

**Central Arkansas Water  
Water Revenue Bonds  
Series 2010A, 2010C, 2011A, 2012A, 2014, 2015, 2016 (Maumelle Water Acquisition  
Project), and 2016 (Refunding)**

**Annual Report  
Year Ended December 31, 2016**

*Customers.* As of December 31, 2016, the Central Arkansas Water ("CAW") System served a total of 136,827 customer accounts. Such customers were classified as follows:

<u>Customer Type</u>	<u>2016</u>
Residential	116,601
Commercial	11,592
Large Volume	133
Sprinkler	6,223
Private Fire Service	2,266
Wholesale	9
Raw Water	3
Total	136,827

*Addition or Deletion of Any Significant Group of Customers.* In September 2015, CAW entered into a consolidation agreement with Maumelle Suburban Improvement District No. 500 of Pulaski County, Arkansas, also known as Maumelle Water Management ("MWM"). Effective March 1, 2016, Maumelle Water Management became part of the Central Arkansas Water service area. The merger added an additional approximately 7,500 accounts totaling approximately 10,500 meters to CAW's customer base along with 600,000 feet of mains, two water storage tanks, two booster pump stations, and 675 fire hydrants. In March of 2016, CAW issued Acquisition and Construction Water Revenue Bonds (Maumelle Water System Acquisition Project), Series 2016 (the "2016 Maumelle Bonds") in the aggregate principal amount of \$22,750,000 for the purpose of acquiring the MWM Water System and funding needed capital improvements to integrate the two systems. A debt surcharge levied on accounts in the MWM service area is pledged to the 2016 Maumelle Bonds. The 2016 Maumelle Bonds are junior and subordinate to CAW's other outstanding bond issues.

In contemplation of assuming ownership, control and operation of the MWM Water System as of March 1, 2016, the Issuer adopted Resolution 2015-15 on October 8, 2015, as amended by Resolution 2016-06, adopted on February 11, 2016, which established a schedule of rates to be collected for water service within the MWM Water service area effective March 1, 2016. The schedule of rates is as follows:

*Meter Measurement.* Except for public and private fire services, all water used shall be measured through meters. The size of each meter shall be determined by the Issuer commensurate with its estimate of the amount of water to be used for the premises. MWM's existing meters and rates are expressed in 1,000 gallons and are billed accordingly, the Issuer's rates and meters are expressed in 100 cubic feet. As meters are replaced or new meters installed, a conversion ratio of 1 cubic foot of water to 7.48 gallons will be used.

*Minimum Monthly Charge.* The Minimum Monthly Charge for all customers includes payment for the first 1,000 gallons of water used:

Meter Size (diameter)	Minimum Monthly Charge Effective upon Consolidation
5/8"	\$9.56
3/4"	9.56
1"	42.70
1 1/2"	85.42
2"	149.50
3"	331.02
4"	565.92
6"	1,120.52
8"	1,893.68

Meter Size (diameter)	Sprinkler Account Minimum Monthly Charge Effective upon Consolidation
5/8"	\$11.07
3/4"	11.07
1"	49.57
1 1/2"	99.14
2"	173.49
3"	331.02
4"	565.92
6"	1,120.52
8"	1,893.68

*Additional Monthly Charge.* In addition to the Minimum Monthly Charge, the following table of rates shall apply to the amount of water used in excess of 1,000 gallons per month:

Customer Class	\$ Per 1,000 gallons (1,001 to 10,000 gallons)	\$ Per 1,000 gallons (10,001 to 20,000 gallons)	\$ Per 1,000 gallons (20,001 to 30,000 gallons)	\$ Per 1,000 gallons (30,001 + gallons)
Non-Sprinkler	\$3.68	\$3.68	\$3.68	\$3.68
Sprinkler	\$4.26	\$4.69	\$5.15	\$5.41

Upon completion of the Transition Period, the Issuer's outside-city rates for the Minimum Monthly Charge and the volumetric additional monthly charges will commence.

*Senior Discount.* During the Transition Period, persons over the age of 65 years of age may receive a discount of \$3.00 per month on their monthly bill upon presentation of proof of age to the utility. Upon completion of the Transition Period, this discount will be discontinued.

*Private Fire Services.* There is no charge for private fire service connections during the Transition Period. Upon completion of the Transition Period, the Issuer's outside-city rates for private fire service will commence.

*Watershed Projection Fee.* \$0.75 per month per meter will apply and be added to the monthly bill for all customers. The fee will accumulate to establish a fund that may be used for small land purchases, to service the debt on larger land

purchases, and/or fund the administration of the Issuer’s Watershed Protection Program. Funds from this fee may also be used for maintenance and development of MWM wells, wellhead protection, raw water collection system, and other expenses related to MWM or the Issuer’s water sources. This fee replaces the existing MWM Water Source Development and Protection Fee (“WSD&P”) charged by MWM. Upon completion of the Transition Period, the amount of this fee will change to be commensurate with the Watershed Protection Fee charged to all other CAW customers.

*Debt Surcharges.* In addition to the Minimum Monthly Charges and other rates set forth above, the Issuer shall also assess debt surcharges on each meter within the service territory established by MWM. The debt surcharges shall be in an amount sufficient to pay for the expenses identified in the Water Consolidation Agreement, dated as of October 13, 2015. Each debt surcharge will continue until the debt associated with the respective surcharge is repaid.

Meter Size (diameter)	Short-Term Debt Surcharge	Intermediate-Term Debt Surcharge	Long-Term Debt Surcharge
5/8”	\$4.26	\$4.92	\$15.67
3/4”	4.26	4.92	15.67
1”	21.73	25.09	79.92
1 1/2”	32.38	37.39	119.09
2”	43.45	50.18	159.83
3”	54.10	62.48	199.01
4”	65.18	75.28	239.75
6”	129.05	149.05	474.71
8”	218.10	251.89	802.25

A penalty of ten percent (10%) shall be added to a customer bill not paid before the 20th day following the billing date. If a bill is not paid within 30 days after the billing date, service for the affected premise, or customer, may be disconnected. In such event, CAW may levy a reconnection charge in accordance with its existing service charge schedule for all CAW customers.

The Water System’s top ten customers, based upon revenues produced during the twelve months ended December 31, 2016, were as follows:

<u>Customer</u>	<u>2016 Revenues</u>	<u>Percentage of Total 2016 System Revenues</u>	<u>Customer Type</u>
Jacksonville Water Works	\$1,292,000	2.12%	Wholesale
Salem Water Users PWA	1,085,000	1.78%	Wholesale
Bryant Water and Sewer Department	1,077,000	1.76%	Wholesale
3M Company	240,000	0.39%	Retail
University of Arkansas for Medical Sciences	232,000	0.38%	Retail
Arkansas Department of Corrections	219,000	0.36%	Retail
Cabot Waterworks	200,000	0.33%	Wholesale
City of North Little Rock Burns Park	172,000	0.28%	Retail
Shannon Hills Water Department	161,000	0.26%	Wholesale
Baptist Health Medical Center	157,000	0.26%	Retail

*Usage.* The following table shows the Water System's water usage statistics for the year ended December 31, 2016:

<u>Year</u>	<u>Average Daily Use in Million Gallons</u>	<u>Maximum Day's Use in Million Gallons</u>
2016	59.3 MG	93.1 MG

*Water Rates.* Central Arkansas Water, by Resolution 2012-07 approved by the Commission on November 8, 2012, established new water rate schedules effective the first of March 2013 and the first of January 2014. The general purpose behind Resolution 2012-07 was to increase needed revenues to fund an increasing level of debt service. A summary of the rates in place effective January 1, 2016 follows:

Except for internal uses, public and private fire services, all water used shall be measured through meters. The size of each meter shall be determined by Central Arkansas Water commensurate with its estimate of the amount of water to be used for the premises. One cubic foot of water is equal to 7.48 gallons weighing 62.5 pounds avoirdupois.

Minimum Monthly Charge

The Minimum Monthly Charge for all customers includes payment for the first 200 cubic feet (cf) of water used.

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE	
	EFFECTIVE JANUARY 1, 2016	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
5/8"	\$5.85	\$7.66
3/4"	7.56	9.89
1"	10.74	14.06
1 1/2"	18.16	23.75
2"	29.45	38.54
3"	54.45	71.27
4"	88.57	115.93
6"	175.19	229.29
8"	296.33	387.82
10"	426.63	558.37
12"	777.01	1,016.94

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Additional Monthly Charge

In addition to the Minimum Monthly Charge, the following rates shall apply to the amount of water used in excess of 200 cubic feet per month:

CUSTOMER CLASS	RATES			
	EFFECTIVE JANUARY 1, 2016			
	INSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		OUTSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)	
	3 - 33	OVER 33	3 - 33	OVER 33
RESIDENTIAL	\$1.61	\$2.10	\$2.58	\$3.36
COMMERCIAL	1.51	1.51	2.41	2.41
LARGE VOLUME	1.23	1.23	1.96	1.96
SPRINKLER	1.61	2.10	2.58	3.36

Customer Classes

The customer classes described in the Additional Monthly Charge subsection above shall be defined as follows:

"Residential" shall mean all customers receiving water service at a single building or building unit that is owned, leased, or rented by one party, separately metered, and occupied as a residence.

"Commercial" shall mean all customers receiving water service at (i) a building containing two or more apartments or family units that are rented or leased to tenants as residences and are not separately metered; (ii) a building occupied by a retail or service business; (iii) a building owned or occupied by a public utility, a department of a municipality, or a state or federal governmental agency; or (iv) a non-residential customer that does not fit the definition of a Large Volume Class customer.

"Large Volume" shall mean any non-residential and non-sprinkler customer (i) who uses at least 1,500,000 cf of water per meter during the 12-month period from September 1 to August 31; or (ii) who agrees to take or pay for a minimum of 125,000 cf of water per meter per month on an annual basis. Customers who qualify for Large Volume water service described in (i) above shall be assigned to the Large Volume Class for the calendar year beginning the following January.

"Sprinkler" shall mean all customers receiving separately-metered water service used exclusively for irrigation sprinkler systems or other outdoor purposes.

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Private Fire Service

Private fire service connections for private premises shall pay the following annual fire service charges:

	RATES	
	EFFECTIVE JANUARY 1, 2016	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
FIRE HYDRANTS	\$69.71	\$100.84
FIRE CONNECTION MINIMUM CHARGE	80.83	116.94
AUTOMATIC SPRINKLER SYSTEM MINIMUM CHARGE (1,000 HEADS)	80.83	116.94
ADDITIONAL HEADS, EACH	0.08	0.13
STANDPIPE 1 1/4" (OR SMALLER) DIAMETER, EACH	15.81	22.88
1 1/2" DIAMETER, EACH	24.61	35.59
2" DIAMETER, EACH	40.43	58.47
2 1/2" DIAMETER, EACH	80.83	116.94

Wholesale Customers

Resolution 2014-10 established a revised schedule of rates for wholesale-metered customers effective January 1, 2016. Unless specified differently by contract, all customers located outside the municipal boundaries of the City of Little Rock and the City of North Little Rock and purchasing water through a wholesale meter shall pay the Minimum Monthly Charge for the first 200 cubic feet of water used and an additional amount determined by the following rates for all water used in excess of 200 cubic feet per month.

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE
	EFFECTIVE JANUARY 1, 2016
	(INCLUDES FIRST 200CF)
2" or smaller	\$38.54
3"	71.27
4"	115.93
6"	229.29
8"	387.82
10"	558.37
12"	1,016.94

TIME WATER IS TAKEN	RATES
	EFFECTIVE JANUARY 1, 2016
	(\$ PER 100 CF)
ON PEAK Customers taking any water from: 4:01 a.m. to 8:59 a.m and/or 5:01 p.m. to 9:59 p.m.	\$1.31
OFF PEAK Customers taking all water from: 10 p.m. to 4 a.m. and/or 9 a.m. to 5 p.m.	1.15

Any public water system acquiring water from CAW without a written agreement for the purchase and sale of surplus water shall be charged the rates applicable to the “outside the city” Commercial customer class, as established in accordance with Section 1 of Resolution 2014-10, as amended from time to time.

Raw Water Customers

All CAW customers purchasing raw water shall pay the Minimum Monthly Charge for the first 200 cubic feet of water used and an additional amount determined by the following rate for all water used in excess of 200 cubic feet per month.

RATES	
EFFECTIVE JANUARY 1, 2016	
(\$ PER 100 CF)	
Raw Water Customer	\$0.55

Conservation Rate Discount

Inside City Residential accounts with a single house meter (no sprinkler meter) using 100, 200 or 300 cubic feet of monthly usage shall be given a Conservation Rate Discount of 15%. The discount shall not apply to zero consumption billings. Total discounts amounted to approximately \$238,000 in 2016.

Watershed Protection Fee

The Watershed Protection Fee, in amounts as set forth in the table below (no change since 2009 implementation), is added to the monthly bills of all customers. This fee is accumulated in a fund to be used for small land purchases, to service the debt on larger land purchases, and/or fund the administration of the Watershed Protection Program. If debt is incurred for any of the aforementioned purposes and the fee is pledged as collateral or a source of repayment for the debt, then the fee will continue as necessary throughout the life of the debt to service debt repayment. The fee may be suspended should CAW deem it no longer necessary for the Watershed Protection Program. Fee charges totaled approximately \$1,025,000 in 2016.

METER	WATERSHED PROTECTION FEE
SIZE (diameter)	EFFECTIVE MAY 1, 2009
5/8"	\$ .45
3/4"	.45
1"	.68
1 1/2"	1.13
2"	2.25
3"	3.60
4"	6.75
6"	11.25
8"	22.50
10"	36.00

The Watershed Protection Fee shall not apply to the Wholesale meters, but instead shall be passed through on the same basis of meter size to the individually-metered customers of the Wholesaler as well as those of any subsequent Wholesaler. Wholesalers obtaining less than 100% of their total supply from CAW will pay only a proportional share of the fee based on the percentage supplied by CAW. Wholesalers shall report each month the total metered consumption and number of active meters by size. Wholesalers may pass the fee through directly or include it in their rates.

Proposed Rates

On December 10, 2015, the Issuer adopted Resolution 2015-20 which amended the Issuer’s rate schedules as set forth in Resolution 2012-07 and Resolution 2014-10, respectively. Pursuant to the provisions of the Consolidation Agreement dated as of March 5, 2001 as amended (the"Consolidation Agreement"), the Issuer gave notice of the pendency of the amended rate schedule to the governing bodies of the cities of Little Rock and North Little Rock on December 11, 2015.

Neither of the governing bodies objected to the proposed new rate schedule and the new rates will become effective, in accordance with the provisions of the Consolidation Agreement and Resolution 2015-20, on January 1, 2017, January 1, 2018 and January 1, 2019. The following is a summary of the amended rates:

Minimum Monthly Charge

The Minimum Monthly Charge for all customers includes payment for the first 200 cubic feet (cf) of water used.

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE	
	EFFECTIVE JANUARY 1, 2017	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
5/8"	\$6.85	\$8.97
3/4"	8.85	11.59
1"	12.58	16.46
1 1/2"	21.26	27.83
2"	34.48	45.14
3"	63.76	83.46
4"	103.71	135.76
6"	205.14	268.52
8"	346.98	454.20
10"	499.56	653.92
12"	909.83	1,190.97

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE	
	EFFECTIVE JANUARY 1, 2018	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
5/8"	\$7.85	\$10.28
3/4"	10.14	13.28
1"	14.41	18.87
1 1/2"	24.37	31.90
2"	39.52	51.73
3"	73.07	95.64
4"	118.85	155.58
6"	235.08	307.72
8"	397.64	520.51
10"	572.49	749.38
12"	1,042.65	1,364.83



Additional Monthly Charge

In addition to the Minimum Monthly Charge, the following rates shall apply to the amount of water used in excess of 200 cubic feet per month:

CUSTOMER CLASS	RATES			
	EFFECTIVE JANUARY 1, 2017			
	INSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		OUTSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)	
	3 - 33	OVER 33	3 - 33	OVER 33
RESIDENTIAL	\$1.65	\$2.15	\$2.64	\$3.44
COMMERCIAL	1.54	1.54	2.47	2.47
LARGE VOLUME	1.26	1.26	2.02	2.02
SPRINKLER	1.65	2.15	2.64	3.44

CUSTOMER CLASS	RATES			
	EFFECTIVE JANUARY 1, 2018			
	INSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		OUTSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)	
	3 - 33	OVER 33	3 - 33	OVER 33
RESIDENTIAL	\$1.71	\$2.22	\$2.73	\$3.57
COMMERCIAL	1.60	1.60	2.56	2.56
LARGE VOLUME	1.30	1.30	2.09	2.09
SPRINKLER	1.71	2.22	2.73	3.57

Private Fire Service

Private fire service connections for private premises shall pay the following annual fire service charges:

	RATES			
	EFFECTIVE JANUARY 1, 2017		EFFECTIVE JANUARY 1, 2018	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
FIRE HYDRANTS	\$74.24	\$107.39	\$79.51	\$115.02
FIRE CONNECTION MINIMUM CHARGE	86.08	124.54	92.20	133.38
AUTOMATIC SPRINKLER SYSTEM MINIMUM CHARGE (1,000 HEADS)	86.08	124.54	92.20	133.38
ADDITIONAL HEADS, EACH	0.09	0.14	0.09	0.15
STANDPIPE 1 1/4" (OR SMALLER) DIAMETER, EACH	16.84	24.37	18.03	26.10
1 1/2" DIAMETER, EACH	26.21	37.90	28.07	40.59
2" DIAMETER, EACH	43.06	62.27	46.12	66.69
2 1/2" DIAMETER, EACH	86.08	124.54	92.20	133.38

Wholesale Customers

Unless specified differently by contract, all customers located outside the municipal boundaries of the City of Little Rock and the City of North Little Rock and purchasing water through a wholesale meter shall pay the Minimum Monthly Charge for the first 200 cubic feet of water used and an additional amount determined by the following rates for all water used in excess of 200 cubic feet per month.

TIME WATER IS TAKEN	RATES		
	EFFECTIVE 1/1/2017	EFFECTIVE 1/1/2018	EFFECTIVE 1/1/2019
	(\$ PER 100 CF)	(\$ PER 100 CF)	(\$ PER 100 CF)
ON PEAK Customers taking any water from: 4:01 a.m. to 8:59 a.m. and/or 5:01 p.m. to 9:59 p.m.	\$1.43	\$1.57	\$1.65
OFF PEAK Customers taking all water from: 10 p.m. to 4 a.m. and/or 9 a.m. to 5 p.m.	\$1.29	\$1.45	1.52

Raw Water Customers

All CAW customers purchasing raw water shall pay the Minimum Monthly Charge for the first 200 cubic feet of water used and an additional amount determined by the following rate for all water used in excess of 200 cubic feet per month.

	RATES		
	EFFECTIVE 1/1/2017	EFFECTIVE 1/1/2018	EFFECTIVE 1/1/2019
	(\$ PER 100 CF)	(\$ PER 100 CF)	(\$ PER 100 CF)
Raw Water Customer	\$0.60	\$0.62	\$0.66

*Rate Stabilization Account.* The Rate Stabilization Account was established to provide more stable retail water rates to customers and to assist CAW in its efforts to meet financial performance indicators and goals specified in bond covenants and monitored by various financial rating agencies. Deposits or withdrawals may be made up to and including the date ninety (90) days after the end of the fiscal year for which the deposit or withdrawal will be included in the net revenue calculation. A \$20,000,000 funding limit has been established on the account. At December 31, 2016, the account balance totaled approximately \$8,115,000.

*Billing Procedures, Penalties, Delinquency, and Uncollectible Accounts.* CAW’s billing policy and procedures provide that bills for water services are rendered in the net amount due. Water bills, with the exception of private fire service, are due and payable monthly on or before the 20th day following the billing date stated on the water bill. Payments for private fire service are due in semi-annual installments in advance on the first (1st) day of January and July of each year. Any water bill not paid on or before the due date is considered delinquent and a penalty of 10% of the total current bill is assessed against the account. In the event that bills due for water service are not paid on or before the next billing date, a disconnect notice is sent with the following month’s bill, stating that the previous balance must be paid by the due date of the accompanying bill to avoid service disruption. Should any delinquent bill remain unpaid, CAW issues a disconnect order 2-3 days following the due date of the second bill. The customer’s deposit will be forfeited in an amount sufficient to cover the gross amount of the due bill. The forfeiture of the deposit will take place if the customer has not paid the delinquent bill plus all applicable service charges within 7 days after disconnection. In such event, CAW may levy a reconnection charge to restore service. For Wholesale-Metered Customers, a penalty of ten percent (10%) shall be added to a Wholesale-Metered Customer bill not paid before the 20<sup>th</sup> day following the billing date. If a bill is not paid within 30 days after the billing date, service for the affected Wholesale-Metered Customer may be restricted, limited or even fully disconnected at CAW’s discretion. In such event, CAW may levy a service charge for

installation and removal of the device installed to restrict or limit flow or a reconnection charge in the case of disconnection.

The following table details account data for the Water System for the year ended December 31, 2016. An inactive account is written off after 90 days. When a customer with a written off balance returns to the Water System, any amount previously written off must be paid in full before service can be connected or reconnected. Outside collection services are used in attempts to collect from inactive customer accounts.

<u>Year</u>	<u>System Revenues</u>	<u>Bad Debt Expense</u>	<u>Percentage</u>
2016	\$61,021,000	\$237,000	0.39%

*Projected Capital Expenditures.* The Issuer anticipates the cost of contemplated expansions and capital improvements to the Water System over the next five years to be as set forth in the following table. Said expansions and improvements are expected to be financed from a combination of sources, including (i) an additional bond issue in mid-2017 in the principal amount not to exceed \$5.0 million; (ii) an additional bond issue in late-2018 in the principal amount not to exceed \$17.0 million (iii) proceeds from the Acquisition and Construction Water Revenue Bonds Series 2016; and (iv) cash funds generated by the Water System.

<u>Category of Improvement</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Totals</u>
Lake Maumelle Watershed Protection	\$1,333,000	\$1,550,000	\$950,000	\$950,000	\$950,000	\$5,733,000
Equipment and Services	5,867,000	5,248,000	5,035,000	4,786,000	4,091,000	25,027,000
Water Rights	212,000	4,640,000	-0-	-0-	-0-	4,852,000
Storage and Surge Tanks	655,000	200,000	890,000	1,018,000	1,485,000	4,248,000
Facilities Upgrades	6,425,000	8,253,000	11,933,000	3,054,000	3,120,000	32,785,000
Transmission Mains	6,300,000	7,344,000	900,000	350,000	-0-	14,894,000
Distribution Mains	<u>4,128,000</u>	<u>4,437,000</u>	<u>3,265,000</u>	<u>4,666,000</u>	<u>5,241,000</u>	<u>21,737,000</u>
Totals:	<u>\$24,920,000</u>	<u>\$31,672,000</u>	<u>\$22,973,000</u>	<u>\$14,824,000</u>	<u>\$14,887,000</u>	<u>\$109,276,000</u>

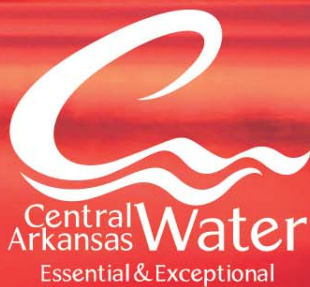
*Annual Audit of Central Arkansas Water for Year Ended December 31, 2016.* Attached is the annual audit of Central Arkansas Water for the years ended December 31, 2016 and 2015, as prepared by Thomas & Thomas, LLP, independent certified public accountants.

