



SAFE
LOW-COST
ABUNDANT
DEPENDABLE
HIGH-QUALITY
WATER

**Comprehensive
Annual Financial Report**
For Years Ended December 31, 2017 & 2016





COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Years Ended December 31, 2017 & 2016

Prepared by the Central Arkansas Water Finance Department
221 East Capitol Avenue | P. O. Box 1789 | Little Rock, AR 72203 | carkw.com

Central Arkansas Water

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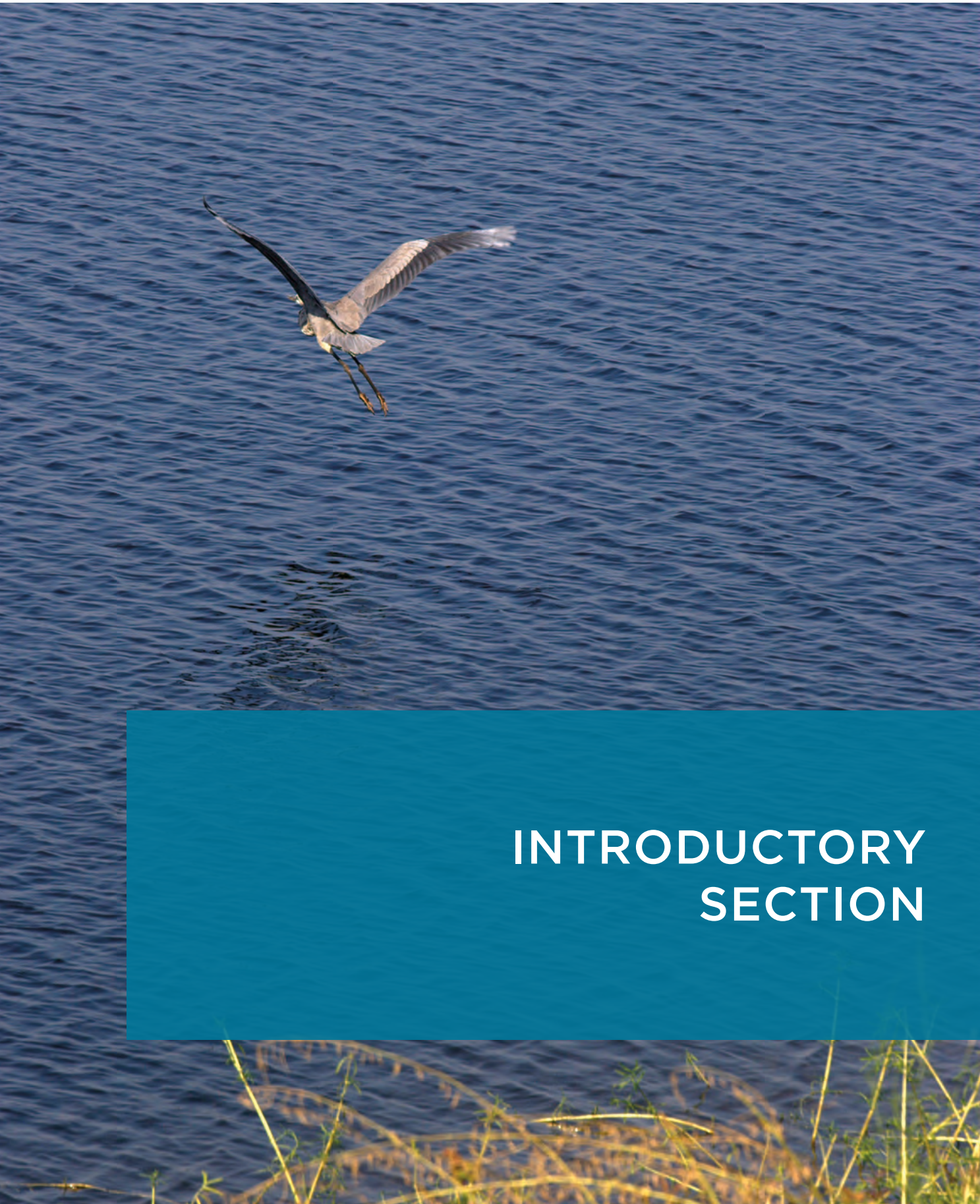
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**INTRODUCTORY
SECTION**



April 20, 2018

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, 2017 and 2016.

