

FINANCIAL SECTION



Little Rock
Wastewater

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COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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

Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business type activities of Little Rock Wastewater (LRW), a component unit of the City of Little Rock, Arkansas, as of and for the years ended December 31, 2008 and 2007, which collectively comprise Little Rock Wastewater's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the LRW's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Rock Wastewater as of December 31, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2009, on our consideration of the LRW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 21 through 28 and 57, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Members of the Little Rock
Sanitary Sewer Committee
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Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Little Rock Wastewater's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary information included in schedule 1 and 2, and the schedule of expenditures of federal awards are prepared for purposes of additional analysis, required by U.S. Office of Management and Budget Circular A-133 "Audits of State, Local Governments, and Non-Profit Organizations," and is also not a required part of the basic financial statements of Little Rock Wastewater. Such 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.

A handwritten signature in cursive script that reads "Cobb and Suske, Ltd." The signature is written in black ink on a white background.

Certified Public Accountants
March 9, 2009

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, 2008. 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). 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

- The City of Little Rock passed an ordinance in November 2006 increasing sewer rates with a five phase process beginning in 2007. Phases one and two, 15% and 8%, were implemented in 2007. The third phase, 3%, started on January 1, 2008. The remaining increases will be 4% on January 1, 2009 and 5% on January 1, 2010.
- Little Rock Wastewater had one revenue bond issued in 2008. The 2008 Revenue Bond Issue in the amount of \$16,000,000 was for additional costs related to the construction of the new Little Maumelle Wastewater Treatment Plant.
- Total assets at year-end were \$414.1 million and exceeded liabilities in the amount of \$243.6 million. Total net assets were \$154.9 million, an increase of 5.1% from 2007 and an increase of 10.6% from 2006. The majority of the changes are a result of two revenue bond issues and an increase in rates in 2007 and 2008.
- Operating revenue increased to \$38.9 million in 2008. This was an increase of 6.9% or \$2.5 million from 2007 and a slight decrease of 0.9% compared to the 2008 budget projections.
- Operating expenses, before depreciation, increased by \$191,544 or .8%, compared to fiscal year 2007 and an increase of \$1.6 million from 2006. Operating expenses increased by \$391,427 or 1.3% from 2007, which includes depreciation. The requirements of GASB Statement 45 resulted in increased benefit expenses by \$1.1 million in 2007.
- Debt service coverage was 159%, exceeding the 120% required by the Bond Covenant. In the Statistical Data Section, Schedule 10 – Pledged-Revenue Coverage provides more information on debt service coverage.
- Raftelis Financial Consultants, Inc. of Kansas City, Missouri reviewed and updated LRW's ancillary charges; conducted a feasibility study of alternative system growth charges; analyzed LRW's cost of wastewater collection, treatment and disposal services; recommended adjustments to wastewater rate structure; and conducted an asset management study in coordination with MWH Global of Broomfield, Colorado.

General Trends

The growth rate of LRW's customer accounts from 2007 to 2008 was .8%. Over a ten year period, the customer growth rate averaged 1.0%.

Wastewater Customers	2008	2007	2006
Beginning Customer Accounts	67,033	65,770	65,192
Additional Accounts (net)	595	1,233	578
Ending Customer Accounts	67,628	67,033	65,770

LRW also provides wholesale wastewater collection and treatment services to Shannon Hills.

LRW began its 5-phase rate adjustment that was approved by the City of Little Rock Board of Directors on November 28, 2006. The first and second phase started in 2007 with rate increases of 15% on January 1 and 8% on July 1. The third phase started on January 1, 2008 for a 3% increase. The next two scheduled rate increases are 4% on January 1, 2009, and 5% on January 1, 2010.

The following chart shows a residential bill based on a consumption of 8 Ccf as of December 31 of each year. These amounts do not include a 10.0% franchise fee that is collected and paid to the City of Little Rock.

Residential Bill	2008	2007	2006
	\$31.05	\$30.10	\$24.26

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

Little Rock Wastewater System

LRW is regulated by the United States Environmental Protection Agency (EPA) and Arkansas Department of Environmental Quality (ADEQ). These agencies issue permits to LRW for discharge of treated wastewater. Currently, LRW has 28 remote, unattended pumping stations, two secondary treatment plants with another in the initial stages of construction, a maintenance facility, and an administration building. The collection system includes over 122 square miles containing approximately 1,314 miles of sewer lines. LRW has received awards from the EPA and the Association of Metropolitan Sewerage Agencies (AMSA). LRW's two wastewater treatment plants have been awarded the AMSA Gold award for 100% Permit Compliance for the years 1999-2000. A list of all awards can be viewed on LRW's website.

The Adams Field Wastewater Treatment Plant has been in operation since 1961 and was Little Rock's first wastewater treatment plant. The plant was put into operation at a cost of \$3.5 million and was only equipped with primary treatment. Secondary treatment facilities were added in the early 1970's at a cost of \$6.2 million. Upgrade construction at a cost of \$27.5 million was completed in 2007. The construction consisted of upgrading the primary clarifiers for peak flow and building an equalization basin to hold up to 14 million gallons. The plant has a new Hydraulic Peak Capacity with the maximum capacity consisting of 94 Million Gallons per Day (MGD). The plant is a complete-mix activated sludge plant, serving approximately 70% of the City of Little Rock, and is a two-stage secondary treatment plant, designed to reduce the pollutant load by approximately 90% through a combination of physical and biological processes. Starting in 2007, this treatment facility added the Ultra-Violet disinfection process.

The Fourche Creek Wastewater Treatment Plant 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 plant is also a two-stage, or secondary treatment facility. It has an installed treatment capacity of 16 MGD, or a population equivalent of 120,000 persons. The plant's annual average dry weather influent sewage flow is 12 MGD. This treatment plant is currently in the planning stages of being upgraded to accommodate higher peak wet weather flows from the original 36 MGD to approximately 55 MGD in an effort to further mitigate collection system surcharging.

The Little Maumelle Wastewater Treatment Plant is in the beginning stages of construction. The land site was selected in April 2005 and purchased in December 2005. This activated sludge treatment plant is expected to cost \$73 million for land, engineering, construction, administration expenses, and contingencies. Construction began in 2008.

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 utilities operate a Fleet Maintenance Department together for the maintenance and repair of vehicles and equipment. About 100 LRW employees in the Maintenance Division work from this facility, making it the home base for the majority of LRW work force.

