Deferred Outflows of Resources	16,315,480	27.58%	12,788,581	4252.33%	293,833
Total Assets and Deferred Outflows Of Resources	\$ 500,588,303	2.45%	\$ 488,599,732	2.21%	\$ 478,057,025
<b><u>LIABILITIES</u></b>					
Current Liabilities	18,051,043	12.69%	16,019,023	-14.11%	18,649,764
Noncurrent Liabilities	287,921,872	1.59%	283,426,074	7.38%	263,958,115
Total Liabilities	305,972,915	2.18%	299,445,097	5.96%	282,607,879
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Pension Funding	594,142	-58.31%	1,425,199	100.00%	0
<b><u>NET POSITION</u></b>					
Net Investment in Capital Assets	176,789,670	5.89%	166,962,094	2.26%	163,269,445
Restricted	6,130,591	-51.09%	12,534,544	0.76%	12,440,594
Unrestricted	11,100,985	34.84%	8,232,798	-58.29%	19,739,107
Total Net Position	194,021,246	3.35%	187,729,436	-3.95%	195,449,146
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 500,588,303	2.45%	\$ 488,599,732	2.21%	\$ 478,057,025

## **Statement of Revenues, Expenses and Changes in Net Position**

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 2015 to 2016 by \$2.4 million or 4.7%. LRW had a 4.75% rate increase in January 2016 for debt repayment on the 2013 RLF principal and interest. Both the Assessments Levied and Industrial Surcharges reflect increases where Other Fees and Income increased significantly, 21.3%, from 2015 due to the increased leachate disposal with regional waste management companies. The Non-Operating Revenue showed an increase of \$106 thousand in which \$76 thousand was a gain on disposal of assets in 2016.

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, bond issuance costs, loss on disposal of capital assets, unrestricted loss on investments and miscellaneous.

Total Operating Expense increased by \$1.9 million or 8% in 2016. Although Operating Expenses are under budget by 2.6%, the increase is primarily due to an increase in pension expense for net pension liability change of \$513k from 2015, filling of vacant positions, associated benefits and normal business activities.

Non-Operating Expense had a decrease of \$3.0 million in 2016 compared to 2015. The main line item that changed between the years was due to in 2015 there was a loss on disposal of property which \$1.6 million was from cancellation of projects and \$717 thousand from retirement of discontinued assets.

Change in Net Position represents an increase of \$6.3 million due primarily to 2016 Income before contributions of \$4.6 million and capital contributions of \$1.7 million. Total Net Position—Ending showed an increase of 3.35% comparing 2016 and 2015.

Additional information can be found on the Statement of Revenues, Expenses and Changes in Net Position on Page 32 and Budgetary Comparison Schedule on Page 70.

	2016	Percent Change	2015	Percent Change	2014
<b>REVENUES:</b>					
Operating Revenues:					
Assessments Levied	\$ 51,733,703	4.27%	\$ 49,616,847	-0.17%	\$ 49,699,493
Industrial Surcharges	1,002,058	5.12%	953,219	7.49%	886,815
Other Fees and Income	734,824	21.30%	605,803	-3.52%	627,882
Nonoperating Revenues	299,581	55.00%	193,278	-62.22%	511,530
Total Revenues:	53,770,166	4.67%	51,369,147	-0.69%	51,725,720
<b>EXPENSES:</b>					
Operating Expense	25,879,136	8.02%	23,956,665	2.76%	23,313,891
Depreciation Expense	14,033,870	2.27%	13,722,622	33.49%	10,280,104
Nonoperating Expense	9,245,117	-24.59%	12,259,637	22.42%	10,014,412
Total Expense:	49,158,123	-1.56%	49,938,924	14.52%	43,608,407
Income Before Contributions	4,612,044	222.47%	1,430,223	-82.38%	8,117,313
Capital Contributions	1,679,766	-7.67%	1,819,214	-3.83%	1,891,741
Change in Net Position	6,291,810	93.63%	3,249,437	-67.54%	10,009,054
Change in Accounting Principle	-	-100.00%	(10,969,147)	0.00%	-
Total Net Position – Beginning	187,729,436	-3.95%	195,449,146	5.40%	185,440,092
Total Net Position – Ending	\$ 194,021,246	3.35%	\$ 187,729,436	-3.95%	\$ 195,449,146

## Capital Assets and Debt Administration

The additions to LRW's wastewater system capital improvements were \$24.3 million in fiscal year 2016. The largest major construction dollars were spent on collection projects in the amount of \$15.8 million, pumping/treatment for \$4.9 million, transportation for \$1.9 million, and mains/development at \$1.7 million. Additional information can be found on Note 4 of this report.

The City of Little Rock Board of Directors passed a 2016B Sewer Refunding Bond Issue in the amount of \$18,585,000. This advance bond refunded the 2008 and 2009B Sewer Revenue Bonds. This new issue had no new construction proceeds. Note 14 will provide more detailed dollar figures for the advanced refunding and defeasance of debt. Also, RLF 2016A of \$61 million was issued in 2016 and \$1.6 million has been drawn at year end. The total long-term debt (less bond payable within one year) increased by \$0.2 million in 2016.

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

<b>Long-Term Debt</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
1996 Sewer Revenue	\$ -	\$ -	\$ 1,733,305
2004A Sewer Revenue	-	-	16,122,554
2004B Sewer Revenue	-	-	10,086,079
2004C Sewer Revenue	-	-	9,936,377
2007A Sewer Revenue	-	-	54,760,000
2007B Sewer Revenue	12,781,873	13,589,763	14,375,892
2007C Sewer Revenue	-	-	71,085,000
2008 Sewer Revenue	-	14,015,000	14,335,000
2009A Sewer Revenue	6,466,887	6,819,541	7,165,246
2009B Sewer Revenue	-	5,860,000	6,000,080
2011 Sewer Revenue	12,340,000	13,950,000	15,525,000
2012 Sewer Revenue	25,915,000	26,550,000	27,175,000
2013 Sewer Revenue	31,033,439	20,383,597	9,662,331
2014 Sewer Revenue	9,535,000	10,765,000	11,980,000
2015 Sewer Revenue	153,525,000	157,910,000	-
2016A Sewer Revenue	1,632,139	-	-
2016B Sewer Revenue	18,585,000	-	-
Less Debt Payable, due within one year	<u>\$ (11,268,291)</u>	<u>\$ (9,495,548)</u>	<u>\$ (9,023,866)</u>
<b>Total Long-Term Debt</b>	<u><b>\$ 260,546,047</b></u>	<u><b>\$ 260,347,353</b></u>	<u><b>\$ 260,917,998</b></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 has monitored customer base trends and the reliance on LRW required services will continue to grow at a slow pace of less than 1.0%. LRW believes that 2017 revenues will match budget based on the monitoring of the first month of collections. LRW evaluates the Average Winter Consumption (AWC) for residential customers in the March/April timeframe. The downward trend has leveled off the past two years. LRW has no major customer that accounts for over 1% of assessment levied revenues (see Schedule 12 – Ten Largest Customers).

The ten-year capital improvement plan set forth in the 2017 budget encompasses the amended deadline of December 31, 2023 to meet the requirements of the Settlement Agreement and the CAO. Unfinished capital projects represented in the 2017 budget primarily relate to wastewater collection, transmission and treatment improvements. Total capital expenditures of \$31.4 million are planned for 2017. Of this amount, \$22.5 million relates to carryover projects and \$8.9 million is proposed for new capital projects

The Utility estimates the capital improvements required over the next ten years, both to comply with the Settlement Agreement and the CAO and for routine capital improvements, will cost \$331,653,285. In August of 2015, the City of Little Rock Board of Directors passed a five-step



rate increase for the following timelines and percentage adjustments; 4.75% on Jan 1, 2017, 4.75% on Jan 1, 2018, 4.75% on Jan 1, 2019, 4.75% on Jan 1, 2020, and 4.75% on Jan 1, 2021.

Moody's Investors Service upgraded LRW's rating from Aa3 with a negative outlook to Aa3 for the 2016 refunding bond issue on the underlying rating of the City of Little Rock (AR) Sewer Revenue Bonds based on projected rate increases necessary to support future debt needs to meet the CAO.

### **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 Director of Finance, P.O. Box 45090, Little Rock, AR 72214-45090.

LITTLE ROCK WASTEWATER  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2016 AND 2015

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
<b><u>CURRENT ASSETS</u></b>		
Cash and Cash Equivalents	\$ 14,876,687	\$ 14,921,866
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$317,998 in 2016, and \$398,891 in 2015)	3,536,334	3,427,144
Inventories	1,457,908	1,395,960
Prepaid Items	120,759	52,087
Construction Receivable	228,154	98,693
Restricted Current Assets		
Bond Requirements		
Cash and Cash Equivalents	6,122,110	6,064,162
Accrued Interest Receivable	15,731	15,288
Prepaid Items	622,761	277,197
Construction and Improvements		
Cash and Cash Equivalents	-	<u>1,703,002</u>
Total Current Assets	<u>26,980,444</u>	<u>27,955,399</u>
<b><u>NONCURRENT ASSETS</u></b>		
Unrestricted Noncurrent Assets		
Prepaid Other Postemployment Benefits	1,571,149	1,509,671
Workers' Compensation Fund Investments	<u>596,069</u>	<u>593,046</u>
Total Unrestricted Noncurrent Assets	<u>2,167,218</u>	<u>2,102,717</u>
Restricted Noncurrent Assets		
Bond Requirements		
Investments	6,424,824	8,052,084
Construction and Improvements		
Cash and Cash Equivalents	-	<u>623,922</u>
Total Restricted Noncurrent Assets	<u>6,424,824</u>	<u>8,676,006</u>
Capital Assets (Net of Accumulated Depreciation)	<u>448,700,337</u>	<u>437,077,029</u>
Total Noncurrent Assets	<u>457,292,379</u>	<u>447,855,752</u>
 Total Assets	 <u>484,272,823</u>	 <u>475,811,151</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Deferred Amounts on Bond Refunding	10,862,627	9,735,252
Deferred Amounts on Pension Funding	<u>5,452,853</u>	<u>3,053,329</u>
Total Deferred Outflows of Resources	<u>16,315,480</u>	<u>12,788,581</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 500,588,303</u>	 <u>\$ 488,599,732</u>

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

LITTLE ROCK WASTEWATER  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2016 AND 2015

<b>LIABILITIES</b>	<b>2016</b>	<b>2015</b>
<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable	\$ 349,044	\$ 338,162
Franchise Fee Collections Due to City of Little Rock	439,903	417,734
Sewer Line Replacement Fee	183,645	141,922
Accrued Wages Payable and Related Liabilities	638,009	527,573
Accrued Expenses and Other	24,587	56,863
Compensated Absences	934,737	886,273
Construction Contracts Payable	1,864,602	1,703,002
Accrued Bond/Note Interest Payable	2,348,225	2,451,946
Bond/Note Payable - Current	<u>11,268,291</u>	<u>9,495,548</u>
Total Current Liabilities	<u>18,051,043</u>	<u>16,019,023</u>
 <b><u>NONCURRENT LIABILITIES</u></b>		
Bonds/Note Payable (net of unamortized premiums and discount)	271,505,003	270,978,559
Compensated Absences	75,790	73,140
Net Pension Liability	<u>16,341,079</u>	<u>12,374,375</u>
Total Noncurrent Liabilities	<u>287,921,872</u>	<u>283,426,074</u>
Total Liabilities	<u>305,972,915</u>	<u>299,445,097</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts on Pension Funding	<u>594,142</u>	<u>1,425,199</u>
 <b>NET POSITION</b>		
Net Investment in Capital Assets	176,789,670	166,962,094
Restricted		
Debt Service	6,130,591	12,534,544
Unrestricted	<u>11,100,985</u>	<u>8,232,798</u>
Total Net Position	<u>194,021,246</u>	<u>187,729,436</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	 <b><u>\$ 500,588,303</u></b>	 <b><u>\$ 488,599,732</u></b>