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, 2017 and 2016. See Management's Discussion and Analysis, beginning on Page 20. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utility.

Maintaining an adequate internal control structure is critical to the success of CAW. Properly implemented internal controls reasonably ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. These controls also safeguard assets and assist with the accomplishment of the Utility's goals and objectives. The maintenance of the internal control structure is the responsibility of CAW Management.

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. On March 1, 2016, Maumelle Water Management (MWM) became part of CAW through a merger that added 7,500 customers in the city of Maumelle.

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 Service, Information Services, Water Production, and Water Quality.

The Utility collects, stores, treats, and distributes water for a population of approximately 450,000 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 2,506 miles of public pipeline; 26 remote booster pumping stations; and 29 remote storage facilities. As of December 31, 2017, the Utility provides water service to approximately 530 square miles and approximately 135,000 active customer accounts.

MAJOR INITIATIVES AND ACCOMPLISHMENTS IN 2017

As an organization, CAW saw a very busy 2017. One of the main focuses was to have all MWM accounts merged into enQuesta, CAW's Customer Information System (CIS). Staff from multiple CAW departments participated in this endeavor. After months of testing, this goal was met with all MWM accounts being merged into current billing cycles during summer 2017. Another MWM-related goal was to complete the connection between the existing CAW distribution system and the former MWM customers. The majority of this goal was met as the transmission line was completed by the end of 2017, and January 2018 was the target for water from the CAW system to be supplied to the Maumelle customers.

In another multi-departmental project, CAW contracted with EMA, Inc. to develop an Information Technology Master Plan (ITMP) for the Utility. The action items identified in this plan will contribute to CAW's future for several years to come. The final results for the overall ITMP are projected to be issued during the second quarter of 2018.

The first action item to come out of the ITMP was to evaluate the current CIS and make a recommendation to upgrade or replace the system. In agreement with EMA's recommendation, CAW management decided to replace the current CIS system. A team, consisting of four members of the Finance and Customer Service department and two members of the IS department, was assembled to begin this task. A newly created position, Special Project Manager, will lead the CIS implementation team and is responsible for completing this project.

Administration

Human Resources focused on its primary mission to ensure that the Utility's recruitment programs, policies, procedures, compensation, and employee benefits attract and retain competent, motivated, and diverse employees. Recruitment was heavy in 2017, with a 30% increase in recruitment activities, primarily in distribution field positions, meter reading and treatment plant operations. Forty-eight positions were filled, on average within 7.8 weeks. Time to fill was slightly above the Society for Human Resources Management (SHRM) standard of seven weeks but still a notable accomplishment given the significant increase in recruitment volume. With increasing retirements due to the baby boomer generation, CAW's turnover rate remained higher than normal in 2017 at 8.1%.

CAW's five-year average turnover increased to 7.7%, less than half the national average turnover for state and local governments (17.1%).

Professional certification, training, and employee development continued to be key focus areas for CAW. The number of employees holding designated certifications exceeded the level of job certifications required by 16% in 2017. The Utility implemented a new skills-based pay system for key positions in the Water Production and Distribution departments, providing greater opportunities for advancement and increasing employee job satisfaction and engagement. Each employee received an average of nearly 24 hours of training in 2017, as CAW continued an increased focus on employee development and supervisory training. VIP² training, designed to cultivate a high-performing, innovative, values-driven, informed, and passionate workforce, was conducted in phases for management staff (two days), supervisory and lead staff (one day), and employees (one half day) at the Utility. Along with this training, CAW also developed the *CAW Leadership Guide*, a quick reference brochure outlining CAW's mission and values along with the supervisor's/leader's responsibilities in supporting them. A focus area for 2018 will be internal advancements, as the Utility saw a drop in the number of positions filled internally to 55% in 2017.

A strong commitment to diversity and inclusion initiatives continued throughout the organization in 2017. The Diversity Inclusion Team (DIT) continued its "Spotlight" initiative, rolled out in 2015, to celebrate National Diversity Month. Under the Diversity Spotlight program, the DIT interviews a diverse group of CAW employees and spotlights one participating employee via intranet/email each day. The Spotlight activity has been so well received by employees that the program has continued, and participation increases each year. Additionally, the DIT has plans to begin an initiative to help employees discover their heritage through a genealogy program. Finally, CAW continues to be a strong supporter of the Just Communities of Arkansas (JCA) Walk for Community and continues to participate in fundraising activities for JCA.