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

Overview of the Financial Statements

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

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

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

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

Fiscal Year 2006-2008 Financial Information

Statement of Net Assets

Total Assets increased by \$29.9 million from 2007 and \$184.2 million from 2006, as a result of a five phase rate increase plan and two large revenue bond issues in 2007 and one small revenue bond issue in 2008. Current Assets show an increase of 62.2% from 2007. Noncurrent Assets reflect an increase of 3.2% from 2007. This increase was due to ongoing major construction projects that started in 2006. The largest increase came from the Capital Work In Progress (CWIP) line item. CWIP increased from \$68.3 million in 2007 to \$96.9 million in 2008 with changes coming from the continued capital improvements to Adams Field Wastewater Treatment Plant, sewer line rehabilitation, unsewered areas, Peak Flow Attenuation Facilities, and the Little Maumelle Wastewater Treatment Plant. Another major category was the reduction of investments due to the expenditures of construction costs. Non-current investments were reduced from \$116.2 million in 2007 down to \$80.6 million.

Current Liabilities showed an increase of 37.2% or \$4.2 million. The major change from 2007 to 2008 was Construction Contract Payable increased by \$3.3 million. The major change from 2006 to 2007 was Current Bond/Notes Payable and Interest Liability increased by \$3.6 million. Noncurrent Liabilities showed a jump of 9.5% or \$18.2 million for 2007. This change is related to the new debt on the 2008 Revenue Bond Issue. LRW's bond information can be found in Note 7 on page 44. Total Liabilities increased by \$22.4 million for 2008.

Total Net Assets had an increase of 5.1% while Total Liabilities and Net Assets showed an increase of 7.8% in 2008. The Restricted Assets decreased by 3.4% from 2007 but Invested in Capital Assets, Net of Related Debt increased 8.9% or \$8.6 million. Unrestricted Net Assets increased by 2.2% with little change. Additional information can be found in Note 5 on page 43 and Schedule 1 on page 80 of this report.

	2008	Percent Change	2007	Percent Change	2006
<u>ASSETS</u>					
Current Assets	\$ 48,390,421	62.2%	\$ 29,836,220	63.2%	\$ 18,278,381
Noncurrent Assets	365,750,262	3.2%	354,409,732	67.4%	211,689,537
Total Assets	414,140,683	7.8%	384,245,952	67.1%	229,967,918
<u>LIABILITIES</u>					
Current Liabilities	15,396,890	37.2%	11,163,974	117.8%	5,219,583
Noncurrent Liabilities	243,849,224	8.1%	225,674,913	166.0%	84,755,029
Total Liabilities	259,246,114	9.5%	236,838,887	163.2%	89,974,612
<u>NET ASSETS</u>					
Restricted Assets	39,501,133	-3.4%	40,869,855	541.9%	6,367,049
Invested in Capital Assets, Net of Related Debt	105,750,500	8.9%	97,102,727	-23.2%	126,368,293
Unrestricted Assets	9,642,936	2.2%	9,434,483	30.0%	7,257,965
Total Net Assets	154,894,569	5.1%	147,407,065	5.3%	139,993,306
Total Liabilities and Net Assets	\$ 414,140,683	7.8%	\$ 384,245,952	67.1%	\$ 229,967,918

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenue falls into three general categories: assessments levied, industrial surcharge, and other fees and income. Assessments levied are monthly residential/commercial service charge billings. Industrial surcharge is fees based on wastewaters having excessive Biochemical Oxygen Demand (BOD), 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 dramatically from 2006 to 2008 based on implementing three of a five phase rate increase over 2007 and 2008. The sewer rates were increased by 15% on January 1, 2007, 8% on July 1, 2007 and 3% on January 1, 2008. Assessments Levied had a 6.4% increase from 2007. Industrial Surcharge increased by 10.3% as Other Fees and Income increased as well by 53.5%. The difference between 2008 and 2006 represents a few large industrial customers that moved to the Little Rock area. Non-Operating Revenue showed an increase of 66.4% which is reflected in interest earned. With the two large sewer bond issues, LRW's finance department has invested in government-backed securities. Interest income has increased by \$2.0 million or 66.4% from 2007. This number is expected to decrease over the next few years as the bond monies are spent.

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

Total Expense increased by \$4.6 million in 2008. Operating Expense rose in 2008 by 0.8% or \$200,000. The staff at LRW made a unified effort to reduce personnel and costs but yet provide the citizens of Little Rock a great service. The difference between 2007 and 2006 represents LRW implementing GASB Statement 45, Other Post Retirement Employment Benefits. Benefit expenses increased by \$1.1 million because of this new requirement. LRW granted its annual 3.0% cost of living wage increase during 2008, which attributes to small increases in salaries and benefits.

Non-Operating Expense had an increase of 75.2% in 2008. The increase in Interest Expense was \$4.2 million. This number is expected to grow over the next few years due to needed bond issues to fund capital improvements required to meet demands set forth in Consent Administration Order (CAO) in eliminating sewer overflows.

Change in Net Assets of \$.3 million represents an increase of 4.8% from 2007 and the change in the ending total net assets of \$7.5 million from last year shows a 5.1% growth.

Additional information can be found on the Statement of Revenues, Expenses, and Changes in Net Assets on page 32 and Schedule of Operating Expenses by Department on page 58.

	2008	Percent Change	2007	Percent Change	2006
<u>Revenues:</u>					
Operating Revenues:					
Assessments Levied	\$ 37,658,159	6.4%	\$ 35,385,796	20.0%	\$ 29,482,518
Industrial Surcharge	691,625	10.3%	626,807	8.7%	576,499
Other Fees and Income	534,124	53.5%	347,976	2.6%	339,247
Non-Operating Revenue	5,062,891	66.4%	3,042,187	244.4%	883,262
Total Revenues:	43,946,799	11.5%	39,402,766	26.0%	31,281,526
<u>Expenses:</u>					
Operating Expense	23,731,107	0.8%	23,539,563	6.6%	22,088,849
Depreciation Expense	6,378,990	3.2%	6,179,107	6.2%	5,818,269
Non-Operating Expense	9,708,064	75.2%	5,541,995	133.6%	2,372,285
Total Expense:	39,818,161	12.9%	35,260,665	16.5%	30,279,403
Income (Loss) Before Contributions	4,128,639	-0.3%	4,142,101	313.3%	1,002,123
Capital Contributions	3,358,865	2.6%	3,274,658	-50.5%	6,618,067
Change in Net Assets	7,487,504	4.8%	7,146,759	-6.2%	7,620,190
Total Net Assets – Beginning	147,407,065	5.3%	139,990,306	5.8%	132,370,116
Total Net Assets – Ending	\$ 154,894,569	5.1%	\$ 147,407,065	5.3%	\$ 139,990,306

