



Little Rock  
Wastewater

# Message from the CEO



For over 70 years we have been providing the residents of Little Rock with excellent wastewater service. It all began with an immediate need of getting the sewer away from that putrid creek, Town Branch, for reasons of health and the environment. The public wanted to stop having wastewater in their streets; however, it was still an arduous task to convince the people to vote for funds to improve our sewers on a continual basis. The public had to be constantly informed to stay committed to the proper disposal of their wastewater, to be constantly educated on wastewater responsibility, and to be constantly reminded of their duty to protect their environment. Today is no different than the past in that we are still informing, educating, and reminding.

In my 23 years at LRW, I don't recall a more challenging year. But, thanks to our dedicated employees, we were able to meet and exceed those challenges. Just to name a few of our major accomplishments in 2006 . . . we dropped the "Utility" from our title to become the more familiar Little Rock Wastewater. We proposed a rate increase to fund \$181 million in infrastructure improvements. It was a tough sell, but from that we began much needed, major projects. Unsewered areas started to dwindle as we concentrated on those areas with construction to provide sewer access. Adams Field Treatment Facility received a modernized treatment process and was upgraded from a 60 MGD to a 94 MGD plant. Fourche Creek Treatment Facility also began receiving some much needed improvements. We have also moved forward by leaps and bounds on the progress of the Little Maumelle Treatment Facility. All of this would have never come to fruition without one simple factor: our employees. Colin Powell has said, "Organization doesn't really accomplish anything. Plans don't accomplish anything, either. Theories of management don't much matter. Endeavors succeed or fail because of the people involved." Nothing we've accomplished thus far would be possible without our current and past employees.

“All of our employees have served our fellow residents with the best possible service and I commend them.”

However, I want us to focus on the future. All of our employees have served our fellow residents with the best possible service and I commend them. They have kept the environment secure for future generations, and it is those generations that will grow up to thank them. This culture is constantly changing and to change with it means we are together, following each other into the future. The only thing that should not and will not change is the environment. We are here to protect our residents, hold dear our environment, and make way for our future. As we stay committed to Little Rock Wastewater, so then we are all committed to the safety and security of what lies ahead.



*Reggie Corbitt*

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



**Little Rock Wastewater Executive Team**

# Sanitary Sewer Committee

## Little Rock Sanitary Sewer Committee Members

Dale Wintroath - Member  
Andrew Harper - Member  
Pat Miller - Chair  
Charles Goss - Vice Chair  
Jim Pender - Secretary



The Little Rock Wastewater is overseen jointly by the Utility Chief Executive Officer and the Little Rock Sanitary Sewer Committee, which is comprised of five members. These citizens, who are appointed by the Little Rock City Board of Directors, work closely with the CEO in overseeing LRW operations. The City Board establishes sewer rates and approves certain financial matters, including the issuance of bonds. They meet at 4 p.m. on the third Wednesday of each month at Little Rock Wastewater, located at 11 Clearwater Drive in Little Rock. For more information, call (501) 376-2903.

# Facilities



Adams Field Wastewater Treatment Facility



Clearwater Maintenance and Administration Facility



Fourche Creek Wastewater Treatment Facility



Future site for Little Maumelle Wastewater Treatment Facility

## Service to Our City



Our duty does not pertain to just our job; it is in the environment around us. We try to echo the mission of outside environmentally-friendly organizations, many of which we are affiliated with, such as Audubon Arkansas which “envision[s] a state where the love and respect for nature is a cultural legacy.” We joined forces with Little Rock’s Parks and Recreation Department a few years ago and started the Partnership with Nature program where we use a portion of our land to grow a tree farm. Today, those trees are alive and well; they are taller and stronger and continue to grow. There is no greater symbolism of our environmental integrity than those trees co-existing with our treatment facilities.

Our ties to this community spread beyond its green leaves and into the streets. Our numerous community awareness and educational programs blanket this city regularly. Our own Captain Sewer flies into classrooms and informs children on water conservation and preservation. Cowboy Slick lassos the public’s attention with grease awareness and how bad it is for your plumbing and our pipes. We also have our Can the Grease program, which gives people a safe place to dispose of their grease without using our city’s sewer system. This program is becoming nationally renowned. More and more cities are inquiring about and implementing this program that we developed and initiated.

Our contributions to this city were rewarded when we won the 2006 CREST award from the United Way. Little Rock Wastewater is embedded in this community and we strive to uphold the best interests of this society by volunteering, educating, and supporting our neighbors.

# The job of our treatment facilities is not to meet effluent permit limits, but to exceed those limits.

## Environmental Integrity

The goal of our treatment facility is to not only meet, but exceed EPA permit standards. We believe it is our duty to go above and beyond the call of duty. For the entire year of 2006 we had no NPDES permit violations. That is 11.24 billion gallons of no violations. In 2006, Fourche Creek Treatment Facility received a Gold Peak Performance award for the previous year, and Adams Field Treatment Facility received a Silver Peak Performance award for the previous year. Both awards were bestowed upon us from the National Association of Clean Water Agencies.

Our safety practices for the previous year were reflected when we won the George W. Burk Jr. award, which was given to us by the Water Environment Federation for overall excellence in effective safety programs and records. So effective and noteworthy were our safety regulations for the year that the Environmental Protection Agency ranked our Risk Management Program one of the highest in our region. The overall performance of this organization for 2006 was stellar in achievement and scope.

Our integrity could be summed up by our CEO, Reggie Corbitt, P.E., winning the Water Environment Federation's William D. Hatfield award for 2006. This award is only given to wastewater professionals who gave an outstanding performance and who showed excellent professionalism for the year. We are dedicated to practices that protect us and our neighbors, this city and this environment, and our devotion is shown through our awards and merit received for our actions.