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Years Ended December 31, 2016 and 2015

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# **BUILDING A BETTER FUTURE WITH WATER**



# Central Arkansas Water

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Years Ended December 31, 2016 and 2015

Prepared by the Central Arkansas Water Finance Department



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# Central Arkansas Water

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# Introductory Section





April 13, 2017

To the Board of Commissioners and Our Customers:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of Central Arkansas Water (CAW or the Utility) for the years ended December 31, 2016 and 2015.

We believe the report presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position, the changes in financial position and cash flows of the Utility; and that all disclosures necessary to enable the public to gain the maximum understanding of the Utility's financial activity have been included. Additionally, the Financial Section of this report includes a detailed discussion and analysis by management of the Utility's financial performance for the years ended December 31, 2016 and 2015. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utility.

The CAFR follows the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA).

#### **THE REPORTING ENTITY**

In 1936, the City of Little Rock purchased the water facilities serving the south side of the Arkansas River. The City of North Little Rock purchased the water facilities serving its corporate boundaries and rural customers in 1959. Following the acquisitions by the respective cities, the municipalities appointed separate governing boards to oversee operations, planning, and expansion of Little Rock Municipal Water Works and the North Little Rock Water Department. On March 5, 2001, city and water officials signed a Water Utilities Consolidation Agreement. On July 1, 2001, Little Rock Municipal Water Works and the North Little Rock Water Department officially merged operations under the governance of a single entity, Central Arkansas Water.

The Utility remains under public ownership. A seven member Board of Commissioners governs the Utility and I, as Chief Executive Officer, oversee day-to-day operations and administration. The Utility's organizational structure includes seven departments: Administration, Distribution, Engineering, Finance, Customer Relations & Public Affairs, Information Services, Water Source & Treatment, and Water Quality & Operations.

The Utility collects, stores, treats, and distributes water for a population of approximately 400,000 in Central Arkansas. The major components of the system are two raw water supplies, Lake Winona and Lake Maumelle; a regulating and storage facility, Jackson Reservoir; three treatment facilities, Jack H. Wilson Treatment Plant (Wilson Plant), Ozark Point Treatment Plant (Ozark Point Plant) and Maumelle Water Treatment Plan (Maumelle Plant); approximately 2,497 miles of public pipeline; 26 remote booster pumping stations; and 29 remote storage facilities. As of December 31, 2016, the Utility provides water service to approximately 530 square miles and approximately 135,000 active customer accounts.

The combined safe yield of the two water sources is approximately 120 million gallons per day (MGD). The maximum treatment capacity of the Wilson Plant is 133 MGD; the treatment capacity of the Ozark Point Plant is 24 MGD; and the treatment capacity of the Maumelle Plant is 7 MGD. The Utility has a combined 50.1 million gallons in remote storage capacity serving 23 pressure systems and another 25 million gallons in storage at the treatment plants.

## **MAJOR INITIATIVES AND ACCOMPLISHMENTS IN 2016**

### Administration

Graham Rich, the proceeding CEO, announced his intention to leave the Utility, and the Board of Commissioners accepted his resignation on December 16, 2015 to be effective January 8, 2016. The Board of Commissioners appointed me as Interim CEO effective January 9, 2016 and removed the interim title on January 21, 2016.

On March 1, 2016, CAW officially merged water operations with Maumelle Water Management (MWM), the utility that prior to the merger provided water and wastewater services to 7,500 customers in the city of Maumelle. The merger was accomplished with no financial impact to CAW customers, required multiple actions by the CAW Board of Commissioners, and the dedication and support of many CAW staff. Major activities that facilitated the merger included finding an entity to take over wastewater operations, itemizing transition expenses associated with water operations, identifying the capital improvements necessary to deliver water to Maumelle, and issuing \$22.7 million in new debt to fund those capital improvements. New Maumelle rates were established to fund transition expenses, debt service requirements, and ongoing water operations. Specific activities to integrate MWM employees and day-to-day business operations will be found throughout this letter.

Human Resources continued to focus on ensuring that the Utility's recruitment programs, policies, procedures, compensation, and employee benefits attract and retain competent, motivated and diverse employees. 2016 was a challenging year for recruitment activities, due in large part to CAW's merger with MWM and the integration and orientation of 30 MWM employees into CAW's processes and programs. Normal recruitment activities also continued, with the filling of 37 positions, including five senior level managerial positions – Chief Executive Officer, General Counsel, Controller, Director of Public Affairs & Communications, and Director of Water Production. Positions were filled, on average, within five weeks and well below the Society for Human Resources Management (SHRM) standard of seven weeks. With increasing retirements as expected due to the baby boomer generation, CAW saw a significant increase in the turnover rate for 2016. While 2016 turnover increased to 10.58%, CAW's five year average turnover remained quite low at 6.83%, and the 2016 rate was just over one half of the national average turnover for state and local governments (19.4%).

Professional certification, training, and employee development continued to be key initiatives for CAW. The number of employees holding designated certifications exceeded the level of job certifications required by 22% in 2016. The utility significantly increased its internal advancement metrics in 2016, with 77% of non-entry level positions filled internally.

CAW continued a strong commitment to diversity and inclusion initiatives throughout the organization in 2016. Extensive harassment/discrimination/diversity and inclusion training was conducted by outside experts for 53 employees, which included those who were unable to attend in 2015 and new employees, including the 30 employees who joined the organization with the merger of CAW and MWM. Based on positive feedback from CAW employees, the Diversity Inclusion Team (DIT) expanded its annual initiative to celebrate National Diversity Month (October) by interviewing a larger group of diverse CAW employees

and spotlighting two participating employees via intranet/email each day. Finally, CAW proudly held the distinction, for the fifth year in a row, of being the largest participating organization in the 2016 Just Communities of Arkansas (JCA) Walk for commUNITY, with 71 CAW walkers participating and the largest amount of money raised for JCA through the walk and CAW fundraisers.

Working with the Finance Department, Human Resources ensured the Utility's timely compliance with the new IRS reporting requirements brought about by the Affordable Care Act in early 2016.

The Human Resources Section was also responsible for overseeing the filling of an unanticipated vacancy on the CAW Board of Commissioners mid-year in 2016.

CAW's 2016 Cost of Benefits as a percent of total compensation (wages + benefits) at 29.67% was closely aligned with the Bureau of Labor Statistics (BLS)/SHRM national average (29.20%), and increases were largely due to an increase in expenses associated with self-funded workers' compensation coverage.

During 2016, the Environmental Health & Safety (EHS) Section emphasized personal safety through monthly safety meetings and other focused initiatives. EHS conducted 103 training sessions that provided over 2,550 hours of safety training for CAW employees.

In addition, the EHS section continued emphasized personal safety by conducting eight facility inspections and 159 field inspections.

### Distribution

In 2016, the Distribution Department organization chart was expanded with the incorporation of Customer Service Field representatives in the department. The Department's personnel increased from 113 authorized employees to 152 authorized employees. These changes were made to best serve our customers with the most efficient utilization of existing personnel and resources. Customer Service Field and Distribution work activities associated with water meters sometimes overlapped; therefore, those activities needed to be closely coordinated to maximize work efficiency and minimize costs.

The Distribution Department completed over 142,000 work orders on CAW assets including pump stations, treatment plants, storage tanks, wells, water mains, meters, valves, and hydrants. Staff installed variable frequency drives in numerous pump stations to increase operating efficiencies and extend the useful life of pumps and motors. The department installed a stand-by generator at Pump Station No. 19A, and completed replacement of all the programmable logic controller (PLC) filter controls at the Wilson Plant. Staff assumed maintenance duties at the Lake Maumelle Pump Station in 2016 and did significant work on the stand-by generators on-site there. Distribution continued to be proactive regarding water infrastructure replacement and rehabilitation needs through its aggressive 2-inch diameter galvanized pipe replacement program. A total of 12,570 feet of 2-inch diameter galvanized pipe was replaced in 2016 using the department's directional boring machine. Over 600,000 feet of 2-inch diameter galvanized pipe is still to be replaced system wide. In addition to the galvanized pipe replaced, Distribution installed another 6,000 feet of water main on various replacement and relocation projects throughout the system. Distribution exceeded the Utility's goal of 5,000 meters by replacing 8,435 water meters through its 16 year meter change out program. This included 2,123 meters replaced in a combined effort with the Customer Relations & Public Affairs Department.

The department continued to maintain outstanding levels of service for customers. CAW had a total of 513 spontaneous main breaks in 2016, but only 36 of those breaks caused unplanned outages due to the emergency nature. The Distribution Department continued a valve inspection program which began in 2013. In 2016, Distribution personnel completed the inspection of 9,642 valves which finalized the

inspection of all 34,401 valves system wide. The current valve operability rate of 97% is due to the valve inspection program.

In 2016, the Distribution Department had a critical role in the successful merger with MWM. Along with the incorporation of MWM staff into the department, Distribution had several other key tasks. Warehouse personnel were responsible for ordering uniforms and personal protective equipment (PPE) for these staff members. Distribution also ensured that the MWM vehicle fleet was properly incorporated into the CAW fleet. Distribution was responsible for mapping 1,359 MWM valves and 889 MWM hydrants and worked closely with GIS staff to make certain that the mapping of the MWM system was correct and included in the CAW GIS system prior to the merger date in order to operate Maumelle's system seamlessly. Following the merger, Distribution staff completed inspections on all MWM hydrants and also mapped approximately 9,600 meters in Maumelle. Distribution completed 2,780 work orders in Maumelle in 2016.

### Engineering

The Engineering Department, through capital improvement projects and private developer construction, managed and oversaw the installation and/or replacement of 17.0 miles of public water mains and the installation of 5.1 miles of new private water mains in 2016. Also, 5.3 miles of public water mains and 0.1 miles of private water mains were retired in 2016.

In 2016, CAW replaced approximately 22,000 feet of galvanized pipe. The Engineering Department designed all the replacement work and managed contracts to execute 40% of the construction. The remaining 60% was constructed in-house by the Distribution Department.

Other major projects that the Engineering Department designed, managed, and/or inspected to completion in 2016 include:

- Managed and assisted in the design of 5.5 miles of 30-inch transmission main designed to connect the City of Maumelle to the CAW potable water system;
- Completed five relocation projects ranging in length from 100 feet to 4,000 feet and pipe size from 2-inch to 16-inch for street, road, and drainage improvements initiated by the Arkansas Highway and Transportation Department and the cities of Little Rock, North Little Rock, Sherwood, and Maumelle;
- Managed to completion a preliminary engineering report with a qualified consulting engineering firm to study an alternate raw water supply from the Arkansas River should the supply from Lake Maumelle become compromised;
- Commenced management of the design project to make approximately \$5,000,000 in improvements to the Wilson Plant Pump Station No. 1A; work to be performed in two phases with full completion in 2022;
- Completed the construction phase of a capital project to replace approximately 6,300 feet of 2-inch galvanized water pipe and 2,500 feet of 6-inch asbestos-cement water pipe with new PVC and ductile iron pipe in the Dixie Addition area of North Little Rock;
- Completed the construction phase of a capital project to replace approximately 3,700 feet of 12-inch asbestos-cement water pipe with new ductile iron pipe along East Roosevelt Road in Little Rock;
- Completed the construction phase of a capital project to replace approximately 800 feet of 74 year old 16-inch steel water pipe with new ductile iron pipe in the Riverdale area of Little Rock;

- Completed the construction phase of a capital project to construct a new booster pumping station for the North Little Rock and Sherwood service area located in the vicinity of the North Little Rock Airport;

Also in 2016, the Engineering Department started other engineering designs for new projects scheduled for construction in 2017 and beyond, including water main relocations due to new street/highway improvements and replacement of troublesome galvanized and asbestos-cement water mains.

### Finance

For the seventh consecutive year, the Finance Department received both the Distinguished Budget Presentation Award and the Certificate of Achievement for Excellence in Financial Reporting from the GFOA.

The GFOA Distinguished Budget Presentation Awards Program recognized those state and local governments that prepared budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting.

The GFOA Certificate of Achievement for Excellence in Financial Reporting Program (CAFR Program) recognized those state and local governments that go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure.

Purchasing personnel completed a cooperative purchasing agreement to utilize bulk fuel for CAW. The use of consignment fuel will provide an estimated annual savings of \$16,800 in fuel costs.

Our purchasing manager won the prestigious award of Purchasing Manager of the Year for 2016. This honor was awarded by the Arkansas chapter of the National Institute of Government Purchasing.

Finance managed all financial aspects of the merger with MWM. This included preparing financial projections and an operating budget for MWM, assessing their financial processes and records, validating the existence and reviewing the valuation of their assets and inventory, transitioning all banking and cash balances, and issuing \$22.8 million in water revenue bonds to finance the acquisition and fund required infrastructure to connect the MWM system to the CAW system.

Finance transitioned the annual Financial Plan and Capital Improvement Plan documents to a new document management system. The new system facilitated a more efficient and collaborative approach to compiling the documents and ensured a consistent format throughout.

### Customer Relations & Public Affairs (CRPA)

The Customer Relations & Public Affairs Section encompasses the Communications and Public Policy Sections of the Utility. This section allows CAW to take a more holistic approach to managing relationships with both external and internal audiences and ensuring that all interactions with the Utility provide an exceptional experience that exceeds expectations.

In 2016, the Communications Section continued customer communication through billing-based content, website, and social media while also expanding to more robust digital-based communication efforts along with special promotions for our paperless billing and automatic draft payment options. In addition, the section further developed its social media management strategy, executing outreach efforts in-house through messaging that will encourage community advocacy for the product and services we provide. Throughout 2016, the Communications Section issued over 40 press releases and provided spokesperson interview content regarding utility activities for most media outlets in Central Arkansas.

CAW also continued its Help to Others (H2O) hardship assistance program, working to identify third-party management resources that will provide assistance to a larger number of customers experiencing hardship while maintaining low overhead costs.

The Utility continued to have strong stakeholder involvement and heightened consumer interest in public-policy initiatives and the development of strategies to address various issues and challenges the Utility is facing. In addition to embracing stakeholder input on various projects related to watershed protection, wise water consumption, and resources utilization, the Utility took a proactive approach to media-relations for a number of key activities in 2016 including education programs, tours, special events of CAW and other organizations, television appearances, and public service involvement. Through these efforts, the Utility educated over 500,000 individuals throughout the Central Arkansas region regarding leak detection, wise water use for irrigation systems, freeze precaution efforts, and other core initiatives.

The Utility continued to market and promote enrollment in paperless billing and use of improved online account management features. At the end of 2016, approximately 13% of the Utility's customers were enrolled in paperless billing up from 6.9% in 2015. The Utility initiated a Citizen's Academy curriculum that will be available to educate thousands of citizens and stakeholders about CAW operations.

The Customer Relations Section had approximately 7,500 new customer accounts from the MWM merger. The Customer Relations staff also continued to install and evaluate Advanced Meter Reading (AMR) technology, replacing 174 failing and outdated touch read meters with advanced AMR meters. This had multiple benefits, including reduced Customer Relations Specialist read time, increased efforts to assist low income customers with identifying leads, heightened conservation efforts, lower pay-rate costs, and positive community relations.

The Utility implemented a new check-in system in the James T. Harvey Administration building lobby in 2016. Customers were provided more personal service now that this system gathers customer names upon check-in. Educational information was also displayed in the lobby waiting area which updates visitors on many topics, such as freeze precautions, leak detection, community involvement as well as services and programs that CAW offers. The Call Center statistics improved dramatically from 2015 to 2016. The Call Center fielded 6,300 more calls in 2016 as compared to 2015, while the percentage of abandoned calls fell from 5.97% in 2015 to 3.94% in 2016. Average wait time was reduced by 29% (average of 19.05 seconds per call).

### Information Services

Information Services (IS) continued to roll out updated features of EnQuesta version 4 to CAW customers. Some of the more exciting features included paperless billing, system integrations using application programming interfaces, auto pay, invoice reminders via email and/or text message, and document designer. Through the end of 2016, 10,653 customers have signed up for paperless billing, 9,149 for auto pay, and 44,252 have initiated customer accounts using online access.



A considerable amount of effort was spent this year investigating and training on the billing system used by MWM which was recently merged with CAW. IS researched and determined the best approach for migrating MWM customer and billing data into EnQuesta. At the same time CAW was migrating MWM's water customers to EnQuesta, staff were also adding new rate structures to support billing for the North Little Rock Waste Water Utility (NLRWU) sanitary sewer customers, as NLRWU became the wastewater service provider for Maumelle.

With the success of the paperless service order completion process using tablets by the Customer Service Field group last year, the groundwork was laid to transition other departments from laptops to mobile devices. The Distribution Department, one of CAW largest mobile device user groups, will be migrated next from laptops to iPads. The iPad, along with a Mobile Device Management System implementation, will provide new opportunities for improved efficiencies and access to more information, as well as real time information from the office, for field staff. The ability for CAW to support mobile devices for corporate applications was a key component of the effort to implement cloud based work management, customer service, and asset management applications.

The Geographic Information System (GIS) section of the Information Services department completed a very detailed inventory of all the MWM distribution and treatment process assets, as well as land records and other asset documentation. The information was collected using industry best practices and converted to the CAW enterprise geodatabase structure in a very short amount of time. The MWM customer address information was also standardized to improve accessibility by the GIS and work management system user interfaces.

An initiative was completed in 2016 to modernize the GPS vehicle tracking system. CAW now has the ability to track, in real time, vehicle locations, speed, idle time, harsh driving, fuel economy, and many other items on over 50 of our key fleet. The vehicle information is accessed only by authorized CAW staff via a web application, mobile application, or through our GIS and work management mapping systems.

CAW uses a Wide Area Network (WAN) to support and communicate with all satellite locations. New fiber phone circuits have been installed, which will be more reliable than the old cooper circuits they replaced. These new circuits give CAW better communications and network data transfers, helping to ensure continuance of operations during outages and potential disasters.

### Water Quality & Operations

#### *Source & Treatment Operations*

The Utility began upgrading the Supervisory Control and Data Acquisition Human-Machine Interface (SCADA HMI) software to enhance robustness, functionality, and resiliency of the system that monitors and controls the treatment plants and distribution system. Grant funds from the Arkansas Department of Health (ADH) were used to replace aging fluoride feed equipment at both the Ozark Point and Wilson treatment plants.

Security was upgraded at both Ozark Point and Jack H. Wilson Plants. Fencing was replaced at the Jack H. Wilson Plant, and lights and cameras were replaced at Ozark Point to enhance security of the treatment plants.

Additional projects at the Jack H. Wilson Plant included renovating the control room and painting of the chemical feed room. New valve operators for the basin influent valves were purchased, and installation was begun to enhance and improve safety, functionality, and reliability.

### *Water Quality*

The CAW laboratory section conducted over 112,000 water quality analyses in 2016, ensuring customers received the highest quality water and the Utility maintained full compliance with the federal Safe Drinking Water Act (SDWA) and the State of Arkansas' Rules and Regulations Pertaining to Public Water Systems. CAW's laboratory remained one of the few utility laboratories in the State certified for coliform analyses under the Total Coliform Rule of the SDWA.

The lab also upgraded its analytical capabilities through the purchase and installation of a new gas chromatography/mass spectrometer analyzer. Primarily, this equipment allows CAW to expand monitoring of disinfection by-products created by the CAW treatment process and regulated at the point of delivery in the distribution system. The equipment will also be used to enhance water quality monitoring in Lake Maumelle, Lake Winona, and their respective watersheds.

The watershed protection section completed work with Kleinschmidt Associates in the development of a Recreation Management Plan for CAW-owned properties in the two watersheds. The final report was delivered in early 2016, and subsequent public comments were solicited. Final recommendations included developing a structured framework to analyze recreations requests from outside parties and a detailed assessment of marina operations on Lake Maumelle.

In 2016, Forest management efforts continued to be a major focus of efforts in the Lake Maumelle watershed. CAW contracted with Davis, Dubose and Knight to conduct an ecological thinning of 478 acres west of Roland. Ecological thinning reduces competition between healthy trees and allows more sunlight to reach the forest floor, which enables the growth of a beneficial understory to filter sediment out of storm runoff. Prescribed burns were conducted on a total of 629 acres during the 2016 "burn season". Prescribed burns reduce the risk of catastrophic wildfire and improved water quality by reducing the amount of decaying woody debris and increasing the herbaceous understory.

In October, the Utility held its 8th Annual Lake Sweep around Lake Maumelle. This year's cleanup included options for community residents to dispose of tires, electronic waste, and recyclables. In total, 39 volunteers cleaned up approximately 1.43 tons of trash and over 300 tires, which were kept from entering the waterways. Additionally, crews were able to conduct maintenance on the trails at Bufflehead Bay, Bringle Creel and Loon Point as well as remove silt fencing from the Highway 300 parking area.

### **RELEVANT FINANCIAL POLICIES**

Based on capital financing, debt management, and fiscal responsibility guidelines, periodic reviews of all outstanding debt are performed to identify refunding opportunities. Refunding is considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding, if or the refunding is needed in order to modernize covenants essential to operations, or to restructure the payment of existing debt. As a general rule, the present value savings of a particular refunding should exceed 3%.

Finance assisted in the issuance of \$17.9 million in refunding water revenue bonds at a true interest cost of 1.60%. The proceeds were used to refund the remaining principal balance of the 2007 and 2011B issues. The reduction in debt service payments over an eleven year period totals approximately \$3,317,000.

## OTHER INFORMATION

### Independent Audit

An independent audit by certified public accountants is important in determining the reliability of the Utility's financial statements. The importance of such verification has been recognized by the federal and state government, the Utility's bond holders, and the general public. The Utility contracted with the accounting firm of Thomas & Thomas LLP for this audit. The audit was conducted 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. The auditor's report has been included in the Financial Section of this report.

### Award

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to CAW for its CAFR for the year ended December 31, 2015. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local governmental financial reports. A Certificate of Achievement was awarded because CAW published an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable program requirements.

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

### Acknowledgements

The preparation of this report has been accomplished due to the dedicated and professional efforts of the Finance Department, along with staff cooperation from the Utility's other departments. We thank the Board of Commissioners for continued support in planning and conducting the Utility's financial affairs in a responsible and progressive manner.