Capital Assets and Debt Administration

The cash outflow for LRW on wastewater system capital improvements was \$42 million in fiscal year 2008. The major construction project dollars spent on improvements include Adams Field WWTP with a cost of \$.3 million, Collection System Overflow Mitigation projects at \$4.8 million, Unsewered Area projects at \$3.1 million, Peak Flow Attenuation Facilities at \$20.7 million, Trenchless Sewerline Rehabilitation at \$1.3 million, and Little Maumelle WWTP at \$8.9 million, Fourche Creek WWTP Engine Generator Replacement at \$.6 million, and Fourche Creek WWTP Hydraulic Upgrades at \$.4 million. The remaining classifications of new sewer mains, replacement sewer mains, sewer pumping and treatment plant, transportation, and general plant make up the remaining \$1.9 million spent on capital assets. Additional information on LRW's capital assets can be found in Note 5 on page 43 of this report.

The current long-term loans (2004C and 2007B), received through Arkansas Natural Resources Commission, were for the remaining unsewered areas in the City of Little Rock and Collection System Overflow Mitigation projects. Currently both projects are still ongoing. These loans are in the amounts of \$13 million and \$18 million respectively. Usually LRW has a three year period to draw on the loans up to the designated amounts but LRW received an extension on the 2004C for six months. The payment of principal and interest will begin when the project is completed or when the three year window is reached, whichever comes first. Little Rock Wastewater also issued one sewer revenue bond issue (2008) for additional cost to Little Maumelle WWTP at \$16 million. The total long-term debt (less bond payable within one year) increased by \$19.9 million in 2008.

Long-Term Debt	2008	2007	2006
1990 Sewer Revenue	\$ 2,504,359	\$ 2,903,938	\$ 3,288,001
1991 Sewer Revenue	2,146,593	2,489,090	2,818,287
1996 Sewer Revenue	3,661,056	3,945,105	4,219,471
1999 Sewer Revenue	9,281,621	9,777,783	10,255,848
2001 Sewer Revenue	19,465,000	19,870,000	20,260,000
2004A Sewer Revenue	21,836,114	22,685,477	21,201,426
2004B Sewer Revenue	13,493,466	13,908,792	11,399,566
2004C Sewer Revenue	12,062,175	8,118,984	3,995,265
2005 Sewer Revenue	8,930,000	9,300,000	9,655,000
2007A Sewer Revenue	62,000,000	63,050,000	
2007B Sewer Revenue	5,993,094	459,256	
2007C Sewer Revenue	71,085,000	71,085,000	
2008 Sewer Revenue	16,000,000		
Less Debt Payable, due within one year	<u>(5,591,753)</u>	<u>(4,703,185)</u>	<u>(2,625,215)</u>
Total Long-Term Debt	<u>\$242,866,725</u>	<u>222,890,240</u>	<u>\$84,467,648</u>

Additional information on LRW's long-term debt can be found in Note 7 on page 44 of this report.

Economic Factors and Next Year's Budget and Rates

LRW believes that the customer base for its services will continue to grow at a normal pace of 1.0%. With the current economical and mortgage situation, LRW believes that revenue will maintain a steady increase year over year. There is not one major customer that is over 1% of total revenues (see Schedule 12 – Ten Largest Customers). In order for LRW to meet obligations and timelines for capacity and non-capacity overflow litigation, there were several major projects started in 2008. The Peak Flow Attenuation Facilities (projected at \$60.5 million) and the Little Maumelle Wastewater Treatment Plant (projected at \$70 million) have been funded by revenue bond issues. LRW will need to raise capital either through new bond issues via the Arkansas Revolving Loan Fund Program or loans/grants from The American Recovery and Reinvestment Act (ARRA) of 2009 for the future projects designated under the CAO.

The first and second phase of a five phase rate increase began in 2007. The first rate increase was 15% on January 1, 2007 and the second rate increase was 8% on July 1, 2007. The third phase of 3% started on January 1, 2008. The remaining scheduled rate increases will be 4% on January 1, 2009 and 5% on January 1, 2010. LRW has the intention of increasing rates on a yearly basis for the next ten years. Based on a rate study that was completed by Raftelis Financial Consultants, Inc. in 2008, the rates will range from 3% to 5% each year along with a modified rate structure between residential users and commercial users of the sewer system.

With the implementation of GASB Statement 45, LRW has reviewed its health care policies and continues to reduce costs by changing the health care plans. Another factor consists of the Federal Bank lowering interest rates at a time when LRW budgeted in the rate model for larger interest earnings based on the sewer revenue bond proceeds being invested in 2009 and 2010.

Request for Information

This financial report is designed to provide a general overview of LRW's finances for the rate payers, citizens, city leaders, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Manager of Finance, P.O. Box 45090, Little Rock, AR 72214-4509.

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LITTLE ROCK WASTEWATER
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 14,781,609	\$ 12,876,156
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$260,819 in 2008 and \$269,184 in 2007)	2,344,118	2,365,274
Inventories	1,261,084	1,249,357
Prepaid Items	124,540	83,699
Restricted Current Assets		
Restricted for Bond Requirements		
Cash and Cash Equivalents	3,118,953	3,013,330
Accrued Interest Receivable	658,615	344,991
Prepaid Items	931,664	785,416
Restricted for Construction and Improvement		
Cash and Cash Equivalents	25,168,659	9,064,638
Construction Receivable	1,179	53,359
Total Current Assets	<u>48,390,421</u>	<u>29,836,220</u>
<u>NONCURRENT ASSETS</u>		
Accounts Receivable	<u>55,445</u>	<u>71,286</u>
Total Unrestricted Noncurrent Assets	<u>55,445</u>	<u>71,286</u>
Restricted for Bond Requirements		
Investments	7,112,373	6,408,762
Restricted for Construction and Improvements		
Investments	<u>80,643,015</u>	<u>116,186,189</u>
Total Restricted Noncurrent Assets	<u>87,755,388</u>	<u>122,594,951</u>
Capital Assets (Net of Accumulated Depreciation)	<u>277,939,429</u>	<u>231,743,495</u>
Total Noncurrent Assets	<u>365,750,262</u>	<u>354,409,732</u>
TOTAL ASSETS	<u><u>\$ 414,140,683</u></u>	<u><u>\$ 384,245,952</u></u>