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

**LITTLE ROCK WASTEWATER  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b><u>OPERATING REVENUES</u></b>		
Sewer Charges	\$ 51,733,703	\$ 49,616,847
Industrial Surcharges	1,002,058	953,219
Other	<u>734,824</u>	<u>605,803</u>
Total Operating Revenues	<u>53,470,585</u>	<u>51,175,869</u>
<b><u>OPERATING EXPENSES</u></b>		
Salaries and Benefits	17,357,749	15,654,261
Supplies	2,309,329	2,207,314
Contract Services	3,171,189	2,870,359
Vehicle Expenses	310,460	341,969
Utilities	1,703,030	1,818,133
Administrative	<u>1,027,379</u>	<u>1,064,629</u>
Total Operating Expenses	<u>25,879,136</u>	<u>23,956,665</u>
<b><u>PROVISION FOR DEPRECIATION</u></b>		
Building and Improvements	3,769,383	3,735,348
Infrastructure - Collections, Pumping & Treatments	7,454,811	7,226,853
Equipment	<u>2,809,676</u>	<u>2,760,421</u>
Total Provision for Depreciation	<u>14,033,870</u>	<u>13,722,622</u>
OPERATING INCOME	<u>13,557,579</u>	<u>13,496,582</u>
<b><u>NONOPERATING INCOME (EXPENSE)</u></b>		
Interest Income	149,846	154,003
Interest Expense	(8,864,733)	(8,279,403)
Bond Amortization Expense	(80,570)	(84,077)
Current Year Bond Issuance Costs	(250,674)	(1,528,933)
Gain (Loss) on Disposal of Capital Assets	62,262	(2,331,935)
Gain (Loss) on Investments	(47,473)	(20,707)
Other	<u>85,807</u>	<u>24,693</u>
Net Nonoperating Expense	<u>(8,945,535)</u>	<u>(12,066,359)</u>
INCREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	4,612,044	1,430,223
CAPITAL CONTRIBUTIONS	<u>1,679,766</u>	<u>1,819,214</u>
CHANGE IN NET POSITION	6,291,810	3,249,437
NET POSITION, BEGINNING OF YEAR	<u>187,729,436</u>	<u>184,479,999</u>
NET POSITION, END OF YEAR	<u>\$ 194,021,246</u>	<u>\$ 187,729,436</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 52,690,463	\$ 50,665,908
Other Receipts	734,824	605,803
Payments to Employees	(16,899,394)	(15,805,635)
Payments to Suppliers	(2,360,395)	(2,315,107)
Payments for Contractual Services	(3,171,189)	(2,870,359)
Payments for Utilities	(1,703,030)	(1,818,133)
Other Payments	<u>(1,406,511)</u>	<u>(1,296,108)</u>
Net Cash Provided by Operating Activities	<u>27,884,768</u>	<u>27,166,369</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Bond Issuance Costs	(250,674)	(1,528,933)
Acquisition and Construction of Capital Assets	(24,458,355)	(27,467,024)
Proceeds from Disposal of Property and Equipment	105,781	28,918
Principal Paid on Indebtedness	(10,603,159)	(14,238,125)
Interest Paid on Indebtedness	(9,049,024)	(8,085,572)
Net Proceeds from Issuance of Indebtedness	<u>12,281,981</u>	<u>10,721,266</u>
Net Cash Used in Capital and Related Financing Activities	<u>(31,973,450)</u>	<u>(40,569,470)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest on Investments	150,289	199,294
Proceeds from Sale of Investments	1,627,261	10,877,787
Purchase of Investments	<u>(3,023)</u>	<u>(5,437)</u>
Net Cash Provided by Investing Activities	<u>1,774,527</u>	<u>11,071,644</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (2,314,155)</u>	<u>\$ (2,331,457)</u>

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

**LITTLE ROCK WASTEWATER  
STATEMENT OF CASH FOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of Year	\$ 23,312,952	\$ 25,644,409
Net Increase (Decrease) in Cash and Cash Equivalents	(2,314,155)	(2,331,457)
End of Year	\$ 20,998,797	\$ 23,312,952
 <b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u></b>		
Operating Income	\$ 13,557,579	\$ 13,496,582
Adjustments:		
Depreciation	14,033,870	13,722,622
Change in Operating Assets and Liabilities:		
Decrease in Accounts Receivable	(109,190)	80,158
Decrease in Inventories	(61,948)	18,124
Decrease in Prepaid Items and Other Assets	(475,714)	110,441
Increase (Decrease) in Accounts Payable	10,882	(125,917)
Increase (Decrease) in Accrued Expenses	193,166	87,261
Increase(Decrease) in Net Pension Liability and Related Accounts	736,123	(222,902)
Net Cash Provided by Operating Activities	\$ 27,884,768	\$ 27,166,369
 <b><u>RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS</u></b>		
Current Assets - Cash and Cash Equivalents	\$ 14,876,687	\$ 14,921,866
Restricted for Bond Requirements	6,122,110	6,064,162
Restricted for Construction and Improvement	-	2,326,924
Total Cash and Cash Equivalents	\$ 20,998,797	\$ 23,312,952

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

During 2016 and 2015, the Utility received donated sewer lines capitalized in the amount of \$1,679,766 and \$1,819,214 respectively. During the years ended December 31, 2016 and 2015, the Utility issued \$15,585,000 and \$160,070,000 in sewer revenue bonds, respectively to advance refund \$19,545,080 and \$125,845,000, respectively of outstanding sewer revenue bonds.

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

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Reporting Entity**

The financial statements of the Little Rock Wastewater (LRW or the Utility), a component unit (Enterprise Fund) of the City of Little Rock, conform to generally accepted accounting principles for state and local governments. The Utility provides sewer services for the greater Little Rock area. These services primarily consist of treatment and disposal of sewer water, inspection of sewer lines, and construction of sewer treatment plants, rehabilitation projects, and spot repairs. The clear majority of the Utility's customers are residential; however, the Utility also services commercial businesses. The Utility had 69,149 and 69,039 customers at December 31, 2016 and 2015, 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 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.

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 position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net position into three components: restricted; net investment in capital assets; and unrestricted.

Restricted – Consists of constraints placed on net position 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.

Net investment in capital assets – 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 position that do not meet the definition of "restricted" or "invested in capital assets."

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

When both restricted and unrestricted resources are available for use on an expenditure, it is generally LRW's policy to use the restricted resources first. For projects funded by debt proceeds and other sources, the debt proceeds are used first.

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 position.

LRW's accounting and financial reporting practices are like 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 cash equivalents.

**D. Investments**

Investments are stated at fair value and consist of debt securities with original maturities more than three months when purchased. Unrealized gains and losses are included as nonoperating income (expense) in the accompanying statements of revenues, expenses and changes in net position.

**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 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



LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. **Accounts Receivable (Continued)**

receivable. Details of accounts receivable and the related valuation account as of December 31, 2016 and 2015, 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. **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 acquisition cost. Capital assets are defined by LRW as assets with an initial, individual cost of at least \$5,000 and an estimated useful life more than one 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).

I. **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*.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. **Other Postemployment 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 Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expenses and related liabilities. The effect of GASB 45 is more fully explained in *Note 11*.

K. **Basis of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

A summary of cash, cash equivalents, and investments per the statement of net position to the balance sheet as of December 31, 2016 and 2015, respectively, follows:

	December 31, 2016			
	Cash			
	Cash	Equivalents	Total	Investments
Unrestricted Assets	\$ 14,876,687	\$ -	\$ 14,876,687	\$ 596,069
Restricted Assets				
Bond Requirements	-	6,122,110	6,122,110	6,424,824
Total	\$ 14,876,687	\$ 6,122,110	\$ 20,998,797	\$ 7,020,893

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	December 31, 2015			
	Cash			
	Cash	Equivalents	Total	Investments
Unrestricted Assets	\$ 14,921,866	\$ -	\$ 14,921,866	\$ 593,046
Restricted Assets				
Bond Requirements	-	6,064,162	6,064,162	8,052,084
Construction and Improvements	-	2,326,924	2,326,924	-
Total Restricted Assets	-	8,391,086	8,391,086	8,052,084
Total	\$ 14,921,866	\$ 8,391,086	\$ 23,312,952	\$ 8,645,130

**Deposits**

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 and city of Little Rock statute.

City statute requires that deposits in financial institutions be collateralized with federal depository insurance and bonds or other interest-bearing securities of the United States, the State of Arkansas, Arkansas political subdivisions or agencies or instrumentalities of these entities at 104%.

The Utility had deposits with financial institutions of \$15,919,928 at December 31, 2016 and \$16,403,320 at December 31, 2015. The greatest credit risk exposure for LRW would be uninsured portions not collateralized since the collateral is not held by our pledging financial institution itself and all collateralized amounts are in the name of LRW. As of December 31, 2016, the Utility's bank balance was fully-insured and collateralized by the pledging financial institution. At December 31, 2015, \$641,947 of the Utilities bank balance was uninsured and exposed to custodial credit risk because it was under-collateralized by the pledging financial institution.

**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 are 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

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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. None of LRW's investments owned at December 31, 2016, were subject to custodial credit risk.

Cash equivalents and investments at December 31, 2016 and 2015, consisted of Federated Treasury Obligations, U.S. Government Obligations, and bonds from Arkansas School Districts stated at fair values of \$13,143,003 and \$17,036,216, respectively. Net unrealized gain (loss) for each of the years ended December 31, 2016 and 2015, was \$(47,473) and \$(20,707), respectively.

December 31, 2016					
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	Credit Rating
<b>Cash Equivalents and Investments</b>					
Cash Equivalents:					
Federated Treasury Obligation	\$ 6,122,110	\$ 6,122,110	\$ -	\$ -	AA+/Aaa
Investments:					
Federal Farm Credit Bank	1,273,433	-	1,273,433	-	AA+/Aaa
Federal Home Loan Dist	5,435,733	-	5,435,733	-	AA+/Aaa
AR St Dev Fin Auth Economic	311,727	-	311,727	-	AA+/Aaa
	<u>7,020,893</u>	<u>-</u>	<u>7,020,893</u>	<u>-</u>	
	<u>\$ 13,143,003</u>	<u>\$ 6,122,110</u>	<u>\$ 7,020,893</u>	<u>\$ -</u>	

December 31, 2015					
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	Credit Rating
<b>Cash Equivalents and Investments</b>					
Cash Equivalents:					
Federated Treasury Obligation	\$ 8,391,086	\$ 8,391,086	\$ -	\$ -	AA+/Aaa
Investments:					
Fannie Mae	715,493	-	715,493	-	AA+/Aaa
Federal Farm Credit Bank	726,637	-	726,637	-	AA+/Aaa
Federal Home Loan Dist	6,667,764	-	6,667,764	-	AA+/Aaa
Harrisburg AR School Dist	140,062	140,062	-	-	AA+/Aaa
Newport AR School Dist	395,174	395,174	-	-	AA+/Aaa
	<u>8,645,130</u>	<u>535,236</u>	<u>8,109,894</u>	<u>-</u>	
	<u>\$ 17,036,216</u>	<u>\$ 8,926,322</u>	<u>\$ 8,109,894</u>	<u>\$ -</u>	

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

**Interest Rate Risk**

Arkansas statute (AR Code § 19-1-504) limits the eligible investment securities to having a maturity of no 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.

**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 the Utility's investments at December 31, 2016 and 2015, are insured or registered and held in the Utility's name.

**Fair Value Measurement**

LRW categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation input used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

LRW has the following recurring fair value measurements as of December 31, 2016:

- U.S. Treasury securities of \$6.7 million are valued using a matrix pricing model (Level 2 inputs).
- AR State Dev. Finance Authority Economic Bonds of \$ 0.3 million are valued using a matrix pricing model (Level 2 inputs).

LRW had the following recurring fair value measurements as of December 31, 2015:

- U.S. Treasury securities of \$8.1 million are valued using a matrix pricing model (Level 2 inputs).
- AR School District Bonds of \$ 0.5 million are valued using a matrix pricing model (Level 2 inputs).