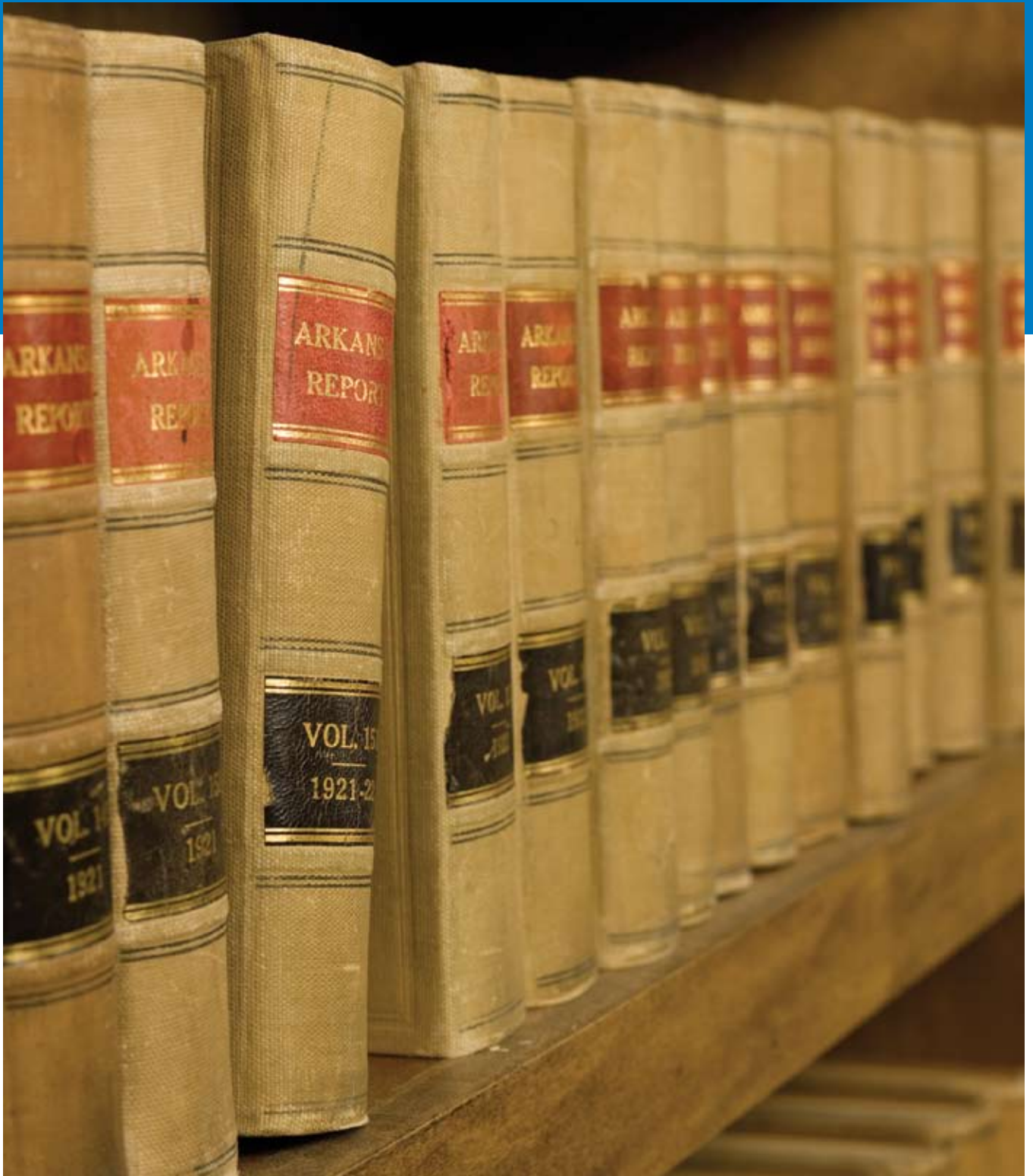
# Legal



The General Counsel, Don F. Hamilton, is legal counsel for the Little Rock Sanitary Sewer Committee and for Little Rock Wastewater. He works in day-to-day operations of LRW with the Chief Executive Officer and staff in rendering legal assistance to resolve legal issues. He renders legal advice and opinion, prepares and reviews legal documents and is responsible for all litigation both for and against the Sewer Committee and LRW, except where outside counsel is retained.

During the year 2006, Mr. Hamilton worked with staff on legal issues involved in the Little Maumelle Treatment Facility (LMTF) treatment process selection which was approved by the Little Rock Sanitary Committee on May 17, 2006. He also worked with staff on legal issues involving the conditional use permit for the Peak Flow Attenuation Basin approved by the City of Little Rock Planning Commission on May 25, 2006, and the LMTF approved by the Little Rock City Board of Directors on October 17, 2006, as well as the new rate ordinance adopted by the City of Little Rock City Board of Directors on November 28, 2006. He also assisted in regulatory issues involving the Arkansas Department of Environmental Quality, consisting of the Consent Administrative Order dated March 9, 2006, and a permit appeal on one of the treatment facilities. Finally, he performed routine day-to-day legal services for LRW involving preparation of legal documents, right-of-way acquisitions, and employee claims and rendering such legal advice, as needed.

Mr. Hamilton has practiced law for the past 44 years since he was admitted to the Arkansas Bar in 1963. He joined the law firm of House, Holmes & Jewell in 1965, and he was with that firm and its successors for approximately 25 years before joining LRW in 1990. Prior to 1990, he was outside legal counsel for the Sewer Committee beginning in 1980. His principal areas of practice are in municipal, utility, environmental, construction, commercial, and real estate law, including litigations matters in these areas.



# Engineering and Maintenance



## **ENGINEERING SERVICES**

New and exciting challenges were presented to the Engineering Services Department in 2006. While maintaining the everyday functions of the past, the engineering staff embarked on a journey of planning, public education and permitting, all associated with the capital improvement projects aimed towards sewer overflow reduction. The team of 34 professionals range in expertise from planning, surveying and mapping, engineering design to construction inspection. With the creation of multi-departmental design teams, there was a new sense of unprecedented continuity at LRW. These design teams brought all levels of LRW's in-house expertise to the table for preliminary design decisions. In addition, the engineering staff attended multiple public informational meetings in an attempt to educate the neighborhood groups about the upcoming projects. The entire staff contributed to the success of these meetings through the preparation of excellent support data and visual presentation materials. The construction inspection staff continued to protect LRW's interest ensuring proper material and construction techniques were incorporated into all new construction. In-house project construction management of the Unsewered Areas and the Adam's Field WWTP Upgrade resulted in extremely successful projects. All members of the engineering staff have come to realize the importance associated with providing support for the many challenges of their fellow employees within operations and maintenance.

### **Little Maumelle Wastewater Treatment Facility**

- Treatment process selected
- Conditional use permit issued by city of Little Rock
- 15% of design completed

### **Peak Flow Attenuation Facility**

- Attenuation facility land purchased
- Pump station land purchased
- Conditional use permit issued by city of Little Rock
- Preliminary engineering report completed (30% design)
- Value engineering workshop completed

# With the creation of multi-departmental design teams, there was a new sense of unprecedented continuity at the LRW.

## **Adams Field Wastewater Treatment Facility**

- Construction substantially complete
- Hydraulic capacity upgraded to 92MGD
- Preliminary design of alternate disinfection process complete

## **Coleman Creek Outfall Project**

- Construction completed on schedule

## **Fourche Creek WWTP Electrical Switchgear Replacement**

- Design completed
- Contract awarded



## **Unsewered Areas**

- Construction completed on USA 26 Ph-1 and USA 22
- Contract awarded for USA 26 Ph-2 & 3
- All easement acquisition for projects completed w/o condemnation

## **Collection System Rehabilitation Projects**

- Trenchless rehab of over 18,000 linear feet of sewer mains
- Completed numerous engineering studies for elimination of community services, relocation projects and structural failures
- Completed design and contract award for natural resources project
- Managed sanitary sewer evaluation studies in accordance with schedule

## **Developer Funded Projects**

- 43 developer funded projects reviewed at a value of \$3.4 million
- 1,476 service line inspections completed
- 119 building permit plan reviews completed
- 37 city bond projects designed and inspected

# Engineering and Maintenance



## **Surveying**

Survey and easement descriptions completed for 34 in-house design projects  
Construction stake-out completed on 17 projects

## **Collection System Data Collection**

744 public and private manhole/mainline data collection inspections

## **Completed**

806 utility location requests completed  
827 manholes added to the collection system inventory

## **GIS/Drafting**

Completed as-built data conversion of 73 in-house and developer projects  
Completed detail drawings for LRW specification update  
Completed scanning and inventory of Fourche Creek WWTF as-builts  
Completed landparcel based application for database  
Completed flood zone data to GIS application

## **CONSTRUCTION AND REPAIRS**

The Maintenance and Construction Department is responsible for maintaining, cleaning, inspecting, repairing and installation of Little Rock Wastewater's collection system.

1. Continued self fleet maintenance program
2. Installed 19,000 linear feet of sanitary sewer lines
3. Constructed 102 sanitary sewer manholes
4. Repaired 549 sanitary sewer lines and 617 sanitary sewer manholes
5. Cleared 573,620 lineal feet of sanitary sewer right of ways

# The construction inspection staff continued to protect LRW's interest ensuring proper material and construction techniques were incorporated into all new construction.

## CLEANING AND INSPECTION

The Cleaning and Inspection Department is responsible for performing all CCTV inspections and cleaning of all main lines in LRW's collection system. Duties also include the handling of emergency calls, complaints and overflows in the system.

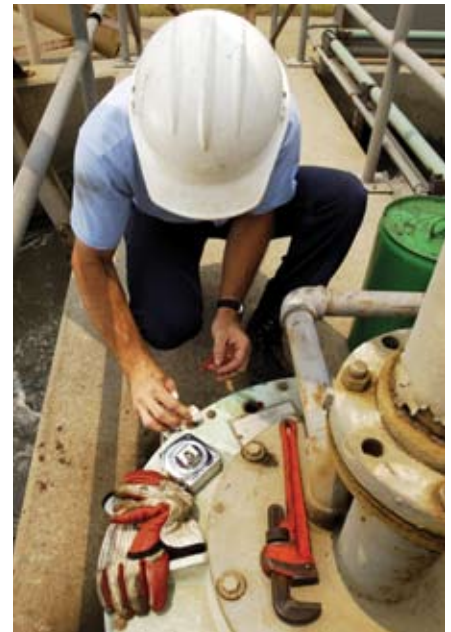
1. Met Plan 66 dry weather overflows for third consecutive year. Yearly total of 42, a reduction of 11 from 2005
2. Hydro-cleaned 2,526,204 feet
3. Televised 754,735 feet
4. Hand-cleaned 801,493 feet
5. Walked 9,407,648 feet of sewer line
6. Completed installation of computer software service line module to our TV inspection program



## FACILITIES MAINTENANCE

The Facilities Maintenance Department is responsible for the maintenance and repair of pumps, equipment, buildings, structures and grounds at each facility of Little Rock Wastewater.