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

LIABILITIES	2008	2007
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 546,698	\$ 425,157
Franchise Fee Collections due to City of Little Rock	294,426	206,466
Accrued Wages Payable and Related Liabilities	501,531	421,578
Accrued Expenditures and Other	283,456	532,851
Compensated Absences	760,425	774,128
Current Liabilities Payable from Restricted Assets		
Construction Contracts Payable	5,178,813	1,853,500
Accrued Bond/Note Interest Payable	2,223,959	2,201,497
Bond/Note Payable - Current	<u>5,607,582</u>	<u>4,748,797</u>
Total Current Liabilities	<u>15,396,890</u>	<u>11,163,974</u>
<u>NONCURRENT LIABILITIES</u>		
Bonds/Note Payable (net of unamortized premiums and discount)	243,727,316	224,287,377
Compensated Absences	215,767	248,080
Other Post-Employment Benefits Liability	<u>(93,859)</u>	<u>1,139,456</u>
Total Noncurrent Liabilities	<u>243,849,224</u>	<u>225,674,913</u>
Total Liabilities	<u>259,246,114</u>	<u>236,838,887</u>
<u>NET ASSETS</u>		
Restricted		
For Debt Service	8,140,653	6,760,046
For Construction Improvements	30,756,378	33,517,468
Workers' Compensation	<u>604,102</u>	<u>592,341</u>
Total Restricted	39,501,133	40,869,855
Invested in Capital Assets, Net of Related Debt	105,750,500	97,102,727
Unrestricted	<u>9,642,936</u>	<u>9,434,483</u>
Total Net Assets	<u>154,894,569</u>	<u>147,407,065</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 414,140,683</u>	<u>\$ 384,245,952</u>

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

LITTLE ROCK WASTEWATER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<u>OPERATING REVENUES</u>		
Sewer Charges	\$ 37,658,159	\$ 35,385,796
Industry Surcharges	691,625	626,807
Connection Fees	148,913	128,300
Other	385,211	219,676
Total Operating Revenues	38,883,908	36,360,579
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	15,499,290	16,164,446
Supplies	2,196,815	2,067,605
Contract Services	2,662,093	2,512,370
Vehicle Expenses	571,793	347,790
Utilities	1,683,070	1,409,536
Administrative	1,118,046	1,037,816
Total Operating Expenses	23,731,107	23,539,563
<u>PROVISION FOR DEPRECIATION</u>		
Building and Improvements	783,292	779,570
Infrastructure - Collections, Pumping, & Treatments	3,924,366	3,732,710
Equipment	1,671,332	1,666,827
Total Provision for Depreciation	6,378,990	6,179,107
OPERATING INCOME	8,773,811	6,641,909
<u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Income	5,421,585	2,532,165
Interest Expense	(9,340,837)	(5,406,220)
Amortization of Bond Issuance Costs	(206,391)	(123,826)
Gain (Loss) on Disposal of Capital Assets	(155,503)	(11,949)
Gain (Loss) on Investments	(382,174)	498,806
Other	18,148	11,216
Total Nonoperating Income (Expense)	(4,645,172)	(2,499,808)
INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	\$ 4,128,639	\$ 4,142,101

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

LITTLE ROCK WASTEWATER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	\$ 4,128,639	\$ 4,142,101
CAPITAL CONTRIBUTIONS	<u>3,358,865</u>	<u>3,274,658</u>
CHANGE IN NET ASSETS	7,487,504	7,146,759
NET ASSETS, BEGINNING OF YEAR	<u>147,407,065</u>	<u>139,990,306</u>
NET ASSETS, END OF YEAR	<u>\$ 154,894,569</u>	<u>\$ 147,407,065</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, 2008 AND 2007

	2008	2007
<u>CASH FLOWS FROM OPERATING</u>		
<u>ACTIVITIES</u>		
Cash Received from Customers	\$ 38,623,654	\$ 35,880,223
Other Receipts	385,211	219,676
Payments to Employees	(16,902,047)	(14,665,508)
Payments to Suppliers	(2,133,017)	(2,061,632)
Payments for Contractual Services	(2,849,182)	(2,520,478)
Payments for Utilities	(1,683,070)	(1,409,536)
Other Payments	(1,689,839)	(1,385,606)
Net Cash Provided by (Used by) Operating Activities	13,751,710	14,057,139
 <u>CASH FLOWS FROM CAPITAL AND</u>		
<u>RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(46,386,919)	(26,238,162)
Proceeds from Disposal of Property and Equipment	410,998	375,310
Principal Paid on Indebtedness	(6,703,185)	(2,210,690)
Interest Paid on Indebtedness	(10,091,094)	(3,861,557)
Net Proceeds from Issuance of Indebtedness	27,568,237	144,290,454
Net Cash Provided by (Used by) Capital and Related Financing Activities	(35,201,963)	112,355,355
 <u>CASH FLOWS FROM INVESTING</u>		
<u>ACTIVITIES</u>		
Interest on Investments	4,725,787	2,730,327
Proceeds from Sale of Investments	35,543,174	1,541,322
Purchase of Investments	(703,611)	(121,681,602)
Net Cash Provided by (Used by) Investing Activities	39,565,350	(117,409,953)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 18,115,097	\$ 9,002,541

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

LITTLE ROCK WASTEWATER
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of Year	\$ 24,954,124	\$ 15,951,583
Net Increase (Decrease) in Cash and Cash Equivalents	18,115,097	9,002,541
End of Year	\$ 43,069,221	\$ 24,954,124

RECONCILIATION OF OPERATING
INCOME TO NET CASH PROVIDED FROM
OPERATING ACTIVITIES:

Operating Income	\$ 8,773,811	\$ 6,641,909
Adjustments:		
Depreciation	6,378,990	6,179,107
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	36,997	(300,060)
(Increase) Decrease in Inventories	(11,727)	(20,035)
(Increase) Decrease in Prepaid Items and Other Assets	(187,089)	(8,108)
Increase (Decrease) in Accounts Payable	209,501	65,388
Increase (Decrease) in Accrued Expenses	(1,448,773)	1,498,938
Net Cash Provided by Operating Activities	\$ 13,751,710	\$ 14,057,139

RECONCILIATION OF TOTAL CASH AND
CASH EQUIVALENTS

Current Assets - Cash and Cash Equivalents	\$ 14,781,609	\$ 12,876,156
Restricted for Bond Requirements	3,118,953	3,013,330
Restricted for Contruction and Improvement	25,168,659	9,064,638
Total Cash and Cash Equivalents	\$ 43,069,221	\$ 24,954,124

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

During 2008 and 2007, the Utility received donated sewer lines capitalized in the amount of \$3,358,865 and \$3,274,658, respectively.