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Trade Receivables, Current	\$3,536,334	\$3,427,144
Trade Receivables, Past Due	<u>317,998</u>	<u>398,891</u>
Total	<u>3,854,332</u>	<u>3,826,035</u>
Allowance for Uncollectibles, Beginning of Year	(398,891)	(493,023)
Writeoff of Uncollectibles	391,609	469,490
Provision for Bad Debt Expense	<u>(310,716)</u>	<u>(375,358)</u>
Allowance for Uncollectibles, End of Year	<u>(317,998)</u>	<u>(398,891)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	<u>3,536,334</u>	<u>3,427,144</u>
Current Accounts Receivable	<u>\$3,536,334</u>	<u>\$3,427,144</u>

**LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

2016	Balance 12/31/15	Additions & Transfers In	Retirements & Transfers Out	Balance 12/31/16
Capital assets not being depreciated:				
Land and Right-of-Way	\$ 5,377,335	\$ 56,805	\$ -	\$ 5,434,140
Construction in Progress	53,977,825	25,703,633	29,285,133	50,396,325
Total capital assets not being depreciated	<u>59,355,160</u>	<u>25,760,438</u>	<u>29,285,133</u>	<u>55,830,465</u>
Capital assets being depreciated:				
Building and Improvements	127,933,294	7,470,071	65,437	135,337,928
Infrastructure-Collection & Treatment	331,089,674	13,548,063	-	344,637,737
Equipment	69,310,923	8,212,879	874,085	76,649,717
Total capital assets being depreciated	<u>528,333,891</u>	<u>29,231,013</u>	<u>939,522</u>	<u>556,625,382</u>
Less accumulated depreciation for:				
Buildings and Improvements	30,321,584	3,769,383	27,727	34,063,240
Infrastructure-Collections & Treatment	88,176,798	7,454,811	-	95,631,609
Equipment	32,113,640	2,809,676	862,655	34,060,661
Total accumulated depreciation	<u>150,612,022</u>	<u>14,033,870</u>	<u>890,382</u>	<u>163,755,510</u>
Capital Assets, Net	<u>\$ 437,077,029</u>	<u>\$ 40,957,581</u>	<u>\$ 29,334,273</u>	<u>\$ 448,700,337</u>
2015	Balance 12/31/14	Additions & Transfers In	Retirements & Transfers Out	Balance 12/31/15
Capital assets not being depreciated:				
Land and Right-of-Way	\$ 5,221,412	\$ 155,923	\$ -	\$ 5,377,335
Construction in Progress	36,277,792	26,504,635	8,804,602	53,977,825
Total capital assets not being depreciated	<u>41,499,204</u>	<u>26,660,558</u>	<u>8,804,602</u>	<u>59,355,160</u>
Capital assets being depreciated:				
Building and Improvements	126,549,727	1,442,013	58,446	127,933,294
Infrastructure-Collection & Treatment	326,993,110	5,730,184	1,633,620	331,089,674
Equipment	68,500,835	1,476,481	666,393	69,310,923
Total capital assets being depreciated	<u>522,043,672</u>	<u>8,648,678</u>	<u>2,358,459</u>	<u>528,333,891</u>
Less accumulated depreciation for:				
Buildings and Improvements	26,641,755	3,735,348	55,519	30,321,584
Infrastructure-Collections & Treatment	81,884,982	7,226,853	935,037	88,176,798
Equipment	29,986,794	2,760,421	633,575	32,113,640
Total accumulated depreciation	<u>138,513,531</u>	<u>13,722,622</u>	<u>1,624,131</u>	<u>150,612,022</u>
Capital Assets, Net	<u>\$ 425,029,345</u>	<u>\$ 21,586,614</u>	<u>\$ 9,538,930</u>	<u>\$ 437,077,029</u>

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2016 and 2015, included capitalized construction period interest of \$733,389 and \$1,052,478 that was incurred in each respective year.

Depreciation expense was \$14,033,870 and \$13,722,622 for the years ended December 31, 2016 and 2015, respectively.

NOTE 5: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, because of acceptance of sewer lines from private contractors and individuals, were \$1,679,766 and \$1,819,214 for the years ended December 31, 2016 and 2015, respectively.

NOTE 6: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds for which the changes in the years ended December 31, 2016 and 2015, are as follows:

December 31, 2016					
	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Sewer Revenue Bonds	\$ 269,842,901	\$ 31,960,027	\$ 29,988,590	\$ 271,814,338	\$ 11,268,291
Unamortized Bond Premium (Discount)	10,631,206	1,092,963	765,213	10,958,956	-
	<u>\$ 280,474,107</u>	<u>\$ 33,052,990</u>	<u>\$ 30,753,803</u>	<u>\$ 282,773,294</u>	<u>\$ 11,268,291</u>
December 31, 2015					
	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Sewer Revenue Bonds	\$ 269,941,864	\$ 170,791,267	\$ 170,890,230	\$ 269,842,901	\$ 9,495,548
Unamortized Bond Premium (Discount)	2,963,187	11,538,167	3,870,148	10,631,206	-
	<u>\$ 272,905,051</u>	<u>\$ 182,329,434</u>	<u>\$ 174,760,378</u>	<u>\$ 280,474,107</u>	<u>\$ 9,495,548</u>



LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016</u>	<u>Amount Due Within One Year</u>
2007B	2.75%	2029	\$ 12,781,873	\$ 830,264
2009A	2.00%	2032	\$ 6,466,887	\$ 359,742
2011	3.00% to 5.00%	2022	\$ 12,340,000	\$ 1,645,000
2012	2.00% to 4.00%	2042	\$ 25,915,000	\$ 650,000
2013	2.25%	2036	\$ 31,033,438	\$ 1,443,285
2014	2.00% to 4.00%	2025	\$ 9,535,000	\$ 1,245,000
2015	2.50% to 5.00%	2037	\$ 153,525,000	\$ 4,475,000
2016A	2.72%	2050	\$ 1,632,139	\$ -
2016B	1.00% to 4.00%	2038	\$ 18,585,000	\$ 620,000
Total			<u>\$ 271,814,338</u>	<u>\$ 11,268,291</u>

The Arkansas Natural Resource Commission (ARNC) currently administers federal and state programs that aid through loans and grants for water and wastewater. These loan (Revolving Loan Funds – RLFs) fund revenue bonds are issued to LRW, for financing costs of construction extensions, betterments, and improvements to the sewer system.

**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.

**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.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6: LONG-TERM DEBT (CONTINUED)

**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. This bond is a special obligation 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.

**2012 Sewer Revenue Bond**

The Series 2012 Bond was issued in August 2012 in the amount of \$28,390,000 to finance capital projects (Cantrell Road Pump Station, Cantrell Road Force Main, Fourche Creek Plant Upgrades), to establish a debt service reserve for the Series 2012 Bond, and to pay the cost of issuing the 2012 Sewer Bond. This bond is a special obligation 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 August 1, and interest payments are due semiannually on February 1 and August 1. The final payment is scheduled for August, 2042.

**2013 Sewer Revenue Bond**

The Series 2013 Bond was issued in May 2013 in the amount of \$36,000,000 to finance the improvements to the Collection System Rehabilitation-Phase Seven and to pay the cost of issuing the 2013 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 2036.

**2014 Sewer Refunding Revenue Bond**

The Series 2014 Bond was issued in October 2014 in the amount of \$11,980,000 and refunded the 1999 Sewer Revenue Bond and advance fund the 2005 Sewer Revenue Bond. This bond is a special obligation 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 May 1 and November 1. The final payment is scheduled for May 2025.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 6: LONG-TERM DEBT (CONTINUED)

**2015 Sewer Refunding Revenue Bond**

The Series 2015 Bond was issued in March 2015 in the amount of \$160,070,000 and refunded the 1996, 2004A, 2004B, 2004C, and advance funded the 2007A and 2007C Sewer Revenue 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 April 1 and October 1. The final payment is scheduled for October 2037.

**2016A Sewer Revenue Bond**

The Series 2016A Bond was issued in August 2016 in the amount of \$61,000,000 to finance the construction of extensions, betterments and improvements to the sewer system collection systems, Adams Field WTF Parallel Treatment Installation & Disinfection, Fourche Creek WTF Phase III Rehabilitation, Scott Hamilton Peak Flow Equalization Facilities, and to pay the cost of issuing the 2016A Bond. This bond was 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 2050.

**2016B Sewer Refunding Revenue Bond**

The Series 2016B Bond was issued in November 2016 in the amount of \$18,585,000 and refunded the 2008 and 2009B Sewer Revenue 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 June 1 and December 1. The final payment is scheduled for December 2038.

The 2007B, 2009A, 2013, and 2016A Series Sewer Revenue Bonds are subordinate to the 2011, 2012, 2014, 2015 and 2016B Series Revenue Bonds.

In addition to the \$271,814,338 balance of Sewer Revenue Bonds outstanding at December 31, 2016, an additional \$64,334,418 will, as previously described, be drawn in fulfillment of current bond issues 2013 and 2016A for a total Sewer Revenue Bond indebtedness of \$336,148,756.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6: LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize sewer revenue bond indebtedness outstanding, and scheduled, including interest, as of December 31, 2016, are as follows

Year Ending	Principal	Interest	Total
December 31,			
2017	\$11,069,176	\$9,363,449	\$20,432,625
2018	\$11,372,546	\$9,079,009	\$20,451,555
2019	\$11,662,335	\$8,774,224	\$20,436,559
2020	\$12,066,020	\$8,483,464	\$20,549,484
2021	\$12,455,453	\$8,081,459	\$20,536,912
2022 to 2026	\$55,860,262	\$34,624,367	\$90,484,629
2027 to 2031	\$64,118,240	\$24,143,151	\$88,261,391
2032 to 2036	\$74,521,146	\$11,374,950	\$85,896,096
2037 to 2041	\$17,164,160	\$1,441,523	\$18,605,683
2042 to 2046	\$1,525,000	\$61,000	\$1,586,000
Total	<u>\$271,814,338</u>	<u>\$115,426,596</u>	<u>\$387,240,934</u>

NOTE 7: COMPENSATED ABSENCES

Net changes in the liability for compensated absences for the years ended December 31, 2016 and 2015, are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due Within One Year
<b>2016</b>	<u>\$ 959,413</u>	<u>\$ 78,199</u>	<u>\$ 27,085</u>	<u>\$ 1,010,527</u>	<u>\$ 934,737</u>
<b>2015</b>	<u>\$ 942,866</u>	<u>\$ 36,349</u>	<u>\$ 19,802</u>	<u>\$ 959,413</u>	<u>\$ 886,273</u>

NOTE 8: LITIGATION

A. Sierra Club

The Little Rock Sanitary Sewer Committee (LRSSC), now known as Little Rock Water Reclamation Commission (LRWRC), 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

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8: LITIGATION

A. **Sierra Club (Continued)**

injunctions for the alleged violations as well as penalties. LRWRC and the plaintiff entered into a written settlement agreement releasing LRWRC'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, 2016 and 2015, respectively, do not include any provisions of potential liability with regard to this litigation.

However, pursuant to the settlement agreement between the plaintiff and LRWRC, 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, LRWRC 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 LRWRC has done or is doing, are set forth in a separate System Evaluation and Capacity Assurance Plan (SECAP).

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 ten (10) consecutive years in reducing non-capacity sanitary sewer overflows (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 LRWRC, the sewage treatment facility was not completed as originally scheduled, but was completed in July 2011.

Management completed annual reports for 2015, as required by both the Consent Administrative Order (CAO) and the settlement agreement each year, which detailed compliance actions taken during the year 2015. The Sierra Club report was presented by staff to the LRWRC at its monthly meeting February 17, 2016, where the LRWRC voted to accept the compliance report and then sent to the attorney for the Sierra Club.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 201

NOTE 8: LITIGATION (CONTINUED)

A. **Sierra Club (Continued)**

The annual compliance report required by the Sierra Club was delivered to representing attorneys on February 18, 2016. Prior such reports, starting in 2002, were all approved by LRWRC.

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 of capital dollars.

B. **ADEQ**

On March 9, 2006, staff representatives of ADEQ and 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.

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 November of 2010.

The annual report required by the CAO was delivered to Arkansas Department of Environmental Quality (ADEQ) February 18, 2016. Prior such reports, starting in 2006, were all approved by LRWRC.

On April 15, 2015, Amendment No. 2 to the CAO was approved. ADEQ granted LRW an extension of the CAO deadline to December 31, 2023. The extension allows for time to reduce sources of infiltration and inflow (I/I) in the areas that contribute to the Rock Creek and Cantrell Storage Projects thereby eliminating the need for in-system

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8: LITIGATION (CONTINUED)

**B. ADEQ (Continued)**

storage in those areas. On the collection system side, LRW initiated and completed the construction of projects in the Allsopp/Country Club area, Leawood, and Lower Swaggerty. In 2016, LRW continued its service line replacement program targeted at maintaining reliable sewer service to the ratepayers and will also provide the benefit of reducing private sources of inflow which contribute to the cause of capacity related overflows. Management expects to remain on schedule with the CAO.

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 it within the mandated timeline by Amendment No. 2 to the CAO. The various projects can be seen in greater detail within LRW's annual report located at <http://www.lrwu.com/capitalprojects>.

**C: Funding**

In 2015, the Little Rock Board of Directors granted LRW future rate adjustments in 2017, 2018, 2019, 2020, and 2021 that supports the funding of the recently issued 2016A revolving loan fund in the amount of \$61 million and projected revolving loan funds in the amount of \$61.6 million in 2018, \$24.4 million in 2019, and \$69.5 million in 2020.

This funding allows LRW to focus on improvements to the collection system that are designed to mitigate overflows and to initiate capacity-related facility projects such as expand storage at the Scott Hamilton Drive Peak Flow Facility, upgrade the Fourche Creek Wastewater Treatment Facility Hydraulics, and Adams Field Parallel Treatment modifications. LRW continues to facilitate a service line replacement program targeted at maintaining reliable sewer service to the ratepayers and will also provide the benefit of reducing private sources of inflow which contribute to the cause of capacity related overflows.

The ten-year capital improvement plan set forth in the 2017 budget was designed with the intent of completing the Agreement and the CAO by December 31, 2023. Unfinished capital projects represented in the 2017 budget primarily relate to wastewater collection, transmission and treatment improvements. Total capital

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8: LITIGATION (CONTINUED)

C. **Funding (Continued)**

expenditures of \$31.4 million are planned for 2017. Of this amount, \$22.5 million relates to carryover projects and \$8.9 million is proposed for new capital projects. The Utility estimates that capital improvements and associated costs required over the next ten years, both to comply with the Settlement Agreement and the CAO and for routine capital improvements, will cost \$331,653,320.