1. Began an extensive "in-house" pump rebuild program
2. Installed "Reduced Pressure Zone" valves (RPZ's) at pump stations and facilities as required by Central Arkansas Water
3. Rebuilt #1 and #2 sludge thickener gear drives at the Adams Field Treatment Facility
4. Rebuilt underwater structure of #1 and reworked structure of #2 cog bridges at the Fourche Creek Treatment Facility
5. Completed the extensive painting of the digester domes, #1 and #2 sludge thickener pump stations and primary pump station at the Fourche Creek Treatment Facility



# Operations



Within the structure of Little Rock Wastewater, the Operations Division is responsible for meeting regulation, exceeding effluent permit limits and reporting LRW activities to the United States Environmental Protection Agency (EPA). As the structure of LRW is at this time, the Information Services Group (IS) reports to the Operations Manager. This structure change took place in late 2005, and has proven to be a productive change in the effective communication and transfer of data throughout LRW.

In 2006, LRW was responsible for the treatment of 11.24 billion gallons of sanitary sewer. We are pleased to report no violations of either of the two National Pollutant Discharge Elimination Permits (N.P.D.E.S.) held by the city of Little Rock during 2006. LRW, through Adams Field and Fourche Creek Treatment Facilities, treated a combined total of 11.24 billion gallons of sanitary sewer. In the treatment of these waters, 33.22 million pounds of pollutants were captured and eliminated from entering the Arkansas River. This equates to a 94.3 percent pollutant removal rate. Bio-solids produced from the treatment activities were applied to agricultural lands for beneficial reuse of the humus organic content, as well as the plant-available nitrogen and phosphorus values.

Due to a focused teamwork effort, energy consumption was greatly reduced for the treatment facilities within 2006. This effort and other factors enabled LRW Operation's group to be greater than \$300,000 under budget for the year. Additional teamwork efforts have been enacted to ensure even greater success in the coming years. These aforementioned savings are in addition to the savings seen annually from the co-generation process of electric power at the Fourche Creek Treatment Facility which average over \$300,000 per year. In continuing the teamwork efforts, LRW has started the process of three large capital projects which will greatly increase the environmentally friendly efforts inherent to the treatment of sanitary sewer produced in the City of Little



Rock. These three projects are scheduled for completion in December 2009. The first of these projects is a 30MGD attenuation facility. The second and most significant of the three projects is the Little Maumelle Treatment Facility. Hydraulic and treatment capacity upgrades for the Fourche Creek Treatment Facility is the third major capital project.

Substantial completion of the Adams Field Facility's hydraulic upgrades were achieved by the close of 2006. The facility staff received intensive training and opportunity to execute the usefulness of the new features and additional capacity as a result of storm events during December 2006.

The Operational Division of LRW would like to THANK the citizens of Little Rock for their continued support of LRW's sound environmentally effective effort to provide public health and safety. Without the efforts of all the LRW employees and the citizen support we would not have a wonderful, clean city in which to live and play. In the years to come, the downstream communities will appreciate our efforts and commitment to water quality issues. Water environment efforts impact all people near and far because of the limited volume of fresh usable water.

# Administration and Community Relations



Under the umbrella of Administration and Community Relations Division fall the departments of Human Resources, Environmental Health Compliance, Occupational Health and Safety, Security, Training, Employee Relations, Benefits Administration, Administrative Services and Community Relations. We have evolved into a more employee and community conscious organization, allowing for a more proactive approach to protecting the environment, our employees and public relations.

One of Little Rock Wastewater's proudest accomplishments for 2006 was the overall success of the environmental waste program and the occupational injury record. 2006 had the lowest number of work related injuries in our recorded history. This record is a direct reflection of the management-supported focus on safety training and application. There were a total of 2,670 man-hours of instruction, and over 283 classroom hours of occupational health and safety training in 2006. Such accomplishments were rewarded by the Water Environment Association's George W. Burk, Jr. award, a national award for excellence in effective safety programs and records. The Arkansas Department of Environmental Quality scored us an A+ on our UST/AST program. The EPA ranked our Risk Management Program one of the highest in the region.



A means for our success was the creative and innovative involvement of our employees by submitting their "bright ideas" to a forum called Total Quality Management. In 2006, a total of 56 ideas were submitted to improve cost savings, safety, security and production. An outstanding 100% of those ideas were completed.

The ongoing efforts of our public education and community relations continued with a city wide campaign to Can the Grease, a program designed to enhance the idea of not putting grease and oils into the sewer system. We initiated a customer call-back program to personally talk with residents regarding our



service and gain feedback for continued improvement in our services. Our relationship with several environmental groups has grown and we now have various partnerships to protect the environment. Captain Sewer, a character created over 20 years ago to educate school-age children to save water and protect the environment was resurrected and appearances were held on television and elementary schools. Emphasis to speak to public groups grew and members of the executive staff either spoke at or attended civic and neighborhood groups in an effort to update the community on the proposed rate increase and projects needed.

Many tasks and activities have involved the Human Resources department with the administration of our overall salary and benefits packages. Our Human Resources Department maintains our policy and procedures, administers the drug and alcohol testing program, coordinates professional development training for supervisory personnel and is active with retirement planning for employees. Along with processing new hires, promotions, terminations and retirees, this division of the Administration and Community Relations Department processes short-and long-term disability, catastrophic and life insurance claims for our 240 employees.

The Administration and Community Relations Department is considered not only an in-house but also a customer and community service department that is committed to the future and environment.



# Information Services



The Division of Information Services of Little Rock Wastewater consists of two separate departments. These departments are Network and Database Administration and Instrumentation.

The Network and Database Administration Department is responsible for all hardware, network and workstation operating systems and all network and database administrative functions. In addition, Network Administration professionals provide helpdesk operations necessary to maintain three locations throughout Little Rock, 20 production servers and 160 workstations. Database Administration is responsible for the administration of LRW databases, enterprise software and application development. Additionally, Database Administration professionals maintain LRW's Intranet Web sites.

The Instrumentation Department is responsible for the installation, maintenance and administration of all other electronic or analog equipment utilized by LRW. This includes, but is not limited to, Plant Control Systems (PCS), Supervisory Control And Data Acquisition (SCADA) equipment, metering equipment, leak detection systems, phones and radios.

During 2006, this division was involved in many high level projects, which include the following:

- Installation of new IBM storage area network taking total storage capacity to 12.1 terabytes
- Installation of new disk-to-disk-to-tape backup and recovery hardware
- Creation of new Intranet portal (Pipeline)
- Installation of two new database servers. One for Microsoft SQL 2005, and the other for Oracle 10g R2
- Installation of new Internet Security and Acceleration Server 2006
- Upgrade from Microsoft Office 2000 to Office 2003

# After an exhaustive look into the various strategies available, LRW determined that it needed to deploy a disk-to-disk-to-tape strategy.

## Data Storage

Similar to many organizations, Little Rock Wastewater (LRW) has seen rapid growth in the area of data storage. This is due to several factors including: increased reliance on personal computers for all aspects of business, native growth in the file structure types, and an increase in the types of data stored.

From 2000 through 2005, LRW maintained a Dell Storage Area Network (SAN). This system served well, but through age, became less reliable and it was increasingly more difficult to obtain parts as they failed. In addition, the SAN was becoming woefully insufficient on space. These two major problems necessitated a change for 2006.

An investigation of several major vendors of storage subsystems was undertaken. It was determined through this investigation that IBM provided the best fit and price for our organization. So in 2006, a 12.1 terabyte fiber channel SAN was ordered and installed. For reference, 12.1 terabytes is roughly equivalent to 8.4 million floppy disks.

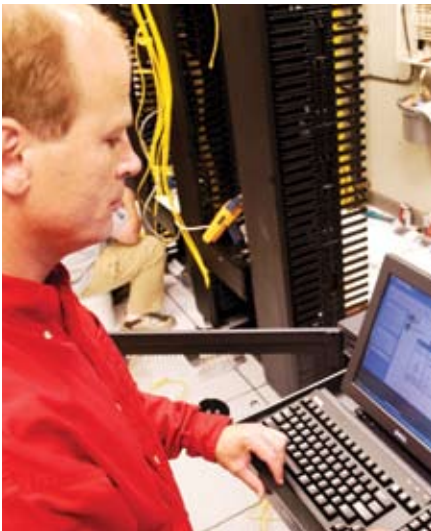
## Data Backup and Recovery

Until 2006, LRW employed a standard tape backup system. The rapid growth of stored data became troublesome when the time necessary to backup the daily changes took longer than 24 hours to accomplish. Information Services sought both a new strategy and new hardware to overcome this problem.