Respectfully submitted,

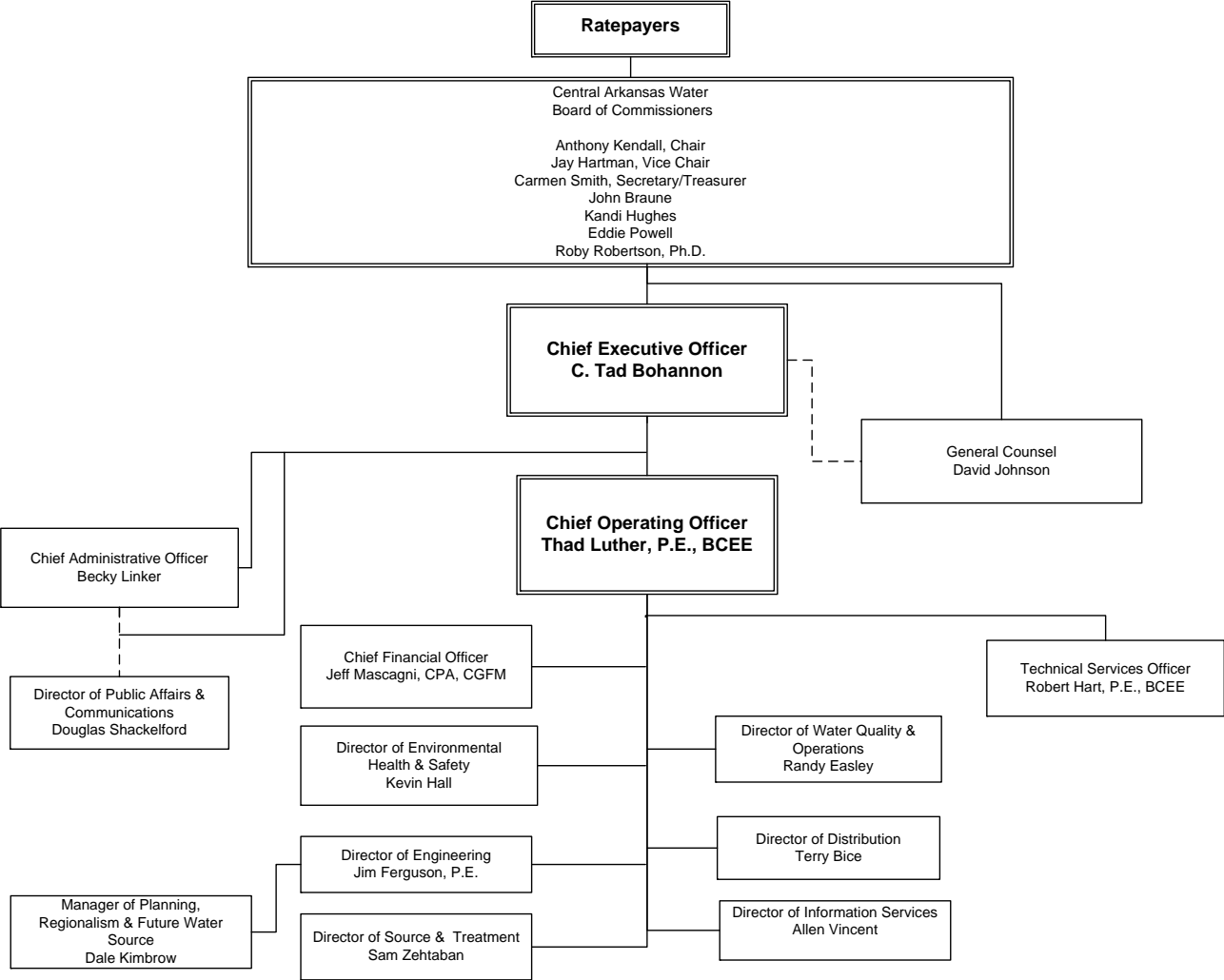


Tad Bohannon  
Chief Executive Officer  
CTB/jbm

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# CENTRAL ARKANSAS WATER

## Organizational Chart



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# Central Arkansas Water

## BOARD OF COMMISSIONERS



**Anthony Kendall**  
Chair



**Jay Hartman**  
Vice Chair



**John Braune**  
Commissioner



**Kandi Hughes**  
Commissioner



**Eddie Powell**  
Commissioner



**Roby Robertson**  
Commissioner



**Carmen Smith**  
Commissioner

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# Central Arkansas Water

## MANAGEMENT TEAM

<b>C. Tad Bohannon, J.D., LL.M</b>	Chief Executive Officer
<b>Thad Luther, P.E., BCEE</b>	Chief Operating Officer
<b>David Johnson, J.D.</b>	General Counsel
<b>Robert Hart, P.E., BCEE</b>	Technical Services Officer
<b>Becky Linker</b>	Chief Administrative Officer
<b>Jeff Mascagni, CPA, CGFM</b>	Chief Financial Officer
<b>Terry Bice</b>	Director of Distribution
<b>Jim Ferguson, P.E.</b>	Director of Engineering
<b>Kevin Hall</b>	Director of Environmental Health & Safety
<b>Allen Vincent</b>	Director of Information Services
<b>Douglas Shackelford</b>	Director of Public Affairs & Communications
<b>Sam Zehtaban</b>	Director of Source & Treatment
<b>Randy Easley</b>	Director of Water Quality & Operations

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Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Central Arkansas Water**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO

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# Central Arkansas Water

## GLOSSARY OF ACRONYMS AND ABBREVIATIONS

ADH	Arkansas Department of Health
AGFC	Arkansas Game and Fish Commission
AMR	Advanced Meter Reading
BCEE	Board Certified Environmental Engineer
BLS	Bureau of Labor Statistics
CAFR	Comprehensive Annual Financial Report
CAW	Central Arkansas Water
CGFM	Certified Government Financial Manager
CPA	Certified Public Accountant
CRPA	Customer Relations & Public Affairs
DIT	Diversity and Inclusion Team
EHS	Environmental Health & Safety
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association of the United States and Canada
GIS	Geographic Information System
GPS	Global Positioning System
H2O	Help to Others Customer Assistance Fund
IS	Information Systems
JCA	Just Communities of Arkansas
J.D.	Juris Doctor
LLP	Limited Liability Partnership
MGD	Million Gallons per Day
MWM	Maumelle Water Management
NLRWU	North Little Rock Wastewater Utility
OPEB	Other Postemployment Benefits
P.E.	Professional Engineer
PLC	Programmable Logic Controllers
PPE	Personal Protective Equipment
USGS	U.S. Geological Survey
SDWA	Safe Drinking Water Act
SHRM	Society for Human Resources Management
WAN	Wide Area Network
WMA	Wildlife Management Area

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# Financial Section



## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Central Arkansas Water  
Little Rock, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of **Central Arkansas Water (the Utility)** and its fiduciary funds as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



***Opinions***

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the respective financial position of the Utility and its fiduciary funds as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 10 to the financial statements, in 2015 the Utility adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in a restatement of the Utility's net position as of January 1, 2015. Our opinions are not modified with respect to this matter.

As discussed in Note 12 to the financial statements, in 2016 under a water consolidation agreement, the Maumelle Suburban Improvement District No. 500 of Pulaski County, Arkansas agreed to combine its water sales and service with the Utility and transferred its assets and liabilities comprising its water operations as if the transfer had occurred at the beginning of the year. Our opinions are not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 25 through 38 be presented to supplement the basic financial statements. Also required is a schedule of the Utility's proportionate share of the net pension liability, a schedule of the Utility's contributions to the pension plan, a schedule of funding progress related to the other postemployment benefits (OPEB) trust, a fiduciary fund of the Utility, and a schedule of employer contributions related to the OPEB trust, which are included on pages 80 through 83, respectively. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, as it is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The introductory section on pages 1 through 19 and statistical section on pages 84 through 105 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and the

*Other Information (Continued)*

statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2017 on our consideration of the Utility's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

*Thomas & Thomas LLP*  
Certified Public Accountants

April 13, 2017  
Little Rock, Arkansas

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# Management's Discussion & Analysis



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016 and December 31, 2015

This section of the CAFR presents management's analysis of the Utility's financial performance during the fiscal years ended December 31, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the transmittal letter, the financial statements, and the notes to the financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

### Financial Highlights

- The Utility net position increased by \$12,441,000 in 2016 as compared to a \$8,836,000 decrease in 2015. The MWM acquisition accounted for the 2016 increase while implementation of new accounting standards for reporting pension liability resulted in a prior period adjustment of \$15,256,000 for 2015, precipitating the net position decrease.
- Operating revenues increased \$6,615,000, or 12%, in 2016 and \$2,483,000 in 2015. The 2016 increase was primarily due to the addition of MWM water sales and an increase in ancillary charges. The 2015 increase was primarily attributable to fluctuation in customer water consumption. Operating expenses increased by \$6,514,000 from 2015 to 2016 and increased by \$536,000 from 2014 to 2015. The majority of the increase from 2015 to 2016 resulted from the MWM merger. Increased personnel costs were the reason for the 2014 to 2015 increase.
- The Utility's total noncurrent liabilities increased during 2016 by \$22,638,000 and by \$12,870,000 in 2015. The 2016 increase was primarily due to the additional debt taken on by the Utility to connect the newly acquired MWM system to the CAW system. The increase in 2015 was primarily attributable to pension liability.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. The basic financial statements are comprised of the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows, as well as the statements of fiduciary net position, and the statements of changes in fiduciary net position. The notes to financial statements provide additional information regarding amounts presented in the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

The financial statements of the Utility are designed to provide readers with a broad overview of the Utility's finances in a manner similar to a private sector business. The Utility's financial statements were prepared using the economic resources measurement focus and full accrual basis of accounting, consistent with the requirements of the Governmental Accounting Standards Board (GASB) applicable to enterprise funds.

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Utility's deferred outflows and inflows of resources consisted of deferred loss and gain, respectively, on debt refunding transactions, and pension related deferred outflows and inflows. A deferred loss or gain on refunding results from the

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) December 31, 2016 and 2015

### Overview of the Financial Statements (*Continued*)

difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt. Pension related deferred outflows and inflows consisted of CAW's proportionate share of pension related items due to differences between projected and actual experience, contributions to the plan not recognized in pension expense, and changes in actuarial assumptions. These items were a result of new accounting standards requiring CAW to recognize its share of pension plan liabilities and pension expense.

*The statements of net position* present information about the four elements that make up the Utility's statements of net position. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

*The statements of revenues, expenses and changes in net position* present information that shows how the Utility's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., water revenues for water service provided in the current reporting period that will not be collected until the next reporting period or expenses associated with goods or services received by the Utility in the current reporting period that will be paid for in the next reporting period).

*The statements of cash flows* present information about the Utility's cash receipts, cash payments, and the net changes in cash resulting from operating, investing, and financing activities.

*The statements of fiduciary net position and statements of changes in fiduciary net position* provide information about resources accumulated in the Other Postemployment Benefits (OPEB) Trust to fund the costs of postemployment healthcare benefits for eligible employees, as well as the assets and liabilities of Brushy Island Public Water Authority (Brushy Island) held by the Utility as receiver. These resources were held in trust and were not available to support the Utility's programs or to satisfy any of the Utility's liabilities that were not directly related to funding postemployment healthcare benefit costs or Brushy Island debt service.

*The notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that includes information about the Utility's progress in funding its obligation to provide other postemployment benefits to its employees.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2016 and 2015

### Financial Analysis *(Continued)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Total current assets	\$ 69,760,000	\$ 52,165,000	\$ 52,528,000
Restricted noncurrent assets	4,961,000	4,702,000	3,890,000
Net capital assets	410,009,000	396,445,000	393,268,000
Total Assets	<u>\$ 484,730,000</u>	<u>\$ 453,312,000</u>	<u>\$ 449,686,000</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 8,129,000</u>	<u>\$ 4,909,000</u>	<u>\$ 560,000</u>
<b>Liabilities</b>			
Total current liabilities	\$ 18,297,000	\$ 17,551,000	\$ 15,579,000
Total noncurrent liabilities	114,789,000	92,151,000	79,281,000
Total Liabilities	<u>\$ 133,086,000</u>	<u>\$ 109,702,000</u>	<u>\$ 94,860,000</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 1,009,000</u>	<u>\$ 2,196,000</u>	<u>\$ 227,000</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 329,906,000	\$ 320,026,000	\$ 312,636,000
Restricted – expendable	7,684,000	7,188,000	6,059,000
Unrestricted	21,174,000	19,109,000	36,464,000
Total Net Position	<u>\$ 358,764,000</u>	<u>\$ 346,323,000</u>	<u>\$ 355,159,000</u>
<b>Operating Revenues</b>			
Little Rock water sales	\$ 29,905,000	\$ 30,213,000	\$ 28,474,000
North Little Rock water sales	13,185,000	13,525,000	12,738,000
Maumelle water sales	4,453,000	-	-
Wholesale	3,782,000	3,721,000	3,858,000
Penalties	885,000	879,000	917,000
Turn-on charges	1,092,000	989,000	1,010,000
Ancillary charges	6,575,000	4,022,000	3,930,000
Other revenue	819,000	732,000	671,000
Total Operating Revenues	<u>60,696,000</u>	<u>54,081,000</u>	<u>51,598,000</u>
<b>Operating Expenses</b>			
Administration	\$ 2,668,000	\$ 2,599,000	\$ 2,471,000
Distribution	13,313,000	10,257,000	10,659,000
Engineering	1,804,000	1,694,000	1,821,000
Finance	3,104,000	2,582,000	2,548,000
Customer relations & public affairs	4,955,000	4,436,000	4,459,000
Information services	3,186,000	3,050,000	3,134,000
Source & treatment	8,240,000	8,012,000	7,717,000
Water quality	2,051,000	2,024,000	1,911,000
General	3,057,000	2,113,000	1,971,000
Depreciation	12,150,000	11,247,000	10,787,000
Total Operating Expenses	<u>54,528,000</u>	<u>48,014,000</u>	<u>47,478,000</u>
<b>Operating Income</b>	<u>6,168,000</u>	<u>6,067,000</u>	<u>4,120,000</u>

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2016 and 2015

### Financial Analysis *(Continued)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Nonoperating Revenues (Expenses)</b>			
Transfers to Cities of LR and NLR	\$ (676,000)	\$ (659,000)	\$ (659,000)
Gain (loss) on disposal of capital assets	77,000	76,000	26,000
Investment income	238,000	195,000	199,000
Bond and other interest expense, net	<u>(3,285,000)</u>	<u>(2,408,000)</u>	<u>(2,320,000)</u>
Total Nonoperating Expenses	<u>(3,646,000)</u>	<u>(2,796,000)</u>	<u>(2,754,000)</u>
<b>Income Before Contributions and Special Item</b>	2,522,000	3,271,000	1,366,000
<b>Contributions and Special Item</b>			
Capital contributions from grantors	26,000	127,000	-
Contributions-in-aid of construction	2,148,000	3,022,000	2,254,000
Special item - transfer of operations from Maumelle	<u>7,745,000</u>	<u>-</u>	<u>-</u>
Total Contributions	<u>9,919,000</u>	<u>3,149,000</u>	<u>2,254,000</u>
<b>Change in Net Position</b>	12,441,000	6,420,000	3,620,000
<b>Net Position – Beginning of Year</b>	<u>346,323,000</u>	<u>355,159,000</u>	<u>351,539,000</u>
<b>Pension Related Restatement of Net Position</b>	<u>-</u>	<u>(15,256,000)</u>	<u>-</u>
<b>Net Position - Beginning of Year, as Restated</b>	<u>346,323,000</u>	<u>339,903,000</u>	<u>351,539,000</u>
<b>Net Position – End of Year</b>	<u>\$ 358,764,000</u>	<u>\$ 346,323,000</u>	<u>\$ 355,159,000</u>

### Statements of Net Position

As noted earlier, net position may serve, over time, as a useful indicator of the Utility's financial position. At the close of 2016 and 2015, the Utility's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$358,764,000 and \$346,323,000, respectively. The largest portion of net position, 92% in both 2016 and 2015, reflected the Utility's investment in capital assets, less related outstanding debt incurred to acquire those assets. The Utility used these capital assets to provide services to customers of the Utility and consequently, these assets were not available for future spending. Although the Utility's investment in capital assets was reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Depreciation was recorded on all depreciable capital assets using the straight-line method. During the years ended December 31, 2016 and 2015, no changes were made in the method of recording capital assets, nor were there any changes made to any of the standard service lives of those assets. There were no significant changes in the condition of infrastructure assets. Funds that were budgeted for infrastructure maintenance were adequate for needs that arose during the years ended December 31, 2016 and 2015.

An additional portion of the Utility's net position, 2% in 2016 and 2015, is comprised of resources that are subject to external restrictions on how they may be used. In 2016, restricted net position increased \$496,000, and increased \$1,129,000 in 2015. Balances in restricted net position accounts will fluctuate as resources are accumulated to repay outstanding bonds and construction proceeds are spent.



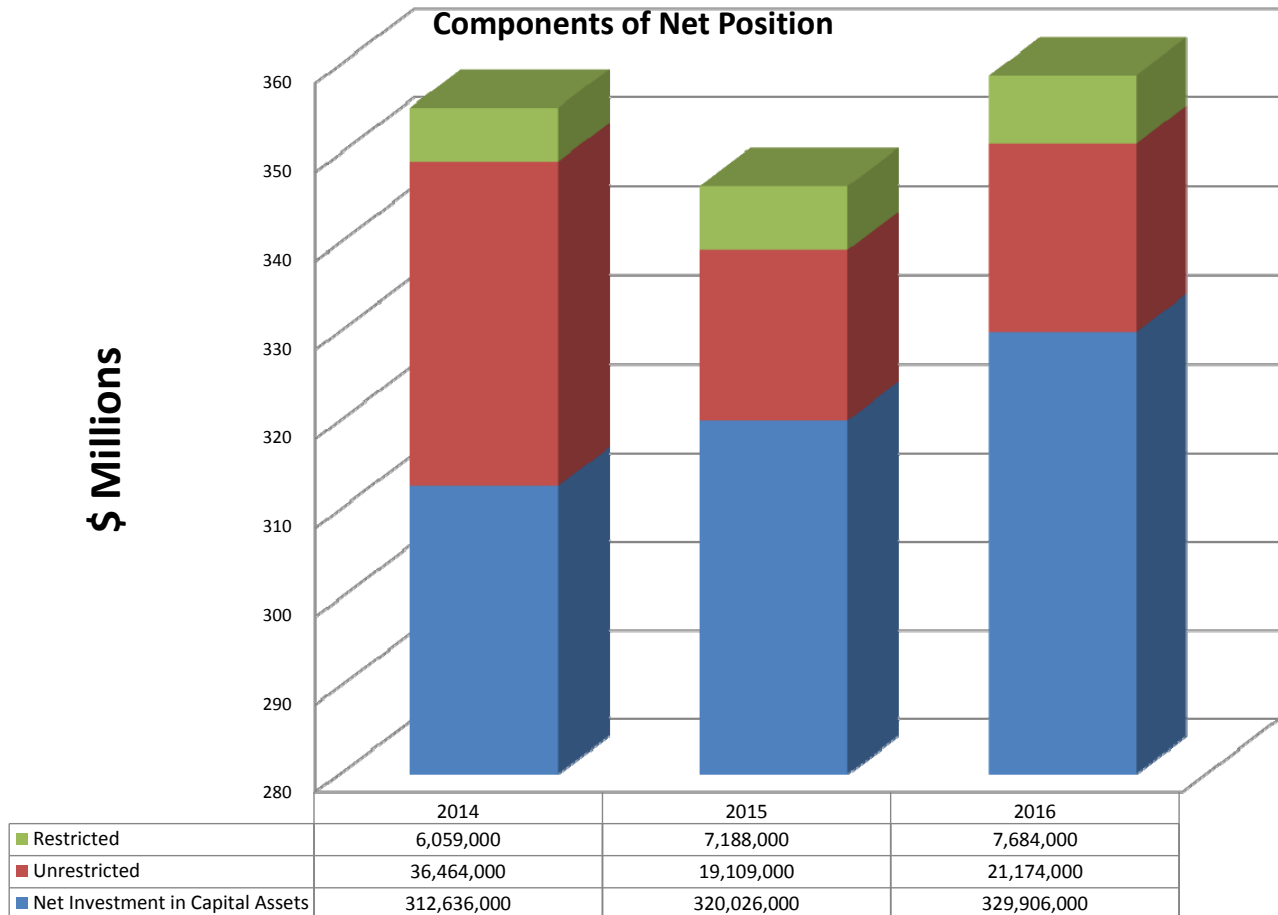
# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2016 and 2015

### Financial Analysis (Continued)

#### Statements of Net Position (Continued)

The remaining balance of net position, \$21,174,000 in 2016 and \$19,109,000 in 2015, was unrestricted and was used to meet the Utility's ongoing obligations to customers and creditors. Unrestricted net position increased \$2,065,000 and decreased \$17,355,000 in 2015. The 2016 increase was attributable to the MWM merger while the 2015 decrease was the result of pension liability.



Financial ratios are used to analyze relationships between different pieces of financial information. Ratio analyses can present information about an entity's operating performance and financial position. Short-term liquidity can be demonstrated using the current ratio and quick ratio. The current ratio is calculated by dividing current assets by current liabilities. The quick ratio is similar to the current ratio but excludes inventory because inventory is normally the least liquid current asset. A number greater than 1 indicates current assets in excess of current needs that can be applied to future periods. The current ratios as of December 31, 2016 and 2015 were 3.8 and 3.0, respectively. This ratio means for every \$1.00 in current liabilities as of December 31, 2016, the Utility had \$3.80 in current assets. For the periods ended December 31, 2016 and 2015, the quick ratios for each year were 3.7 and 2.8, respectively.

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2016 and 2015

### Financial Analysis *(Continued)*

#### Statements of Net Position *(Continued)*

Efficiency can be demonstrated by calculating the average collection period of billed revenue. Other agencies were included in the monthly bills issued to customers (i.e., Little Rock Wastewater Utility, North Little Rock Waste Water Utility, Little Rock Solid Waste Services Division, Pulaski County Sanitation Division, and others); however, these balances were subtracted from accounts receivable so that a comparison can be made between water receivables and water revenues. Turnover is calculated by dividing total operating revenue by total water accounts receivable; then 365 days is divided by the Receivables Turnover to arrive at an Average Collection Period of 18 days and 20 days as of December 31, 2016 and 2015, respectively.

The Utility continued to strive to improve cash flow and customer service by offering a variety of payment options. In addition to accepting payments at the Capitol Avenue office in Little Rock, the Utility offered flexibility in bill payment options by allowing customers to pay their bills by automatic bank draft, on-line at the Utility website, by mail, by telephone through a third-party service provider, on-line through third-party payment providers, or at third-party payment locations throughout the service area. During 2016, the Customer Relations section promoted paperless billing, which resulted in approximately 1,700 additional customers switching to paperless billing. Customer Relations also promoted the Auto Pay payment option, which resulted in approximately 500 additional customers allowing CAW to draft their monthly payment.

Another important ratio is the debt utilization ratio. The debt utilization ratio is calculated by dividing total liabilities by total assets and was 27% and 24% for 2016 and 2015, respectively. These ratios were both well below the median ratio of 32% as determined by the American Water Works Association's 2013 benchmark.

It is the policy of the Utility not to make any adjustments to net position unless a prior period adjustment is necessary. Prior period adjustments were recorded during 2015 as a result of implementation of applicable accounting pronouncements.

#### Statements of Revenues, Expenses and Changes in Net Position

##### Operating Revenues

There were no scheduled retail rate adjustments for 2015 or 2016. Wholesale rates were increased approximately 10% in 2016. The CAW Board of Commissioners approved a rate schedule covering the former MWM customers in 2015, effective on the date of the merger. Pursuant to CAW Board of Commissioner approval, a rate increase of 8.9% is scheduled to go into effect on January 1, 2017.

Operating revenue for 2016 increased \$6,614,000 over 2015 levels and increased \$2,483,000 in 2015 over 2014 levels. Water consumption totaled 17.5, 17.7 and 17.0 billion gallons in 2016, 2015, and 2014, respectively. The operating revenue increase in 2016 was primarily due to the addition of MWM and its revenue streams, while the operating revenue increase in 2015 was primarily due to consumption fluctuations as a result of weather conditions. Higher than normal rainfall in the spring and summer months can have a significant impact on sprinkler consumption.