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Reporting Entity**

The financial statements of the Little Rock Wastewater (LRW), a component unit (Enterprise Fund) of the City of Little Rock, conform to generally accepted accounting principles for state and local governments. The Utility provides sewer services for the greater Little Rock area. These services primarily consist of treatment and disposal of sewer water, inspection of sewer lines, and construction of sewer treatment plants, rehabilitation projects, and spot repairs. The vast majority of the Utility's customers are residential; however, the Utility also services commercial businesses. The Utility had 67,628 and 67,033 customers at December 31, 2008 and 2007, respectively. LRW is financially accountable to the City of Little Rock because the City's Board of Directors must approve any rate adjustments and debt issuances.

B. **Basis of Accounting**

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

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Restricted – Consists of constraints placed on net asset 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.

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 by 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 nonoperating revenues. All expenses related to operating the sewer system such as salaries, benefits, supplies, utilities, and administrative costs are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

C. **Cash and Cash Equivalents**

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. **Investments**

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

E. **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2008 and 2007 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.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. **Capital Assets and Capital Contributions**

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

J. **Compensated Absences**

Employees earn Personal Time Off (PTO) as the only paid personal leave as it covers time away from the workplace for vacation, personal time, funeral, illness, etc. There are no restrictions on how much PTO can be accrued and no deadline to use the time accrued (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 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 8.

K. **Pension Plan**

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

L. **Other Post Employment Benefits**

Effective for the year beginning January 1, 2007 the Utility implemented Government Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employees for Post Employment Benefits Other Than Pensions." This statement establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenses and related liabilities. The effect of GASB 45 is more fully explained in Note 12.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Basis of Estimates

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

N. Reclassifications

Amounts have been reclassified in the 2007 financial statements to conform to the presentation in the 2008 and 2007 comparative financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the balance sheets as of December 31, 2008 and 2007, respectively, follows:

	<u>2008</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 3,843,481	\$ 21,110,643	\$ 24,954,124
Net Increase (Decrease)	<u>10,938,128</u>	<u>7,176,969</u>	<u>18,115,097</u>
Cash at End of Year	<u>\$ 14,781,609</u>	<u>\$ 28,287,612</u>	<u>\$ 43,069,221</u>
	<u>2007</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 2,421,846	\$ 13,529,737	\$ 15,951,583
Net Increase (Decrease)	<u>1,421,635</u>	<u>7,580,906</u>	<u>9,002,541</u>
Cash at End of Year	<u>\$ 3,843,481</u>	<u>\$ 21,110,643</u>	<u>\$ 24,954,124</u>

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

Included in the Utility's total cash balances of \$43,069,221 and \$24,954,124 (restricted and unrestricted) at December 31, 2008 and 2007, respectively, are deposits with financial institutions of \$43,420,569 at December 31, 2008 and \$23,055,080 at December 31, 2007. These deposits were fully covered by FDIC insurance and appropriate collateralization at these respective dates.

NOTE 3: INVESTMENTS

Investments at December 31, 2008 and 2007 consisted of U.S. Government obligations, stated at fair values of \$87,755,388 and \$122,594,951, respectively. Net unrealized gain (loss) on for each of the years ended December 31, 2008 and 2007, was \$(382,174) and \$498,806, respectively.

All of the Utility's investments carry the explicit guarantee of the U.S. Government. In accordance with its investment policy the Utility manages its exposure to fair value losses arising from increasing interest rates by purchasing investments with a maturity of five years or less, and it uses weighted average maturity limitations.

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 obligation of the U.S. Government.

All of the Utility's investments at December 31, 2008 and 2007 are insured or registered and held by the Utility or its agent in the Utility's name. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Trade Receivables, Current	\$ 2,271,622	\$ 2,436,560
Trade Receivables, Past Due	388,760	269,184
Total	<u>2,660,382</u>	<u>2,705,744</u>
Allowance for Uncollectibles, Beginning of Year	(269,184)	(205,913)
Writeoff of Uncollectibles	270,670	200,330
Provision for Bad Debt Expense	<u>(262,305)</u>	<u>(263,601)</u>
Allowance for Uncollectibles, End of Year	<u>(260,819)</u>	<u>(269,184)</u>
Accounts Receivables, Net of Allowance for Uncollectibles	2,399,563	2,436,560
Less Noncurrent Amount	<u>55,445</u>	<u>71,286</u>
Current Accounts Receivable	<u>\$ 2,344,118</u>	<u>\$ 2,365,274</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2008 and 2007 was as follows:

2008	Balance 12/31/07	Additions	Retirements	Balance 12/31/08
Capital assets not being depreciated:				
Land	\$ 2,825,974	\$ 284,527	\$ -	\$ 3,110,501
Construction in Progress	68,303,865	53,123,277	24,495,592	96,931,550
Total capital assets not being depreciated	<u>71,129,839</u>	<u>53,407,804</u>	<u>24,495,592</u>	<u>100,042,051</u>
Capital assets being depreciated:				
Building and Improvements	39,494,239	45,759	-	39,539,998
Infrastructure-Collection & Treatment	184,524,105	20,992,690	152,788	205,364,007
Equipment	25,419,571	3,172,616	864,879	27,727,308
Total capital assets being depreciated	<u>249,437,915</u>	<u>24,211,065</u>	<u>1,017,667</u>	<u>272,631,313</u>
Less accumulated depreciation for:				
Buildings and Improvements	19,316,221	783,292	-	20,099,513
Infrastructure-Collections & Treatment	51,372,186	3,924,366	40,138	55,256,414
Equipment	18,135,852	1,671,332	429,176	19,378,008
Total accumulated depreciation	<u>88,824,259</u>	<u>6,378,990</u>	<u>469,314</u>	<u>94,733,935</u>
Capital Assets, Net	<u>\$ 231,743,495</u>	<u>\$ 71,239,879</u>	<u>\$ 25,043,945</u>	<u>\$ 277,939,429</u>
2007	Balance 12/31/06	Additions	Retirements	Balance 12/31/07
Capital assets not being depreciated:				
Land	\$ 2,822,042	\$ 3,932	\$ -	\$ 2,825,974
Construction in Progress	47,580,360	22,712,339	1,988,834	68,303,865
Total capital assets not being depreciated	<u>50,402,402</u>	<u>22,716,271</u>	<u>1,988,834</u>	<u>71,129,839</u>
Capital assets being depreciated:				
Building and Improvements	39,435,088	97,709	38,558	39,494,239
Infrastructure-Collection & Treatment	177,245,264	7,278,841	-	184,524,105
Equipment	26,275,460	959,792	1,815,681	25,419,571
Total capital assets being depreciated	<u>242,955,812</u>	<u>8,336,342</u>	<u>1,854,239</u>	<u>249,437,915</u>
Less accumulated depreciation for:				
Buildings and Improvements	18,575,209	779,570	38,558	19,316,221
Infrastructure-Collections & Treatment	47,639,476	3,732,710	-	51,372,186
Equipment	17,908,663	1,666,827	1,439,638	18,135,852
Total accumulated depreciation	<u>84,123,348</u>	<u>6,179,107</u>	<u>1,478,196</u>	<u>88,824,259</u>
Capital Assets, Net	<u>\$ 209,234,866</u>	<u>\$ 24,873,506</u>	<u>\$ 2,364,877</u>	<u>\$ 231,743,495</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 5: CAPITAL ASSETS (CONTINUED)

Construction in Progress at December 31, 2008 and 2007 included capitalized construction period interest of \$320,558 and \$651,932 that was incurred in each respective year.

Depreciation expense was \$6,378,990 and \$6,179,107 for the years ended December 31, 2008 and 2007, respectively.

NOTE 6: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals, were \$3,358,865 and \$3,274,658 for the years ended December 31, 2008 and 2007, respectively.

NOTE 7: LONG-TERM DEBT

Long-term debt consists of Sewer Revenue Bonds for which the changes in the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>				Amount Due Within One Year
	Beginning Balance	Increases	Decreases	Ending Balance	
Sewer Revenue Bonds	\$ 227,593,425	\$ 27,568,237	\$ 6,703,185	\$248,458,477	\$ 5,591,753
Unamortized Bond Premium (Discount)	1,442,749	199,419	765,747	876,421	15,829
	<u>\$ 229,036,174</u>	<u>\$ 27,767,656</u>	<u>\$ 7,468,932</u>	<u>\$249,334,898</u>	<u>\$ 5,607,582</u>
	<u>2007</u>				
	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Sewer Revenue Bonds	\$87,092,863	\$ 142,711,252	\$ 2,210,690	\$227,593,425	\$ 4,703,185
Unamortized Bond Premium (Discount)	(678,516)	3,900,276	(1,779,011)	1,442,749	45,612
	<u>\$ 86,414,347</u>	<u>\$ 146,611,528</u>	<u>\$ 3,989,701</u>	<u>\$229,036,174</u>	<u>\$ 4,748,797</u>

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 7: LONG-TERM DEBT (CONTINUED)

Sewer revenue bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate</u>	<u>Outstanding at Maturity Date</u>	<u>December 31, 2008</u>	<u>Amount Due Within One Year</u>
1990	4.0%	2008 to 2014	\$ 2,504,359	\$ 415,722
1991	4.0%	2008 to 2014	2,146,593	356,334
1996	3.5%	2008 to 2019	3,661,055	294,081
1999	3.5%	2008 to 2022	9,281,622	514,941
2001	4.00% to 5.125%	2008 to 2022	19,465,000	425,000
2004A	3.25%	2008 to 2027	21,836,113	877,192
2004B	3.25%	2008 to 2027	13,493,466	523,131
2004C	3.25%	2008 to 2027	12,062,175	470,352
2005	3.00% to 4.375%	2008 to 2025	8,930,000	380,000
2007A	%	2008 to 2037	62,000,000	1,095,000
2007B	%	2008 to 2029	5,993,094	-
2007C	%	2008 to 2037	71,085,000	-
2008	3.50% to 5.75%	2008 to 2038	16,000,000	240,000
Total			<u>\$ 248,458,477</u>	<u>\$ 5,591,753</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
2007A	June 1 and December 1
2007B	April 15 and October 15
2007C	April 1 and October 1
2008	April 1 and October 1

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 7: LONG-TERM DEBT (CONTINUED)

<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
Series 2007B (February 2007)	\$ 18,000,000
Series 2008 (December 2008)	\$ 16,000,000

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

In March, 2004, the City of Little Rock, Arkansas authorized a Sewer Revenue Bond issue of \$23,100,000, \$14,000,000, and \$13,000,000 to be issued by ANRC, for the purpose of financing the costs of constructing extensions, betterments, and improvements to the Adams Field Treatment Plant, the Utility's collection system, and unsewered areas. In July, 2007 the City of Little Rock authorized a Sewer Revenue Bond Issue of \$18,000,000 for the remaining unsewered area and collection system projects. As of December 31, 2007, the Utility had drawn \$23,100,000, \$13,908,792, \$8,118,984, and \$459,256, respectively, on these bond issues, with additional draws of \$91,208, \$4,881,016, and \$17,540,744 remaining. These draws, which amount to \$22,514,968 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.

In May 2007, the City of Little Rock, Arkansas issued \$63,050,000 of Sewer Construction Revenue Bonds (2007A), and in September 2007 it issued \$71,085,000 of Sewer Construction Revenue Bonds (2007C) for the purpose of financing wastewater system capital improvements.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 7: LONG-TERM DEBT (CONTINUED)

In December 2008, the City of Little Rock, Arkansas issued \$16,000,000 of sewer revenue bonds, Series 2008, for the purpose of financing wastewater system capital improvements.

The 1990, 1991, 1996, 1999, 2004A, 2004B, 2004C, and 2007B Series Sewer Revenue Bonds are subordinate to the 2001, 2005, 2007A, 2007C, and 2008 Series Revenue Bonds.

In addition to the \$248,458,477 balance of Sewer Revenue Bonds outstanding at December 31, 2008, an additional \$12,944,731 will, as previously described, be drawn in fulfillment of current bond issues, for a total Sewer Revenue Bond indebtedness of \$261,403,208.