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 deadline set forth in Amendment No. 2 to the CAO.

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$20.6 million at December 31, 2016, for the expansion of plant capacity and collection system improvements.

NOTE 10: PENSION BENEFITS

A. **Defined Contribution Plan**

LRW offers a voluntary 401(a) qualified Pension Plan to all its employees. New hires must wait two 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.

<u>Years of Service</u>	<u>LRW</u>	<u>Employee</u>	<u>Vesting</u>
More than 2 years, but 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 at the amount of LRW's required contribution, determined in accordance with the terms of the plan. The employee contributions are pre-tax. Total employer contributions were \$293,695 and \$254,652 in 2016 and 2015, respectively.

Currently, LRW staff works with two entities, ICMA-RC and Security Benefits Group, in administering the 401(a) plan. The plan was established with a resolution passed by then Little Rock Sanitary Sewer Committee. Any changes recommended by LRW staff to amending contribution requirements would need approval from the Little Rock Water Reclamation Commission.



LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 10: PENSION BENEFITS (CONTINUED)

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

**Summary of Significant Accounting Policies**

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employee Retirement System (APERS) and additions to/deductions from APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

**Plan Description:** The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

APERS is a cost-sharing multiple-employer defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

**Benefits Provided:** Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

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 NOTES TO FINANCIAL STATEMENTS  
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NOTE 10: PENSION BENEFITS (CONTINUED)

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

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005 but prior to 7/1/2007	2.03%
Contributory on or 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

**Contributions:** Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). For 2016 and 2015, employers contributed 14.50% and 14.75% of compensation. Contributions to the pension plan from LRW were \$1,838,797 and \$1,759,530 for the years ended December 31, 2016 and 2015, respectively.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 10: PENSION BENEFITS (CONTINUED)

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

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2016 and 2015, LRW reported a liability of \$16,341,079 and \$12,374,375, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. LRW's proportion of the net pension liability was based on LRW's contributions to the pension plan relative to the contributions of all participating APERS members. At June 30, 2016 LRW's proportion was 0.68334170%, which was an increase of 0.01145425% from its proportion measured as of June 30, 2015.

For the years ended December 31, 2016 and 2015, LRW recognized pension expense of \$2,574,602 and \$1,564,373, respectively. At December 31, 2016 and 2015, LRW reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$15,429	\$586,189
Changes of assumptions	\$1,252,242	\$0
Changes in proportion and differences between employer contributions and proportionate share	\$408,744	\$7,953
Net difference between projected and actual earnings on pension plan investments	\$2,853,024	\$0
Contributions subsequent to the measurement date	\$923,414	\$0
<b>Total</b>	<b>\$5,452,853</b>	<b>\$594,142</b>

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 10: PENSION BENEFITS (CONTINUED)

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

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$811,245
Changes of assumptions	\$1,826,194	\$0
Changes in proportion and differences between employer contributions and proportionate share	\$346,959	\$0
Net difference between projected and actual earnings on pension plan investments	\$0	\$613,954
Contributions subsequent to the measurement date	\$880,176	\$0
<b>Total</b>	<b>\$3,053,329</b>	<b>\$1,425,199</b>

The \$923,414 reported as deferred outflows of resources at December 31, 2016 related to pensions resulting from LRW's contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$887,015
2018	\$772,202
2019	\$1,483,767
2020	\$792,313
	<b>\$3,935,297</b>

**Actuarial Assumptions:** The total pension liability, net pension liability, and certain sensitivity information was determined by an actuarial valuation as of June 30, 2016. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 10: PENSION BENEFITS (CONTINUED)

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

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment rate of return	7.50%, net of investment administrative expenses
Discount Rate	7.50%
Salary Increases	3.95 – 9.85%
Inflation	2.50%
Mortality Table	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from July 1, 2007 through June 30, 2012, and were applied to all prior periods included in the measurement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2016-2025 were based on capital market assumptions provided by the plan's investment consultant. For each major asset class included in the plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	38%	6.82%
International Equity	24%	6.88%
Real Assets	16%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	<u>17%</u>	0.83%
Total	<u>100%</u>	
Total Real Rate of Return		5.00%
Plus: Price Inflation-Actuary Assumption		<u>2.50%</u>
Net Expected Return		<u>7.50%</u>

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 10: PENSION BENEFITS (CONTINUED)

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

**Discount Rate:** A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.50%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
1% Lower 6.50%	Discount Rate 7.50%	1% Higher 8.50%
\$24,736,302	\$16,341,079	\$9,354,235

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued APERS financial report located at <http://www.apers.org/publications>.

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

Little Rock Wastewater's single-employer defined benefit postemployment health care plan, Little Rock Wastewater Healthcare Plan (LRWHP), provides medical benefits to eligible retired employees and their beneficiaries. Employees are

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

**A. Plan Description (Continued)**

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 Retirement 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. At year-end for 2016, there were 21 retirees plus 10 dependents on the LRWHP. Retiree premiums are set yearly with 2016 ranging from \$209 to \$826, depending on which health care plan selected, and which are paid directly to LRW. LRW funded approximately 50% of the postretirement healthcare benefit costs, which totaled \$88,395 for the fiscal year ended December 31, 2016.

The Little Rock Water Reclamation Commission assigns authority to the CEO for any changes to 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 inquires relating to the plan, please contact the Little Rock Wastewater, Finance Department (In Care Of LRWHP), 11 Clearwater Dr, Little Rock, AR 72204.

The contribution requirements are based on the most current actuarial valuations (December 2016) of the plan. Little Rock Wastewater makes every effort to contribute monthly toward the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

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 and then modified again in 2013 with a change in assumption with a change to the 10-year period.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**B. Funding Policy**

Starting in 2011, LRW's health care has become a fully insured plan from a self-funded plan. Premium rates are set on an annual basis with members of LRWHP and an outside benefit consulting firm and are approved by the Little Rock Water Reclamation Commission. LRW's budget goal is 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 (Asset)**

For 2016, 2015 and 2014, LRW's annual OPEB cost was \$26,918, \$24,783 and \$13,798, respectively, and the ARC was \$0, \$0, and \$0, respectively. The following table shows the components of LRW's annual OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation (asset):

	2016	2015	2014
Annual required contribution	\$ -	\$ -	\$ -
Interest on net OPEB obligation (asset)	(60,387)	(55,597)	(91,238)
Adjustment to annual required contribution	87,305	80,381	105,036
Annual OPEB cost (benefit)	26,918	24,784	13,798
Contributions made	(88,396)	(144,518)	(100,333)
Increase (Decrease) in net OPEB obligation (asset)	(61,478)	(119,734)	(86,535)
Net OPEB obligation (asset)-beginning of year	(1,509,671)	(1,389,937)	(1,303,402)
Net OPEB obligation (asset)-end of year	<u>\$ (1,571,149)</u>	<u>\$ (1,509,671)</u>	<u>\$ (1,389,937)</u>

The components of the ARC calculation reflecting a 30-year amortization of unfunded obligations and an amortization gain. Changes since last year includes an assumed utilization assumption of 90% has been added. Also, the Mortality Table Improvement Scale has been changed from MP-2014 to MP-2015. The results are as follows:

	2016	2015	2014
Service Cost (one-year)	\$ 159,642	\$ 267,413	\$ 126,006
30-Year Amortization	324,479	512,686	513,194
10-Year Amortization	(484,121)	(780,099)	(639,200)
ARC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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>
2016	\$ 26,918	\$ (88,396)	328.40%	\$ (1,571,149)
2015	\$ 24,784	\$ (144,518)	583.13%	\$ (1,509,671)
2014	\$ 13,798	\$ (100,333)	727.16%	\$ (1,389,937)

**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)	\$ (3,934,942)
Less Actuarial Value of Plan Assets	<u>1,279,297</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (2,655,645)</u>
Funded ratio (actuarial value of plan assets/AAL)	32.51%
Covered payroll	\$13,212,297
Unfunded actuarial accrued liability as a Percentage of covered payroll	20.10%

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.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**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	12/31/2016
Actuarial Cost Method	Projected Unit Credit Cost
Unfunded Liabilities	Open, 30 Years
Amortization Method	Level Dollar
Amendments to Period Amortization	10 Years, Level Dollar, Closed
Asset Valuation Method	Market Value

**Retirement rates:** Retirement rates shown below are consistent with the rates used by the APERS pension valuation. Rates vary by age and service. Rates shown below are for those members who retire with age 55 and five years of service:

Attained Age	Rate
55	0.02
56	0.02
57	0.03
58	0.03
59	0.04
60	0.05
61	0.07

Attained Age	Rate
62	0.23
63	0.19
64	0.16
65	0.35
66	0.25
67	0.20
68-72	0.15

Attained Age	Rate
73	0.20
74-77	0.25
78	0.30
79	0.40
80-82	0.50
83	0.60
84	0.90
85	1.00

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**E. Actuarial Methods and Assumptions (Continued)**

Retirement Rate are based on years of service for those members with 28 or more years of service:

Years of Service	Rate
28	0.20
29	0.15
30-35	0.15

Years of Service	Rate
36	0.20
37	0.30
38+	1.00

**Health Care Cost Trend Rates:**

Year	Trend Rate
Year 1	7.00%
Year 2	6.50%
Year 3	6.00%

Year	Trend Rate
Year 4	5.50%
Year 5	5.00%
Year 6 & Later	4.50%

**Participation:** Active members will elect the same retiree medical coverage as they elected with active.

**Mortality:** RP-2014 Total Dataset Mortality with Improvement Scale MP-2015.

**Discount Rate:** 4.0% per annum. The plan is partially funded in an irrevocable trust maintained by the plan sponsor. This discount rate was changed to reflect lower expectations regarding returns on plan assets. The new rate is a proxy for annual long-term asset returns that are expected on high-quality AMT-free yields on municipal bonds with approximately 20 years until maturity.

**Inflation:** 2.5% per annum.

**Assumed Utilization:** 90% of eligible future retirees are assumed to elect plan benefits.

**Benefit Provisions:** LRW employees are eligible for retiree medical benefits if eligible for retirement plan benefits under the provisions of the APERS.

Effective January 1, 2008, when a retiree or spouse reaches age 65, medical coverage will no longer be available. Dental and/or vision insurance may be continued, but are totally paid for by employee.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

**E. Actuarial Methods and Assumptions (Continued)**

In this valuation, it was assumed that spousal medical insurance coverage was elected for all future retirees based on current marital status. It has assumed a three-year spouse difference with female spouses assumed to be three years younger than males.

NOTE 12: PAYMENTS TO CENTRAL ARKANSAS WATER

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amount to exactly \$762,355 and \$756,108 for the years ended December 31, 2016 and 2015, respectively, and are included as operating expenses in the accompanying statements of revenues, expenses and changes in net position.

NOTE 13: 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.

The Utility maintains a self-funded workers' compensation plan. All employees are covered by the plan. It is self-funded to a maximum of \$400,000 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 four years.

The following represents the changes in approximate aggregate liabilities of the workers' compensation plan for the Utility for January 1, 2015, to December 31, 2016:

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 13: RISK MANAGEMENT (CONTINUED)

Liability balance, January 1, 2015	\$ 67,049
Claims and changes in estimates	(6,631)
Claims payments	<u>(28,269)</u>
Liability balance, December 31, 2015	32,149
Claims and changes in estimates	11,333
Claims payments	<u>(30,896)</u>
Liability balance, December 31, 2016	<u><u>\$ 12,586</u></u>

NOTE 14: ADVANCE REFUNDINGS

In 2015 the government issued \$160,070,000 in sewer revenue bonds with interest rates ranging from 2.0% to 5.0% (including a premium of \$10,680,249). At a cost of \$1,528,933 for the issuance of the new bond, designated proceeds were used to advance refund \$54,760,000 and \$71,085,000 of the outstanding 2007A and 2007C Sewer Revenue Bond issue which had interest rates ranging from 4.0% to 5.0%. The net proceeds of \$54,563,879 and \$78,965,600 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds, as a result, the 2007A and 2007C Sewer Revenue Bond Series are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount by \$10,049,672. This deferred loss is being amortized over the remaining life of the refunded debt. The government advance refunded the 2007A and 2007C Sewer Revenue Bond Series to reduce its total debt service payments over 23 years by approximately \$357,000 per year and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$8,200,000.

In 2016, the government issued \$18,585,000 in sewer revenue bonds with interest rates ranging from 1.00% to 4.00% (including a reoffering premium of \$1,092,963). At a cost of \$220,677 for the issuance of the new bond, designated proceeds were used to advance refund \$13,685,000 and \$5,860,080 of the outstanding 2008 and 2009B Sewer Revenue Bonds which had interest rates ranging from 2% to 5.75%. The 2008 and 2009B Sewer Revenue Bond Series are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount by \$1,759,173. This deferred loss is being amortized over the remaining life of the refunded debt. The government advance refunded the 2008 and 2009B Sewer Revenue Bond Series to reduce its total debt service payments by approximately \$242,000 per year and to obtain an economic gain Net Present Value savings of approximately \$3,800,000.