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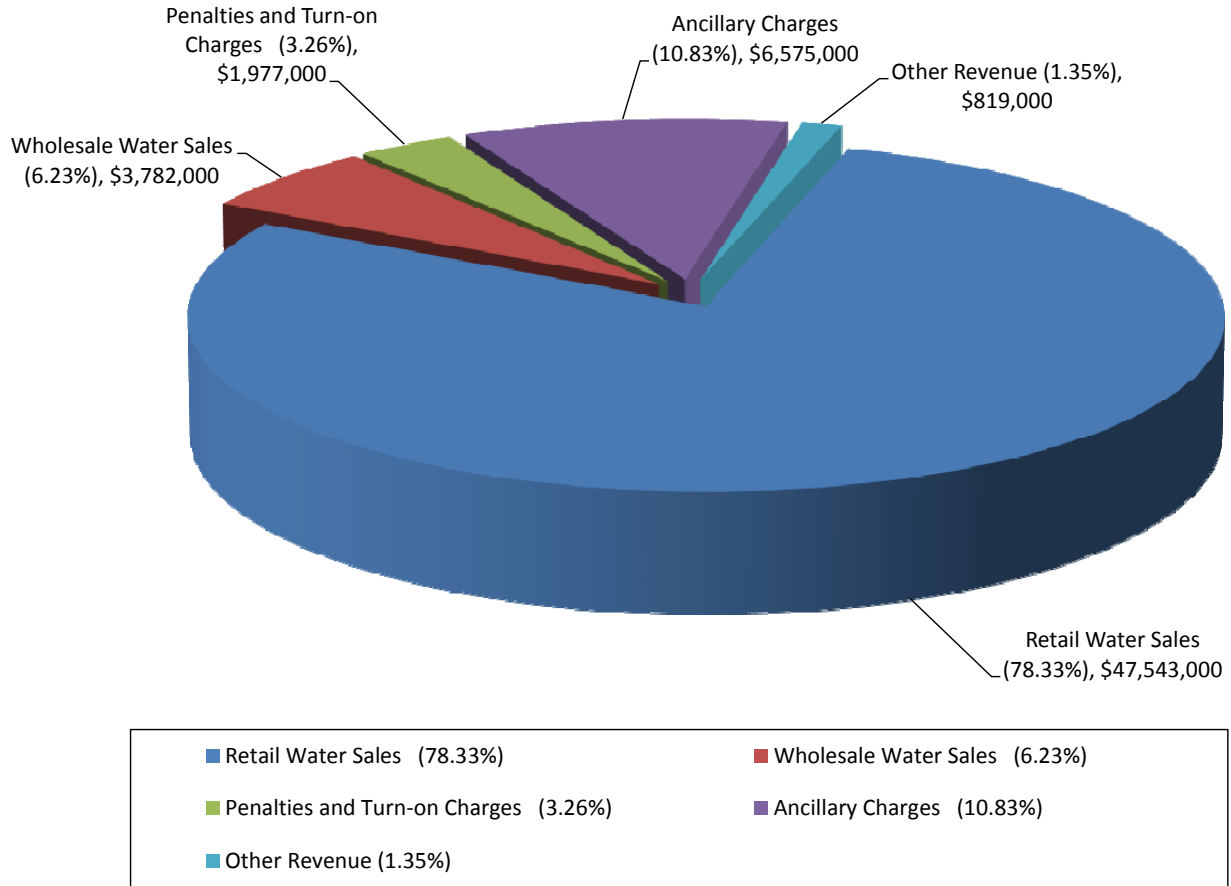
## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2016 and 2015

### Financial Analysis (Continued)

#### Statements of Revenues, Expenses and Changes in Net Position (Continued)

#### Operating Revenues (Continued)

The following graph illustrates sources of revenue during the year ended December 31, 2016.



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

December 31, 2016 and 2015

### Financial Analysis (*Continued*)

#### Statements of Revenues, Expenses and Changes in Net Position (*Continued*)

##### Operating Expenses

- Administration – Administration costs include commissioner, management, human resources, and environmental health & safety expenses. During 2016, total administrative costs increased \$69,000. The management section decreased by \$353,000, human resources increased by \$224,000, safety increased by \$51,000, commissioner expenses increased by \$1,000, and MWM administrative costs of \$146,000 were added to account for the total increase. Due to the completion of the MWM consolidation feasibility and consolidation route studies, management special project costs dropped back to the pre-merger levels. Having two senior management positions unfilled for part of the year also contributed to the management section decrease. The 2015 increase was attributed to costs paid to Hawkins-Weir Engineers, Inc. for the above mentioned consolidation feasibility study and to Raftelis Financial Consultants, Inc. for a water rate study, offset by a reduction in security staffing.
- Distribution – The Distribution Department included expenses for maintaining water mains, booster pumping stations, water storage tanks, vehicles, treatment plants, and other facilities. 2016 costs increased \$3,056,000 over 2015. The addition of MWM distribution costs of \$2,386,000 accounted for over three-quarters of the increase. Payroll and related costs increased in all areas: \$143,000 in Administration; \$72,000 in Meters, Warehouse, Dispatch; \$24,000 in Pump Stations; \$49,000 in Plant Maintenance; and \$377,000 in Distribution Systems Maintenance. Several factors resulted in a decrease of \$402,000 in 2015 Distribution costs over costs reported in 2014. Administration expense decreased \$60,000 in payroll costs attributable to retirements. Capitalized labor increased by \$78,000, from \$1,287,000 in 2014 to \$1,365,000 in 2015. Distribution system maintenance costs decreased by \$260,000 in materials, job costs, and fuel.
- Engineering – The Engineering Department included expenses for the planning, design, and inspection of construction improvements within the water system. Engineering is comprised of divisions for engineering administrative staff, new service, cross connection, and regionalism. During 2016, total engineering costs increased by \$110,000. Payroll and related costs were higher in administration by \$184,000, in new service by \$16,000 and in regionalism by \$11,000. These increases were offset by decreases in payroll and related costs in cross connection of \$27,000, in professional services of \$13,000, and more capitalized labor of \$60,000. 2015 engineering costs decreased \$127,000. Reduction in payroll expense resulted from fewer filled positions and less capitalized labor.
- Finance – The Finance Department included costs related to finance and budgeting, purchasing, and billing. Costs for the department increased by \$522,000 during 2016. This was mainly due to the addition of MWM, increased payroll and related costs, as well as increases in audit fees and bank and processing fees. Expenses for the department increased by \$34,000 in 2015. The increase was attributed to payroll increases compared to 2014 when there were several high impact retirements

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2016 and 2015

### Financial Analysis *(Continued)*

#### Statements of Revenues, Expenses and Changes in Net Position *(Continued)*

#### Operating Expenses *(Continued)*

- Customer Relations & Public Affairs – Customer Relations & Public Affairs included costs related to customer service-office and field operations, communications, and public affairs. Costs increased \$519,000 from 2015 to 2016. This was primarily due to the MWM merger and the increase in payroll and related costs for the field operations section of customer service. Total expenses decreased \$22,000 from 2014 levels, and were attributable to reduced special project spending and lower fuel costs in 2015.
- Information Services – The Information Services Department expenses were related to maintaining information systems, computer operations, and telecommunications of the Utility. Information Services is divided into Information Services (IS) administration and Geographic Information Services (GIS). During 2016, total department costs increased by \$136,000. The addition of MWM (\$122,000), increase of office supply expense in GIS (\$5,000), as well as increased telephone and network services (\$68,000), offset by decreased payroll and related costs (\$43,000) and equipment costs (\$19,000) in the IS department contributed to the overall departmental increase. Department costs decreased by \$84,000 in 2015 compared to the previous year, primarily attributable to decreased communication costs in telephone, network, wireless and internet services.
- Water Source & Treatment – Expenses for Source & Treatment included treatment and maintenance of the lakes. Department costs increased by \$228,000 during 2016. Additional costs due to the MWM merger, along with increased chemical costs and decreased electrical costs accounted for the increase. During 2015, total department costs increased by \$295,000. Contributing expenses were in electric and chemical costs which resulted in plant chemical optimization while additional consumption resulted in electrical cost increases.
- Water Quality –The Watershed Section expenses included monitoring water-quality and watershed land-use activities, building support for watershed protection and providing the Board of Commissioners with water quality recommendations. 2016 expenses increased by \$27,000 due to an increase in payroll and related costs, lab supplies, and the addition of MWM. Decreases in contracts for outside services offset this increase. Water Quality expenditures increased by \$113,000 in 2015 compared to 2014. A majority of this increase was due to Watershed staff restructuring which included adding more technical positions and additional responsibilities as it has broadened its scope of operations
- General – General expenditures included expenditures for insurance and building maintenance at the James T. Harvey Administration Building, along with other costs. The largest expenditure items included group, retiree and workers compensation insurance and bad debt expense. 2016 general expenditures increased \$944,000 from 2015. The addition of MWM, increase in professional services, and increase in retiree and workers compensation insurance comprised the majority of the increase. Decreased bad debts counteracted the effect of the increase. General expenditures increased in 2015 by \$142,000 from 2014 to 2015. Cost increases were \$58,000 in workers compensation insurance, \$71,000 in injuries and damage claims, and \$24,000 in bad debt expense.

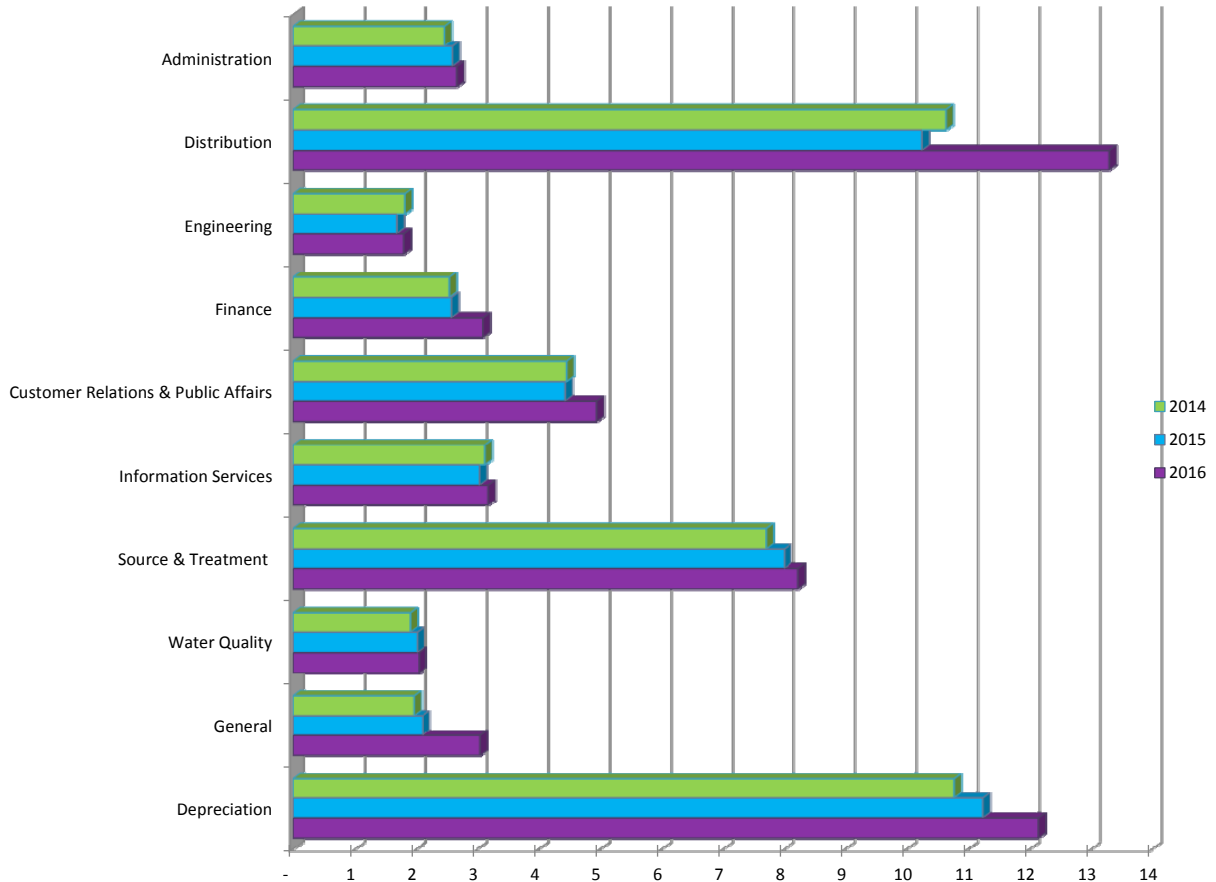
# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2016 and 2015

### Financial Analysis (Continued)

#### Statements of Revenues, Expenses and Changes in Net Position (Continued)

#### Operating Expenses (Continued)



#### Nonoperating Revenues (Expenses)

- Investment Income – 2016 investment income increased by \$43,000 from 2015, and 2015 decreased by \$4,000 from 2014. The 2016 increase was due to improved market conditions, resulting in an increase in value of \$66,000. The 2015 decrease was the result of small fluctuations in interest rates.
- Bond Interest Expense – Net bond interest expense for 2016 is \$3,285,000, compared to \$2,408,000 for 2015. The issuance of bonds for MWM, along with associated costs and interest expense was the reason for the increased amount in 2016.
- Capital Contribution from Grantors – \$26,000 in capital grants were awarded in 2016, while \$127,000 was awarded during 2015, resulting in a \$101,000 decrease.
- Contributions-In-Aid of Construction – Contributions-in-aid of construction may be received as cash or equity. Contributions-in-aid of construction were \$2,254,000 in 2014, increased to \$3,022,000 in 2015, and decreased in 2016 to \$2,148,000. These fluctuating amounts show the variability of contributions from year to year as a result of new construction. Contributed equity is an asset of the Utility and is maintained as part of the system.

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2016 and 2015

### Financial Analysis (Continued)

#### Statements of Revenues, Expenses and Changes in Net Position (Continued)

#### Nonoperating Revenues (Expenses) (Continued)

- The transfer of operations from Maumelle to the Utility resulted in reporting a special item in 2016 of \$7,745,000.

### Capital Assets and Debt Administration

The significant components of the Utility's capital asset balances, as well as the outstanding balances of debt issued to acquire, improve or construct capital assets are detailed below:

#### Capital Assets

Major capital projects completed during 2016 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Completion of construction project to replace old 16-inch asbestos-cement water pipe with 700 feet of new ductile iron main, in Little Rock, along Rock Street from 4 <sup>th</sup> St. to 6 <sup>th</sup> St.	\$ 184,000
Completion of construction project to replace old 16-inch steel water pipe with 800 feet of new ductile iron main across Cantrell Road in the Riverdale area of Little Rock.	\$ 416,000
Completion of construction project to replace old 12-inch asbestos-cement water pipe with 3,700 feet of new ductile iron main, along East Roosevelt west of I-30.	\$ 649,000
Completion of construction project to replace old, high maintenance 2-inch galvanized water pipe with 6,300 feet of 2-inch PVC, 6-inch ductile iron, and 8-inch ductile iron water main, in the Dixie Addition area of North Little Rock.	\$ 594,000
Completion of project to construct a new booster pump station, No. 26B, near Batesville Pike north of the North Little Rock Airport.	\$ 534,000
Completion of construction project to install 3,275 feet of 16-inch, 12-inch, and 6-inch ductile iron water pipe for the relocation of existing water facilities for a new railroad overpass at the intersection of East McCain Blvd and Fairfax Road in North Little Rock.	\$ 427,000

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2016 and 2015

### Capital Assets and Debt Administration *(Continued)*

#### Capital Assets *(Continued)*

Major capital projects completed during 2015 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Completion of construction project to replace old galvanized water pipe with 5,870 feet of 2-inch and 3-inch PVC pipe in the Hillcrest area of Little Rock.	\$ 584,000
Completion of construction project to install 1,487 feet of 12-inch ductile iron pipe for the relocation of existing water facilities for a new Arkansas Highway and Transportation Department Highway 365 (MacArthur Drive) viaduct over the Union Pacific railroad located in North Little Rock.	\$ 315,000
Completion of construction project to install 2,286 feet of 12-inch ductile iron pipe for relocation of existing water facilities, street and drainage improvements along Sherrill and Mabelvale Cutoff Road constructed by the City of Little Rock.	\$ 375,000
Completion of construction project to install 560 feet of 12-inch and 1,188 feet of 8-inch ductile iron pipe for the relocation of existing water facilities for a new Arkansas Highway and Transportation Department Highway 367 (South Arch Street) viaduct over the Union Pacific railroad located in Little Rock.	\$ 200,000
Paid for the relocation of 1,265 feet of 20-inch water pipe for the new Broadway Bridge construction over the Arkansas River.	\$ 1,319,000

Major capital projects completed during 2014 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Installation of 6,220 feet of 2-inch PVC water main along and around Washington Street in North Little Rock to replace old, high maintenance galvanized pipe.	\$ 260,000
Completion of the construction phase for the water treatment plant improvements necessary for the Utility to meet the 2014 USEPA Stage 2 D/DBP Rule.	\$ 15,100,000



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*

December 31, 2016 and 2015

### Capital Assets and Debt Administration *(Continued)*

#### Capital Assets *(Continued)*

<u>Project Description</u>	<u>Total Cost</u>
Broadway Bridge South Water Main Connection project consisting of new 12-inch and 20-inch water pipe installation, meter vault construction, and bore and encasement under Ark. State Hwy. 10, work in preparation for the demolition of the existing Broadway Bridge and new bridge construction over the Arkansas River.	\$ 354,000
Lining of 1,350 feet of 50-year old 16-inch cast iron pipe with a cured-in-place pipe liner to rehabilitate the original pipe that was prone to spontaneous leakage and breaks. The rehabilitated pipe runs along North University Ave from Cantrell Rd to South Country Club Blvd.	\$ 643,000
Installation of 5,150 feet of 3-inch and 6-inch water main in various locations within Little Rock and North Little Rock to replace old, high maintenance galvanized pipe.	\$ 458,000
Relocation of 450 feet of 6-inch water main and 400 feet of 24-inch transmission main due to the reconstruction of a road bridge along Remount Road in North Little Rock.	\$ 187,000
Relocation of 4,422 feet of 12-inch, 142 feet of 8-inch, and 456 feet of 6-inch water mains along Cantrell Road (Ark State Hwy No. 10) in Little Rock due to widening and reconstruction of the highway by the Arkansas State Highway Department.	\$ 775,000
Installation of 3,487 feet of 12-inch, 2,450 feet of 8-inch, and 330 feet of 6-inch water main to replace old, high maintenance asbestos-cement and cast iron pipe in three different locations within Little Rock.	\$ 686,000
Relocation of 3,100 feet of 12-inch water main due to street and drainage improvement construction by the City of Little Rock along Scott Hamilton Road, north of Baseline Road	\$ 494,000
Acquisition of approximately 41 acres of property within the Lake Maumelle Watershed.	\$ 402,000
Upgrade of the customer information and billing software.	\$ 762,000

Capital assets are discussed further in Note 1 and Note 6 to the financial statements.

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2016 and 2015

### **Capital Assets and Debt Administration *(Continued)***

#### **Debt Administration**

At the end of 2016, the Utility had total outstanding debt of \$93,387,000. Total debt increased by \$16,653,000 or 22% in 2016, after decreasing \$4,232,000, or 5%, in 2015. The 2016 increase was primarily due to the additional debt taken on by the Utility in connection with the MWM merger. The 2015 decrease was primarily attributable to normal recurring debt service payments and the current refunding of the Series 2010B bonds.

Long-term debt is discussed further in Note 7 to the financial statements.

#### **Economic Factors and Next Year's Financial Plan and Rates**

Local, state, and federal government have been the area's major employers for many years. Medical facilities, banks, and other service industries are also very important to the local economy. Government and medical facilities employers in particular have kept the local economy relatively stable during the recent economic downturn. Both the cities of Little Rock and North Little Rock have revitalized their respective downtown areas, which have in turn attracted major corporations in a variety of industries.

The local economy has slowly recovered from the 2008 recession and compares favorably to national figures in many categories. Unemployment in Pulaski County for 2016 was 3.2%, which is considerably less than the 4.1% experienced in 2007 prior to the 2008 recession. Unemployment was also favorable compared to the national rate of 4.7%.

Net accounts receivable write-offs decreased from 0.7% to 0.4% of total operating revenue from 2015 to 2016.

The Utility factored in a retail rate increase of 8.9% for 2017 and second 8.9% retail rate increase in 2018. Wholesale rates will increase approximately 10.7% in 2017. The Utility also continues to factor in conservative consumption estimates, reduced levels of growth-related revenues, and a minimal return on financial investments in the 2017 Financial Plan.

The 2017 Financial Plan outlines the Utility's plans to continue to provide high quality, cost-effective service to its customers. The 2017 Financial Plan includes \$24,920,000 in total capital expenditures which will be funded \$520,000 from excess working capital, \$100,000 from capital grants, \$7,401,000 from bond issues, \$1,275,000 from capital improvement charges, \$3,800,000 from developer funds, \$212,000 from loan proceeds, and \$1,070,000 from watershed protection fees. The remaining \$10,542,000 is funded from rates and primarily consists of routine asset additions and replacements in the system.

#### **Request for Information**

This financial report is designed to provide a general overview of the Utility's finances. Questions concerning any information in the report or requests for additional financial information should be addressed to:

Jeff Mascagni, Chief Financial Officer  
Central Arkansas Water  
221 East Capitol Avenue  
Little Rock, Arkansas 72202.

# Basic Financial Statements



# Central Arkansas Water

## STATEMENTS OF NET POSITION December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Unrestricted cash and cash equivalents	\$ 16,343,209	\$ 10,126,314
Unrestricted investments	17,493,705	20,712,957
Accounts receivable – consumers, net	11,837,181	10,704,449
Other receivables	591,811	1,189,062
Inventory	2,569,930	2,287,290
Other current assets	460,145	398,746
<b>Total Unrestricted Current Assets</b>	<b>49,295,981</b>	<b>45,418,818</b>
Restricted cash and cash equivalents	20,463,650	5,958,824
Restricted investments	-	787,389
<b>Total Restricted Current Assets</b>	<b>20,463,650</b>	<b>6,746,213</b>
<b>Total Current Assets</b>	<b>69,759,631</b>	<b>52,165,031</b>
<b>Noncurrent Assets</b>		
Restricted investments	4,951,797	4,698,750
Restricted accrued interest receivable	8,869	3,437
<b>Total Restricted Noncurrent Assets</b>	<b>4,960,666</b>	<b>4,702,187</b>
Capital assets, net of accumulated depreciation	410,009,129	396,444,881
<b>Total Noncurrent Assets</b>	<b>414,969,795</b>	<b>401,147,068</b>
<b>Total Assets</b>	<b>484,729,426</b>	<b>453,312,099</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow related to pensions	7,477,649	4,390,398
Deferred loss on refunding of bonds payable	651,824	518,639
<b>Total Deferred Outflows of Resources</b>	<b>8,129,473</b>	<b>4,909,037</b>
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	 <b>\$ 492,858,899</b>	 <b>\$ 458,221,136</b>

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF NET POSITION *(Continued)*

December 31, 2016 and 2015

	2016	2015
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,846,397	\$ 2,096,680
Payroll and related liabilities	2,820,643	2,574,772
Long-term obligations - current portion	250,797	399,882
Due to other agencies	6,280,380	5,733,879
<b>Total Current Liabilities Payable from Unrestricted Assets</b>	11,198,217	10,805,213
Consumer deposits - current portion	970,482	994,831
Long-term obligations - current portion	5,409,436	5,201,739
Accrued interest payable	718,388	549,643
<b>Total Current Liabilities Payable from Restricted Assets</b>	7,098,306	6,746,213
<b>Total Current Liabilities</b>	18,296,523	17,551,426
<b>Noncurrent Liabilities</b>		
Unearned revenue	982,043	991,863
Consumer deposits	3,259,533	2,725,163
Long-term obligations, net	87,726,642	71,132,878
Net pension liability	22,821,130	17,301,107
<b>Total Noncurrent Liabilities</b>	114,789,348	92,151,011
<b>Total Liabilities</b>	133,085,871	109,702,437
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow related to pensions	829,750	1,992,627
Deferred gain on refunding of bonds payable	179,465	203,130
<b>Total Deferred Inflows of Resources</b>	1,009,215	2,195,757
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	134,095,086	111,898,194
<b>Net Position</b>		
Net investment in capital assets	329,906,226	320,025,891
Restricted - expendable:		
Bond requirements	4,547,968	5,237,093
Future capital expenditures	3,135,751	1,951,054
Unrestricted	21,173,868	19,108,904
<b>Total Net Position</b>	358,763,813	346,322,942
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 492,858,899	\$ 458,221,136

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended December 31, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES</b>		
Little Rock water sales	\$ 29,904,883	\$ 30,213,245
North Little Rock water sales	13,184,738	13,525,139
Maumelle water sales	4,453,643	-
Wholesale	3,781,830	3,721,179
Penalties	885,551	878,500
Turn-on charges	1,091,867	989,227
Ancillary charges	6,574,845	4,022,409
Other revenue	818,766	731,607
<b>Total Operating Revenues</b>	60,696,123	54,081,306
<b>OPERATING EXPENSES</b>		
Administration	2,668,488	2,598,576
Distribution	13,313,139	10,256,858
Engineering	1,803,704	1,694,457
Finance	3,103,823	2,582,474
Customer relations & public affairs	4,954,842	4,436,408
Information services	3,186,317	3,050,213
Source & treatment	8,239,835	8,011,935
Water quality	2,050,733	2,024,136
General	3,057,387	2,112,725
Depreciation	12,149,744	11,246,626
<b>Total Operating Expenses</b>	54,528,012	48,014,408
<b>Operating Income</b>	6,168,111	6,066,898

*(Continued)*

See accompanying notes to financial statements.