The annual requirements to amortize sewer revenue bond indebtedness outstanding, and scheduled, including interest, as of December 31, 2008, are as follows:

Year Ending December 31,	Principal	Interest	Total
2009	\$ 5,591,753	\$ 10,525,749	\$ 16,117,502
2010	6,489,886	10,950,905	17,440,791
2011	6,725,607	10,721,025	17,446,632
2012	6,956,378	10,479,871	17,436,249
2013	7,212,385	10,224,944	17,437,329
2014 to 2018	40,437,840	46,699,353	87,137,193
2019 to 2023	45,501,467	37,983,336	83,484,803
2024 to 2028	41,415,639	29,637,314	71,052,953
2029 to 2033	50,267,253	19,816,289	70,083,542
2034 to 2038	50,805,000	6,316,704	57,121,704
Total	<u>\$ 261,403,208</u>	<u>\$ 193,355,490</u>	<u>\$ 454,758,698</u>

Interest expense incurred during construction amounted to \$320,558 and \$651,932 all of which was capitalized to construction in progress in the years ended December 31, 2008 and December 31, 2007, respectively.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 8: COMPENSATED ABSENCES

Net changes in the liability for compensated absences for the years ended December 31, 2008 and 2007 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2008	\$ 1,022,208	\$ 23,829	\$ 69,845	\$ 976,192	\$ 760,425
2007	\$ 965,896	\$ 76,706	\$ 20,394	\$ 1,022,208	\$ 774,128

NOTE 9: 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 sanitary sewer overflows (“SSOs”), and sought injunctions for the alleged violations as well as penalties. LRSSC and the plaintiff entered into a written settlement agreement releasing LRSSC’s liability for any alleged violations up to the settlement agreement dated September 12, 2001.

A judgment approving this settlement was filed on November 16, 2001, subject to an award of the plaintiff’s statutory attorneys’ fees, which were awarded on December 31, 2002 and paid in full in 2003. There were no further sums due to the plaintiffs in this litigation; accordingly, the Utility’s financial statements as of December 31, 2008 and 2007, respectively, do not include any provisions of potential liability with regard to this litigation.

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 9: LITIGATION (CONTINUED)

Management is of the opinion that the Utility is generally in compliance with the provisions of the settlement agreement and due to the Utility's success for the past two consecutive years in reducing non-capacity SSOs, the Utility is deemed to have complied with all provisions 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 System Evaluation and Capacity Assurance Plan approved by LRSSC), the sewage treatment plant was not completed as originally proposed. Further court action could occur as a consequence, if the plaintiff chooses to challenge LRSSC's compliance with the Settlement. However, there is no indication such a challenge is likely.

Management completed annual reports for 2008, as required by both the CAO and the Settlement Agreement each year, detailing compliance actions taken during the year 2008, and the Sierra Club report was presented by staff to the LRSSC at its monthly meeting February 19, 2009 and then sent to the attorney for the Sierra Club. The annual report required by the CAO was delivered to ADEQ February 27, 2009, with an executive summary sent to the City of Little Rock Board of Directors on March 9, 2009. Prior such reports starting with the report for 2002 were all approved by LRSSC.

Management expects to remain in compliance with the Settlement Agreement, except for the completion schedule of the Little Maumelle Treatment Plant, currently estimated to be completed in 2010, the date mentioned in the SECAP in 2006, 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.

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

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 9: LITIGATION (CONTINUED)

The CAO will not terminate until such time as full compliance has been achieved and LRW is given written notice of termination by ADEQ. Management is of the opinion that LRW is presently in compliance with the CAO, and is diligently working to complete the various projects mandated by the CAO in accordance with the implementation schedule set forth therein, except for the completion of the Little Maumelle Treatment Plant by December 31, 2009, since completion is not expected until 2010. Management expects to remain on schedule, otherwise, with the CAO throughout its term except also for the Fourche Creek Treatment Plant upgrade mentioned hereafter. The ultimate deadline for compliance with the implementation schedule for completion of the projects required by the CAO is January 1, 2016.

LRW has progressed in 2008 with the required projects and obtained financing during 2008 in a bond issue for the total sum of \$16,000,000. Completion date schedules for LRW projects are set forth in the CAO, with the last project to be completed by December 31, 2015. Due to various delays with construction of the Maumelle Treatment Plant, it appears that this project will be not completed by December, 2009, as required by the CAO, but rather in late 2010. Also, the Fourche Creek Treatment Plant upgrades were scheduled for completion on December 31, 2009, but will not be completed until much later. LRW completed its planning stage in December, 2008 and will commence the design plan in early 2009.

Management is of the opinion that LRW staff is in compliance with the CAO, but LRW is in compliance with the CAO, but LRW is off the implementation schedule for the Little Maumelle Treatment Plant and the Fourche Creek Treatment Plant upgrade. However, LRW is diligently working to complete the other projects under the circumstances in accordance with the schedule set forth in the CAO.

Management expects to remain in compliance with the CAO for the duration, and continue efforts to complete the projects required by the CAO. Under the circumstances, management does not expect penalties arising if the Little Maumelle Treatment Plant is not completed as required, due to the nature of the delays.

On August 2, 2008, Angela Harrison and Harry L. King, Jr. filed suit against Little Rock Wastewater, T. Raney Construction, Inc, ("Raney"), and Building & Utility Contractors, Inc. ("B & U Contractors") for damages to their home located at #1 Ridgeview Court, Little Rock, Arkansas. Plaintiffs allege damages due to LRW allegedly causing the severance of their private sewer line while they were out of town, resulting in a sewer backup in their home and water drainage problems as a result of other work on the project, which allegedly caused structural damage to their home.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 9: LITIGATION (CONTINUED)

The service line was accidentally cut by Raney, subcontractor to B & U Contractors, the prime contractor with LRW for the work done on this project. The project was to extend service to a nearby unsewered area, as mandated by the City of Little Rock Board of Directors.