LITTLE ROCK WASTEWATER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 14: ADVANCE REFUNDINGS (CONTINUED)

**Prior year defeasance of debt:** The trust account assets and the liability for the defeased bonds from 2015 and 2016 are not included in the government's financial statements. At December 31, 2016, the principal amount of \$123,015,000 from 2015 defeased bonds and \$19,400,000 from 2016 defeased bonds remain outstanding.

NOTE 15: SUBSEQUENT EVENTS

Little Rock Wastewater did not have any recognized or unrecognized subsequent events occurring after December 31, 2016, the date of the statement of net position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through May 10, 2017, the date the financial statements were available to be issued.

Schedules of Required Supplementary Information  
LITTLE ROCK WASTEWATER  
SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYEMENT BENEFITS PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016

Actuarial Valuation Date	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarial Accrued Liability (AAL)	\$ 3,934,942	\$ 6,655,494	\$ 3,821,936
Less Actuarial Value of Plan Assets	<u>1,279,297</u>	<u>1,272,992</u>	<u>1,233,555</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,655,645</u>	<u>\$ 5,382,502</u>	<u>\$ 2,588,381</u>
Funded ratio (actuarial value of plan assets/AAL)	32.51%	19.13%	32.28%
Covered payroll	\$ 13,212,297	\$ 12,548,644	\$ 11,990,475
Unfunded actuarial accrued liability as a Percentage of covered payroll	20.10%	42.89%	21.59%

Schedules of Required Supplementary Information  
**LITTLE ROCK WASTEWATER**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE**  
**NET PENSION LIABILITY**  
Arkansas Public Employees Retirement System

	2016	2015	2014
LRW's proportion of the net pension liability	0.68334170%	0.67188745%	0.64761626%
LRW's proportionate share of the net pension liability	\$16,341,079	\$12,374,375	\$9,189,106
LRW's covered payroll	\$12,321,987	\$11,905,159	\$11,527,750
LRW's proportionate share of the net pension liability as a percentage of its covered payroll	132.62%	103.94%	79.71%
Plan fiduciary net position as a percentage of the total pension liability	82.83%	80.39%	84.15%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Utility will present information for only years which information is available. Information has been determined as of the measurement date used to determine the net pension liability (June 30).



Schedules of Required Supplementary Information  
LITTLE ROCK WASTEWATER  
SCHEDULE OF CONTRIBUTIONS  
Arkansas Public Employees Retirement System

	2016	2015	2014
Contractually required contributions	\$ 1,838,797	\$ 1,720,285	\$ 1,790,896
Contributions in relation to the contractually required contributions	1,838,797	1,759,530	1,703,752
Contribution deficiency (excess)	\$ -	\$ (39,245)	\$ 87,144
 LRW's covered-employee payroll	 \$ 12,674,419	 \$ 12,115,376	 \$ 11,658,706
 Contributions as a percentage of covered payroll	 14.5%	 14.5%	 14.6%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Utility will present information for only years which information is available. Information has been determined as of LRW's most recent fiscal year end (December 31).

**Methods and Assumptions used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortized Method	Level Percentage of Payroll, Closed
Remaining Valuation Method	21 Years
Asset Valuation Method	4-Year Smoothed market, 25% corridor
Inflation	3.25% wage inflation; 2.50% price inflation
Salary Increases	3.25% - 9.85% including inflation
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females.

LITTLE ROCK WASTEWATER  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Over(Under)</u>
<b><u>OPERATING REVENUE</u></b>			
Sewer Charges	\$ 51,577,264	\$ 51,733,703	\$ 156,439
Industrial Surcharges	921,399	1,002,058	80,659
Other	<u>628,961</u>	<u>734,824</u>	<u>105,863</u>
Total Operating Revenue	<u>53,127,624</u>	<u>53,470,585</u>	<u>342,961</u>
<b><u>OPERATING EXPENSES EXCLUDING DEPRECIATION</u></b>			
Committee	71,100	42,581	(28,519)
Management	1,818,735	1,825,345	6,610
Finance and Administration	2,530,402	2,504,224	(26,178)
Engineering	1,265,827	1,549,556	283,729
Information Systems	1,997,139	1,943,006	(54,133)
Maintenance	7,156,314	7,495,589	339,275
Operations	5,276,532	4,930,092	(346,440)
Environmental Assessment	2,782,500	2,106,571	(675,929)
Facilities and Equipment	<u>3,675,991</u>	<u>3,482,172</u>	<u>(193,819)</u>
Total Operating Expenses, Excluding Depreciation	<u>26,574,540</u>	<u>25,879,136</u>	<u>(695,404)</u>
Operating Income Before Depreciation	<u>26,553,084</u>	<u>27,591,449</u>	<u>1,038,365</u>
<b><u>PROVISION FOR DEPRECIATION</u></b>			
Building and Improvements	4,107,636	3,769,383	(338,253)
Infrastructure - Collections, Pumping & Treatments	8,063,138	7,454,676	(608,462)
Equipment	<u>3,042,693</u>	<u>2,809,811</u>	<u>(232,882)</u>
Total Provision for Depreciation	<u>15,213,467</u>	<u>14,033,870</u>	<u>(1,179,597)</u>
OPERATING INCOME (LOSS)	<u>11,339,617</u>	<u>13,557,579</u>	<u>2,217,962</u>
<b><u>NONOPERATING INCOME (EXPENSE)</u></b>			
Interest Income	85,000	149,846	64,846
Interest Expense	(9,436,389)	(8,945,302)	491,087
Bond Issuance Costs	-	(250,674)	(250,674)
Gain (Loss) on Disposal of Capital Assets	50,000	62,262	12,262
Gain (Loss) on Investments	-	(47,473)	(47,473)
Other	<u>40,000</u>	<u>85,806</u>	<u>45,806</u>
Net Nonoperating Income (Expense)	<u>(9,261,389)</u>	<u>(8,945,535)</u>	<u>315,854</u>
INCREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 2,078,228</u>	<u>\$ 4,612,044</u>	<u>\$ 2,533,816</u>

LITTLE ROCK WASTEWATER  
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT  
EXCLUDING DEPRECIATION  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Water Reclamation Commission:</u>		
Commission Expense Reimbursement	\$ 27,020	\$ 40,956
Insurance	14,216	14,310
Other	<u>1,345</u>	<u>2,073</u>
Total	<u>42,581</u>	<u>57,339</u>
<u>Utility Management:</u>		
Salaries	976,846	853,863
Employee Benefits	444,232	315,955
Supplies	64,466	63,827
Contract Services	106,643	136,745
Vehicle Maintenance	20,295	13,423
Utilities	8,635	8,647
Insurance	5,264	5,336
Training and Administration	<u>198,964</u>	<u>115,966</u>
Total	<u>1,825,345</u>	<u>1,513,762</u>
<u>Finance:</u>		
Salaries	811,145	770,235
Employee Benefits	390,605	276,295
Supplies	34,198	26,443
Contract Services	875,177	907,609
Vehicle Maintenance	7,124	6,307
Utilities	6,116	7,265
Insurance	8,591	10,240
Delinquent Accounts	310,717	375,358
Training and Administration	<u>60,551</u>	<u>50,042</u>
Total	<u>2,504,224</u>	<u>2,429,794</u>
<u>Engineering:</u>		
Salaries	897,923	732,598
Employee Benefits	315,314	153,199
Supplies	38,451	50,314
Contract Services	232,480	139,566
Vehicle Maintenance	22,155	23,515
Utilities	12,171	12,126
Insurance	9,216	10,679
Training and Administration	<u>21,846</u>	<u>14,125</u>
Total	<u>1,549,556</u>	<u>1,136,122</u>

**LITTLE ROCK WASTEWATER  
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT  
EXCLUDING DEPRECIATION (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b><u>Collection System Maintenance:</u></b>		
Salaries	\$ 3,993,863	\$ 3,900,082
Employee Benefits	2,072,976	1,686,699
Supplies	574,609	601,508
Contract Services	604,352	389,038
Vehicle Maintenance	140,761	178,056
Utilities	36,127	39,339
Insurance	43,820	58,669
Training and Administration	<u>29,081</u>	<u>33,025</u>
Total	<u>7,495,589</u>	<u>6,886,416</u>
 <b><u>Operations - Adams, Fourche, and Industrial Monitoring:</u></b>		
Salaries	1,685,284	1,663,804
Employee Benefits	824,305	647,383
Supplies	416,976	390,229
Contract Services	464,313	418,240
Vehicle Maintenance	13,479	12,273
Utilities	1,384,471	1,458,653
Insurance	62,550	84,849
Training and Administration	<u>78,714</u>	<u>87,930</u>
Total	<u>4,930,092</u>	<u>4,763,361</u>
 <b><u>Technical Services:</u></b>		
Salaries	822,360	760,838
Employee Benefits	385,049	281,187
Supplies	207,667	220,942
Contract Services	335,307	327,363
Vehicle Maintenance	6,490	9,875
Utilities	136,196	142,219
Insurance	1,376	2,095
Training and Administration	<u>48,561</u>	<u>20,611</u>
Total	<u>1,943,006</u>	<u>1,765,130</u>
 <b><u>Environmental Assessment Department:</u></b>		
Salaries	1,130,114	1,245,292
Employee Benefits	580,485	522,387
Supplies	102,453	118,420
Contract Services	240,384	52,840
Vehicle Maintenance	21,992	20,903
Utilities	9,594	12,044
Insurance	4,420	6,399
Training and Administration	<u>17,129</u>	<u>13,896</u>
Total	<u>2,106,571</u>	<u>1,992,181</u>

LITTLE ROCK WASTEWATER  
 SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT  
 EXCLUDING DEPRECIATION (CONTINUED)  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<u>Facilities/Maintenance:</u>		
Salaries	1,331,746	1,288,212
Benefits	695,501	556,231
Supplies	870,508	735,632
Contract Services	312,532	498,956
Vehicle Expenses	78,165	77,618
Utilities	109,720	137,840
Insurance	77,019	108,797
Other	6,981	9,274
Total	3,482,172	3,412,560
Total Operating Expenses	\$ 25,879,136	\$ 23,956,665

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS  
DECEMBER 31, 2016

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	
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%	572,209	580,048	15,843	7,975	1,176,075
		<u>\$6,347,313</u>	<u>\$6,434,560</u>	<u>\$1,297,315</u>	<u>\$1,210,039</u>	<u>\$15,289,227</u>

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

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	
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>\$3,338,568</u>	<u>\$3,128,319</u>	<u>\$559,742</u>	<u>\$526,356</u>	<u>\$ 7,552,985</u>

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

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>	
2017	3.00%	815,000	830,000	219,086	206,863	2,070,949
2018	3.00%	845,000	855,000	194,413	181,738	2,076,151
2019	3.25%	975,000	990,000	168,913	154,288	2,288,201
2020	5.00%	1,110,000	1,140,000	136,963	109,213	2,496,176
2021	3.25%	1,160,000	1,190,000	80,712	61,863	2,492,575
2022	3.50%	1,205,000	1,225,000	42,525	21,438	2,493,963
		<u>\$6,110,000</u>	<u>\$6,230,000</u>	<u>\$ 842,612</u>	<u>\$ 735,400</u>	<u>\$ 13,918,012</u>



LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

Sewer Revenue Bonds (Series 2012)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		2/01	8/01	2/01	8/01	
2017	2.000%	-	650,000	467,137	467,137	1,584,274
2018	3.000%	-	665,000	460,638	460,638	1,586,276
2019	3.000%	-	685,000	450,662	450,662	1,586,324
2020	3.000%	-	705,000	440,388	440,388	1,585,776
2021	3.000%	-	725,000	429,812	429,812	1,584,624
2022	3.000%	-	745,000	418,938	418,938	1,582,876
2023	3.000%	-	770,000	407,762	407,762	1,585,524
2024	3.000%	-	790,000	396,213	396,213	1,582,426
2025	3.000%	-	815,000	384,362	384,362	1,583,724
2026	3.125%	-	840,000	372,137	372,137	1,584,274
2027	3.250%	-	865,000	359,013	359,013	1,583,026
2028	3.250%	-	895,000	344,956	344,956	1,584,912
2029	3.750%	-	925,000	330,413	330,413	1,585,826
2030	3.750%	-	960,000	313,069	313,069	1,586,138
2031	3.750%	-	995,000	295,069	295,069	1,585,138
2032	3.750%	-	1,030,000	276,412	276,413	1,582,825
2033	3.750%	-	1,070,000	257,100	257,100	1,584,200
2034	4.000%	-	1,115,000	235,700	235,700	1,586,400
2035	4.000%	-	1,160,000	213,400	213,400	1,586,800
2036	4.000%	-	1,205,000	190,200	190,200	1,585,400
2037	4.000%	-	1,250,000	166,100	166,100	1,582,200
2038	4.000%	-	1,300,000	141,100	141,100	1,582,200
2039	4.000%	-	1,355,000	115,100	115,100	1,585,200
2040	4.000%	-	1,410,000	88,000	88,000	1,586,000
2041	4.000%	-	1,465,000	59,800	59,800	1,584,600
2042	4.000%	-	1,525,000	30,500	30,500	1,586,000
		\$ -	\$ 25,915,000	\$ 7,643,981	\$ 7,643,982	\$ 41,202,963