## Central Arkansas Water

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION *(Continued)* Years Ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Transfers to Cities of Little Rock and North Little Rock	\$ (676,408)	\$ (659,088)
Gain on disposal of capital assets	76,664	76,092
Investment income	237,700	194,795
Bond and other interest expense, net	(3,284,945)	(2,408,154)
<b>Total Nonoperating Expenses</b>	<b>(3,646,989)</b>	<b>(2,796,355)</b>
<b>INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEM</b>	2,521,122	3,270,543
<b>CONTRIBUTIONS AND SPECIAL ITEM</b>		
Contributions-in-aid of construction	2,148,229	3,021,520
Capital contributions from grantors	26,112	127,396
Special item - transfer of operations from Maumelle	7,745,408	-
<b>Total Contributions and Special Item</b>	<b>9,919,749</b>	<b>3,148,916</b>
<b>CHANGE IN NET POSITION</b>	<b>12,440,871</b>	<b>6,419,459</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	346,322,942	355,159,096
<b>PENSION RELATED RESTATEMENT OF BEGINNING NET POSITION</b>	<b>-</b>	<b>(15,255,613)</b>
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<b>346,322,942</b>	<b>339,903,483</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 358,763,813</b>	<b>\$ 346,322,942</b>

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 60,542,290	\$ 52,587,114
Cash payments to suppliers for goods and services	(17,944,495)	(13,439,610)
Cash payments to employees for services	(22,158,673)	(21,127,315)
Cash payments for employees pension benefits	(2,626,580)	(2,479,699)
Cash receipts from other sources	818,766	731,607
<b>Net Cash Provided by Operating Activities</b>	<b>18,631,308</b>	<b>16,272,097</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to Cities of Little Rock and North Little Rock	(676,408)	(659,088)
<b>Net Cash Used by Noncapital Financing Activities</b>	<b>(676,408)</b>	<b>(659,088)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(7,387,195)	(10,468,152)
Proceeds from issuance of bonds	42,828,117	8,149,955
Payment to refunded bond escrow agent	(20,928,460)	(7,745,000)
Principal paid on long-term obligations	(11,473,471)	(4,639,704)
Interest paid on long-term obligations	(4,380,837)	(2,936,497)
Payments received from lessee	(9,820)	328,897
Contributions-in-aid of construction	19,228	478,243
Capital contributions from grantors	26,112	127,396
Proceeds from sale of capital assets	87,285	93,675
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(1,219,041)</b>	<b>(16,611,187)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investment securities	20,249,570	17,497,584
Purchases of investment securities	(16,451,016)	(22,546,250)
Interest and dividends	187,308	215,025
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>3,985,862</b>	<b>(4,833,641)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>20,721,721</b>	<b>(5,831,819)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>16,085,138</b>	<b>21,916,957</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 36,806,859</b>	<b>\$ 16,085,138</b>

*(Continued)*

See accompanying notes to financial statements.



# Central Arkansas Water

## STATEMENTS OF CASH FLOWS *(Continued)* Years Ended December 31, 2016 and 2015

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 6,168,111	\$ 6,066,898
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	12,149,744	11,246,626
Bad debt expense	237,356	335,000
Change in operating assets, deferred outflows of resources liabilities, and deferred inflows of resources:		
Accounts receivable - consumers, net	(836,248)	(1,062,180)
Other receivables	597,251	(581,754)
Inventory	(1,567,504)	(1,473,752)
Other current assets	(61,399)	17,147
Accounts payable and accrued expenses	(238,343)	1,379,369
Payroll and related liabilities	245,871	150,671
Due to other agencies	529,210	411,416
Consumer deposits	137,364	134,933
Net pension liability and related pension deferred outflows and inflows of resources	1,269,895	(352,277)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 18,631,308</b>	<b>\$ 16,272,097</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION</b>		
<b>Current Assets - Cash and Cash Equivalents</b>		
Unrestricted	\$ 16,343,209	\$ 10,126,314
Restricted	20,463,650	5,958,824
<b>Total Cash and Cash Equivalents</b>	<b>\$ 36,806,859</b>	<b>\$ 16,085,138</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS</b>		
Gain on disposal of capital assets	\$ 76,664	\$ 76,092
Contributions-in-aid of construction	2,129,001	2,543,277
Inventory capitalized	1,404,141	1,512,368
Capital asset acquisitions in accounts payable	70,395	476,887
Capital asset acquisitions financed with notes payable	-	242,124
Net position transferred from Maumelle	7,745,408	-
Increase in fair value of investments	-	21,250
<b>SUPPLEMENTAL DISCLOSURE OF CASH TRANSACTIONS</b>		
Interest expense incurred	3,586,115	2,559,763
Interest capitalized	301,170	151,609

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF FIDUCIARY NET POSITION December 31, 2016 and 2015

	2016		2015	
	OPEB Trust	Brushy Island	OPEB Trust	Brushy Island
<b>ASSETS</b>				
Cash and cash equivalents	\$ 742,709	\$ 88,900	\$ 870,242	\$ 81,798
Restricted cash and cash equivalents	-	7,876	-	13,694
U.S. Treasury obligations	249,775	-	248,673	-
Certificates of deposit	2,639,629	-	2,032,537	-
Exchange traded funds	255,276	-	255,107	-
Accounts receivable	-	8,273	-	8,197
Accrued interest receivable	10,483	3	7,938	6
Capital assets, net	-	1,686,617	-	1,719,928
<b>TOTAL ASSETS</b>	<b><u>\$ 3,897,872</u></b>	<b><u>\$ 1,791,669</u></b>	<b><u>\$ 3,414,497</u></b>	<b><u>\$ 1,823,623</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 4,423	\$ 207	\$ 3,900	\$ -
Long-term obligations	-	558,420	-	621,739
Accrued interest payable	-	2,327	-	3,305
Consumer deposits	-	5,575	-	5,825
<b>Total Liabilities</b>	<b><u>4,423</u></b>	<b><u>566,529</u></b>	<b><u>3,900</u></b>	<b><u>630,869</u></b>
<b>NET POSITION</b>				
Held in trust	<u>3,893,449</u>	<u>1,225,140</u>	<u>3,410,597</u>	<u>1,192,754</u>
<b>Total Net Position</b>	<b><u>3,893,449</u></b>	<b><u>1,225,140</u></b>	<b><u>3,410,597</u></b>	<b><u>1,192,754</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 3,897,872</u></b>	<b><u>\$ 1,791,669</u></b>	<b><u>\$ 3,414,497</u></b>	<b><u>\$ 1,823,623</u></b>

See accompanying notes to financial statements.

## Central Arkansas Water

### STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION Years Ended December 31, 2016 and 2015

	2016		2015	
	OPEB Trust	Brushy Island	OPEB Trust	Brushy Island
<b>ADDITIONS</b>				
Employer contributions	\$ 844,936	\$ -	\$ 710,052	\$ -
Water sales	-	89,881	-	88,766
Debt service fees	-	99,733	-	99,157
Investment income	45,872	41	26,813	75
<b>Total Additions</b>	<u>890,808</u>	<u>189,655</u>	<u>736,865</u>	<u>187,998</u>
<b>DEDUCTIONS</b>				
Premiums paid	390,662	-	351,216	-
Transfers to Central Arkansas Water	-	89,631	-	88,616
Administrative expenses	17,294	4,217	15,310	849
Depreciation	-	33,312	-	33,312
Interest	-	30,109	-	6,396
<b>Total Deductions</b>	<u>407,956</u>	<u>157,269</u>	<u>366,526</u>	<u>129,173</u>
<b>CHANGE IN NET POSITION</b>	482,852	32,386	370,339	58,825
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>3,410,597</u>	<u>1,192,754</u>	<u>3,040,258</u>	<u>1,133,929</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 3,893,449</u></u>	<u><u>\$ 1,225,140</u></u>	<u><u>\$ 3,410,597</u></u>	<u><u>\$ 1,192,754</u></u>

See accompanying notes to financial statements.

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# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Reporting Entity**

Central Arkansas Water (the Utility) is an independent public entity established effective July 1, 2001, to own and operate a consolidated water system, as authorized under Act 982 of 2001 of the 83rd General Assembly of the State of Arkansas (the State). The Utility operates pursuant to a Consolidation Agreement, as amended, executed by and between the City of Little Rock, Arkansas; the City of North Little Rock, Arkansas; the Board of Commissioners of Little Rock Municipal Water Works; and the Board of Commissioners of the North Little Rock Water Department. Serving a retail and wholesale population of approximately 400,000 in 20 cities and communities located in Pulaski, Saline, Grant, Faulkner, Perry and Lonoke counties, the Utility is the largest water supplier in the State of Arkansas. The Utility's mission is to enhance the quality of life for Central Arkansas by delivering high-quality water and dependable service that exceed customer expectations; protecting and ensuring a long-term water supply for future generations; and serving as responsible stewards of public health, utility resources and the environment.

As discussed in Note 12 to the financial statements, the Maumelle Suburban Improvement District No. 500 of Pulaski County, Arkansas, doing business as Maumelle Water Management (Maumelle) and the Utility agreed to combine Maumelle's water sales and service during the year ended December 31, 2016. Water operations of Maumelle are reported in the accompanying financial statements as if the Utility and Maumelle had been combined at the beginning of the year.

The governing board of the Utility is a Board of Commissioners, comprised of seven members who serve seven year terms. Membership on the Board of Commissioners is subject to confirmation by the City of Little Rock Board of Directors and the North Little Rock City Council.

Rates may be established by the Board of Commissioners; however, before any rate changes may be implemented, the Board of Commissioners must give three months' notice to the City of Little Rock Board of Directors and the North Little Rock City Council and hold at least one public hearing on the proposed change(s) in rates. A change in rates may not be implemented if both the City of Little Rock Board of Directors and the North Little Rock City Council vote disapproval of the rate change. In the absence of such disapproval, the rate change will be implemented as proposed. The issuance of revenue bonds is subject to the same requirements.

Under the terms of the Consolidation Agreement, the Utility is required to pay a franchise fee to the cities of Little Rock and North Little Rock based on water revenues billed within the respective cities. The rate, which cannot exceed 10.0%, was 10.0% for the City of Little Rock and 6.9% for the City of North Little Rock during 2016 and 2015. The Utility is required to collect and remit a 4.25% franchise fee to the city of Maumelle. These franchise fees, which are not included in revenues or expenses on the Utility's statements of revenues, expenses and changes in net position, totaled approximately \$3,485,800 and \$3,100,000 for the years ended December 31, 2016 and 2015, respectively. The Utility is also required to pay an additional amount to each city equal to ad valorem taxes that would have been payable to each city if such taxes were assessed on the Utility's real property and improvements. These payments, which are reported as a nonoperating expense on the Utility's statements of revenues, expenses and changes in net position, totaled approximately \$676,000 and \$659,000 for the years ended December 31, 2016 and 2015.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(a) Reporting Entity (Continued)**

The accompanying financial statements present the Utility and its fiduciary funds.

#### **(b) Basis of Accounting**

The financial statements of the Utility are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

#### **(c) Basis of Presentation**

The presentation of the Utility's financial statements follows the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* – applicable to enterprise funds, as amended (GASB No. 34). In accordance with the requirements of this standard, the Utility's net position is categorized into net investment in capital assets; amounts restricted, yet expendable for the purposes of funding future capital expenditures, fulfilling bond requirements and refunding consumer deposits; and amounts unrestricted, as applicable. Net investment in capital assets represents the balance of capital assets, net of accumulated depreciation, reduced by outstanding bonds or other debt attributable to the acquisition, construction or improvement of those assets. The restricted component consists of net position, the use of which is restricted to purposes or time periods specified by individuals or entities external to the Utility, such as creditors, grantors, contributors, or by laws or regulations. Unrestricted net position includes all other net position available for operating purposes.

In addition, operating revenues and expenses derived from or related directly to providing water supply, treatment and distribution services are distinguished from nonoperating revenues and expenses for purposes of presentation on the Utility's statements of revenues, expenses and changes in net position. Operating revenues consist primarily of user charges, and operating expenses include the costs of maintaining and operating the water supply, treatment and distribution systems, including depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Utility's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(c) Basis of Presentation (Continued)**

The Utility utilizes fiduciary funds to report assets that are held in a trustee or agency capacity for others and that cannot be used to support the general operations of the Utility. The Utility's fiduciary funds include the following:

The *Other Postemployment Benefits (OPEB) Trust Fund* is an employer benefit trust fund used to report the accumulation and use of resources to pay health insurance benefits for eligible retirees, as well as related liabilities for anticipated future benefits.

The *Brushy Island Public Water Authority Fund* (Brushy Island) is a private purpose trust fund used to report assets and liabilities held by the Utility as receiver, pursuant to the terms and conditions of a court order issued in August 2005 by the Third Division Circuit Court of Pulaski County, Arkansas. As receiver, the Utility is responsible for the day-to-day and long-term management and operation of Brushy Island as a water supplier for Brushy Island customers. The Utility is not responsible for or liable for any debts or obligations of Brushy Island, except in its role as receiver. The agreement provides that until such time as the debt is retired, the terms of the order may not be changed without the consent of the Utility.

The transactions and balances of the fiduciary funds are also reported using the economic resources measurement focus and the accrual basis of accounting.

#### **(d) Cash and Cash Equivalents**

For purposes of the presentation on the statements of cash flows, cash and cash equivalents include all restricted and unrestricted cash on hand, demand deposit accounts, money market deposit accounts, money market mutual funds and other short-term investments and certificates of deposit with original maturities of 3 months or less at the date of purchase.

#### **(e) Investments**

Generally accepted accounting principles prescribed by the GASB require that the Utility's investments be measured at fair value and categorized according to a hierarchy that is based on valuation inputs used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. Detailed information about the Utility's investments and their respective fair value measurements is provided in Note 2 to the financial statements.

Purchases and sales of investments are reported on a trade-date basis. Realized gains and losses resulting from investment sales, as well as unrealized gain and losses resulting from changes in the fair values of investments held are reported as investment income on the statements of revenues, expenses and changes in net position. Dividends and capital gain distributions are recorded as investment income on the ex-dividend date.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(f) Accounts Receivable, Net**

Accounts receivable include balances due from customers for services or water provided, net of an allowance for uncollectible amounts. Customer deposits may be required when credit is extended to customers. Accounts receivable are ordinarily due 20 days after the billing date. Payments are considered delinquent if not received on or before the due date, and a 10% late charge is assessed.

The allowance for uncollectible accounts receivable is estimated by management, taking into consideration the age of outstanding receivables, specific facts and circumstances pertaining to certain customers, customer payment histories and other historical collection statistics. Individual accounts receivable balances are written off for inactive customers at the point when all internal collection attempts have been exhausted. All balances previously written off must be repaid in order for a customer to restore service.

#### **(g) Inventory**

Inventory consists of materials and supplies used in the operation, maintenance and construction of or improvements to capital assets. Amounts in inventory are valued at cost, using the weighted average method.

#### **(h) Capital Assets, Net of Accumulated Depreciation**

It is generally the Utility's policy that assets to be used in operations with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than one year are reported as capital assets. Capital assets are recorded at historical cost, including all direct salaries, materials and supplies related to construction and improvements completed by Utility personnel. Interest costs related to acquiring or constructing capital assets are also capitalized as part of the cost of the related asset. Contributed assets are recorded at the estimated fair value on the date of contribution.

Costs related to major additions and betterments of capital assets are capitalized, while costs of repairs and maintenance that do not add value or extend the useful life of the related asset are expensed as incurred.

Depreciation is generally provided using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Water Sources	75
Buildings and improvements	10 - 40
Land Improvements	10 - 20
Purification and pumping equipment	10 - 20
Distribution and Transmission Mains	75
Other equipment	5 - 20



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(h) Capital Assets, Net of Accumulated Depreciation (Continued)**

Management evaluates events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Such events or changes may include physical damage, obsolescence, changes in or new laws or regulations, construction stoppage or environmental factors. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded. There were no impairment losses recorded for the years ended December 31, 2016 and 2015.

#### **(i) Deferred Outflows/Inflows of Resources**

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Utility's deferred outflows and inflows of resources consist of deferred outflows/inflows of resources related to the Utility's pension plan activities, as further discussed in Note 10, and the deferred loss and gain, respectively, on debt refunding transactions. A deferred loss or gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt.

#### **(j) Compensated Absences**

Utility policies permit employees to earn time off benefits that may be realized in the form of a cash payment or paid time off. A liability for compensated absences and related expense are recognized as the time off benefits are earned by employees using regular pay rates in effect at December 31.

#### **(k) Long-Term Obligations**

Long-term obligations are reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as period costs when incurred.

#### **(l) Due to Other Agencies**

The Utility acts as billing agent for other public utility service providers. Amounts billed on behalf of these other entities are initially recorded as accounts receivable and a liability due to other agencies, until such time as the amounts are collected and remitted to the appropriate entity.

#### **(m) Revenue Recognition**

Revenues for water supply, treatment and distribution services are recognized in the period during which the related services are provided. Revenues include an estimate of charges for services provided but unbilled at year end. Revenues are reported net of conservation rate discounts totaling approximately \$231,000 and \$225,000 for the years ended December 31, 2016 and 2015, respectively.

#### **(n) Contributions and Special Items**

Contributions-in-aid of construction include cash and capital assets contributed by customers, developers or other entities to improve or extend the Utility system.

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(o) Pensions**

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

#### **(p) Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **(q) Income Taxes**

As a special purpose governmental entity, the Utility is exempt from federal and state income taxes.

#### **(r) Recently Adopted Accounting Standards**

GASB Statement No. 72, *Fair Value Measurement and Application*, became effective for the Utility on January 1, 2016. This statement establishes accounting and financial reporting requirements related to fair value measurements, provides guidance for applying fair value to certain investments and specifies disclosures related to all fair value measurements. There was no material impact on the Utility's financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76), clarifies the hierarchy of US GAAP, and reduces the US GAAP hierarchy to two categories of authoritative US GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative US GAAP. This statement did not have a significant impact to the Utility's financial statements.

#### **(s) Recently Issued Accounting Standards**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued June 2015, will be effective for the OPEB Trust on January 1, 2017. This statement establishes accounting and financial reporting requirements for OPEB plans. Management of the Utility has not yet determined the impact that adoption of this statement will have on the OPEB Trust's financial statements or related disclosures.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, issued June 2015, will be effective for the Utility on January 1, 2018. This statement establishes accounting and financial reporting for postemployment benefits other than pensions. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements or related disclosures.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Recently Issued Accounting Standards (Continued)

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard for Practice for financial reporting purposes, and (3) the classification of payments made by employees to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 will be effective for the Utility on January 1, 2017. Management has not yet determined the impact that adoption of this statement will have on the Utility’s financial statements or related disclosures.

### NOTE 2: DEPOSITS AND INVESTMENTS

Investments at December 31 for the Utility include the following:

#### *The Utility*

Type	2016				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
<b>Classified as Investments</b>					
Unrestricted:					
U.S. treasury obligations	\$ 5,003,905	\$ -	\$ 5,003,905	\$ -	\$ -
U.S. agency obligations	1,989,800	-	1,989,800	-	-
Certificates of deposit	10,500,000	10,500,000	-	-	-
Restricted:					
U.S. Treasury obligations	1,000,781	-	1,000,781	-	-
Certificates of deposit	3,951,016	3,951,016	-	-	-
<b>Total</b>	<b>\$ 22,445,502</b>	<b>\$ 14,451,016</b>	<b>\$ 7,994,486</b>	<b>\$ -</b>	<b>\$ -</b>
Type	2015				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
<b>Classified as Investments</b>					
Unrestricted:					
U.S. Treasury obligations	\$ 5,995,703	\$ 1,001,953	\$ 4,993,750	\$ -	\$ -
U.S. agency obligations	1,004,643	1,004,643	-	-	-
Certificates of deposit	14,500,000	14,500,000	-	-	-
Restricted:					
U.S. Treasury obligations	998,750	-	998,750	-	-
Certificates of deposit	3,700,000	3,700,000	-	-	-
<b>Total</b>	<b>\$ 26,199,096</b>	<b>\$ 20,206,596</b>	<b>\$ 5,992,500</b>	<b>\$ -</b>	<b>\$ -</b>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

#### **The Utility (Continued)**

The Utility's investment in U.S. agency obligations at December 31, 2016 consisted of investments in Federal National Mortgage Association bonds, which have a Standard and Poor's credit rating of AA+. In addition, the Utility invests in the Federated Treasury Obligation Fund, a publicly traded money market mutual fund comprised primarily of short-term U.S. Treasury securities. This investment is classified in cash and cash equivalents in the Utility's statements of net position due to its highly liquid nature. This fund maintains a stable net asset value of \$1 and has a Standard & Poor's credit rating of AAAm. At December 31, 2016 and 2015, the Utility's restricted investment in this fund totaled \$18,077,969 and \$4,999,381, respectively.

#### **Investment Valuation**

The following is a description of the valuation methodology used to determine the fair values of investments. There have been no changes in the methodologies used at December 31, 2016 and 2015.

U.S. Treasury obligations and U.S. Agency obligations are valued using quoted market prices.