Plaintiffs claim their water drainage problems were caused by other work done in the area on this project, though unrelated to the sewer back-up in their home. Although the amount of the damages is not specified in the complaint filed in Circuit Court, attorney Kathryn Perkins of the Rose Law Firm, by letter dated June 17, 2008, demanded payment of \$1,774,000.00 in satisfaction of her clients' claim for damages. This claim was denied by the LRW staff, which advised Ms. Perkins that she has the right to present this claim to LRSSC. However, Ms. Perkins did not present the claim to the Sewer Committee, but filed suit in Pulaski Circuit Court on August 12, 2008, for an unspecified amount of damages to be determined at trial; and, then on September 29, 2008, Plaintiff filed an amended complaint alleging, additionally, an unspecified amount of damages due to mold growth. LRW filed a motion to dismiss for failure to state a claim, as a matter of law, which was denied by court order dated October 28, 2008, and LRW filed its answer denying liability and asserting cross claims against the other defendants for damages incurred. By letter dated December 17, 2008, Plaintiffs' attorney made a settlement demand on Defendants with an itemized statement for damages in total sum of \$1,810,294.65. Depositions of both Plaintiffs were taken December 8, 2008. LRW notified Travelers Casualty & Surety Company of America ("Travelers") of its claim on Travelers' performance bond on Building & Utility Contractors, Inc., which Travelers denied. The defense of this case was assumed by Arkansas Municipal League Defense Program, in which Little Rock Wastewater is a member and entitled to such defense due to the nature of the claim. An order dated January 14, 2009, was entered substituting Messers Wilkerson and Beard as attorneys for Little Rock Wastewater in this litigation. The primary defense is Little Rock Wastewater's statutory tort immunity reasserted in its answer and which will probably be raised again in a future motion for summary judgment by LRW.

Management is of the opinion that Plaintiffs' claim is barred, as a matter of law, because of LRW's state statutory tort immunity based on LRW's sovereign immunity, and that the motion to dismiss denied on October 28, 2008, should be renewed in the form of a motion for summary judgment, since there has been some discovery since then. Management will continue to vigorously defend this suit.

Management believes that an unfavorable result is unlikely and expects to pursue defense of this litigation.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 10: OTHER COMMITMENTS AND CONTINGENCIES

The Utility had commitments totaling approximately \$55,540,364 at December 31, 2008, for the expansion of plant capacity.

NOTE 11: PENSION 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 \$897,933 and \$865,781 in 2008 and 2007, 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 plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Prior to July 1, 2005, voluntary contributory plan members were required to contribute 5.0% of their annual salary to APERS. The employer's contributions are actuarially determined on an annual basis. The authority for establishing and amending both funding policies and benefits offered rests with APERS. No employees participated in this voluntary plan for the years ended June 30, 2008 and 2007. Contributions to the noncontributory plan are also actuarially determined on an annual basis.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 11: PENSION BENEFITS (CONTINUED)

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

Contributions to the noncontributory plan were approximately \$1,529,176, \$1,549,966, and \$1,439,927 for the plan years ended June 30, 2008, 2007, and 2006, respectively, and represented 11.01%, 12.54%, and 12.54% 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, 2008, the 5% mandatory employee contributions were \$91,580, and are not included in the amount above.

APERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling (501) 682-7800 or (800) 682-7377.

NOTE 12: OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

Little Rock Wastewater's defined benefit post employment healthcare plan, Little Rock Wastewater Healthcare Plan (LRWHP), provides medical benefits to eligible retired employees and their beneficiaries. This post employment healthcare plan is administered by Metropolitan National Bank Trust Department.

The Little Rock Sanitary Sewer Committee assigns the authority to establish and amend the benefit provisions of the plan based on recommendations by the LRWHP.

B. Funding Policy

The contribution requirements are based on the most current actuarial evaluations of the plan. Little Rock Wastewater makes every effort to contribute on a monthly basis toward the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The 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.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
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NOTE 12: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

For 2008 and 2007, LRW's annual OPEB cost (expense) was \$1,258,000 for LRWHP and the ARC is \$1,176,000 annually. The following table shows the components of LRW's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the state's net OPEB obligation to LRWHP:

	<u>2008</u>	<u>2007</u>
Annual required contribution	\$ 49,024	\$ 1,176,000
Interest on net OPEB obligation	(83)	82,000
Adjustment to annual required contribution	96	-
Annual OPEB cost (expense)	<u>49,037</u>	<u>1,258,000</u>
Contributions made	<u>(1,282,351)</u>	<u>(118,544)</u>
Increase (Decrease) in net OPEB obligations	(1,233,314)	1,139,456
Net OPEB obligation-beginning of year	<u>1,139,456</u>	<u>-</u>
Net OPEB obligation-end of year	<u>\$ (93,858)</u>	<u>\$ 1,139,456</u>

LRW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 and 2007 (initial year) are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/08	\$ 49,037	201.7%	\$ (93,858)
12/31/07	\$1,258,000	9.4%	\$1,139,456

D. Funded Status and Funding Progress:

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.

LITTLE ROCK WASTEWATER
NOTES TO FINANCIAL STATEMENTS
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NOTE 12: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

D. Funded Status and Funding Progress (Continued)

For the year ended December 31, 2007, the annual OPEB cost contributed of \$118,544 is 9.4% of the annual OPEB cost of \$1,258,000. The accrued actuarial liability (AAL) of \$1,139,456 expressed as a percentage of covered payroll of active members of \$12,927,891 is 8.8%

For the year ended December 31, 2008, the annual OPEB cost contributed of \$1,282,351 is 2,615.0% of the annual OPEB cost of \$49,037. Since the plan is overfunded by \$93,858 at December 31, 2008, the calculation of accrued actuarial liability (AAL) as a percentage of covered payroll is not applicable.

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.

In December 31, 2006, the actuarial valuation, the actuarial cost was calculated using the Projected Unit Credit Cost method. The actuarial assumptions included a 7% for funded and 3% for unfunded investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5.5% after 2012 and later. Membership data was based on data sent by Little Rock Wastewater. The mortality rates were derived from the PR-2000 Mortality Table for males and females. Retirement rates were provided from the Arkansas Public Employees Retirement System pension valuation.

NOTE 13: CONCENTRATIONS

The Utility pays Central Arkansas Water for billing and collection services provided by that entity. Such payments amounted to approximately \$653,597 and \$625,358 for the years ended December 31, 2008 and 2007, respectively, and are included as operating expenses in the accompanying statements of income.

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NOTE 14: RISK MANAGEMENT

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

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

The following represents the changes in approximate aggregate liabilities of the workers' compensation plan for the Utility for January 1, 2007 to December 31, 2008:

Liability balance, January 1, 2007	\$	3,301
Claims and changes in estimates		13,038
Claims payments		<u>(13,162)</u>
Liability balance, December 31, 2007		3,177
Claims and changes in estimates		56,558
Claims payments		<u>(33,107)</u>
Liability balance, December 31, 2008	\$	<u><u>26,628</u></u>