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

Sewer Revenue Bonds (Series 2013)<sup>a</sup>

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2017	2.250%	\$ 618,605	\$ 625,564	\$ 349,126	\$ 342,167	\$ 1,935,462
2018	2.250%	632,602	639,718	335,129	328,013	1,935,462
2019	2.250%	646,915	654,193	320,816	313,538	1,935,462
2020	2.250%	661,553	668,995	306,178	298,736	1,935,462
2021	2.250%	676,521	684,132	291,210	283,599	1,935,462
2022	2.250%	691,829	699,612	275,902	268,119	1,935,462
2023	2.250%	707,482	715,442	260,249	252,289	1,935,462
2024	2.250%	723,490	731,630	244,241	236,101	1,935,462
2025	2.250%	739,860	748,184	227,871	219,547	1,935,462
2026	2.250%	756,601	765,113	211,130	202,618	1,935,462
2027	2.250%	773,720	782,425	194,011	185,306	1,935,462
2028	2.250%	791,227	800,128	176,504	167,603	1,935,462
2029	2.250%	809,130	818,232	158,601	149,499	1,935,462
2030	2.250%	827,437	836,746	140,294	130,985	1,935,462
2031	2.250%	846,159	855,679	121,571	112,052	1,935,462
2032	2.250%	865,305	875,040	102,426	92,691	1,935,462
2033	2.250%	884,884	894,839	82,847	72,892	1,935,462
2034	2.250%	904,906	915,086	62,825	52,645	1,935,462
2035	2.250%	925,381	935,791	42,350	31,940	1,935,462
2036	2.250%	946,319	956,965	21,412	10,766	1,935,462
		<u>\$ 15,429,926</u>	<u>\$ 15,603,513</u>	<u>\$ 3,924,692</u>	<u>\$ 3,751,105</u>	<u>\$ 38,709,236</u>

<sup>a</sup> The 2013 Series has available proceeds up to \$36,000,000.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

Sewer Revenue Bonds (Series 2014)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		05/01	11/01	05/01	11/01	
2017	2.000%	620,000	625,000	132,113	125,912	1,503,025
2018	2.000%	635,000	640,000	116,538	110,187	1,501,725
2019	2.000%	650,000	650,000	103,788	97,287	1,501,075
2020	3.000%	650,000	670,000	90,788	81,037	1,491,825
2021	3.000%	675,000	685,000	74,338	65,900	1,500,238
2022	3.500%	695,000	705,000	55,625	43,463	1,499,088
2023	4.000%	315,000	320,000	31,124	26,400	692,524
2024	4.000%	325,000	335,000	20,000	13,500	693,500
2025	4.000%	340,000	-	6,800	-	346,800
		<u>\$4,905,000</u>	<u>\$4,630,000</u>	<u>\$ 631,114</u>	<u>\$ 563,686</u>	<u>\$ 10,729,800</u>

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

Sewer Revenue Bonds (Series 2015)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		04/01	10/01	04/01	10/01	
2017	2.500%	2,225,000	2,250,000	2,986,071	2,963,821	10,424,892
2018	3.000%	2,285,000	2,325,000	2,930,071	2,895,796	10,435,867
2019	3.000%	2,345,000	2,180,000	2,860,921	2,825,746	10,211,667
2020	3.000%	2,215,000	2,245,000	2,793,046	2,759,821	10,012,867
2021	4.000%	2,285,000	2,325,000	2,726,146	2,680,446	10,016,592
2022	3.500%	2,375,000	2,405,000	2,633,946	2,598,321	10,012,267
2023	4.000%	2,460,000	2,495,000	2,550,221	2,513,321	10,018,542
2024	4.000%	2,775,000	2,820,000	2,450,946	2,409,321	10,455,267
2025	4.000%	2,890,000	2,935,000	2,338,821	2,295,471	10,459,292
2026	4.375%	3,355,000	3,430,000	2,222,096	2,148,705	11,155,801
2027	4.500%	3,880,000	3,210,000	2,073,674	1,986,374	11,150,048
2028	4.700%	3,660,000	3,745,000	1,914,149	1,828,139	11,147,288
2029	3.125%	3,830,000	3,890,000	1,740,131	1,680,288	11,140,419
2030	3.250%	4,510,000	4,585,000	1,619,506	1,546,219	12,260,725
2031	3.250%	4,665,000	4,735,000	1,471,713	1,395,906	12,267,619
2032	5.000%	4,810,000	4,930,000	1,318,963	1,198,713	12,257,676
2033	5.000%	5,055,000	5,185,000	1,075,463	949,088	12,264,551
2034	5.000%	5,315,000	5,445,000	819,463	686,588	12,266,051
2035	3.500%	5,585,000	5,685,000	550,463	452,725	12,273,188
2036	3.500%	5,785,000	5,885,000	353,238	252,000	12,275,238
2037	3.500%	4,220,000	4,295,000	149,013	75,163	8,739,176
		<u>\$ 76,525,000</u>	<u>\$ 77,000,000</u>	<u>\$ 39,578,061</u>	<u>\$ 38,141,972</u>	<u>\$ 231,245,033</u>

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

Sewer Revenue Bonds (Series 2016A)<sup>a</sup>

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		4/15	10/15	4/15	10/15	
2020	2.720%	31,009	31,429	22,115	21,695	106,249
2021	2.720%	31,855	32,287	21,269	20,838	106,249
2022	2.720%	32,724	33,168	20,400	19,957	106,249
2023	2.720%	33,617	34,072	19,508	19,052	106,249
2024	2.720%	34,534	35,002	18,590	18,122	106,249
2025	2.720%	35,476	35,957	17,648	17,167	106,249
2026	2.720%	36,444	36,938	16,680	16,186	106,249
2027	2.720%	37,439	37,946	15,686	15,179	106,249
2028	2.720%	38,460	38,981	14,664	14,143	106,249
2029	2.720%	39,509	40,045	13,615	13,080	106,249
2030	2.720%	40,587	41,137	12,537	11,987	106,249
2031	2.720%	41,695	42,260	11,430	10,865	106,249
2032	2.720%	42,832	43,413	10,292	9,712	106,249
2033	2.720%	44,001	44,597	9,124	8,527	106,249
2034	2.720%	45,201	45,814	7,923	7,311	106,249
2035	2.720%	46,435	47,064	6,690	6,061	106,249
2036	2.720%	47,702	48,348	5,423	4,776	106,249
2037	2.720%	49,003	49,667	4,121	3,457	106,249
2038	2.720%	50,340	51,022	2,784	2,102	106,249
2039	2.720%	51,714	52,414	1,411	710	106,249
		<u>\$ 810,578</u>	<u>\$ 821,561</u>	<u>\$ 251,911</u>	<u>\$ 240,928</u>	<u>\$ 2,124,979</u>

<sup>a</sup> The available proceeds of Series 2016A is \$61,000,000. This bond has a two-tier blended rate & term structure. The blended interest rate has a 20-year term of \$40,000,000 and a 30-year term of \$21,000,000. As of December 31, construction draws were only on the 20-year term portion.

LITTLE ROCK WASTEWATER  
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)  
DECEMBER 31, 2016

Sewer Revenue Bonds (Series 2016B)

Year of Maturity	Interest Rate	Principal Payable		Interest Payable		Total Annual Requirement
		06/01	12/01	06/01/	12/01	
2017	1.000%	-	620,000	316,191	314,444	1,250,636
2018	1.150%	-	630,000	311,344	311,344	1,252,689
2019	2.000%	-	635,000	307,722	307,722	1,250,444
2020	3.000%	-	655,000	301,372	301,372	1,257,744
2021	3.000%	-	670,000	291,547	291,547	1,253,094
2022	4.000%	-	695,000	281,497	281,497	1,257,994
2023	4.000%	-	725,000	267,597	267,597	1,260,194
2024	4.000%	-	755,000	253,097	253,097	1,261,194
2025	4.000%	-	780,000	237,997	237,997	1,255,994
2026	4.000%	-	815,000	222,397	222,397	1,259,794
2027	4.000%	-	850,000	206,097	206,097	1,262,194
2028	4.000%	-	880,000	189,097	189,097	1,258,194
2029	4.000%	-	910,000	171,497	171,497	1,252,994
2030	4.000%	-	950,000	153,297	153,297	1,256,594
2031	3.000%	-	990,000	134,297	134,297	1,258,594
2032	3.000%	-	1,020,000	119,447	119,447	1,258,894
2033	4.000%	-	1,045,000	104,147	104,147	1,253,294
2034	4.000%	-	1,090,000	83,247	83,247	1,256,494
2035	3.125%	-	1,135,000	61,447	61,447	1,257,894
2036	3.125%	-	1,170,000	43,713	43,713	1,257,425
2037	3.250%	-	1,205,000	25,431	25,431	1,255,863
2038	3.250%	-	360,000	5,850	5,850	371,700
		<u>\$</u>	<u>\$ 18,585,000</u>	<u>\$ 4,088,326</u>	<u>\$ 4,086,579</u>	<u>\$ 26,759,906</u>

**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.

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**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.

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**D – DEMOGRAPHIC AND ECONOMIC INFORMATION**

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

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**E – OPERATING INFORMATION**

These schedules contain information about LRW’s operational activities.

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Schedule 1  
**Little Rock Wastewater**  
 Net Position by Component  
 Last Ten Fiscal Years

	Fiscal Year				
	2012	2013	2014	2015 <sup>a</sup>	2016
Primary Government					
Net Investment in Capital Assets	153,882,712	160,379,889	163,269,445	166,962,094	176,789,670
Restricted					
Debt Service	<u>\$ 9,941,067</u>	<u>\$ 11,937,387</u>	<u>\$ 11,841,110</u>	<u>\$ 12,534,544</u>	<u>\$ 6,130,591</u>
Total Restricted	<u>9,941,067</u>	<u>11,937,387</u>	<u>11,841,110</u>	<u>12,534,544</u>	<u>6,130,591</u>
Unrestricted	<u>15,273,085</u>	<u>13,122,816</u>	<u>20,338,501</u>	<u>8,232,798</u>	<u>11,100,985</u>
Total primary governmental net position	<u><u>\$ 179,096,864</u></u>	<u><u>\$ 185,440,092</u></u>	<u><u>\$ 195,449,056</u></u>	<u><u>\$ 187,729,436</u></u>	<u><u>\$ 194,021,246</u></u>

	Fiscal Year				
	2007	2008	2009	2010	2011
Primary Government					
Net Investment in Capital Assets	130,620,195	136,506,878	145,587,716	145,335,731	139,771,009
Restricted					
Debt Service	<u>\$ 6,760,046</u>	<u>\$ 8,140,653</u>	<u>\$ 9,032,548</u>	<u>\$ 8,717,901</u>	<u>\$ 8,201,722</u>
Total Restricted	<u>6,760,046</u>	<u>8,140,653</u>	<u>9,032,548</u>	<u>8,717,901</u>	<u>8,799,064</u>
Unrestricted	<u>10,026,824</u>	<u>10,247,038</u>	<u>1,264,895</u>	<u>3,668,629</u>	<u>15,072,179</u>
Total primary governmental net position	<u><u>\$ 147,407,065</u></u>	<u><u>\$ 154,894,569</u></u>	<u><u>\$ 155,885,159</u></u>	<u><u>\$ 157,722,261</u></u>	<u><u>\$ 163,642,252</u></u>

a. Includes the effect of the adoption of GASB 68.

Schedule 2

**Little Rock Wastewater**

Changes in Net Position

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	
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
2012	\$43,547,696	(\$20,845,059)	(\$7,805,859)	(\$10,985,650)	\$3,911,128	\$1,906,970	\$5,818,098
2013	\$48,141,512	(\$22,102,353)	(\$10,141,151)	(\$13,273,368)	\$2,624,640	\$1,053,061	\$3,677,701
2014	\$51,214,190	(\$23,313,891)	(\$10,280,104)	(\$9,502,882)	\$8,117,313	\$1,891,741	\$10,009,054
2015	\$51,175,869	(\$23,956,665)	(\$13,722,622)	(\$12,066,359)	\$1,430,223	\$1,819,214	\$3,249,437
2016	\$53,470,585	(\$25,879,136)	(\$14,033,870)	(\$8,945,535)	\$4,612,044	\$1,679,766	\$6,291,810

Schedule 3

**Little Rock Wastewater**

Operating Revenues by Source

Last Ten Fiscal Years

Fiscal Year	Sewer Charges	Industrial Surcharges <sup>a</sup>	Connection Fees	Other Income <sup>b</sup>	Total
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
2012	\$42,049,133	\$1,080,731	\$36,385	\$381,447	\$43,547,696
2013	\$46,515,532	\$1,072,928	\$24,986	\$528,066	\$48,141,512
2014	\$49,699,493	\$886,815	\$28,280	\$599,602	\$51,214,190
2015	\$49,616,847	\$953,219	\$31,421	\$574,382	\$51,175,869
2016	\$51,733,703	\$1,002,058	\$27,130	\$707,694	\$53,470,585

<sup>a</sup> 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.