After an exhaustive look into the various strategies available, LRW determined that it needed to deploy a disk-to-disk-to-tape strategy. In essence, data is moved from primary disk storage to secondary disk storage prior to being backed up to tape. This allows for rapid backup and recovery.



# Information Services



To accomplish this, LRW purchased a new hardware solution called Linear Tape Open (LTO) for the tape solutions which is much faster and more reliable than the old solution. Microsoft's Data Protection Manager was purchased along with the allocation of a new Dell Network Attached Storage Device to accomplish the disk-to-disk solution. These two systems have streamlined the backup and recovery process at LRW.

## **Database**

Most of LRW's database infrastructure has been built on Oracle as the database of choice for the robust needs of the organization. However, many applications had a need for additional "backend" database solution. Most small to mid-level applications did not support Oracle, so a different solution was needed. LRW employed the use of Microsoft SQL Server 2000 to fill this need. Originally, it was relegated to an older server hardware platform as LRW's needs were for secondary support systems. However, that need changed and a new dedicated server was required and purchased. In addition, SQL Server 2000 was replaced with SQL Server 2005 as the platform to take us into the foreseeable future. This server is no longer considered secondary and now provides primary database functions within LRW.

Oracle continues to be the preferred database for our most critical needs. Testing began during 2006 for the new Oracle 10g Release 2 software. A new hardware platform was purchased and will provide the foundation for the new Oracle release.

## **Perimeter Security**

LRW has maintained a Web presence for several years and never before has Internet security been so important. The Internet threats that exist require a very robust and stringent security system. For the past several years, LRW has utilized Microsoft Internet Security and Acceleration (ISA) Server 2000 to provide for its Internet security needs.

# Security is controlled both on the internal and Internet side of the network.

In 2006, LRW employed the use of Microsoft Internet Security and Acceleration Server 2006. ISA 2006 changed the security model being utilized between our internal network and the outside Internet. With the increasing need for remote access to our internal network, this upgrade took on much greater importance. Security is controlled both on the internal and Internet side of the network.

## **Applications**

LRW utilized Microsoft Office 2000 for several years. During 2006, Information Services upgraded all workstations to Office 2003. This included Outlook 2003 for use with the Exchange mail server. This was a significant upgrade as it is the suite of applications most used within LRW.

## **Intranet Portal**

Throughout the past several years, there has been much talk of providing a location to place items common to the needs of the LRW staff. A rudimentary Web page portal to link to the various disparate employee services was provided to meet this need in the past.

In 2006, a new redesigned portal was created and called Pipeline. This portal page was fashioned from the lrwu.com Web site to provide a consistent look and feel. All services provided to the LRW staff are now located on this page and can be accessed from anywhere in the world.



# Environmental Assessment



The Environmental Assessment Division (EAD) supports LRW by providing quality-assured environmental monitoring data through sampling, testing, inspections and investigations. Data generated by the EAD is used to assess both wastewater treatment facility processes and permitted industrial wastewater dischargers for compliance. The makeup of the Division consists of the Central Laboratory, Industrial/Commercial User Relations, and Plan Review/Sample Collection Departments. The activities the department performs include:

- Collect samples at the industrial/commercial customers and wastewater treatment facilities
- Provide process control testing at the wastewater treatment facilities
- Assess EPA's compliance requirements on the effluent discharge from the wastewater treatment facilities
- Regulate discharge from industrial and commercial customers
- Review construction plans for the Trap/Interceptor Program
- Provide testing of industrial/commercial customer samples collected
- Assess the effects of toxic pollutants on the wastewater treatment facilities and the Arkansas River
- Assess compliance of industrial users for local and federal requirements
- Provide monitoring & reporting support for biosolids reuse project
- Protect the sewage system from the commercial or industrial discharges of aggressive substances that could be harmful to the infrastructure, (blockages, corroded sewer lines, etc.)
- Protect the collection system worker from harmful pollutants
- Protect the biological treatment units at the facilities
- Protect against the accumulation of harmful substances in the biosolids
- Protect the Arkansas River from the pass-through of toxic/hazardous substances that our facilities are not designed to remove

In 2006, a total of 8,158 samples were collected by the Division's sampling staff, while laboratory staff analyzed 36,654 tests using those samples. Through these series of tests, the Division assesses industrial discharges and the quality of the treated effluent discharged into the Arkansas River to determine

# A total of 1,227 inspections and investigations were conducted at industrial and commercial facilities during 2006.

compliance with federal, state, and local regulations. Sampling/testing support was provided to Operations and Engineering for the following studies that occurred during the year:

- Fourche Final Effluent Total Residual Chlorine (TRC) Study
- Adams Field and Fourche Unchlorinated Final Effluent Percent UV Transmittance Study
- Collection System Dissolved Oxygen Uptake Study for the Proposed Retention Basin
- Little Maumelle Treatment Facility – Testing for Odor Model

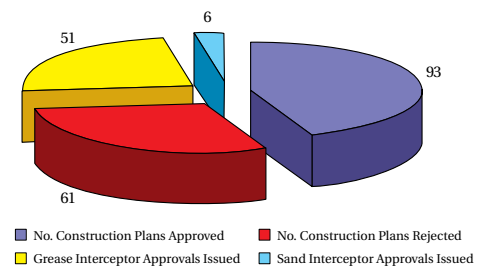
A total of 1,227 inspections and investigations were conducted at industrial and commercial facilities during 2006. Surcharge and various fees generated through the Pretreatment and Trap/Interceptor Programs totaled \$690,823. The Pretreatment Program permitted industry operated at 98.4 % compliance with 1,714 test data points showing 28 occurrences of violation. One industry was in significant non-compliance with program regulations and has discontinued the process wastewater discharge to the sanitary sewer. Major strides in trap/interceptor inspections by the EAD resulted in 745 inspections with 215 noted deficiencies requiring corrective actions.

The Division takes a cooperative approach in regulating local industries. EAD encourages and assists industries in implementing pollution prevention measures. In 2006, EAD awarded industries in five sectors with the LRW Pollution Prevention Award which recognizes the Industrial User(s) who most vigorously adopt pollution prevention activities. A presentation ceremony by the mayor and city board members at Little Rock City Hall was held. The 2006 recipients for the industry sectors were:

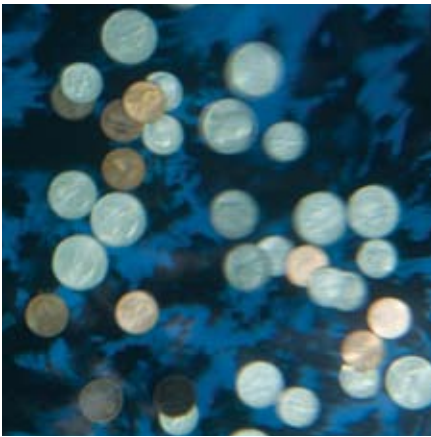
- Manufacturing Sector – Raytheon Aircraft Company
- Food Processing Sector - Unilever North America
- Health Care - Baptist Health Medical Center
- Service Sector – City of Little Rock Solid Waste Service
- Small Business – Griffin Industries

A total of 154 construction plans were reviewed during 2006 for the Trap/Interceptor Program. This increased 80% from the previous year. The following chart provides a summary of the number of plans approved or rejected and the number of interceptor sizing forms issued.