Type	2016			
	Fair Value	Level 1	Level 2	Level 3
<b>Classified as Investments</b>				
Unrestricted:				
U.S. Treasury obligations	\$ 5,003,905	\$ 5,003,905	\$ -	\$ -
U.S. agency obligations	1,989,800	1,989,800	-	-
Restricted:				
U.S. treasury obligations	1,000,781	1,000,781	-	-
	<u>\$ 7,994,486</u>	<u>\$ 7,994,486</u>	<u>\$ -</u>	<u>\$ -</u>

Type	2015			
	Fair Value	Level 1	Level 2	Level 3
<b>Classified as Investments</b>				
Unrestricted:				
U.S. Treasury obligations	\$ 5,995,703	\$ 5,995,703	\$ -	\$ -
U.S. agency obligations	1,004,643	1,004,643	-	-
Restricted:				
U.S. Treasury obligations	998,750	998,750	-	-
	<u>\$ 7,999,096</u>	<u>\$ 7,999,096</u>	<u>\$ -</u>	<u>\$ -</u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

#### Investment Valuation (Continued)

Investments at December 31 for the OPEB Trust, all of which are Level 1 investments, include the following:

#### OPEB Trust

Type	2016				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
<b>Classified as Investments</b>					
Restricted:					
U.S. Treasury obligations	\$ 249,775	\$ 249,775	\$ -	\$ -	\$ -
Certificates of deposit	2,639,629	1,154,230	1,485,399	-	-
Exchange traded funds	255,276	255,276	-	-	-
Total	<u>\$ 3,144,680</u>	<u>\$ 1,659,281</u>	<u>\$ 1,485,399</u>	<u>\$ -</u>	<u>\$ -</u>
Type	2015				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
<b>Classified as Investments</b>					
Restricted:					
U.S. Treasury obligations	\$ 248,673	\$ -	\$ 248,673	\$ -	\$ -
Certificates of deposit	2,032,537	1,120,611	911,926	-	-
Exchange traded funds	255,107	255,107	-	-	-
Total	<u>\$ 2,536,317</u>	<u>\$ 1,375,718</u>	<u>\$ 1,160,599</u>	<u>\$ -</u>	<u>\$ -</u>

#### (a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Utility manages its exposure to declines in fair values by limiting investments to securities with a maturity of not more than five years from the date of purchase.

#### (b) Credit Risk

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligations. To minimize exposure to credit risk, the Utility's investment policy specifies the types of securities in which the Utility may invest. In general, the following investments are considered permissible investments:

- direct obligations of the United States government
- open end, government obligation money market mutual funds
- obligations that are fully guaranteed, secured or insured by United States government agencies, instrumentalities and government-sponsored entities

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

#### **(b) Credit Risk (Continued)**

- repurchase agreements that are fully collateralized by direct obligations of the United States government and general obligations of any state of the United States or political subdivision thereof
- general obligations of the states of the United States and of the political subdivisions, municipalities, commonwealths, territories or insular possessions thereof
- pre-funded municipal bonds, the principal and interest of which are fully secured by the principal and interest of a direct obligation of the United States government
- revenue bond issues of any state of the United States or any municipality or any political subdivision thereof

#### **(c) Custodial Credit Risk**

For a deposit or investment, 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 the deposits, investments or collateral securities that are in the possession of an outside party. State statutes require the Utility to maintain cash balances on deposit with financial institutions located within the State and that account balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) be collateralized by the financial institution in accordance with state statutes. All of the Utility's deposit account balances are fully insured by the FDIC or secured by collateral. All investments are held in the name of the Utility by the Utility's agent.

#### **(d) Concentration of Credit Risk**

With the exception of securities that are direct obligations of the U.S. government, deposit accounts that are fully insured by the FDIC or fully collateralized, and money market mutual funds with an underlying investment portfolio that is limited principally to U.S. government obligations, the Utility's policy states that no more than 20% of the total balance may be invested in any single investment or in securities of a single obligor.

### **NOTE 3: RESTRICTED ASSETS**

Assets restricted to meet the requirements of each of the Utility's bond ordinances include the following accounts and their related accrued interest receivable:

Bond accounts are maintained to segregate funds that will be used to make debt service payments on each of the Utility's outstanding bond issues.

Debt service reserve accounts are maintained for each of the Utility's bond issues and include amounts as stipulated by the underlying bond agreements to ensure the Utility's ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service reserve accounts is typically based on a percentage of the maximum annual debt service requirements (see Note 7).

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 3: RESTRICTED ASSETS (Continued)**

Assets restricted for future capital expenditures include the following accounts and their related accrued interest receivable:

Construction accounts include unspent bond proceeds and are maintained for the first three years of each of the Utility's bond issues to pay construction invoices associated with the capital project funded by the related debt.

The system development charges account serves to recover the cost of capital improvements or facility expansions attributable to new development. New customers are charged a one-time fee for system development based on meter size.

The capital investment charges account funds the cost of capital improvements or facility expansions associated with treated water transmission and distribution, pumping or storage facilities.

Funds in the depreciation account are used to recover cost associated with the replacement of capital assets. A flat percentage of operating revenues are transferred to the account each month.

The consumer deposits account includes funds accumulated through the collection of deposits during the process of establishing new services. Residential account deposits are automatically refunded and applied to the account balance after 12 months of service if the account is in good standing.

Balances in these restricted accounts at December 31 are as follows:

	2016	2015
Bond requirements	\$ 6,434,489	\$ 5,786,770
Future capital expenditures	15,170,395	1,948,249
Consumer deposits	3,819,432	3,713,381
Total Restricted Assets	\$ 25,424,316	\$ 11,448,400

**NOTE 4: ACCOUNTS RECEIVABLE - CONSUMERS, NET**

Accounts receivable - consumers, net includes amounts due from Utility customers for water sales and other related services provided, net of an allowance for uncollectible amounts, as well as amounts due from customers of other entities for which the Utility serves as billing agent. These amounts are as follows at December 31:

	2016	2015
Water sales and services	\$ 4,842,873	\$ 4,887,407
Billed for other agencies	7,192,713	6,021,918
Less allowance for doubtful accounts	(198,405)	(204,876)
Total Accounts Receivable - Consumers, Net	\$ 11,837,181	\$ 10,704,449

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 5: BOARD DESIGNATED ASSETS

Board designated assets include resources set aside by the Board for specified purposes, as follows:

#### (a) Rate Stabilization Trust

The rate stabilization trust was established by Resolution 2010-03 for the purpose of minimizing or leveling rate increases and providing additional cash for operations during revenue shortfall years. Deposits into this account may be made at the discretion of the Board of Commissioners; however, the balance may not exceed \$20 million. Funds may be withdrawn and used for any lawful purpose.

#### (b) Watershed Protection Trust

The Watershed Protection Trust was established by Resolution 2008-05 to fund the Watershed Management Program, which includes land purchases, water quality monitoring and other measures deemed necessary to protect the water supply in the Lake Maumelle Watershed area from potential sources of pollution. The Utility's customers are charged a flat monthly rate for Watershed protection based on meter size.

Balances in these accounts are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Rate stabilization	\$ 8,115,127	\$ 8,073,415
Watershed protection	<u>1,860,153</u>	<u>1,589,400</u>
Total Board Designated Assets	<u>\$ 9,975,280</u>	<u>\$ 9,662,815</u>

The board designated assets were reported on the statements of net position in the following classifications at December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,973,718	\$ 1,165,315
Investments	<u>8,001,562</u>	<u>8,497,500</u>
Total Board Designated Assets	<u>\$ 9,975,280</u>	<u>\$ 9,662,815</u>



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 6: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the years ended December 31, 2016 and 2015 follows:

	Balance 12/31/2015	Additions	Disposals	Transfers, Net	Balance 12/31/2016
<b>Capital Assets, Non-depreciable</b>					
Land and land use rights	\$ 47,488,299	\$ 410,068	\$ (6,000)	\$ -	\$ 47,892,367
Construction in progress	8,880,044	9,530,907	-	(10,366,734)	8,044,217
Total capital assets, Non-depreciable	<u>56,368,343</u>	<u>9,940,975</u>	<u>(6,000)</u>	<u>(10,366,734)</u>	<u>55,936,584</u>
<b>Capital Assets, Depreciable</b>					
Buildings and improvements	60,916,771	1,425,137	-	214,609	62,556,517
Land improvements	2,259,083	362,098	-	81,751	2,702,932
Water source	33,211,941	207,782	-	-	33,419,723
Purification	42,449,597	2,755,848	-	62,586	45,268,031
Pumping	26,410,016	613,925	-	135,421	27,159,362
Distribution	339,621,061	14,535,591	(461,188)	9,695,756	363,391,220
Other equipment	29,123,839	2,069,290	(368,157)	176,611	31,001,583
Total capital assets, depreciable	<u>533,992,308</u>	<u>21,969,671</u>	<u>(829,345)</u>	<u>10,366,734</u>	<u>565,499,368</u>
<b>Less Accumulated Depreciation</b>					
Buildings and improvements	25,032,738	1,873,486	-	-	26,906,224
Land improvements	300,980	429,414	-	-	730,394
Water source	14,119,554	623,655	-	-	14,743,209
Purification	18,684,428	3,011,129	-	-	21,695,557
Pumping	15,591,931	1,138,350	-	-	16,730,281
Distribution	95,077,882	9,264,729	(450,832)	-	103,891,779
Other equipment	25,108,257	1,989,279	(368,157)	-	26,729,379
Total accumulated depreciation	<u>193,915,770</u>	<u>18,330,042</u>	<u>(818,989)</u>	<u>-</u>	<u>211,426,823</u>
<b>Total Capital Assets, Net</b>	<u>\$ 396,444,881</u>	<u>\$ 13,580,604</u>	<u>\$ (16,356)</u>	<u>\$ -</u>	<u>\$ 410,009,129</u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 6: CAPITAL ASSETS (Continued)

	<u>Balance 12/31/2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers, Net</u>	<u>Balance 12/31/2015</u>
<b>Capital Assets, Non-depreciable</b>					
Land and land use rights	\$ 46,192,915	\$ 1,293,864	\$ -	\$ 1,520	\$ 47,488,299
Construction in progress	2,150,054	11,102,008	-	(4,372,018)	8,880,044
Total capital assets, Non-depreciable	<u>48,342,969</u>	<u>12,395,872</u>	<u>-</u>	<u>(4,370,498)</u>	<u>56,368,343</u>
<b>Capital Assets, Depreciable</b>					
Buildings and improvements	60,806,083	110,688	-	-	60,916,771
Land improvements	2,253,459	5,624	-	-	2,259,083
Water source Purification	33,211,941	-	-	-	33,211,941
Pumping	42,180,124	168,732	-	100,741	42,449,597
Distribution	26,233,796	13,969	-	162,251	26,410,016
Other equipment	335,078,600	852,972	(397,096)	4,086,585	339,621,061
Total capital assets, depreciable	<u>28,573,745</u>	<u>893,489</u>	<u>(364,316)</u>	<u>20,921</u>	<u>29,123,839</u>
	<u>528,337,748</u>	<u>2,045,474</u>	<u>(761,412)</u>	<u>4,370,498</u>	<u>533,992,308</u>
<b>Less Accumulated Depreciation</b>					
Buildings and improvements	23,545,287	1,487,451	-	-	25,032,738
Land improvements	187,745	113,235	-	-	300,980
Water source Purification	13,572,330	547,224	-	-	14,119,554
Pumping	17,084,156	1,600,272	-	-	18,684,428
Distribution	14,872,262	719,669	-	-	15,591,931
Other equipment	89,825,495	5,631,900	(379,513)	-	95,077,882
Total accumulated depreciation	<u>24,324,995</u>	<u>1,147,578</u>	<u>(364,316)</u>	<u>-</u>	<u>25,108,257</u>
	<u>183,412,270</u>	<u>11,247,329</u>	<u>(743,829)</u>	<u>-</u>	<u>193,915,770</u>
<b>Total Capital Assets, Net</b>	<u>\$ 393,268,447</u>	<u>\$ 3,194,017</u>	<u>\$ (17,583)</u>	<u>\$ -</u>	<u>\$ 396,444,881</u>

Included in 2016 additions are assets totaling approximately \$14,573,500, which transferred to the Utility from Maumelle (see Note 12).

### NOTE 7: LONG-TERM DEBT

The Utility's long-term debt includes the following:

#### (a) Revenue Bonds

##### 2010A Water Revenue Bond

The Series 2010A Bond was issued to replace the then outstanding Series 2009 Bond. The Series 2010A Bond was issued to change terms, particularly the requirement for security for the outstanding debt. The bond was issued through the Arkansas Natural Resources Commission (ANRC) and the Arkansas

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 7: LONG-TERM DEBT (Continued)**

#### **(a) Revenue Bonds (Continued)**

##### 2010A Water Revenue Bond (Continued)

Development Finance Authority (ADFA) from monies in the Drinking Water State Revolving Fund Account (Revolving Loan Fund), created by Arkansas Code Annotated Section 15-22-1102 to finance the cost of planning, design, construction, and/or rehabilitation of the treatment facilities of the water system, paying cost incidental thereto and paying approved expenses incurred in connection with the issuance of the bond. The Series 2010A Bond is a special obligation of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 15 and October 15, with the final payment scheduled in 2032.

##### 2010C Water Revenue Bonds

The Series 2010C Bonds were issued to refinance a portion of the cost of acquisition of approximately 915 acres of real property within the Lake Maumelle watershed, to establish a debt service reserve for the Series 2010C Bonds and to pay the costs of issuing the Series 2010C Bonds. The Series 2010C Bonds are special obligations of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1, with the final payment date due in 2023. Interest payments are due semiannually on April 1 and October 1.

##### 2011A Water Revenue Bond

The Series 2011A Bond was issued through the ANRC and the ADFA from monies in the Revolving Loan Fund to finance the cost of planning, design, construction, and/or rehabilitation of the treatment facilities of the water system, paying cost incidental thereto, and paying approved expenses incurred in connection with the issuance of the bond. The Series 2011A Bond is a special obligation of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 15 and October 15, with the final payment scheduled in 2034.

##### 2012A Water Revenue Bonds

The Series 2012A Bonds were issued to finance the cost of certain capital improvements to the water system, to pay the then outstanding balance on a capital lease obligation, to establish a debt service reserve for the Series 2012A Bonds and to pay the cost of issuing the Series 2012A Bonds. The Series 2012A Bonds are special obligations of the Utility, payable solely from stabilized revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1, with the final payment scheduled in 2032. Interest payments are due semiannually on April 1 and October 1.

##### 2014 Refunding Water Revenue Bonds

The Series 2014 Bonds were issued to refund the then outstanding Series 2004 Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$236,657 is reported as a deferred inflow of resources in the statements of net position and is being amortized

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 7: LONG-TERM DEBT (Continued)**

#### **(a) Revenue Bonds (Continued)**

##### 2014 Refunding Water Revenue Bonds (Continued)

through the year 2024 using the straight-line method. The Series 2014 Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 1 and October 1, with the final payment scheduled in 2024.

##### 2015 Refunding Water Revenue Bonds

The Series 2015 Bonds were issued to refund the then outstanding Series 2010B Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$30,177 is reported as a deferred outflow of resources in the statements of net position and is being amortized through the year 2030 using the straight-line method. The Series 2015 Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 1 and October 1 beginning in 2015, with the final payment scheduled in 2030.

##### 2016 Refunding Water Revenue Bonds

On July 7, 2016, the Utility issued \$17,860,000 of revenue refunding bonds to refund the then outstanding Series 2007 and 2011B Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$652,654 is reported as a deferred outflow of resources in the statements of net position and is being amortized through the year 2027 using the straight-line method. The Series 2016 Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1 beginning in 2016, with the final payment scheduled in 2027. Interest payments are due semiannually on April 1 and October 1, beginning in 2016. The current refunding reduced total debt service payments over the next 15 years by approximately \$3,317,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1,916,000.

##### 2016 Construction and Acquisition Water Revenue Bonds

The \$22,750,000 Series 2016 Bonds were issued in March 2016 to finance the cost of certain capital improvements to the Maumelle water system, to establish a debt service reserve for the Series 2016 Bonds and to pay the costs of issuing the Series 2016 Bonds. The Series 2016 Bonds are special obligations of the Utility, payable solely from the net revenues of the Maumelle water system. Principal payments are due annually on April 1 beginning in 2016, with the final payment scheduled in 2046. Interest payments are due semiannually on April 1 and October 1.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 7: LONG-TERM DEBT (Continued)**

**(a) Revenue Bonds (Continued)**

Frazier Pike/ANRC Bond Payable

During 2015, the Utility began providing water to an unincorporated area along Frazier Pike in Pulaski County, Arkansas that had previously relied upon well water. The Frazier Pike community was the recipient of funding provided by ANRC including a Water Development Bond that the Utility assumed totaling \$250,000. Principal and interest payments are due annually on December 1 beginning in 2017, and are to be paid through a debt service charge assessed the Frazier Pike customers. The bond is secured solely by a lien on and pledge of the Frazier Pike water surcharge, as defined in the related bond agreements. In conjunction with providing water service to Frazier Pike customers, the Utility acquired capital assets totaling approximately \$850,000.

**(b) Mid-Arkansas Water Alliance Water Storage Allocation Purchase Agreement**

The Utility is party to an agreement with Mid-Arkansas Water Alliance (MAWA), along with nine other municipal water providers, to purchase a portion of the water storage rights at Greers Ferry Lake allocated to MAWA by the U.S. government. The Utility and each of the nine other parties to the agreement have been allocated a portion of the debt incurred by MAWA to acquire the storage rights, based on each party's respective share of the total storage area. The initial amount of the debt allocated to the Utility totaled \$284,623, and annual payments of \$17,155 are required, including interest at a variable rate determined by the Secretary of the Treasury (4.125% at December 31, 2016 and 2015). The amortization period of the debt depends upon actual repayments of all parties to the agreement and may vary; however, at December 31, 2016, there were 17 payments remaining, resulting in a final payment due in 2033.

**(c) Other Long-Term Obligations**

The Utility acquired conservation land easements totaling approximately \$893,000 during 2015 that were partially financed through notes payable. The balances outstanding are payable in annual installments through 2017.

Changes in long-term debt for the years ended December 31, 2016 and 2015, are as follows:

	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016	Amounts Due Within One Year	Amounts Due Greater Than One Year
<b>Bonds Payable</b>						
Bonds payable	\$ 73,444,845	\$ 47,650,308	\$ (32,009,550)	\$ 89,085,603	\$ 5,409,436	\$ 83,676,167
Add issuance premiums	2,441,999	2,218,117	(806,618)	3,853,498	-	3,853,498
<b>Bonds Payable, Net</b>	75,886,844	49,868,425	(32,816,168)	92,939,101	5,409,436	87,529,665
<b>Other Long-term Obligations</b>	847,655	-	(399,881)	447,774	250,797	196,977
<b>Consumer Deposits</b>	3,719,994	1,482,696	(972,675)	4,230,015	970,482	3,259,533
<b>Total Long-Term Debt</b>	<u>\$ 80,454,493</u>	<u>\$ 51,351,121</u>	<u>\$ (34,188,724)</u>	<u>\$ 97,616,890</u>	<u>\$ 6,630,715</u>	<u>\$ 90,986,175</u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 7: LONG-TERM DEBT (Continued)**

**(c) Other Long-Term Obligations (Continued)**

	Balance December 31, 2014	Increases	Decreases	Balance December 31, 2015	Amounts Due Within One Year	Amounts Due Greater Than One Year
<b>Bonds payable</b>						
Bonds payable	\$ 77,980,244	\$ 7,695,000	\$ (12,230,399)	\$ 73,444,845	\$ 5,201,739	\$ 68,243,106
Add issuance premiums	2,617,429	87,382	(262,812)	2,441,999	-	2,441,999
<b>Bonds Payable, Net</b>	80,597,673	7,782,382	(12,493,211)	75,886,844	5,201,739	70,685,105
<b>Other Long-term Obligations</b>	368,598	634,007	(154,950)	847,655	399,882	447,773
<b>Consumer Deposits</b>	3,585,061	1,133,078	(998,145)	3,719,994	994,831	2,725,163
<b>Total Long-Term Debt</b>	<u>\$ 84,551,332</u>	<u>\$ 9,549,467</u>	<u>\$ (13,646,306)</u>	<u>\$ 80,454,493</u>	<u>\$ 6,596,452</u>	<u>\$ 73,858,041</u>

Bonds payable at December 31, 2016, include the outstanding principal balance of the following revenue bond issues:

	Interest Rates	Final Maturity	Original Issue	Total Outstanding
2010A Water revenue bond	1.00% <sup>(1)</sup>	2032	\$ 13,400,000	\$ 11,128,855
2010C Water revenue bonds	2.0% - 4.0%	2030	8,830,000	2,660,000
2011A Water revenue bond	2.25% <sup>(1)</sup>	2034	4,000,000	3,629,248
2012A Water revenue bonds	2.0% - 4.0%	2032	17,515,000	14,675,000
2014 Refunding water revenue bonds	2.0% - 5.0%	2024	10,850,000	9,155,000
2015 Refunding water revenue bonds	2.0% - 3.0%	2030	7,445,000	7,015,000
Frazier Pike/ANRC bond	3.90%	2033	250,000	257,500
Construction & Acquisition Water Revenue Bonds	2.0% - 3.5%	2046	22,750,000	22,750,000
2016 Refunding water revenue bonds	2.0% - 5.0%	2027	17,860,000	17,815,000
			<u>\$ 102,900,000</u>	<u>\$ 89,085,603</u>

<sup>(1)</sup> In addition to interest, the Utility is required to pay a 1.00% service fee.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

**NOTE 7: LONG-TERM DEBT (Continued)**

**(c) Other Long-Term Obligations (Continued)**

The following schedule shows the annual debt service of the bonds payable outstanding at December 31, 2016:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,409,434	\$ 2,928,240	\$ 8,337,674
2018	5,651,993	2,680,940	8,332,933
2019	5,849,976	2,472,538	8,322,514
2020	6,048,398	2,282,428	8,330,826
2021	6,262,268	2,042,958	8,305,226
2022-2026	26,135,930	6,991,495	33,127,425
2027-2031	17,192,068	4,035,237	21,227,305
2032-2036	6,545,568	2,191,408	8,736,976
2037-2041	4,575,000	1,427,063	6,002,063
2042-2046	5,414,968	581,700	5,996,668
	<u>\$ 89,085,603</u>	<u>\$ 27,634,007</u>	<u>\$ 116,719,610</u>

Payment of principal and interest on all bonds except the Frazier Pike/ANRC bond is secured by a pledge of Utility revenues.

Parity debt may be issued by the Utility provided that there is no event of default and net revenues for the immediately preceding two calendar years exceed an amount equal to not less than the sum of (a) 120% of the average annual debt service of all outstanding debt, and (b) the maximum annual debt service on the proposed parity debt.

The terms of the bond agreements impose certain restrictive covenants on the Utility. Generally, the Utility is required to establish and maintain water rates to provide net revenues in each fiscal year at least equal to the sum of (a) 120% of the aggregate debt service, excluding amounts payable on repayment obligations, for the forthcoming fiscal year, (b) 100% of the repayment obligations, if any, which will be due and payable during the forthcoming fiscal year and (c) 100% of the amounts, if any, required by the indenture to be deposited into the debt service reserve account during the forthcoming fiscal year.

In addition, the Utility must establish and maintain debt service reserve accounts as follows:

Senior debt - the lesser of (a) 10% of the original principal amount outstanding, (b) maximum annual debt service or (c) 125% of average annual debt service

Subordinate debt – the lesser of (a) 5% of the original principal amount outstanding or (b) 50% of maximum annual debt service

The Utility is also required to maintain working capital in an amount sufficient to ensure efficient operation and maintenance of the water system, and such reserve must not be less than an amount reasonably estimated to pay the operations and maintenance costs of the water system for the next 3 calendar months. The Utility was in compliance with all debt covenants for the years ended December 31, 2016 and 2015.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 7: LONG-TERM DEBT (Continued)**

#### **(d) Unearned Revenue**

The Utility entered into a long term lease agreement with the Arkansas State Game and Fish Commission in 2013. Payments received are reported as unearned revenue and are recognized as operating revenue over the term of the 99 year agreement.

### **NOTE 8: RISK MANAGEMENT**

The Utility has commercial insurance to cover various potential risk areas including automobile liability, theft or destruction of business assets, directors' and officers' liability, employment practices liability, and crime. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Under state law the Utility is protected by tort immunity.