The rising cost of benefits continued to be a concern for employers across the nation. CAW's 2017 Cost of Benefits as a percent of total compensation (wages + benefits) remained flat at 29.78% and was closely aligned with the Bureau of Labor Statistics (BLS)/SHRM national average (29.50%).

In coordination with SHRM, CAW completed an Employee Job Satisfaction and Engagement Survey in 2017, with impressive results that were well above national averages. CAW employees expressed overall job satisfaction of 93% (SHRM national average 75%) and overall satisfaction with the organization of 88% (SHRM national average 73%). While these results are noteworthy, CAW will continue to delve into the results and focus on improvements based on the survey.

The Public Affairs and Communications department encompasses the communications and public policy sections of the Utility. This department allows CAW to take a more holistic approach to managing relationships with both external and internal audiences and ensure that all interactions with the Utility provide an exceptional experience that exceeds expectations.

In 2017, Public Affairs and Communications worked in cooperation with the Utility's Water Quality department to launch www.lakemaumelle.com, a consolidated information resource for consumers interested in water quality as well as lake conditions, recreation, rules and regulations.

In addition, the department 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 2017, Communications issued over 30 press releases and spokesperson interviews regarding Utility activities for media outlets in Central Arkansas.

During 2017, CAW held its inaugural Citizens Water Academy for 15 citizens of our communities. This event provided residents an opportunity to learn about the inner workings of the Utility, empowering them to become Utility ambassadors and educate others about the products and services we deliver. After-action surveys showed very favorable responses from academy participants pertaining to the acquired knowledge.

From May through August of 2017, CAW partnered with the Little Rock Zoo to install a new patron exhibit "Water's Extreme Journey," a 1,500 square foot maze which served as an educational opportunity for visitors to learn about the water cycle process from the source to faucet. The exhibit was a huge success, reaching over 100,000 visitors.

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. In addition to embracing stakeholder input on various projects related to watershed protection, wise water consumption, and resource utilization, the Utility took a proactive approach to media relations for a number of key activities in 2017. These activities included education programs, tours, special events, 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 2017, approximately 13% of the Utility's customers were enrolled in paperless billing, which supports the Utility's sustainability initiatives and reduces expense.

During 2017, the Environmental Health and Safety (EHS) department emphasized personal safety through monthly safety meetings and other focused initiatives. EHS conducted 90 training sessions that provided over 2,900 hours of safety training for CAW employees. In addition, the EHS section continued emphasizing personal safety outside the classroom by conducting 11 facility inspections and 424 field inspections.

CAW added a second safety specialist in 2017 to assist with the increased focus on employee safety.

Distribution

In 2017 the Distribution department completed over 136,700 work orders on CAW assets including pump stations, treatment plants, storage tanks, wells, water mains, meters, valves and hydrants. The Distribution department staff is highly devoted to reducing unaccounted for water and embarked with new technology provided by Utilis Ltd. Utilis uses spectral aerial imaging, taken from a satellite mounted sensor, to spot non-surfacing leakage in subterranean drinking water networks. Utilis took imagery of the CAW gravity system in November 2017 and identified 156 possible leaks within 747 miles of pipe. Distribution staff verified six of the 156 possible leaks in late 2017 and will continue to evaluate this partnership with Utilis in 2018 based on accuracy of findings.

The Distribution department, with the combined effort of the Engineering department, replaced approximately 25,800 feet of 2-inch galvanized pipe. Distribution's proactive approach in replacing troublesome galvanized mains has paid great dividends, with the continued reduction of galvanized main breaks.

The Distribution department enacted the 2-inch galvanized pipe replacement program in 2010, which has led the number of spontaneous breaks to decrease from 234 breaks per 100 mile of galvanized pipe in 2010 to 127 breaks per 100 miles of galvanized pipe in 2017.

The department strives to maintain outstanding levels of service for our customers. CAW had a total of 450 spontaneous main breaks in 2017; however, only 32 of those breaks caused unplanned outages due to their emergency nature.