<sup>b</sup> Includes permit fees, sewer dump permits, and co-generation revenue.

Schedule 4

**Little Rock Wastewater**

Operating Expenses

Last Ten Fiscal Years

Fiscal Year	Employment		Contract Services	Vehicle Maintenance	Utilities	Administrative Costs <sup>a</sup>	Subtotal, Expense before Depreciation		Total Operating Expense
	Costs	Supplies					Depreciation	Depreciation	
2007	\$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
2012	\$13,436,496	\$2,029,640	\$2,736,347	\$ 474,662	\$1,363,224	\$ 804,690	\$ 20,845,059	\$ 7,805,859	\$ 28,650,918
2013	\$14,315,370	\$2,193,620	\$2,622,055	\$ 573,276	\$1,456,322	\$ 941,710	\$ 22,102,353	\$ 10,141,151	\$ 32,243,504
2014	\$15,097,683	\$2,218,406	\$2,725,022	\$ 495,932	\$1,623,697	\$ 1,153,151	\$ 23,313,891	\$ 10,280,104	\$ 33,593,995
2015	\$15,654,261	\$2,207,314	\$2,870,359	\$ 341,969	\$1,818,133	\$ 1,064,629	\$ 23,956,665	\$ 13,722,622	\$ 37,679,287
2016	\$17,357,749	\$2,309,329	\$3,171,189	\$ 310,460	\$1,703,030	\$ 1,027,379	\$ 25,879,136	\$ 14,033,870	\$ 39,913,006

<sup>a</sup> Includes committee, insurance, other (training & development, travel, delinquent accounts, & bank service charges) expenses

Schedule 5

**Little Rock Wastewater**

Nonoperating Revenues and Expenses

Last Ten Fiscal Years

Fiscal Year	Interest Expense	Interest Revenue	Bond Amortization Expense	Bond Issuance Costs	Gain/Loss on Disposal Capital Assets	Unrealized Gain/Loss on Investments	Other Gain/Loss	Total Nonoperating Revenue/Expense
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)
2012	\$ (10,808,696)	\$ 338,699	\$ (226,728)	\$ -	\$ (885,759)	\$ (102,535)	\$ 699,369	\$ (10,985,650)
2013 <sup>a</sup>	\$ (10,989,879)	\$ 52,567	\$ (2,348,037)	\$ -	\$ 111,517	\$ (131,603)	\$ 32,067	\$ (13,273,368)
2014	\$ (9,656,926)	\$ 172,864	\$ (34,114)	\$ (179,941)	\$ (18,413)	\$ 148,019	\$ 65,629	\$ (9,502,882)
2015	\$ (8,279,406)	\$ 154,003	\$ (84,077)	\$ (1,528,933)	\$ (2,331,935)	\$ (20,707)	\$ 24,696	\$ (12,066,359)
2016	\$ (8,864,733)	\$ 149,846	\$ (80,570)	\$ (250,674)	\$ 62,262	\$ (47,473)	\$ 85,807	\$ (8,945,535)

<sup>a</sup> With the adoption of GASB Statement No. 65, LRW recognized outstanding amortization expense at year end.

Schedule 6

**Little Rock Wastewater**

New Construction/Inspections Completed

Last Ten Fiscal Years

Fiscal Year	Residential	Commercial	Total New Construction Permits
2007	849	103	952
2008	564	108	672
2009	423	118	541
2010	385	69	454
2011	371	124	495
2012	529	128	657
2013	335	109	444
2014	362	81	443
2015	357	100	457
2016	341	63	404

Schedule 7

**Little Rock Wastewater**

Number of Sewer Customers<sup>a</sup> by Type

Last Ten Fiscal Years

Fiscal Year	Domestic	Non-Domestic			Total
		Commercial	Industrial	Other <sup>b</sup>	
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
2012	61,394	6,381	72	399	68,246
2013	61,505	6,284	72	411	68,272
2014	61,748	6,342	73	395	68,558
2015	62,239	6,335	73	392	69,039
2016	62,303	6,381	72	393	69,149

<sup>a</sup> Billed account totals from December

<sup>b</sup> Includes public utilities, governmental (US, state, county, city), and public schools

Schedule 8A  
**Little Rock Wastewater**  
 Domestic Sewer Rates (Inside City)  
 Last Ten Fiscal Years

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2012 <sup>h</sup>	2013 <sup>i</sup>	2014 <sup>j</sup>	2015	2016 <sup>k</sup>
5/8"	\$ 9.24	\$ 9.89	\$ 10.29	\$ 10.29	\$ 10.29
3/4"	\$ 11.91	\$ 12.74	\$ 13.25	\$ 13.25	\$ 13.25
1"	\$ 18.01	\$ 19.27	\$ 20.04	\$ 20.04	\$ 20.04
1.5"					
2"					
3"					
4"					
6" or larger					
Volumetric Rate <sup>b</sup>					
Operations Volumetric Rate <sup>b</sup>	\$ 1.58	\$ 1.69	\$ 1.76	\$ 1.76	\$ 1.76
Debt Repayment Rate <sup>b</sup>	\$ 1.81	\$ 1.81	\$ 1.81	\$ 1.81	\$ 2.04

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2007 <sup>c&amp;d</sup>	2008 <sup>e</sup>	2009 <sup>f</sup>	2010 <sup>g</sup>	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 <sup>b</sup>	\$ 2.74	\$ 2.83	\$ 2.94	\$ 3.09	\$ 3.09

<sup>a</sup> Rate charge from 2007 to June 2012 included 200 cubic feet; Changed in July 2012 with zero water consumed.

<sup>b</sup> Per 100 cubic feet

<sup>c</sup> In Nov 2006, City of Little Rock Board of Directors approved a five step rate increase that effected rates from 2007 to 2010.

<sup>d</sup> There were two, of an approved five step, rate increases in 2007; 15% on January 1 and 8% on July 1.

<sup>e</sup> The third of a five step rate increase; 3% on January 1.

<sup>f</sup> The fourth of a five step rate increase; 4% on January 1.

<sup>g</sup> The last of a five step rate increase; 5% on January 1.

<sup>h</sup> In June 2012, City of Little Rock Board of Directors approved a four step rate increase that will effect rates from 2012 to 2016.

The rate ordinance split the Volumetric Rate into Operations and Debt Repayment Rates. The 2012 rate increase 12.75%.

<sup>i</sup> Rate increase of 8.0% on January 1.

<sup>j</sup> Rate increase of 7.0% on January 1.

<sup>k</sup> Rate increase of 4.75% on January 1 for Debt Repayment only.

Note: No rate increase in 2015. Increases in sewer rates must be approved by the City of Little Rock Board of Directors.



Schedule 8B

**Little Rock Wastewater**

Domestic Sewer Rates (Outside City)

Last Ten Fiscal Years

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2012 <sup>h</sup>	2013 <sup>i</sup>	2014 <sup>j</sup>	2015	2016 <sup>k</sup>
5/8"	\$ 13.86	\$ 14.84	\$ 15.44	\$ 15.44	\$ 15.44
3/4"	\$ 17.87	\$ 19.11	\$ 19.88	\$ 19.88	\$ 19.88
1"	\$ 27.02	\$ 28.91	\$ 30.03	\$ 30.03	\$ 30.03
1.5"					
2"					
3"					
4"					
6" or larger					
Volumetric Rate <sup>b</sup>					
Operations Volumetric Rate <sup>b</sup>	\$ 2.37	\$ 2.54	\$ 2.64	\$ 2.64	\$ 2.64
Debt Repayment Rate <sup>b</sup>	\$ 2.72	\$ 2.72	\$ 2.72	\$ 2.72	\$ 3.07

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2007 <sup>c&amp;d</sup>	2008 <sup>e</sup>	2009 <sup>f</sup>	2010 <sup>g</sup>	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 <sup>b</sup>					
	\$ 4.12	\$ 4.24	\$ 4.41	\$ 4.63	\$ 4.63

<sup>a</sup> Rate charge from 2007 to June 2012 included 200 cubic feet; Changed in July 2012 with zero water consumed.

<sup>b</sup> Per 100 cubic feet

<sup>c</sup> In Nov 2006, City of Little Rock Board of Directors approved a five step rate increase that effected rates from 2007 to 2010.

<sup>d</sup> There were two, of an approved five step, rate increases in 2007; 15% on January 1 and 8% on July 1.

<sup>e</sup> The third of a five step rate increase; 3% on January 1.

<sup>f</sup> The fourth of a five step rate increase; 4% on January 1.

<sup>g</sup> The last of a five step rate increase; 5% on January 1.

<sup>h</sup> In June 2012, City of Little Rock Board of Directors approved a four step rate increase that will effect rates from 2012 to 2016.

The rate ordinance split the Volumetric Rate into Operations and Debt Repayment Rates. The 2012 rate increase 12.75%.

<sup>i</sup> Rate increase of 8.0% on January 1.

<sup>j</sup> Rate increase of 7.0% on January 1.

<sup>k</sup> Rate increase of 4.75% on January 1 for Debt Repayment only.

Schedule 9A  
**Little Rock Wastewater**  
 Non-Domestic Sewer Rates (Inside City)  
 Last Ten Fiscal Years

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2012 <sup>h</sup>	2013 <sup>i</sup>	2014 <sup>j</sup>	2015	2016 <sup>k</sup>
5/8"	\$ 9.24	\$ 9.89	\$ 10.29	\$ 10.29	\$ 10.29
3/4"	\$ 11.91	\$ 12.74	\$ 13.25	\$ 13.25	\$ 13.25
1"	\$ 18.01	\$ 19.27	\$ 20.04	\$ 20.04	\$ 20.04
1.5"	\$ 31.79	\$ 34.02	\$ 35.38	\$ 35.38	\$ 35.38
2"	\$ 49.34	\$ 52.79	\$ 54.90	\$ 54.90	\$ 54.90
3"	\$ 90.17	\$ 96.48	\$ 100.34	\$ 100.34	\$ 100.34
4"	\$ 148.67	\$ 159.08	\$ 165.44	\$ 165.44	\$ 165.44
6" or larger	\$ 294.86	\$ 315.50	\$ 328.12	\$ 328.12	\$ 328.12
Volumetric Rate <sup>b</sup>					
Operations Volumetric Rate <sup>b</sup>	\$ 1.85	\$ 2.59	\$ 2.75	\$ 2.75	\$ 2.75
Debt Repayment Rate <sup>b</sup>	\$ 2.12	\$ 2.12	\$ 2.12	\$ 2.12	\$ 2.40

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2007 <sup>c&amp;d</sup>	2008 <sup>e</sup>	2009 <sup>f</sup>	2010 <sup>g</sup>	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 <sup>b</sup>	\$ 2.74	\$ 2.83	\$ 2.94	\$ 3.09	\$ 3.09

<sup>a</sup> Rate charge from 2007 to June 2012 included 200 cubic feet; Changed in July 2012 with zero water consumed.

<sup>b</sup> Per 100 cubic feet

<sup>c</sup> In Nov 2006, City of Little Rock Board of Directors approved a five step rate increase that effected rates from 2007 to 2010.

<sup>d</sup> There were two, of an approved five step, rate increases in 2007; 15% on January 1 and 8% on July 1.

<sup>e</sup> The third of a five step rate increase; 3% on January 1.

<sup>f</sup> The fourth of a five step rate increase; 4% on January 1.

<sup>g</sup> The last of a five step rate increase; 5% on January 1.

<sup>h</sup> In June 2012, City of Little Rock Board of Directors approved a four step rate increase that will effect rates from 2012 to 2016.

The rate ordinance split the Volumetric Rate into Operations and Debt Repayment Rates. The 2012 rate increase 12.75%.

<sup>i</sup> Rate increase of 8.0% on January 1.

<sup>j</sup> Rate increase of 7.0% on January 1.

<sup>k</sup> Rate increase of 4.75% on January 1 for Debt Repayment only.

Note: No rate increase in 2015. Increases in sewer rates must be approved by the City of Little Rock Board of Directors.