**ENVIRONMENTAL ASSESSMENT DIVISION  
2006 CONSTRUCTION PLAN SUMMARY**



# Finance and Administration

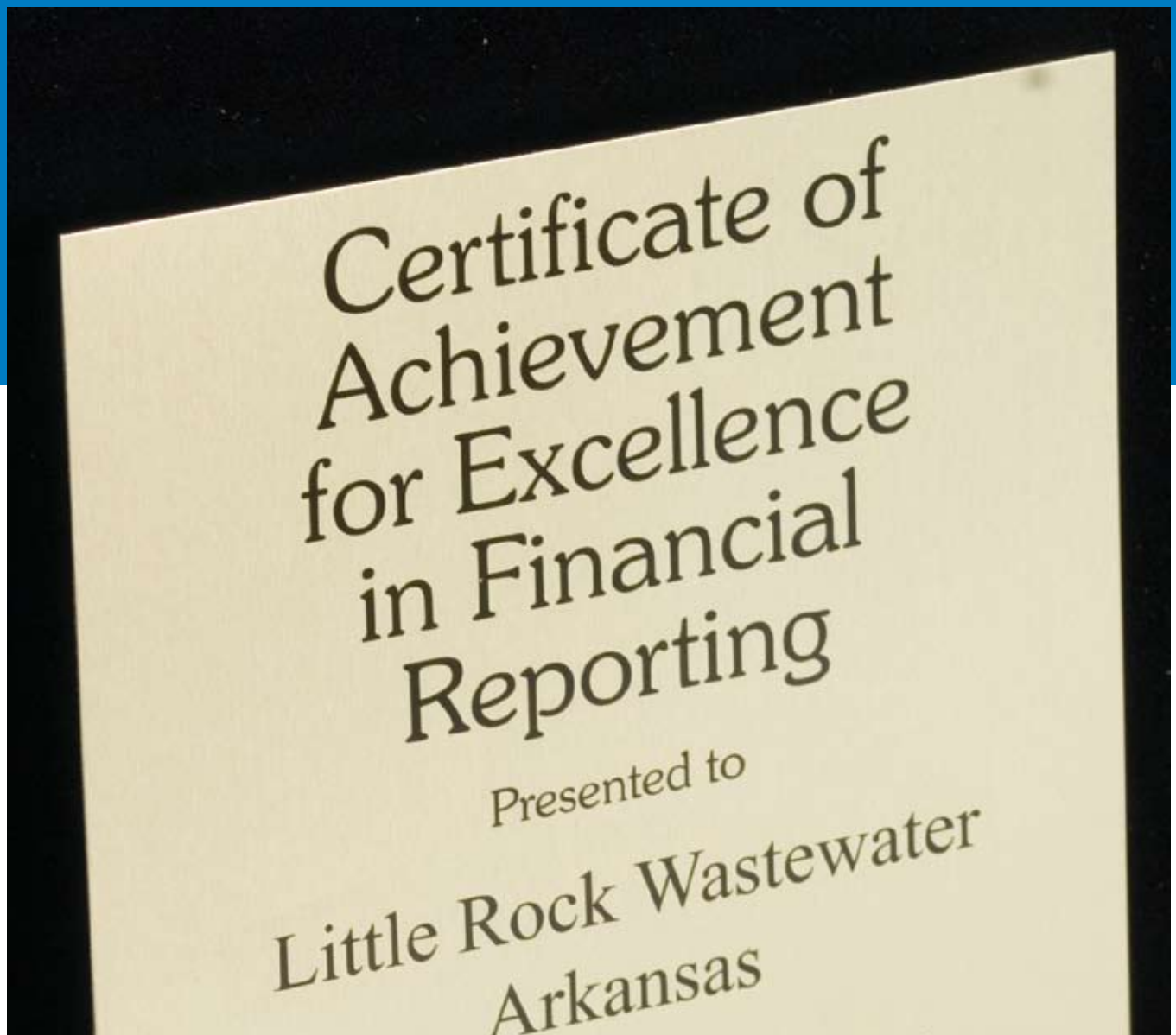


The Finance Division is responsible for all financial information and reporting, purchasing of and payment for all LRW equipment and supplies, and customer service support. Specifically, the Accounting and Purchasing Departments make up the Division of Finance. These two departments complement each other in accomplishing internal and external customer satisfaction.

Accounting provides monthly, semi-annual, and annual financial statements, collects data and prepares the annual budget, verifies invoicing and payments for both accounts receivable and accounts payable, operating and capital improvement expenditures, processes all aspects of bi-weekly and semi-monthly payroll, and offers customer service to residents of Little Rock for sanitary sewer service.

Additional responsibilities assigned to the Accounting Department for 2006 included a year-long rate study to determine the needs of LRW through 2011. The adjustment will increase rates over the next five years, and was approved by the City of Little Rock Board of Directors on November 28, 2006. In conjunction with the rate increase, Accounting has been working with the Engineering Division on upcoming capital improvement bond issues, revolving loan funds, and federal grants.

Purchasing provides support by coordinating the purchase and inventory of all wastewater equipment and supplies with all federal, state, and city regulations. Purchasing revised its Policy and Procedures Manual in 2006 so that it would conform to all current local city codes and ordinances. Our overall goal in the very near future is to have this manual certified by the Office of Management & Budget. Purchasing is responsible for the purchases of all capital equipment consisting of all vehicles and construction equipment. One of the most significant cost-saving programs that has been very successful over the past 10 years for LRW has been our 100% Buy-Back Option for Rubber Tired Wheel Loader



Backhoes. LRW purchased a total of nine units in 2006 at a total cost of \$385,497 with the option of selling these units back one year later to the dealer at a total cost of \$364,095, which is a net difference of \$21,402 or \$2,378 per unit. This is not only a good morale booster for the operator of the machine, but it also allows LRW the option to utilize all the latest technology upgrades.

Throughout the year, employees from both departments attend local conferences or participate in online webinars to retain current training requirements, or to increase knowledge skills through governmental agencies such as the National Institute of Governmental Purchasing or the Government Finance Officers Association.

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Little Rock Wastewater, a component unit of the City of Little Rock, Arkansas, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of LRW's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Little Rock Wastewater as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2007, on our consideration of LRW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on Pages 15 through 23 and 46 and 47, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board.

The Members of the Little Rock Sanitary Sewer Committee

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

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133 "Audits of State, Local Governments, and Non-Profit Organizations," and the supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Certified Public Accountants

February 16, 2007

LITTLE ROCK WASTEWATER  
**BALANCE SHEETS**  
 DECEMBER 31, 2006 AND 2005

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
CURRENT ASSETS		
Cash and Cash Equivalents	\$2,421,846	\$3,048,454
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$205,913 in 2006 and \$232,951 in 2005)	2,136,500	1,790,228
Inventories	1,229,322	1,160,988
Prepaid Items	75,591	94,634
Restricted Current Assets		
Restricted for Bond Requirements		
Cash and Cash Equivalents	2,559,584	4,359,830
Investments	—	—
Accrued Interest Receivable	31,440	31,769
Prepaid Items	367,179	368,742
Unamortized Bond Issue Expense-Current	85,539	90,610
Restricted for Construction and Improvement		
Cash and Cash Equivalents	10,970,153	10,915,934
Investments		3,358,858
Construction Receivable	15,180	178,699
Accrued Interest Receivable	12,907	16,994
Total Current Assets	<u>19,905,241</u>	<u>25,415,740</u>
NONCURRENT ASSETS:		
Restricted for Bond Requirements		
Investments	2,454,671	1,983,541
Unamortized Bond Issue Expense	612,608	698,147
Total Noncurrent Assets	<u>3,067,279</u>	<u>2,681,688</u>
Capital Assets (Net of Accumulated Depreciation)	209,234,866	185,070,970
Total Noncurrent Assets	<u>212,302,145</u>	<u>187,752,658</u>
TOTAL ASSETS	<u><u>\$232,207,386</u></u>	<u><u>\$213,168,398</u></u>

<b>LIABILITIES</b>	<b>2006</b>	<b>2005</b>
CURRENT LIABILITIES		
Accounts Payable	\$399,149	\$399,233
Franchise Fee Collections Due to City of Little Rock	167,086	298,744
Accrued Wages Payable and Related Liabilities	372,543	429,175
Accrued Expenditures and Other	278,716	200,845
Compensated Absences	965,896	970,283
Current Liabilities Payable from Restricted Assets	—	—
Construction Contract Payable	2,264,362	5,107,028
Accrued Bond/Note Interest Payable	656,834	687,738
Bond/Note Payable - Current	2,625,215	2,131,200
Unamortized Bond Premium - Current	1,808	1,862
Total Current Liabilities	<u>7,731,609</u>	<u>10,226,108</u>
NONCURRENT LIABILITIES		
Bonds/Note Payable	84,467,648	70,552,543
Unamortized Bond Premium	17,823	19,631
Total Noncurrent Liabilities	<u>84,485,471</u>	<u>70,572,174</u>
Total Liabilities	<u>92,217,080</u>	<u>80,798,282</u>
NET ASSETS		
Restricted		
For Debt Service	5,454,187	6,844,902
For Construction and Improvements	8,733,878	9,363,457
Total Restricted	<u>14,188,065</u>	<u>16,208,359</u>
Invested in Capital Assets, Net of Related Debt	121,156,476	111,395,450
Unrestricted	4,645,765	4,766,307
Total Net Assets	<u>139,990,306</u>	<u>132,370,116</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$232,207,386</u>	<u>\$213,168,398</u>