Distribution staff continued its effort in mapping meters within the system. There are currently 150,200 meters in the Distribution System of which approximately 71,500 remained unmapped at the beginning of 2017. Distribution staff gathered points on 32,800 meters this year leaving 38,700 to map in 2018. The initiative to plot customer meters is twofold. One reason is to quickly locate a meter that may be covered by leaves or snow and the second reason is that mapping meters is the first step in moving forward with Smart Outage software. The Smart Outage software will allow field personnel to identify all valves needed for emergency shutdowns, the number of customers affected and the names and addresses of each customer attached to the account in one click. Future initiatives include phone/text/e-mail notification of emergency shutdowns in affected areas.

The Distribution department initiated a Lead Service Replacement protocol in 2017. With renewed attention to lead within water systems, CAW began reviewing its Lead Service Replacement program dating back to the late 1980s. As a result of this review, staff discovered that 47,000 services had a material type listed as unknown. In 2016, Distribution began verifying unknown service material types, specifically on services that were installed prior to 1950. The department verified a total of 8,350 services between 2016 and 2017, confirming that 164 services were comprised of lead. In a multi-departmental effort, the Distribution, Water Quality and Public Affairs and Communications departments, along with Executive Staff, developed a protocol for lead service replacement that included our community leaders and customers. Distribution staff began replacing lead services in late 2017 and had 140 remaining in the system at the end of the year.

Distribution exceeded the Utility's goal of 5,000 meters by replacing 7,000 water meters through its meter change out program. This included 2,000 meters replaced in a combined effort with the Distribution Field Representatives. In accordance with the meter replacement program, 5/8-inch meters are changed out every 16 years, or sooner for larger meters.

Distribution continued its efforts in Maumelle following the successful merger with MWM in 2016. Specifically, Distribution continued to focus on service line replacements in Maumelle due to their poor condition. Distribution replaced 164 services in 2016 and an additional 183 services in 2017. Furthermore, Distribution conducted a pilot study introducing CAW water into Maumelle's distribution system to study any adverse effects on the system. The pilot study was highly successful in showing that there was no additional scaling of the interior of the pipes, and all lab analyses had positive results to move forward with the introduction of CAW water with a limited amount of flushing.

The department completed the inspection of all fire hydrants in the system in 2017. Staff started the inspection of 11,000 hydrants south of the river in August 2016 and then moved to the north side of the river in January 2017, inspecting an additional 5,000 hydrants for a total of 16,000 hydrant inspections.

Engineering

The Engineering department, through capital improvement projects and private developer construction, managed and oversaw the installation and/or replacement of 16.3 miles of public water mains and the installation of 4.3 miles of new private water mains in 2017. Also, 3.1 miles of public water mains and 0.5 miles of private water mains were retired in 2017.

In 2017, the Engineering department designed and managed the installation of approximately 19,400 feet of galvanized pipe replacement performed through contract construction. The Engineering department also designed the installation of approximately 6,400 feet of galvanized pipe replacement performed in-house by the CAW Distribution department.

Other major projects that the Engineering department designed, managed and/or inspected to completion in 2017 include:

- Managed the contract construction phase of 5.5 miles of 30-inch transmission main installed to connect the City of Maumelle to the CAW water system.
- Completed four relocation projects for street, road and drainage improvements initiated by the Arkansas Department of Transportation and the City of Little Rock: (1) relocation of 551 feet of 8-inch water pipe along Geyer Springs Road for a new railroad overpass, (2) relocation of 2,674 feet of 12-inch and 8-inch water pipe along Kanis Road Phase 1, (3) relocation of 2,861 feet of 8-inch water main along North Chicot Road and Mabelvale Pike and (4) relocation/replacement of 1,265 feet of 20-inch water main attachment to the new Broadway Bridge over the Arkansas River.
- Completed management of the design project to make approximately \$6,000,000 in improvements to the Wilson Plant Pump Station No. 1A; work to be performed in two phases with full completion in 2022. Phase 1 of the project was bid in late 2017 and awarded for construction.
- Completed management of the preliminary design for a maximum of \$36,000,000 of improvements to the Ozark Point Plant.
- Completed a study for the best alternative for the relocation/replacement of the 24-inch transmission attached to the Interstate 30 Arkansas River Bridge.
- Designed, bid and commenced projects to replace approximately \$2,000,000 worth of high-maintenance water mains within the city of Maumelle, as part of the Maumelle merger.
- Designed, bid and commenced a project to relocate approximately 3,200 feet of 24-inch water transmission main along East Maryland Avenue in Sherwood for pending street and drainage improvements.