The Utility is self-insured for a portion of its exposure to risk of loss from work-related employee injuries and illnesses (workers' compensation) up to \$450,000 per occurrence for employees with a maximum liability coverage of \$1,000,000. All full-time employees are covered by the plan.

### **NOTE 9: COMMITMENTS AND CONTINGENCIES**

#### **(a) Construction Contracts**

The Utility had commitments totaling approximately \$1,890,000 and \$1,276,000 at December 31, 2016 and 2015, respectively, for construction contracts. Certain contracts related to these commitments include a provision for the retainage of a portion of the fees on the work completed to date. Retainage payable related to these contracts included in the statements of net position totaled approximately \$32,000 and \$123,000 at December 31, 2016 and 2015, respectively. These amounts will be paid upon completion and inspection of the facilities.

#### **(b) Other**

Support funded by government grants is recognized as the Utility performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. In the opinion of the Utility's management, such adjustments, if any, will not be significant to the Utility's financial statements.

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

#### **(a) Arkansas Public Employees Retirement System**

*Plan Description.* The Utility contributes to the Arkansas Public Employees Retirement System Plan (APERS Plan), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. The APERS Plan provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by state statute. Benefits of the APERS members are calculated on the basis of age, final average salary, years of service and a benefit factor. Authority to establish and amend benefits is provided by state statute.



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

#### **(a) Arkansas Public Employees Retirement System (Continued)**

*Contributions.* Plan members hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and the Utility is required to contribute a percent of covered salary at an actuarially determined rate. The contributions are deducted from the employee's wages or salary and remitted by the Utility to the APERS Plan on a semi-monthly basis. The employer contribution rates applicable were 14.76% (July 1, 2014 to June 30, 2015) and 14.50% (July 1, 2015 to December 31, 2016). The contribution requirements of plan members and the Utility are established and may be amended by the APERS Board of Trustees. The Utility's contributions for the years ending December 31, 2016, 2015 and 2014 were \$2,521,470, \$2,479,699 and \$2,466,274, respectively, which were equal to the required contributions for each year.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.* At December 31, 2016 and 2015, the Utility reported a liability of \$22,821,130 and \$17,301,107, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on a projection of the Utility's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2016 and 2015, the Utility's proportion was 0.95% and 0.94%, respectively.

Contributions payable to APERS at December 31, 2016 and 2015 totaled approximately \$107,000 and \$86,000, respectively, and are included in payroll and related liabilities in the statements of net position.

For the year ended December 31, 2016 and 2015, the Utility recognized the actuarially determined pension expense of approximately \$3,531,644 and \$2,127,000. At December 31, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 1,748,819	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	401,181	11,107
Differences between expected and actual experience	21,547	818,643
Net difference between projected and actual investment earnings on pension plan investments	3,984,390	-
Utility contributions subsequent to the measurement date	1,321,712	-
Total	\$ 7,477,649	\$ 829,750

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

**NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**(a) Arkansas Public Employees Retirement System (Continued)**

December 31, 2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 2,553,275	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	270,017	-
Differences between expected and actual experience		1,134,234
Net difference between projected and actual investment earnings on pension plan investments	-	858,393
Contributions to the plan not recognized in pension expense	343,779	
Utility contributions subsequent to the measurement date	1,223,328	-
Total	\$ 4,390,399	\$ 1,992,627

Deferred outflows of resources resulting from the Utility's contributions subsequent to the measurement date totaling approximately \$1,322,000 and \$1,223,000 at December 31, 2016 and 2015, respectively, relates to contributions made subsequent to the measurement date. The Utility will recognize these amounts as a reduction in the net pension liability in the years ended December 31, 2017 and 2016, respectively. The other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2017	\$ 1,174,844
2018	1,014,501
2019	2,032,263
2020	1,104,579
2021	-
Thereafter	-
Total	\$ 5,326,187

*Actuarial Assumptions.* The total pension liability in the June 30, 2016 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation, 2.50% price inflation
Salary increases	3.25% – 9.85% including inflation
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward two years for males and one year for females.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**(a) Arkansas Public Employees Retirement System (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the APERS Plan's target asset allocation as of June 30, 2016, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	38%	6.82%
International Equity	24%	6.88%
Real Assets	16%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	17%	0.83%
Total	100%	

The target allocation for the June 30, 2015 measurement date was as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	42%	6.82%
International Equity	25%	6.88%
Real Assets	12%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	16%	0.83%
Total	100%	

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

#### (a) Arkansas Public Employees Retirement System (Continued)

The following table shows the changes in the net pension liability for the year ended June 30, 2016:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at July 1, 2015	\$ 89,629,569	\$ 72,328,462	\$ 17,301,107
Changes in the year:			
Service cost	1,613,880	-	1,613,880
Interest on the total pension liability	6,605,912	-	6,605,912
Differences between expected and actual experience	27,795	-	27,795
Contributions from the employer	-	2,521,470	(2,521,470)
Contributions from employees	-	524,878	(524,878)
Net investment income	-	(40,656)	40,656
Benefit payments, including refunds of employee contributions	(4,715,355)	(4,715,355)	-
Administrative expense	-	(66,126)	66,126
Other	-	(212,002)	212,002
Net changes	<u>3,532,232</u>	<u>(1,987,791)</u>	<u>5,520,023</u>
Balance at June 30, 2016	<u>\$ 93,161,801</u>	<u>\$ 70,340,671</u>	<u>\$ 22,821,130</u>

*Discount Rate.* The discount rate used to measure the total pension liability at June 30, 2016 and 2015 was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the Utility's proportionate share of the net pension liability as of the June 30, 2016 measurement date, calculated using the discount rate of 7.50%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	Discount Rate	Utility's Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 34,545,478
Current discount rate	7.50%	\$ 22,821,130
1% increase	8.50%	\$ 13,063,655

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

#### **(a) Arkansas Public Employees Retirement System (Continued)**

*Plan Fiduciary Net Position.* Detailed information about the APERS Plan's fiduciary net position is available in the separately issued APERS Plan financial report, which may be obtained by making a written request at 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

#### **(b) IRS Section 401(a)**

An Employee Savings Plan under IRS Code 401(a) established by Little Rock Municipal Water Works was transferred to the Utility on July 1, 2001. Employee participation in this plan is mandatory. At December 31, 2016, there were 283 plan members. Plan members are required to contribute 1% of covered salary. Plan provisions and contribution requirements, including any matching contributions by the Utility, are established and may be amended by the Utility's Board of Commissioners. Total plan member contributions and the Utility's matching contributions were approximately \$185,000 and \$173,000 for the years ended December 31, 2016 and 2015, respectively.

#### **(c) Other Post-Employment Benefits**

##### General

The Utility sponsors and administers a single-employer defined benefit healthcare plan providing medical insurance benefits for retirees meeting all of the following eligibility requirements:

- The retiree must have been hired by the Utility on or before December 31, 2009.
- The retiree must have 20 years or more of continuous service with the Utility.
- The retiree must be receiving retirement benefits from APERS.
- The retiree must not obtain full-time employment elsewhere.
- If the retiree is eligible for Medicare, the retiree must carry and pay for both Parts A and B Medicare coverage.

Assets of the plan are held in the OPEB Trust and may only be used to pay expenses associated with administration of the plan and healthcare benefits for participating retirees. Arkansas Municipal League serves as Trust Administrator.

Financial statements and required schedules of the plan are not publicly available in a stand-alone financial report; therefore, the Utility includes the financial statements of the plan and all required disclosures and schedules in this report.

At December 31, 2016, there were 83 retirees receiving health care benefits under the plan.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

#### (c) Other Post-Employment Benefits (Continued)

##### Contributions, Benefits and Funding Policy

The funding policy, the contribution requirements, and the benefits available to plan members are established by the Utility and may be amended as deemed necessary. At present, the Utility will contribute amounts necessary to pay healthcare premiums for single coverage of eligible retirees as described in the paragraphs that follow. In the event that a retiree obtains full-time employment elsewhere or obtains coverage under another group health plan, the Utility will discontinue coverage of that retiree under this plan.

If an employee meets the eligibility requirements described above and retires upon reaching age 65, the Utility pays 100% of single member coverage under either a) the Utility's group health plan or b) a Medicare supplement selected by the Utility, according to the following guidelines based upon years of service:

- Eligible retirees who have completed at least 20 years of continuous service prior to January 1, 2010, are provided coverage under the same group health plan provided to active employees.
- Eligible retirees who have completed less than 20 years of continuous service prior to January 1, 2010, are provided coverage under a Medicare supplement selected by the Utility.

If an employee meets the eligibility requirements described above, but retires before reaching age 65, the employee may receive early retiree healthcare benefits under the same group health plan provided to active employees until he or she is eligible for Medicare benefits. The Utility may pay up to 100% of the single coverage premiums for those eligible for early retiree healthcare benefits until the sooner of the date the employee reaches age 65 or the period of years set forth below:

- For those employees with at least 15 years of continuous service as of January 1, 2010, who later retire and meet the eligibility requirements described above, the Utility will pay early retiree healthcare premiums as follows:

<u>Years of Continuous Service upon Retirement</u>	<u>Years of Early Retiree Healthcare Premiums Paid by the Utility</u>
At least 20	3
At least 25	4
At least 30	5

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**(c) Other Post-Employment Benefits (Continued)**

Contributions, Benefits and Funding Policy (Continued)

- For employees with at least 10 years and less than 15 years of continuous service as of January 1, 2010, who later retire and meet the eligibility requirements described above, the Utility will pay early retiree healthcare premiums as follows:

<u>Years of Continuous Service upon Retirement</u>	<u>Years of Early Retiree Healthcare Premiums Paid</u>	
	<u>100% by the Utility</u>	<u>50% by the Utility and 50% by the Retiree</u>
At least 20	2	1
At least 25	3	1
At least 30	4	1

- For employees with less than 10 years of continuous service as of January 1, 2010, who later retire and meet the eligibility requirements described above, the Utility will pay early retiree healthcare premiums as follows:

<u>Years of Continuous Service upon Retirement</u>	<u>Years of Early Retiree Healthcare Premiums Paid</u>	
	<u>100% by the Utility</u>	<u>50% by the Utility and 50% by the Retiree</u>
At least 20	1	1
At least 25	2	1
At least 30	3	1

Employees hired on or after January 1, 2010, are not entitled to retiree healthcare benefits, except as provided by Arkansas Statute, which requires that any Utility employee vested in APERS benefits who is at least age 55 and has completed 20 years of service may continue to receive the same medical benefits as active employees, provided the retiree pays the full premium amount.

Annual OPEB Cost and Net OPEB Obligation

The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined that represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**(c) Other Post-Employment Benefits (Continued)**

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2016, 2015 and 2014, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 844,935	\$ 710,052	\$ 697,607
Interest on net OPEB obligation	-	-	-
Adjustment to actuarial required contribution	-	-	-
Annual OPEB cost	844,935	710,052	697,607
Contributions made	844,935	710,052	697,607
Net OPEB obligation – beginning of year	-	-	-
Net OPEB obligation – end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2016	\$ 844,935	\$ 844,935	100%	\$ -
12/31/2015	\$ 710,052	\$ 710,052	100%	\$ -
12/31/2014	\$ 697,607	\$ 697,607	100%	\$ -

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$11,647,189, and the actuarial value of assets was \$3,410,597, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,236,592 and a funded ratio of 29.3%. At December 31, 2015, the covered payroll (annual payroll of active employees who may eventually receive benefits covered by the plan) was \$16,482,337, and the ratio of the UAAL to the covered payroll was 50.0%.



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### **NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

#### **(c) Other Post-Employment Benefits (Continued)**

##### Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of employer contributions, also presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by the Utility in comparison to the annual required contribution (ARC).

##### Actuarial Methods and Assumptions

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the December 31, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 5.0%. The actuarial value of plan assets was equal to the market value of those assets. Monthly premiums for those retirees under the current plan was assumed to be \$418.80, with health care costs expected to be 8.0% the next year and decreasing 0.5% each year thereafter until the rate reached 5.0% in the seventh year. The discount rate and the health care cost trend rate incorporate an assumed annual inflation rate of 3.5%. During the year ended December 31, 2015, the life expectancy table utilized by the actuary was changed from the 1994 Uninsured Pensioners Mortality Table to the RP 2014 Mortality Table to use the most current life expectancy information available. The actuary estimates that this change increased the UAAL by approximately \$398,000. The UAAL is amortized using the level dollar method with 24 years remaining at December 31, 2015 as the plan was closed to new participants on January 1, 2010. The assumed discount rate was lowered from 5.5% to 5.0% as of December 31, 2015. The net impact of this change and other changes in assumptions was to increase the UAAL by almost \$780,000.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

### NOTE 11: PRIOR PERIOD ADJUSTMENT

In June 2012, the GASB issued GASB 68 which became effective for the Utility on January 1, 2015. The provisions of GASB 68 improve accounting and financial reporting by state and local governments for pensions. The Statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities, in part by requiring state or local government employers to recognize a net pension liability for defined pension plans. The adoption of this Statement by the Utility resulted in a cumulative reduction in the 2015 beginning net position of the Utility of approximately \$15,256,000, as follows:

Beginning unrestricted net position, as previously reported	\$ 36,464,333
Prior period adjustment - implementation of GASB 68:	
Net pension liability adopted as of January 1, 2016	(13,161,142)
Deferred outflows	1,993,444
Deferred inflows	(5,302,744)
Beginning deferred outflows for pension contributions made prior to January 1, 2015	1,214,829
Adjustment to beginning net position	<u>(15,255,613)</u>
Beginning unrestricted net position, as restated	<u><u>\$ 21,208,720</u></u>

Prior periods were not restated due to the fact that all relevant information was not provided by APERS.

### NOTE 12: TRANSFER OF OPERATIONS

Under a water consolidation agreement between the Maumelle Suburban Improvement District No. 500 of Pulaski County, Arkansas, doing business as Maumelle Water Management (Maumelle) and the Utility, Maumelle agreed to combine its water sales and service with the Utility for the purpose of ultimately enhancing the quality of water available to its citizens. On March 1, 2016, Maumelle transferred the assets and liabilities comprising its water operations to the Utility. As a result of the transfer, the Utility recognized the following assets, liabilities and net position:

<b>Assets</b>	
Accounts receivable – consumers, net	\$ 520,269
Inventory	108,803
Restricted cash and cash equivalents	1,741,097
Capital assets, net of accumulated depreciation	<u>14,573,501</u>
<b>Total Assets</b>	<u><u>\$ 16,943,670</u></u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

### NOTE 12: TRANSFER OF OPERATIONS (Continued)

<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 131,634
Due to other agencies	3,720
Consumer deposits - current portion	372,657
Long-term obligations	8,690,251
<b>Total Liabilities</b>	<u>9,198,262</u>
<b>Net Position</b>	
Net investment in capital assets	5,883,250
Restricted - expendable:	
Bond requirements	1,741,097
Unrestricted	121,061
<b>Total Net Position</b>	<u>7,745,408</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 16,943,670</u>

The accompanying financial statements include the results of operations and cash flows as though the Utility and Maumelle had been combined at the beginning of the Utility's 2016 reporting period.

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# Required Supplementary Information



# Central Arkansas Water

## REQUIRED SUPPLEMENTARY INFORMATION

### *Schedule of the Utility's Proportionate Share of the Net Pension Liability* December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability	0.95%	0.94%
Utility's proportionate share of the net pension liability	\$ 22,821,130	\$ 17,301,107
Utility's covered-employee payroll	\$ 18,791,818	\$ 16,881,194
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	121.44%	102.49%
Plan fiduciary net position as a percentage of the total pension liability	75.50%	80.39%

Pension schedules included in the required supplementary information section are intended to show information for ten years. GASB Statement No. 68 was implemented in 2015, therefore only two years of information are shown, and additional years' information will be added as it becomes available.

**See independent auditor's report.**

# Central Arkansas Water

## REQUIRED SUPPLEMENTARY INFORMATION

### *Schedule of the Utility's Contributions to Arkansas Public Employees Retirement System* Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,626,580	\$ 2,479,699
Contributions recognized in relation to the contractually required contribution	<u>2,626,580</u>	<u>2,479,699</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 18,791,818	\$ 16,881,194
Contributions as a percentage of covered-employee payroll	13.98%	14.69%

GASB Statement No. 68 was implemented in 2015, therefore only two years of information are shown.

**See independent auditor's report.**

# Central Arkansas Water

## REQUIRED SUPPLEMENTARY INFORMATION

### *Other Postemployment Benefit Plan (OPEB) - Schedule of Funding Progress* December 31, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2011	\$ 1,798,851	\$ 8,878,907	\$ 7,080,056	20.3%	\$ 15,111,845	46.9%
12/31/2013	\$ 2,639,819	\$ 9,561,054	\$ 6,921,235	27.6%	\$ 15,981,665	43.3%
12/31/2015	\$ 3,410,597	\$ 11,647,189	\$ 8,236,592	29.3%	\$ 16,482,337	50.0%

See independent auditor's report.



# Central Arkansas Water

## REQUIRED SUPPLEMENTARY INFORMATION

### *Other Postemployment Benefit Plan (OPEB) - Schedule of Employer Contributions* December 31, 2016

<u>Actuarial Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
12/31/2011	\$ 710,820	100%
12/31/2013	\$ 678,354	100%
12/31/2015	\$ 710,052	100%

See independent auditor's report.

# Statistical Section (Unaudited)



# Central Arkansas Water

## STATISTICAL SECTION INDEX

This section of the Utility’s comprehensive annual financial report presents detailed information to provide a context for understanding what the information in the financial statements, notes to financial statements and required supplementary information says about the Utility’s overall financial health.

**Financial Trends .....86**

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

**Revenue and Debt Capacity..... 91**

These schedules contain information to help readers assess the Utility’s most significant revenue source, water revenues. Also included in this section is information to help the reader assess the affordability of the Utility’s current levels of debt outstanding and the Utility’s ability to issue additional debt in the future.

**Demographic and Economic Information ..... 96**

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

**Operating Information..... 99**

These schedules contain system and infrastructure data to help readers understand how the information in the Utility’s financial report relates to the services the Utility provides and the activities it performs.

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# Financial Trends



# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES 2007 – 2016 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Operating Revenues</b>				
Water sales	\$ 37,442,971	\$ 37,547,537	\$ 37,706,526	\$ 44,734,656
Penalties	714,390	742,402	754,955	888,654
Turn-on charges	1,020,307	1,132,302	1,110,714	1,057,057
Ancillary charges	3,238,139	3,044,787	2,797,505	2,631,082
Watershed protection fees	-	-	651,652	982,812
Other revenue	1,118,918	839,430	524,358	636,345
<b>Total Operating Revenues</b>	<u>43,534,725</u>	<u>43,306,458</u>	<u>43,545,710</u>	<u>50,930,606</u>
<b>Operating Expenses</b>				
Administration	2,946,927	3,107,367	2,945,649	2,766,339
Distribution	9,200,010	9,536,879	9,832,889	9,915,785
Engineering	1,551,157	1,637,505	1,700,254	1,758,261
Finance & customer service	5,679,973	5,751,256	5,980,026	5,992,816
Finance	-	-	-	-
Customer relations & public affairs	-	-	-	-
Information services	2,805,933	2,834,869	2,752,820	2,818,444
Source & treatment	7,054,139	7,555,875	7,882,414	8,181,092
Watershed protection	-	849,428	965,800	1,032,201
Water quality	-	-	-	-
General	1,955,895	2,355,892	2,033,790	2,549,123
Depreciation and amortization	8,287,340	8,642,459	8,640,467	9,138,823
<b>Total Operating Expenses</b>	<u>39,481,374</u>	<u>42,271,530</u>	<u>42,734,109</u>	<u>44,152,884</u>
<b>Nonoperating Revenues (Expenses)</b>				
Transfers to Cities of LR and NLR	(412,656)	(462,528)	(537,936)	(551,290)
Gain (loss) on disposal of capital assets	75,004	184,625	157,520	118,562
Investment income	1,530,756	738,133	163,318	56,820
Bond and other interest expense, net	(1,256,639)	(1,315,979)	(1,042,072)	(1,049,990)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(63,535)</u>	<u>(855,749)</u>	<u>(1,259,170)</u>	<u>(1,425,898)</u>
<b>Contributions</b>				
Contributions-in-aid of construction	6,930,433	10,232,358	5,253,734	8,552,085
Capital contributions from grantors	-	-	4,000,000	-
Special item - transfer of assets from Maumelle	-	-	-	-
<b>Total Contributions</b>	<u>6,930,433</u>	<u>10,232,358</u>	<u>9,253,734</u>	<u>8,552,085</u>
<b>Change in Net Position</b>	<u>\$ 10,920,249</u>	<u>\$ 10,411,537</u>	<u>\$ 8,806,165</u>	<u>\$ 13,903,909</u>
<b>% Water Rate Increase <sup>(1)</sup></b>	<u>9.8%</u>	<u>9.6%</u>	<u>3.4%</u>	<u>5.9%</u>

Source: Central Arkansas Water Finance Department

<sup>(1)</sup> Little Rock inside-city residential typical bill % increase (typical bill based on 650 cubic feet consumption)

# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES *(Continued)* 2007 – 2016 (Unaudited)

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 47,899,601	\$ 49,448,601	\$ 45,998,541	\$ 45,070,592	\$ 47,459,563	51,325,094
915,430	891,014	859,938	916,613	878,500	885,551
1,019,839	1,195,622	1,101,038	1,010,229	989,227	1,091,867
2,841,724	3,014,509	3,083,148	2,917,964	3,005,354	5,476,814
999,083	1,003,492	1,012,991	1,012,005	1,017,055	1,098,031
596,503	716,994	1,990,277	670,741	731,607	818,766
<u>54,272,180</u>	<u>56,270,232</u>	<u>54,045,933</u>	<u>51,598,144</u>	<u>54,081,306</u>	<u>60,696,123</u>
2,842,433	2,252,142	2,364,744	2,471,360	2,598,576	2,668,488
9,994,051	9,817,795	10,495,249	10,659,085	10,256,858	13,313,139
1,779,691	1,768,725	1,773,172	1,821,276	1,694,457	1,803,704
6,186,750	-	-	-	-	-
-	2,605,926	2,585,870	2,548,209	2,582,474	3,103,823
-	4,055,518	4,176,286	4,458,680	4,436,408	4,954,842
3,005,343	3,013,314	2,902,303	3,133,821	3,050,213	3,186,317
8,556,749	9,423,762	7,889,209	7,717,004	8,011,935	8,239,835
1,158,939	1,062,484	-	-	-	-
-	-	1,936,431	1,911,167	2,024,136	2,050,733
2,048,645	2,345,009	2,017,004	1,971,006	2,112,725	3,057,387
9,589,451	10,346,997	11,068,273	10,786,930	11,246,626	12,149,744
<u>45,162,052</u>	<u>46,691,672</u>	<u>47,208,541</u>	<u>47,478,538</u>	<u>48,014,408</u>	<u>54,528,012</u>
(584,388)	(602,832)	(608,436)	(658,776)	(659,088)	(676,408)
(476,219)	204,043	249,854	26,456	76,092	76,664
118,372	76,650	111,482	199,334	194,795	237,700
<u>(900,468)</u>	<u>(1,579,723)</u>	<u>(2,348,152)</u>	<u>(2,320,427)</u>	<u>(2,408,154)</u>	<u>(3,284,945)</u>
<u>(1,842,703)</u>	<u>(1,901,862)</u>	<u>(2,595,252)</u>	<u>(2,753,413)</u>	<u>(2,796,355)</u>	<u>(3,646,989)</u>
9,573,703	2,826,327	864,644	2,253,550	3,021,520	2,148,229
4,000,000	171,514	47,903	-	127,396	26,112
-	-	-	-	-	7,745,408
<u>13,573,703</u>	<u>2,997,841</u>	<u>912,547</u>	<u>2,253,550</u>	<u>3,148,916</u>	<u>9,919,749</u>
<u>\$ 20,841,128</u>	<u>\$ 10,674,539</u>	<u>\$ 5,154,687</u>	<u>\$ 3,619,743</u>	<u>\$ 6,419,459</u>	<u>\$ 12,440,871</u>
<u>5.3%</u>	<u>0.0%</u>	<u>3.8%</u>	<u>3.7%</u>	<u>0.0%</u>	<u>0.0%</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF NET POSITION 2007 – 2016 (Unaudited)

	2007	2008	2009	2010
<b>Net Position</b>				
Net investment in capital assets	\$ 258,483,966	\$ 268,480,427	\$ 280,199,889	\$ 284,393,022
Restricted – expendable	7,942,708	8,841,017	7,127,200	9,038,701
Unrestricted	15,844,227	15,360,994	14,161,514	21,437,276
<b>Total Net Position</b>	<b>\$ 282,270,901</b>	<b>\$ 292,682,438</b>	<b>\$ 301,488,603</b>	<b>\$ 314,868,999</b>

**Source:** Central Arkansas Water Finance Department

<sup>(1)</sup> Beginning net position was restated by The Utility during the year ended December 31, 2015, as a result of implementation of GASB Statement No. 68.