## LITTLE ROCK WASTEWATER

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<b>2006</b>	<b>2005</b>
<b>OPERATING REVENUES</b>		
Sewer Charges	\$29,482,518	\$29,374,828
Industry Surcharges	576,499	619,707
Connection Fees	172,823	214,625
Other	166,424	400,347
Total Operating Revenues	<u>30,398,264</u>	<u>30,609,507</u>
<b>OPERATING EXPENSES</b>		
Salaries and Benefits	17,511,523	16,541,644
Supplies	1,984,357	1,964,885
Contract Services	2,130,193	1,851,550
Vehicle Expense	641,644	511,315
Utilities	1,470,846	1,353,354
Administrative	1,139,964	1,135,952
Less Capital Work in Progress	(2,789,678)	(2,548,338)
Total Operating Expenses	<u>22,088,849</u>	<u>20,810,362</u>
Operating Income Before Depreciation	8,309,415	9,799,145
<b>PROVISION FOR DEPRECIATION</b>		
Building Improvements	1,284,727	668,891
Infrastructure-Collections, Pumping, & Treatment	3,294,915	3,370,047
Equipment	1,238,627	1,457,078
Total Provision for Depreciation	<u>5,818,269</u>	<u>5,496,016</u>
<b>OPERATING INCOME</b>	<u>2,491,146</u>	<u>4,303,129</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest Income	865,470	599,093
Interest Expense	(2,176,779)	(2,174,967)
Amortization of Bond Issuance Costs	(90,610)	(99,825)
Gain (Loss) on Disposal of Capital		
Assets	(104,896)	(8,272)
Unrealized Gain (Loss) on Investments	3,186	(44,007)
Other	14,606	16,011
Total Nonoperating Income (Expense)	<u>(1,489,023)</u>	<u>(1,711,967)</u>

	<b>2006</b>	<b>2005</b>
INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	<u>\$1,002,123</u>	<u>\$2,591,162</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	\$1,002,123	\$2,591,162
CAPITAL CONTRIBUTIONS	<u>6,618,067</u>	<u>4,396,730</u>
CHANGE IN NET ASSETS	7,620,190	6,987,892
NET ASSETS, BEGINNING OF YEAR	<u>132,370,116</u>	<u>125,382,224</u>
NET ASSETS, END OF YEAR	<u><u>\$139,990,306</u></u>	<u><u>\$132,370,116</u></u>

LITTLE ROCK WASTEWATER

**STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$29,885,568	\$29,956,129
Other Receipts	166,424	400,347
Payments to Employees	(14,782,864)	(14,547,195)
Payments to Suppliers	(2,052,775)	(1,618,655)
Payments for Contractual Services	(2,130,193)	(1,647,811)
Payments for Utilities	(1,470,846)	(1,204,433)
Other Payments	(1,816,352)	(1,237,185)
Net Cash Provided by (Used by)		
Operating Activities	<u>7,798,962</u>	<u>10,101,197</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and Construction of Capital Assets	(26,467,477)	(23,874,063)
Proceeds from Disposal of Property and Equipment	320,336	557,060
Principal Paid on Indebtedness	(2,131,201)	(5,035,661)
Interest Paid on Indebtedness	(2,176,779)	(2,122,914)
Net Proceeds from Issuance of Indebtedness	16,540,321	26,879,208
Other	14,606	16,011
Net Cash Provided by (Used by)		
Capital and Related Financing		
Activities	<u>(13,900,194)</u>	<u>(3,580,359)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	869,886	530,838
Maturities (Purchase) of Investments	2,858,711	(3,316,907)
Net Cash Provided by (Used by)		
Investing Activities	<u>3,728,597</u>	<u>(2,786,069)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u><u>\$(2,372,635)</u></u>	<u><u>\$3,734,769</u></u>

	<u>2006</u>	<u>2005</u>
CASH AND CASH EQUIVALENTS		
Beginning of Year	\$18,324,318	\$14,589,449
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,372,635)</u>	<u>3,734,769</u>
End of Year	<u>\$15,951,683</u>	<u>\$18,324,218</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:		
Operating Income	\$2,491,146	\$4,303,129
Adjustments:		
Depreciation	5,818,269	5,496,016
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(345,943)	(52,889)
(Increase) Decrease in Inventories	(68,334)	(106,138)
(Increase) Decrease in Prepaid Expenses and Other Assets	18,714	24,192
Increase (Decrease) in Accounts Payable	(131,742)	236,157
Increase (Decrease) in Accrued Expenses	<u>16,852</u>	<u>200,730</u>
Net Cash Provided by Operating Activities	<u><u>\$7,798,962</u></u>	<u><u>\$10,101,197</u></u>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES:

During 2006 and 2005, the Utility received donated sewer lines capitalized in the amount of \$6,618,067 and \$4,396,730, respectively.

**NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the Little Rock Wastewater, a component unit (Enterprise Fund) of the City of Little Rock, conform to generally accepted accounting principles for state and local governments. LRW provides sewer services for the greater Little Rock area. These services primarily consist of treatment and disposal of sewer water, inspection of sewer lines, and construction of sewer treatment plants, rehabilitation projects, and spot repairs. The vast majority of LRW's customers are residential; however, LRW also services commercial businesses. LRW had 65,770 and 65,192 customers at December 31, 2006 and 2005, respectively. However, LRW is financially accountable to the City of Little Rock because the city's Board of Directors must approve any rate adjustments and debt issuances.

B. Basis of Accounting

LRW is a proprietary fund of the City and its financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. In accordance with paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, LRW applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

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

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

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

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

#### C. Cash and Cash Equivalents

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

#### D. Investments

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

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2006 and 2005 are more fully explained in Note 4.

F. Inventory

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

G. Restricted Assets

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

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

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

H. Unamortized Bond Issuance Costs

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

I. Capital Assets and Capital Contributions

Capital Assets consists of property, plant and equipment and includes assets which have been contributed to LRW. These assets, consisting primarily of donated sewer lines, are recorded at the

donor's cost (which approximates fair market value at the transfer date for those assets). Capital assets are defined by LRW as assets with an initial, individual cost of at least \$5,000 and an estimated useful life in excess of 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).

#### J. Basis of Estimates

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

#### K. Reclassifications

Amounts have been reclassified in the 2005 financial statements to conform to the presentation in the 2005 financial statements.

#### L. 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 (rolls over from year to 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 15 years accrue 25 days, 16 through 25 years accrue 30 days, and 25 years and up accrue 35 days.

#### M. Pension Plan

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

### NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the balance sheets as of December 31, 2006 and 2005, respectively, follows:

LITTLE ROCK WASTEWATER

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

	<b>2006</b>		
	Unrestricted	Restricted	Total
Cash at Beginning of Year	\$3,048,454	\$15,275,764	\$18,324,218
Net Increase (Decrease)	(626,608)	(1,746,027)	(2,372,635)
Cash at End of Year	<u>\$2,421,846</u>	<u>\$13,529,737</u>	<u>\$15,951,583</u>
	<b>2005</b>		
	Unrestricted	Restricted	Total
Cash at Beginning of Year	\$3,087,603	\$11,501,846	\$14,589,449
Net Increase (Decrease)	(39,149)	3,773,918	3,734,769
Cash at End of Year	<u>\$3,048,454</u>	<u>\$15,275,764</u>	<u>\$18,324,218</u>

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

Included in LRW's total cash balances of \$15,951,583 and \$18,324,218 (restricted and unrestricted) at December 31, 2006 and 2005, respectively, are deposits with financial institutions which are categorized as to credit risk as follows.

	<b>2006</b>	
	Carrying Amount	Bank Balance
Insured (FDIC) and Collateralized	\$14,043,033	\$15,951,583
Uninsured, Uncollateralized	—	—
Total	<u>\$14,043,033</u>	<u>\$15,951,583</u>

	Carrying Amount	<b>2005</b>	Bank Balance
Insured (FDIC) and Collateralized	\$18,324,218		\$18,525,011
Uninsured, Uncollateralized	—		—
Total	\$18,324,218		\$18,525,011

NOTE 3: INVESTMENTS

Investments at December 31, 2006 and 2005 consisted of U.S. Government Obligations, stated at fair values of \$2,454,671 and \$5,342,399. Net unrealized gain (loss) on these securities for each of the years ended December 31, 2006 and 2005, was \$3,186 and \$(44,007), respectively.