Schedule 9B  
**Little Rock Wastewater**  
 Non-Domestic Sewer Rates (Outside City)  
 Last Ten Fiscal Years

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2012 <sup>h</sup>	2013 <sup>i</sup>	2014 <sup>j</sup>	2015	2016 <sup>k</sup>
5/8"	\$ 13.86	\$ 14.84	\$ 15.44	\$ 15.44	\$ 15.44
3/4"	\$ 17.87	\$ 19.11	\$ 19.88	\$ 19.88	\$ 19.88
1"	\$ 27.02	\$ 28.91	\$ 30.06	\$ 30.06	\$ 30.06
1.5"	\$ 47.69	\$ 51.03	\$ 53.07	\$ 53.07	\$ 53.07
2"	\$ 74.01	\$ 79.19	\$ 82.35	\$ 82.35	\$ 82.35
3"	\$ 135.26	\$ 144.72	\$ 150.51	\$ 150.51	\$ 150.51
4"	\$ 223.01	\$ 238.62	\$ 248.16	\$ 248.16	\$ 248.16
6" or larger	\$ 442.29	\$ 473.25	\$ 492.18	\$ 492.18	\$ 492.18
Volumetric Rate <sup>b</sup>					
Operations Volumetric Rate <sup>b</sup>	\$ 2.78	\$ 3.44	\$ 4.13	\$ 4.13	\$ 4.13
Debt Repayment Rate <sup>b</sup>	\$ 3.19	\$ 3.19	\$ 3.19	\$ 3.19	\$ 3.61

Base Rate <sup>a</sup> (Meter Size)	Fiscal Year Ending				
	2007 <sup>c&amp;d</sup>	2008 <sup>e</sup>	2009 <sup>f</sup>	2010 <sup>g</sup>	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 <sup>b</sup>	\$ 4.12	\$ 4.24	\$ 4.41	\$ 4.63	\$ 4.63

<sup>a</sup> Rate charge from 2007 to June 2012 included 200 cubic feet; Changed in July 2012 with zero water consumed.

<sup>b</sup> Per 100 cubic feet

<sup>c</sup> In Nov 2006, City of Little Rock Board of Directors approved a five step rate increase that effected rates from 2007 to 2010.

<sup>d</sup> There were two, of an approved five step, rate increases in 2007; 15% on January 1 and 8% on July 1.

<sup>e</sup> The third of a five step rate increase; 3% on January 1.

<sup>f</sup> The fourth of a five step rate increase; 4% on January 1.

<sup>g</sup> The last of a five step rate increase; 5% on January 1.

<sup>h</sup> In June 2012, City of Little Rock Board of Directors approved a four step rate increase that will effect rates from 2012 to 2016. The rate ordinance split the Volumetric Rate into Operations and Debt Repayment Rates. The 2012 rate increase 12.75%.

<sup>i</sup> Rate increase of 8.0% on January 1.

<sup>j</sup> Rate increase of 7.0% on January 1.

<sup>k</sup> Rate increase of 4.75% on January 1 for Debt Repayment only.

Schedule 10

**Little Rock Wastewater**

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Principal Only			Unamortized Bond Premium (Discount)	Total	
	Revenue Bonds	Revolving Fund Loans <sup>a</sup>			Per Capita	As a Share of Personal Income
2007	\$ 163,305,000	\$ 64,288,425	\$ -	\$227,593,425	\$ 1,243	3.39%
2008	\$ 177,480,000	\$ 70,978,477	\$ 876,421	\$249,334,898	\$ 1,361	3.64%
2009	\$ 181,995,000	\$ 88,471,455	\$ 630,972	\$271,097,427	\$ 1,480	4.01%
2010	\$ 179,640,000	\$ 81,817,242	\$ 626,808	\$262,084,050	\$ 1,354	3.67%
2011	\$ 176,720,000	\$ 79,397,360	\$ 891,488	\$257,008,848	\$ 1,328	3.44%
2012	\$ 202,543,537	\$ 75,086,015	\$ 688,405	\$278,317,957	\$ 1,438	3.54%
2013	\$ 199,230,470	\$ 70,204,709	\$ 2,737,344	\$272,172,523	\$ 1,406	3.53%
2014	\$ 200,860,080	\$ 69,081,782	\$ 2,963,187	\$272,905,049	\$ 1,410	3.45%
2015	\$ 229,050,000	\$ 40,792,901	\$ 10,770,336	\$280,613,237	\$ 1,450	3.53%
2016	\$ 213,148,761	\$ 58,665,577	\$ 10,958,956	\$282,773,294	\$ 1,461	3.54%

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.

<sup>a</sup>The 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 11

**Little Rock Wastewater**

Pledge-Revenue Coverage

Last Ten Fiscal Years

Fiscal Year	Gross Revenue <sup>a</sup>	Direct Operating Expense <sup>b</sup>	Net Revenue Available For Debt Service	At December 31, Fiscal Year			Coverage
				Total Outstanding Debt <sup>c</sup>	# of Years of Outstanding Debt	Avg Yearly Outstanding Debt	
2007 <sup>d</sup>	\$ 43,429,090	\$ (23,539,563)	\$ 19,889,527	\$ 436,244,778	30	\$ 14,541,493	1.37
2008 <sup>e</sup>	\$ 47,882,812	\$ (23,731,107)	\$ 24,151,705	\$ 454,758,950	30	\$ 15,158,632	1.59
2009 <sup>f</sup>	\$ 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
2012	\$ 43,886,395	\$ (20,845,059)	\$ 23,041,336	\$ 438,506,442	30	\$ 14,616,881	1.58
2013	\$ 48,194,079	\$ (22,102,353)	\$ 26,091,726	\$ 477,572,007	29	\$ 16,468,000	1.58
2014	\$ 51,387,054	\$ (23,313,891)	\$ 28,073,163	\$ 456,384,959	28	\$ 16,299,463	1.72
2015	\$ 51,329,872	\$ (23,956,665)	\$ 27,373,207	\$ 397,723,835	27	\$ 14,730,512	1.86
2016	\$ 53,620,431	\$ (25,879,136)	\$ 27,741,295	\$ 387,240,934	26	\$ 14,893,882	1.86

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.

<sup>a</sup> Includes interest on investment income.

<sup>b</sup> See Schedule 4.

<sup>c</sup> Amount contains construction draws only for active Revolving Loan Fund (RLF) at December 31st.

<sup>d</sup> 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.

<sup>e</sup> 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.

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

Schedule 12  
**Little Rock Wastewater**  
 Demographic and Economic Statistics  
 Last Ten Calendar Years

Calendar Year	Population <sup>a</sup>	Personal Income <sup>b</sup>	Per Capita Personal Income	Unemployment Percentage Rate
2007	183,133	\$ 6,711,641,317	\$ 36,649	4.5%
2008	183,133	\$ 6,857,048,919	\$ 37,443	5.6%
2009	183,133	\$ 6,759,805,296	\$ 36,912	7.2%
2010	193,524	\$ 7,140,261,504	\$ 36,896	8.2%
2011	193,524	\$ 7,470,413,448	\$ 38,602	7.1%
2012	193,524	\$ 7,860,751,356	\$ 40,619	6.7%
2013	193,524	\$ 7,717,737,120	\$ 39,880	6.0%
2014	193,524	\$ 7,919,969,700	\$ 40,925	4.9%
2015	193,524	\$ 7,946,482,488	\$ 41,062	4.0%
2016	193,524	\$ 7,982,865,000	\$ 41,250	3.3%

<sup>a</sup> Population of Little Rock, AR using 2000 Census and 2010 Census

<sup>b</sup> Personal Income is a calculation of per capita income multiplied by the population.

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

Schedule 13

**Little Rock Wastewater**

Ten Largest Sewer Customers

Current Year and Nine Years Ago

<b>Fiscal Year 2016</b>		
Customer	Amount	Percent
1. Baptist Medical Center	\$ 479,213	0.93 %
2. University of Arkansas Medical Science	390,015	0.75
3. Little Rock Quick Rice Foods	434,101	0.84
4. Central Arkansas Water	399,820	0.77
5. V.A. Hospital	326,239	0.63
6. St. Vincent's Infirmary	302,809	0.59
7. Welspun Tubular	194,548	0.38
8. Hiland Dairy	248,959	0.48
9. Arkansas Children's Hospital	225,945	0.44
10. Statehouse Convention Center	<u>136,941</u>	<u>0.26</u>
Subtotal	3,138,590	6.07
Balance from other customers	<u>48,595,113</u>	<u>93.93</u>
Grand Totals <sup>a</sup>	<u><u>\$51,733,703</u></u>	<u>100.00 %</u>

<b>Fiscal Year 2007</b>		
Customer	Amount	Percent
1. University of Arkansas Medical Science	\$ 341,041	0.96 %
2. Baptist Medical Ct.	293,949	0.83
3. Odom Sausage	284,239	0.80
4. Central Arkansas Water	225,365	0.64
5. City of Shannon Hills	208,410	0.59
6. St. Vincent's Hospital	202,015	0.57
7. Coleman Dairy	156,390	0.44
8. Veterans Administration Hospitals	152,011	0.43
9. Arkansas Children's Hospital	134,936	0.38
10. Coca-Cola Bottling	<u>131,760</u>	<u>0.37</u>
Subtotal	2,130,116	6.02
Balance from other customers	<u>33,255,680</u>	<u>93.98</u>
Grand Totals <sup>a</sup>	<u><u>\$35,385,796</u></u>	<u>100.00 %</u>

<sup>a</sup> Grand Totals are based on Sewer Charges from Schedule 3.

Schedule 14

**Little Rock Wastewater**

Principal Employers

Current Year and Nine Years Ago

Employer	2016			2007		
	Employees	Percentage of Total	Rank	Employees	Percentage of Total	Rank
State of Arkansas (within the MSA)	34,900	10.49%	1	32,000	9.96%	1
Local Government (within the MSA)	27,200	8.17%	2	28,600	8.90%	2
Federal Government (within the MSA)	9,900	2.97%	3	9,000	2.80%	3
University of Arkansas Medical Sciences	9,100	2.73%	4	8,500	2.65%	4
Baptist Health	5,360	1.61%	5	7,000	2.18%	6
Little Rock Air Force Base	4,500	1.35%	6	4,500	1.40%	7
Arkansas Children's Hospital	4,000	1.20%	7			
Little Rock School District	3,500	1.05%	8			
Central Arkansas Veterans Health Care	2,800	0.84%	9	2,765	0.86%	10
Entergy Arkansas	2,740	0.82%	10	2,781	0.87%	9
Axciom				3,000	0.93%	8
Public School Districts				8,433	2.63%	5
<b>Total</b>	<b>104,000</b>	<b>31%</b>		<b>106,579</b>	<b>33%</b>	

Sources: Greater Little Rock Chamber of Commerce & State of Arkansas ([www.arkansaseconomicregions.org](http://www.arkansaseconomicregions.org))



Schedule 15

**Little Rock Wastewater**

Number of Employees by Identifiable Activity

Last Ten Fiscal Years

	<b>Full-time-Equivalent Employees as of December 31</b>									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration:										
Executive Administrator	1	1	1	1	1	1	1	1	1	1
Safety & Communications	4	5	4	4	4	3	3	4	4	5
Human Resources	2	2	2	2	2	2	2	2	2	2
Finance/Accounting	9	12	12	12	10	8	9	12	12	12
Information Services	12	16	13	13	10	9	10	11	11	12
Legal	1	2	1	0	0	0	0	0	0	1
Clerical	15	10	11	10	9	7	7	7	7	5
Engineering	35	28	30	29	27	20	23	20	20	23
Sewer Plant Maintenance	18	12	23	21	21	22	23	24	24	25
Sewer Systems Maintenance	112	114	106	94	90	81	87	82	82	81
Sewer Plant Operations	22	24	21	20	20	21	18	22	22	22
Environmental Assessment	19	17	17	16	16	17	23	24	24	23
<b>Total Employees</b>	<b>250</b>	<b>243</b>	<b>241</b>	<b>222</b>	<b>210</b>	<b>191</b>	<b>206</b>	<b>209</b>	<b>209</b>	<b>212</b>

Schedule 16

**Little Rock Wastewater**

Operating and Capital Indicators,  
Last Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011 <sup>a</sup>	2012	2013	2014	2015	2016
Wastewater Treatment										
Miles of Sewer	1,293	1,314	1,312	1,320	1,346	1,353	1,359	1,368	1,375	1,384
Number of Treatment Plants	2	2	2	2	3	3	3	3	3	3
Treatment Capacity (MGD)										
- Biological Treatment	52.0	52.0	52.0	52.0	56.0	56.0	56.0	56.0	56.0	56.0
- Hydraulic Peak Capacity	130.0	130.0	130.0	130.0	144.0	144.0	144.0	144.0	144.0	144.0
Daily engineering maximum plant capacity (MGD)	32.71	35.18	40.63	40.58	35.55	31.04	33.91	34.17	37.04	32.40
Unused Capacity (MGD)	19.29	16.82	11.37	11.42	20.45	24.96	22.09	21.83	18.96	23.60
Percent of capacity utilized	63%	68%	78%	78%	63%	55%	61%	61%	66%	58%

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

<sup>a</sup> Little Maumelle Treatment Facility became operational on August 8, 2011.