# Central Arkansas Water

## TEN YEAR SUMMARY OF NET POSITION *(Continued)* 2007 – 2016 (Unaudited)

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>(1)</sup></u>	<u>2016</u>
\$ 299,621,462	\$ 302,315,617	\$ 309,457,263	\$ 312,635,439	\$ 320,025,891	\$ 329,906,226
6,466,360	7,988,462	7,121,040	6,059,324	7,188,147	7,683,719
<u>29,622,305</u>	<u>36,080,587</u>	<u>34,961,050</u>	<u>36,464,333</u>	<u>19,108,904</u>	<u>21,173,868</u>
<u>\$ 335,710,127</u>	<u>\$ 346,384,666</u>	<u>\$ 351,539,353</u>	<u>\$ 355,159,096</u>	<u>\$ 346,322,942</u>	<u>\$ 358,763,813</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF WRITE-OFFS 2007 – 2016 (Unaudited)

<u>Year</u>	<u>Water Sales</u>	<u>Write-Offs</u>	<u>Write-Offs / Water Sales</u>
2007	37,442,971	225,043	0.60%
2008	37,547,537	205,420	0.55%
2009	37,706,526	193,601	0.51%
2010	44,734,656	249,268	0.56%
2011	47,899,601	290,008	0.61%
2012	49,448,601	257,771	0.52%
2013	45,998,541	239,301	0.52%
2014	45,070,592	369,709	0.82%
2015	47,459,563	316,441	0.67%
2016	51,325,094	237,356	0.46%

Source: Central Arkansas Water Finance Department

# Revenue and Debt Capacity



# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE 2007 – 2016 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Revenues</b>				
Water sales	\$ 37,442,971	\$ 37,547,537	\$ 37,706,526	\$ 44,734,656
Penalties	714,390	742,402	754,955	888,654
Turn-on charges	1,020,307	1,132,302	1,110,714	1,057,057
Ancillary charges	3,238,139	3,044,787	2,797,505	2,631,082
Watershed protection fees	-	-	651,652	982,812
Proceeds from sale of capital assets	852,053	1,036,972	972,888	1,154,252
Investment income	1,530,756	738,133	163,318	56,820
Other revenue	1,118,918	839,430	524,358	636,345
<b>Total Revenues</b>	<u>45,917,534</u>	<u>45,081,563</u>	<u>44,681,916</u>	<u>52,141,678</u>
<b>Expenses</b>				
Administration	2,946,927	3,107,367	2,945,649	2,766,339
Distribution	9,200,010	9,536,879	9,832,889	9,915,785
Engineering	1,551,157	1,637,505	1,700,254	1,758,261
Finance & customer service	5,679,973	5,751,256	5,980,026	5,992,816
Finance	-	-	-	-
Customer relations & public affairs	-	-	-	-
Information services	2,805,933	2,834,869	2,752,820	2,818,444
Source & treatment	7,054,139	7,555,875	7,882,414	8,181,092
Watershed protection	-	849,428	965,800	1,032,201
Water quality	-	-	-	-
General	1,955,895	2,355,892	2,033,790	2,549,123
Transfers to Cities of LR and NLR	412,656	462,528	537,936	551,290
<b>Total Expenses</b>	<u>31,606,690</u>	<u>34,091,599</u>	<u>34,631,578</u>	<u>35,565,351</u>
<b>Transfers to rate stabilization account<sup>(2)</sup></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,100,000)</u>
<b>Net Revenues</b>	<u>\$ 14,310,844</u>	<u>\$ 10,989,964</u>	<u>\$ 10,050,338</u>	<u>\$ 14,476,327</u>
<b>Maximum Annual Debt Service on Revenue Bonds</b>	<u>\$ 4,720,529</u>	<u>\$ 4,720,529</u>	<u>\$ 5,536,739</u>	<u>\$ 6,799,714</u>
<b>Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Bonds<sup>(1)</sup></b>	<u>3.03</u>	<u>2.33</u>	<u>1.82</u>	<u>2.13</u>

Source: Central Arkansas Water Finance Department

Note: Revenues and expenses included in statements of revenues, expenses and changes in net position, but excluded above consist of the following: depreciation and amortization, loss on disposal of capital assets, interest expense, contributions-in-aid of construction, capital contributions from grantors and special item.

<sup>(1)</sup> Bond Requirement is 1.2.

<sup>(2)</sup> Per Resolution 2010-03, transfers to the rate stabilization account within 90 days after year end are excluded from net revenues and transfers from the rate stabilization account within 90 days after year end are included in net revenues.

# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE *(Continued)* 2007 – 2016 (Unaudited)

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 47,899,601	\$ 49,448,601	\$ 45,998,541	\$ 45,070,592	\$ 47,459,563	\$ 51,325,094
915,430	891,014	859,938	916,613	878,500	885,551
1,019,839	1,195,622	1,101,038	1,010,229	989,227	1,091,867
2,841,724	3,014,509	3,083,148	2,917,964	3,005,354	5,476,814
999,083	1,003,492	1,012,991	1,012,005	1,017,055	1,098,031
1,378,313	1,270,452	1,259,097	62,548	93,675	87,285
118,372	76,650	111,482	199,334	194,795	237,700
596,503	716,994	1,990,277	670,741	731,607	818,766
<u>55,768,865</u>	<u>57,617,334</u>	<u>55,416,512</u>	<u>51,860,026</u>	<u>54,369,776</u>	<u>61,021,108</u>
2,842,433	2,252,142	2,364,744	2,471,360	2,598,576	2,668,488
9,994,051	9,817,795	10,495,249	10,659,085	10,256,858	13,313,139
1,779,691	1,768,725	1,773,172	1,821,276	1,694,457	1,803,704
6,186,750	-	-	-	-	-
-	2,605,926	2,585,870	2,548,209	2,582,474	3,103,823
-	4,055,518	4,176,286	4,458,680	4,436,408	4,954,842
3,005,343	3,013,314	2,902,303	3,133,821	3,050,213	3,186,317
8,556,749	9,423,762	7,889,209	7,717,004	8,011,935	8,239,835
1,158,939	1,062,484	-	-	-	-
-	-	1,936,431	1,911,167	2,024,136	2,050,733
2,048,645	2,345,009	2,017,004	1,971,006	2,112,725	3,057,387
584,388	602,832	608,436	658,776	659,088	676,408
<u>36,156,989</u>	<u>36,947,507</u>	<u>36,748,704</u>	<u>37,350,384</u>	<u>37,426,870</u>	<u>43,054,676</u>
<u>(2,600,000)</u>	<u>(3,300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 17,011,876</u>	<u>\$ 17,369,827</u>	<u>\$ 18,667,808</u>	<u>\$ 14,509,642</u>	<u>\$ 16,942,906</u>	<u>\$ 17,966,432</u>
<u>\$ 6,884,537</u>	<u>\$ 8,061,331</u>	<u>\$ 7,909,925</u>	<u>\$ 7,645,191</u>	<u>\$ 7,600,019</u>	<u>\$ 7,125,431</u>
<u>2.47</u>	<u>2.15</u>	<u>2.36</u>	<u>1.90</u>	<u>2.23</u>	<u>2.52</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT 2007 – 2016 (Unaudited)

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Large Volume</u>	<u>Wholesale</u>
2007	105,419	11,003	62	7
2008	105,905	11,064	57	7
2009	106,371	11,041	64	7
2010	106,235	11,041	63	8
2011	106,556	11,160	63	9
2012	106,961	11,243	64	9
2013	108,116	11,297	57	9
2014	108,426	11,411	56	9
2015	109,007	11,419	50	9
2016	116,601	11,592	133	9

**Source:** Central Arkansas Water Finance Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT *(Continued)* 2007 – 2016 (Unaudited)

<u>Sprinkler</u>	<u>Private Fire Services</u>	<u>Total Customers</u>	<u>Total Outstanding Debt</u>	<u>Total Outstanding Debt to Customer Count</u>
3,358	1,552	121,401	\$ 55,135,000	\$ 454
3,357	1,593	121,983	\$ 53,025,000	\$ 435
3,568	1,661	122,712	\$ 59,520,017	\$ 485
3,758	1,686	122,791	\$ 72,891,876	\$ 594
3,497	1,723	123,008	\$ 75,463,932	\$ 613
3,554	1,772	123,603	\$ 92,506,391	\$ 748
3,748	1,821	125,048	\$ 85,442,806	\$ 683
3,782	1,850	125,534	\$ 80,966,271	\$ 645
3,955	1,880	126,320	\$ 76,734,499	\$ 607
4,083	2,104	134,522	\$ 93,386,875	\$ 694

# Central Arkansas Water

## TEN YEAR SUMMARY OF TEN LARGEST WATER CUSTOMERS 2007 – 2016 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Jacksonville Water Works	1	1	1	1	1	1	1	1	1	1
Bryant Water and Sewer	2	2	2	3	2	2	2	2	2	3
Salem Water Alliance	6	8	8	4	4	3	3	3	3	2
Mid-Arkansas Utilities	3	3	3	2	3	4	4	4	5	-
University of Arkansas for Medical Sciences	8	5	4	5	6	5	5	5	6	5
Arkansas Department of Corrections	-	-	10	10	9	10	9	6	7	6
Sage V Foods	-	-	-	-	-	-	-	7	10	-
Cabot WaterWorks	-	-	-	-	-	9	10	8	8	7
Shannon Hills Water Department	-	-	-	-	-	-	-	9	4	9
Baptist Health System	9	7	7	8	7	7	7	10	9	10
Chicopee/Polymer Group	10	-	-	-	-	-	-	-	-	-
Veterans Administration Hospitals	7	6	5	7	-	8	8	-	-	-
3-M Company	4	4	6	6	8	-	-	-	-	4
Arkansas Electric Cooperative	5	-	-	9	5	6	6	-	-	-
North Little Rock Burns Park	-	-	-	-	-	-	-	-	-	8
St. Vincent Doctors Hospital	-	9	-	-	-	-	-	-	-	-
Arkansas Military Department	-	10	-	-	10	-	-	-	-	-
Little Rock Parks Department	-	-	9	-	-	-	-	-	-	-

**Source:** Central Arkansas Water Finance Department



# Demographic and Economic Information



# Central Arkansas Water

## LARGEST EMPLOYERS WITHIN PULASKI COUNTY 2016 vs. 2007 (Unaudited)

Employer	Type of Business	2016			2007	
		Rank	Employees	Percentage of Total Employment	Rank	Employees
State of Arkansas	Government	1	35,200	20%	1	23,400
Local Government	Government	2	26,500	15%		
Federal Government	Government	3	10,200	6%	2	12,000
University of Arkansas for Medical Sciences	Medical Services	4	9,100	5%	3	8,500
Baptist Health	Medical Services	5	6,590	4%	5	7,000
Little Rock Air Force Base Arkansas Childrens Hospital	Government Medical Services	6 7	4,500 4,000	2% 2%	6	4,500
Little Rock School District Central Arkansas Veterans Health Care Systems	Education Medical Services	8 9	3,500 2,800	2% 2%	10	2,800
Entergy Arkansas	Utility (Electric)	10	2,740	2%	9	2,900
Pulaski County Public School District	Education	-	2,700		4	8,400
St. Vincent Infirmary Medical Center	Medical Services	-	2,600		8	3,500
Acxiom	Data Processing	-	300		7	4,400
<b>Total</b>			<b>110,730</b>			<b>77,400</b>
<b>Total Employment</b>			<b>180,263</b>			<b>182,273</b>

Source: Central Arkansas Water Finance Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF DEMOGRAPHIC AND ECONOMIC STATISTICS WITHIN PULASKI COUNTY 2007 – 2016 (Unaudited)

Year	Population	Households	Median Household Income	Per Capita Personal Income	Total Personal Income (000's)	Unemployment Rate
2007	374,011	174,414	44,909	44,292	16,538,757	4.5%
2008	376,797	175,963	45,215	45,019	16,952,779	4.4%
2009	381,904	177,521	42,107	42,209	16,041,795	6.0%
2010	382,748	175,555	44,482	42,438	16,278,265	6.9%
2011	386,299	176,324	45,897	43,938	16,973,344	6.4%
2012	388,953	178,704	44,819	45,875	17,843,080	6.3%
2013	391,284	179,470	46,526	47,854	18,724,616	6.9%
2014	392,490	180,023	45,698	46,349	18,201,484	5.6%
2015	392,664	180,103	46,673	45,862	18,008,251	4.0%
2016	(1)	(1)	(1)	(1)	(1)	3.2%

Source: U.S. Census Bureau and discoverarkansas.net

<sup>(1)</sup> Information is not available.

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# Operating Information



# Central Arkansas Water

## TEN YEAR SUMMARY OF NEW CONNECTIONS 2007 – 2016 (Unaudited)

<u>Year</u>	<u>Meters</u>	<u>Fire Hydrants</u>	<u>New Pipe (in Miles)</u>
2007	2,598	376	65.20
2008	1,753	336	37.30
2009	1,686	321	35.50
2010	1,144	160	19.70
2011	1,187	86	11.90
2012	1,442	61	28.50
2013	2,158	137	15.30
2014	1,205	150	16.90
2015	1,233	165	11.80
2016	1,277	168	17.00

**Source:** Central Arkansas Water Engineering Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF SYSTEM HIGHLIGHTS 2007 – 2016 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Miles of public water distribution pipe	2,198	2,229	2,255	2,276	2,280	2,295	2,358	2,366	2,372	2,497
Number of treatment plants	2	2	2	2	2	2	2	2	2	3
Maximum treatment capacity (MGD)	124.0	157.0	157.0	157.0	157.0	157.0	157.0	157.0	157.0	163.7
Maximum day consumption (MG)	119.6	109.4	103.3	108.4	119.4	126.0	106.0	88.3	98.9	132.8
Percentage of maximum capacity utilized	96%	70%	66%	69%	76%	80%	68%	56%	63%	81%

**Source:** Central Arkansas Water Engineering and Source & Treatment Departments

MGD = Millions of Gallons per Day

MG = Million Gallons

# Central Arkansas Water

## TEN YEAR SUMMARY OF CAPITAL ASSETS 2007 – 2016 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Land and land use rights	\$ 24,817,358	\$ 28,147,590	\$ 40,550,430	\$ 40,544,764
Building and grounds	37,493,939	39,037,397	39,719,805	40,917,775
Land improvements	-	-	-	-
Water source	32,549,548	32,621,672	32,621,672	32,778,582
Purification	24,824,032	25,176,369	25,176,369	29,512,295
Pumping	15,959,091	15,956,236	15,956,236	22,254,975
Distribution	236,865,670	249,181,501	257,532,685	272,131,704
Other equipment	24,256,523	25,762,336	25,933,787	26,463,728
Construction in progress	27,706,013	30,887,428	36,626,465	34,450,027
	<u>424,472,174</u>	<u>446,770,529</u>	<u>474,117,449</u>	<u>499,053,850</u>
Less accumulated depreciation	<u>120,973,768</u>	<u>129,122,942</u>	<u>136,877,016</u>	<u>145,172,084</u>
<b>Net Capital Assets</b>	<u><u>\$ 303,498,406</u></u>	<u><u>\$ 317,647,587</u></u>	<u><u>\$ 337,240,433</u></u>	<u><u>\$ 353,881,766</u></u>

Source: Central Arkansas Water Finance Department



# Central Arkansas Water

## TEN YEAR SUMMARY OF CAPITAL ASSETS *(Continued)* 2007 – 2016 (Unaudited)

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 43,779,013	\$ 45,521,648	\$ 46,032,162	\$ 46,192,915	\$ 47,488,299	\$ 47,892,367
41,954,807	44,160,573	49,154,620	60,806,083	60,916,771	62,556,517
-	-	1,478,894	2,253,459	2,259,083	2,702,932
32,778,582	32,920,887	32,927,318	33,211,941	33,211,941	33,419,723
36,299,049	37,261,755	37,518,831	42,180,124	42,449,597	45,268,031
22,323,783	25,740,465	25,796,891	26,233,796	26,410,016	27,159,362
279,106,680	318,974,140	323,590,447	335,078,600	339,621,061	363,365,749
27,362,197	27,875,369	27,139,956	28,573,745	29,123,839	31,027,067
42,187,758	11,868,158	21,527,876	2,150,054	8,880,044	8,044,217
<u>525,791,869</u>	<u>544,322,995</u>	<u>565,166,995</u>	<u>576,680,717</u>	<u>590,360,651</u>	<u>621,435,965</u>
<u>153,522,735</u>	<u>163,299,356</u>	<u>173,414,469</u>	<u>183,412,270</u>	<u>193,915,770</u>	<u>211,426,836</u>
<u>\$ 372,269,134</u>	<u>\$ 381,023,639</u>	<u>\$ 391,752,526</u>	<u>\$ 393,268,447</u>	<u>\$ 396,444,881</u>	<u>\$ 410,009,129</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF FILLED POSITIONS BY DEPARTMENT 2007 – 2016 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Administration	14	15	17	14	14	11	11	12	11	14
Distribution	125	114	111	102	104	106	109	108	110	135
Engineering	21	22	22	23	22	23	23	22	21	22
Finance & customer service	78	77	75	78	75	79	79	-	-	-
Finance	-	-	-	-	-	-	-	17	20	22
Customer relations & public affairs	-	-	-	-	-	-	-	61	63	47
Information services	18	16	17	17	17	17	17	17	17	16
Source & treatment	37	37	39	37	40	32	31	-	-	31
Water quality	-	-	-	-	-	10	9	-	-	-
Water quality & operations	-	-	-	-	-	-	-	40	41	13
Total	<u>293</u>	<u>281</u>	<u>281</u>	<u>271</u>	<u>272</u>	<u>278</u>	<u>279</u>	<u>277</u>	<u>283</u>	<u>300</u>

**Source:** Central Arkansas Water Administration Department

# Central Arkansas Water

## SCHEDULE OF WATER RATES FOR CAW 2016 (Unaudited)

**Minimum Monthly Charge (CAW):**

Meter Size	Central Arkansas Water Charge	
	Inside City	Outside City
5/8"	\$ 5.85	\$ 7.66
3/4"	\$ 7.56	\$ 9.89
1"	\$ 10.74	\$ 14.06
1 1/2"	\$ 18.16	\$ 23.75
2"	\$ 29.45	\$ 38.54
3"	\$ 54.45	\$ 71.27
4"	\$ 88.57	\$ 115.93
6"	\$ 175.19	\$ 229.29
8"	\$ 296.33	\$ 387.82
10"	\$ 426.63	\$ 558.37
12"	\$ 777.01	\$ 1,016.94

**Consumption Charge (per 100 cubic feet of usage in excess of 200 cubic feet per month):**

Customer Class	Charge			
	Inside City	Outside City	On Peak	Off Peak
Residential	\$ 1.61	\$ 2.58	n/a	n/a
Commercial	\$ 1.51	\$ 2.41	n/a	n/a
Large Volume	\$ 1.23	\$ 1.96	n/a	n/a
Sprinkler	\$ 1.61	\$ 2.58	n/a	n/a
Wholesale	n/a	n/a	\$ 1.31	\$ 1.15
Raw Water	\$ 0.55	n/a	n/a	n/a

**Watershed Protection Fee (CAW customers):**

Meter Size	Fee
5/8"	\$ 0.45
3/4"	\$ 0.45
1"	\$ 0.68
1 1/2"	\$ 1.13
2"	\$ 2.25
3"	\$ 3.60
4"	\$ 6.75
6"	\$ 11.25
8"	\$ 22.50
10"	\$ 36.00

<sup>(1)</sup> Inside City Residential accounts with a single house meter (no sprinkler meter) using 100, 200 or 300 cubic feet of monthly usage shall be given a Conservation Rate Discount of 15%. The discount shall not apply to zero consumption billings.

**Source:** Central Arkansas Water Finance Department

# Central Arkansas Water

## SCHEDULE OF WATER RATES FOR MAUMELLE 2016 (Unaudited)

**Minimum Monthly Charge (Maumelle):**

<u>Meter Size</u>	<u>Maumelle Charge</u>	
	<u>Inside City</u>	<u>Outside City</u>
5/8"	\$ 9.56	\$ 11.07
3/4"	\$ 9.56	\$ 11.07
1"	\$ 42.70	\$ 49.57
1 1/2"	\$ 85.42	\$ 99.14
2"	\$ 149.50	\$ 173.49
3"	\$ 331.02	\$ 331.02
4"	\$ 565.92	\$ 565.92
6"	\$ 1,120.52	\$ 1,120.52
8"	\$ 1,893.68	\$ 1,893.68

**Consumption Charge (per 100 cubic feet of usage in excess of 200 cubic feet per month):**

<u>Gallons</u>	<u>Maumelle</u>	
	<u>Water</u>	<u>Sprinkler</u>
1,001 to 10,000	\$ 3.68	\$ 4.26
10,001 to 20,000	\$ 3.68	\$ 4.26

**Watershed Protection Fee:**

<u>Meter Size</u>	<u>Fee</u>
All Meter Sizes	\$ 0.75

**Transition Surcharges**

<u>Meter Size</u>	<u>Transition</u>	<u>Intermediate</u>	<u>Long Term</u>
5/8"	\$ 4.26	\$ 4.92	\$ 15.67
3/4"	\$ 4.26	\$ 4.92	\$ 15.67
1"	\$ 21.73	\$ 25.09	\$ 79.92
1 1/2"	\$ 32.38	\$ 37.39	\$ 119.09
2"	\$ 43.45	\$ 50.18	\$ 159.83
3"	\$ 54.10	\$ 62.48	\$ 199.01
4"	\$ 65.18	\$ 75.28	\$ 239.75
6"	\$ 129.05	\$ 149.05	\$ 474.71
8"	\$ 218.10	\$ 251.89	\$ 802.25

**Source:** Central Arkansas Water Finance Department

# Other Required Report



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Central Arkansas Water  
Little Rock, Arkansas

We have audited, in accordance with the 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, the financial statements of Central Arkansas Water (the Utility) and its fiduciary funds, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated April 13, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thomas & Thomas LLP*

Certified Public Accountants

April 13, 2017  
Little Rock, Arkansas