All of LRW's investments carry the explicit guarantee of the U.S. Government. LRW has managed its exposure to fair value losses arising from increasing interest rates by purchasing investments in 2006 with a maturity of less than four months.

Investments are categorized as follows to give an indication of the level of credit risk assumed by LRW at year end. Category 1 includes investments that are insured or registered, or for which the securities are held by LRW or by its agent in LRW's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in LRW's name. Category 3 includes uninsured and

LITTLE ROCK WASTEWATER

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2006 and 2005 consisted of the following:

	<b>2006</b>	<b>2005</b>
Trade Receivables, Current	\$2,136,500	\$1,790,228
Trade Receivables, Past Due	205,913	209,831
Total	<u>2,342,413</u>	<u>2,000,059</u>
Allowance for Uncollectibles, Beginning of Year	(209,831)	(232,951)
Writeoff of Uncollectibles	210,047	223,262
Provision for Bad Debt Expense	(206,129)	(200,142)
Allowance for Uncollectibles, End of Year	<u>(205,913)</u>	<u>(209,831)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	<u>\$2,136,500</u>	<u>\$1,790,228</u>

Included in Accounts Receivables at December 31, 2006 and 2005 were the following amounts due from Central Arkansas Water for the sale of a building in the original amount of \$1,223,650.

	<b>2006</b>	<b>2005</b>
Current	<u>                    </u>	<u>\$169,911</u>
Noncurrent	<u>                    </u>	<u>                    </u>
Total	<u>\$                    </u>	<u>\$169,911</u>

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2006 and 2005 was as follows:

<b>2006</b>	Balance 12/31/05	Additions	Retirements	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$2,708,822	113,220	–	\$2,822,042
Construction in Progress	<u>31,887,045</u>	<u>30,399,161</u>	<u>14,705,846</u>	<u>47,580,360</u>
Total capital assets not being depreciated	<u>34,595,867</u>	<u>30,512,381</u>	<u>14,705,846</u>	<u>50,402,402</u>
Capital assets being depreciated:				
Building and Improvements	36,445,889	3,014,009	24,810	39,435,088
Infrastructure-Collection & Treatment	167,510,854	9,790,017	55,607	177,245,264
Equipment	<u>25,605,001</u>	<u>1,794,836</u>	<u>1,124,377</u>	<u>26,275,460</u>
Total capital assets being depreciated	<u>229,561,744</u>	<u>14,598,862</u>	<u>1,204,794</u>	<u>242,955,812</u>
Less accumulated depreciation for:				
Buildings and Improvements	17,807,066	778,347	10,204	18,575,209
Infrastructure-Collection & Treatment	44,125,575	3,519,117	5,216	47,639,476
Equipment	<u>17,154,000</u>	<u>1,520,805</u>	<u>766,142</u>	<u>17,908,663</u>
Total accumulated depreciation	<u>79,086,641</u>	<u>5,818,269</u>	<u>781,562</u>	<u>84,123,348</u>
Capital Assets, Net	<u>\$185,070,970</u>	<u>\$39,292,974</u>	<u>\$15,129,078</u>	<u>\$209,234,866</u>
<b>2005</b>	Balance 12/31/04	Additions	Retirements	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$2,704,008	\$4,814	–	\$2,708,822
Construction in Progress	<u>8,330,153</u>	<u>31,753,919</u>	<u>8,197,027</u>	<u>31,887,045</u>
Total capital assets not being depreciated	<u>11,034,161</u>	<u>31,758,733</u>	<u>8,197,027</u>	<u>34,595,867</u>
Capital assets being depreciated:				
Building and Improvements	36,215,809	230,080	–	36,445,889
Infrastructure-Collection & Treatment	160,072,086	7,438,768	–	167,510,854
Equipment	<u>24,388,556</u>	<u>1,571,269</u>	<u>354,824</u>	<u>25,605,001</u>
Total capital assets being depreciated	<u>220,676,451</u>	<u>9,240,117</u>	<u>354,824</u>	<u>229,561,744</u>
Less accumulated depreciation for:				
Buildings and Improvements	17,138,175	668,891	–	17,807,066
Infrastructure-Collection & Treatment	40,755,529	3,370,046	–	44,125,575
Equipment	<u>15,719,288</u>	<u>1,457,078</u>	<u>22,366</u>	<u>17,154,000</u>
Total accumulated depreciation	<u>73,612,992</u>	<u>5,496,015</u>	<u>22,366</u>	<u>79,086,641</u>
Capital Assets, Net	<u>\$158,097,620</u>	<u>\$35,502,835</u>	<u>\$8,529,485</u>	<u>\$185,070,970</u>

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

## NOTE 5: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2006 and 2005 included capitalized construction period interest of \$972,340 and \$312,208 that was incurred in each respective year.

Depreciation expense was \$5,818,269 and \$5,496,016 for the years ended December 31, 2006 and 2005, respectively.

## NOTE 6: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals, were \$6,618,066 and \$4,396,730 for the years ended December 31, 2006 and 2005, respectively.

## NOTE 7: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds and other indebtedness for which the changes in the year ended December 31, 2006 and 2005 are as follows:

	<u>2006</u>				Amount Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
Sewer Revenue Bond	\$72,683,743	\$16,540,321	\$2,131,201	\$87,092,863	\$2,625,215
Sewer Reserve Note	—	—	—	—	—
	<u>\$72,683,743</u>	<u>\$16,540,321</u>	<u>\$2,131,201</u>	<u>\$87,092,863</u>	<u>\$2,625,215</u>
	<u>2005</u>				
	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Sewer Revenue Bond	\$47,323,950	\$27,078,536	\$1,718,743	\$72,683,743	\$2,131,200
Sewer Reserve Note	3,316,918	—	3,316,918	—	—
	<u>\$50,640,868</u>	<u>\$27,078,536</u>	<u>\$5,035,661</u>	<u>\$72,683,743</u>	<u>\$2,131,200</u>

Sewer revenue bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate</u>	<u>Outstanding at Maturity Date</u>	<u>December 31, 2006</u>	<u>Amount Due Within One Year</u>
1990	4.0%	2006 to 2014	\$3,288,001	\$384,063
1991	4.0%	2006 to 2014	2,818,287	329,197
1996	3.5%	2006 to 2019	4,219,471	274,366
1999	3.5%	2006 to 2022	10,255,848	478,066
2001	4.00% to 5.125%	2006 to 2022	20,260,000	390,000
2004A	3.25%	2006 to 2027	21,201,426	414,523
2004B	3.25%	2006 to 2027	11,399,566	—
2004C	3.25%	2006 to 2027	3,995,265	—
2005	3.00% to 4.375%	2006 to 2025	9,655,000	355,000
Total			<u>\$87,092,864</u>	<u>\$2,625,215</u>

Payment dates for the revenue bonds are as follows:

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

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

<u>Sewer Revenue Bond Issue</u>	<u>Bond Issue</u>
Series 1990 (December, 1990)	\$ 7,000,000
Series 1991 (April, 1991)	\$ 6,000,000
Series 1996 (January, 1996)	\$ 6,000,000
Series 1999 (July 1999)	\$12,000,000
Series 2004A (March, 2004)	\$ 23,100,000
Series 2004B (March 2004)	\$14,000,000
Series 2004C (March 2004)	\$13,000,000

## LITTLE ROCK WASTEWATER

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

#### NOTE 7: LONG-TERM DEBT (CONTINUED)

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

In March 2004, the City of Little Rock, Arkansas authorized a Sewer Revenue Bond issue of \$23,100,000, \$14,000,000, and \$13,000,000 to be issued by ANRC, for the purpose of financing the costs of constructing extensions, betterments, and improvements to the Adams Field Treatment Plant, LRW's collection system, and unsewered areas. As of December 31, 2006, LRW had drawn \$21,201,426, \$11,399,566, and \$3,995,265 respectively, on these bond issues, with additional draws of \$1,898,574, \$2,600,434, and \$9,004,735 remaining. These draws, which amount to \$13,503,743 in the aggregate, will be made as the aforementioned construction progresses.

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

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

In addition to the \$87,092,863 balance of Sewer Revenue Bonds outstanding at December 31, 2006, an additional \$13,503,743 will, as previously described, be drawn in fulfillment of current bond issues, for a total Sewer Revenue Bond indebtedness of \$100,596,606.

The annual requirements to amortize sewer revenue bond indebtedness outstanding, and scheduled, including interest, as of December 31, 2006, are as follows:

Year Ending December 31,	Principal	Interest	Total
2007	\$2,625,215	\$2,496,617	\$5,121,832
2008	3,653,185	3,219,421	6,872,606
2009	4,256,753	3,506,318	7,763,071
2010	4,404,107	3,353,963	7,758,070
2011	4,560,839	3,196,525	7,757,364
2012 to 2016	25,471,424	13,301,881	38,773,305
2017 to 2021	30,849,588	7,904,846	38,754,434
2022 to 2026	21,355,411	2,311,263	23,666,674
2027 to 2030	3,420,084	105,415	3,525,499
Total	<u>\$100,596,606</u>	<u>\$39,396,249</u>	<u>\$139,992,855</u>

Interest expense incurred during construction amounted to \$972,340 and \$312,208 all of which was capitalized to construction in progress in the years ended December 31, 2006 and December 31, 2005, respectively.

#### NOTE 8: LITIGATION

The Little Rock Sanitary Sewer Committee (LRSSC) was a defendant, along with the City of Little Rock, in a lawsuit filed in the U.S. District Court on January 13, 2000, by the Sierra Club. The plaintiff alleged violations of the Clean Water Act and the Resource Conservation and Recovery Act for alleged sewer overflows, and sought injunctions for the alleged violations as well as penalties. LRSSC and the plaintiff entered into a written settlement agreement releasing LRSSC's liability for any alleged violations up to the settlement agreement dated September 12, 2001. A judgment approving this settlement was filed on November 16, 2001, subject to an award of the plaintiff's statutory attorneys' fees, which were paid on January 13, 2003; and on December 23, 2003 the LRSSC paid the plaintiff \$20,149 in satisfaction of its liability for the plaintiff's court costs. As of December 31, 2003, there were no further sums due to the plaintiffs in this litigation. Accordingly, LRW's financial statements as of December 31, 2006 and 2005, respectively, do not include any provisions of potential liability with regard to this litigation.

However, in accordance with the settlement agreement between the plaintiff and LRSSC, the Court retained jurisdiction for the purpose of enforcing the provisions of the settlement agreement incorporated by reference in the judgment. Under the provisions of the settlement, LRSSC is required to follow certain reporting, notice, and maintenance procedures, as well as to complete a study to address sanitary sewer overflows with the goal of eliminating them, as specified in the settlement agreement, and then developing, adopting, and implementing the necessary program within certain deadlines, which LRSSC has done or is doing.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 8: LITIGATION (CONTINUED)

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

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

On February 5, 2004, staff representatives of Arkansas Department of Environmental Quality (ADEQ) and Little Rock Wastewater met to discuss provisions in the Sierra Club Settlement Agreement (Settlement), and ADEQ requested certain documents from LRW which were then sent to the United States Environmental Protection Agency (U.S. EPA) on February 13, 2004, from LRW. After subsequent telephone conversations, LRW attended a meeting on August 12, 2004, between U.S. EPA and ADEQ, at which they requested for the purpose of further discussion about the Settlement and a possible further agreement with ADEQ imposing certain requirements desired by both ADEQ and U.S. EPA for compliance with certain provisions of the Clean Water Act on issues not covered by the prior Settlement with Sierra Club. Based on subsequent discussions, ADEQ has requested that a Consent Administrative Order (CAO) be issued addressing certain issues including, but not limited to, maintenance practices, secondary treatment bypasses at the Adams Field Wastewater Treatment Plant, administrative requirements, design and performance provisions, monitoring, measurement and program modifications, sanitary sewer overflow plan, system evaluation and capacity assurance plan, audits, communications and money penalties for failure to comply with performance and deadlines based on civil penalties of \$100 to \$500 per day, depending upon the duration of any violation of the proposed CAO. Numerous drafts of proposed CAO's containing various provisions regarding these issues have been exchanged since November 1, 2004, and the most recent draft dated January 25, 2006, was discussed and tentatively agreed on at that date by LRW's staff.

On March 7, 2006, LRW's CEO signed the final draft of the proposed CAO on behalf of LRW and sent it to ADEQ for the Director's signature, which is expected shortly. Management is of the opinion that LRW will make every effort to comply with its provisions so long as it is in effect. Completion dates vary for the projects specified in

the CAO, and the completion date for the Little Maumelle Plant is December 31, 2009. Management expects to remain in compliance for the duration of the CAO, which should be lengthy. Thus, management is of the opinion that any unfavorable outcome appears remote.

#### NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES

LRW had commitments totaling approximately \$10,609,281 at December 31, 2006, for the expansion of plant capacity.

#### NOTE 10: PENSIONS AND OTHER POST EMPLOYMENT BENEFITS

##### A. Defined Contribution Plan

LRW offers a voluntary 401 (a) Qualified Pension Plan to all of its employees upon initial employment. The Plan is administered by the Little Rock Sanitary Sewer Committee. The Pension expense is recorded for the amount of LRW's required contributions, determined in accordance with the terms of the Plan. This Plan requires that employees contribute 1% to 5% of their base salary based upon years of service and these contributions are matched dollar for dollar by LRW. The employee contributions are pre-taxed. Participants are fully vested after five years of service. Total employee and employer contributions were approximately \$817,227 and \$767,606 in 2006 and 2005, respectively.

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

LRW participates in a Cost-sharing Multiple-employer Pension Plan, administered by the Arkansas Public Employees Retirement System (APERS). Members participate in a Contributory Plan or a Noncontributory Plan. The Plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Prior to July 1, 2005, voluntary Contributory Plan members were required to contribute 5.0% of their annual salary to APERS. The employer's contributions are actuarially determined on an annual basis. The authority for establishing and amending both funding policies and benefits offered rests with APERS. No employees participated in this voluntary plan for the years ended June 30, 2006 and 2005. Contributions to the Noncontributory Plan are also actuarially determined on an annual basis. Contributions to the Noncontributory Plan were approximately \$1,439,927, \$1,164,043, and \$933,118 for the Plan years ended June 30, 2006, 2005, and 2004, respectively, and represented 12.54%, 11.09%, and 10.0% of covered payroll for each of the Plan years, respectively. These amounts represent 100% of required contributions for these three years. Employees hired on or after July 1, 2005 are subject to mandatory employee contributions of 5% of compensation. For the Plan year ended June 30, 2006, the 5% mandatory employee contributions were \$26,696.44 and are not included in the amount above.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

## C. Post Employment Benefits Other Than Pensions

Little Rock Wastewater provides postretirement benefits in the form of medical and life insurance coverage to all retirees. Currently, 21 retirees are eligible to receive these benefits. These benefits are funded from current operations of LRW. Expenditures for such postretirement benefits amounted to \$136,651 and \$139,432 for the years ended December 31, 2006 and 2005, respectively.

## NOTE 11: CONCENTRATIONS

LRW pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$592,508 and \$577,497 for the years ended December 31, 2006 and 2005, respectively, and are included as operating expenses in the accompanying statements of income.

## NOTE 12: RISK MANAGEMENT

LRW has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; or natural disasters. Payments and premiums for these policies are recorded as expenses of LRW. Insurance settlements have not exceeded insurance coverage in any of the past three years.

LRW maintains a Self-funded Workers' Compensation Plan. All full-time employees are covered by the Plan. It is self-funded to a maximum of \$275,000 per occurrence per employee. Coverage amounts in excess of this limit have been obtained by means of a stop loss reinsurance policy. LRW records an estimated liability based on claims made against LRW. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not yet reported based on historical experience. Settlements have not exceeded coverage in each of the past three years. The following represents the changes in approximate aggregate liabilities of the workers' compensation plan for LRW for January 1, 2005 to December 31, 2006:

Liability balance, January 1, 2005	\$ 12,309
Claims and changes in estimates	14,815
Claims payments	<u>(24,395)</u>
Liability balance, December 31, 2005	2,729
Claims and changes in estimates	13,786
Claims payments	<u>(13,214)</u>
Liability balance, December 31, 2006	<u>\$ 3,301</u>