Also in 2017, the Engineering department started other engineering designs for new projects scheduled for construction in 2018 and beyond, including water main relocations due to new street/highway improvements and replacement of troublesome galvanized and asbestos-cement water mains.

Finance and Customer Service

For the eighth 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 recognizes those state and local governments that prepare 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) recognizes 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.

Finance managed the procurement and implementation of the Solver BI360 budgeting and reporting tool. This product replaced the existing budget software which had been discontinued as well as the existing reporting application which only offered limited capabilities. The project was completed on time and budget, and the 2018 Financial Plan was created successfully using these tools.

Purchasing personnel completed a cooperative purchasing agreement to utilize volume discount rates for shipping with United Parcel Service. The use of this agreement has reduced the average shipping rate by 50% resulting with estimated annual savings of \$1,200 in 2017.

Purchasing staff, along with Distribution support, worked with the Little Rock Water Reclamation Authority (LRWRA) Maintenance Facility on a retread tire trial where applicable in CAW's Fleet. The trial was successful, with an estimated savings of \$11,400 in 2017.

Purchasing continues to work closely with the Distribution Maintenance section in the replacement of interior and exterior lighting at CAW facilities. By utilizing the instant rebate program through Entergy's Commercial and Industrial Energy Efficiency Program, CAW has saved \$2,508 in instant rebates, in addition to an estimated annual energy savings of 27.096 kilowatts (kWh).

While the Customer Service – Office section dealt with an approximate 30% reduction of staff, the call center fielded approximately 211,800 calls in 2017 which represented a 4.7% increase in volume. While the call volume increased nearly 5%, the percentage of abandoned calls only slightly increased 2.21% to a year-end level of 6.15%. Year-end recruiting measures will add staff to address these deficiencies.

Walk-in lobby traffic was heavy throughout 2017 with over 36,000 customers seeking assistance between both Little Rock and North Little Rock offices. This was up from 30,000 face-to-face interactions in 2016.

Payment trends showed that while many of our customers still prefer paying via check, more people are using electronic methods as their preferred method of choice. Our electronic funds transfer (EFT), interactive voice response (IVR), and Web Site payment streams all saw increases in 2017.

Meter Reading gathered usage data on at least 169,000 meter devices each month in order for the utility to maintain an effective billing schedule. Meeting these tight deadlines helps foster a positive cash flow environment and allows CAW to more efficiently manage operations throughout the year.

Information Services

The IS department manages and maintains devices and systems, provides appropriate support services, ensures availability 24 hours per day and supplies security for data maintained on the various systems. The department also researches, evaluates and implements emerging technologies and approaches to improve technological automation of the Utility and translate these investments into increased efficiency and productivity for all areas of operations.

The Wireless Access Points (APs) were upgraded after eight years of use. These new APs provide faster and more secure connections to the network, plus provide access to the internet through a guest account without connecting to the corporate network. The Supervisory Control and Data Acquisition (SCADA) connection between the Wilson Plant and the Ozark Point Plant was upgraded to a fiber connection. The previous connection was a copper T1 circuit running at 1.5Mb; the new connection is a fiber circuit running at 10Mb for increased speed and reliability. Session Initiation Protocol trunks replaced the old copper circuits that provided phone service for CAW. The trunks come in on fiber at both the James T. Harvey facility and at Clearwater for failover and provide increased speed and reliability compared to the technology they replaced.

In early 2017, the GIS Section completed an expansion of CAW's GPS fleet tracking system. CAW added 35 new vehicles to the system bringing the total to 85. Each vehicle is outfitted with a GPS receiver that is constantly transmitting the vehicle's location, idle time, speed and many other bits of data. Each vehicle can be viewed in real-time on any computer or mobile device that is accessed by authorized CAW users. Since the system is integrated with CAW's GIS maps, the vehicle positions can be compared for proximity to work requests, customer needs and emergency response. Reports can be generated in real-time or emailed on a schedule and detail a driver's performance, track fuel economies, number of stops, along with many other variables.

A significant effort was given in 2017 to system upgrades in order to facilitate the transition from laptops to tablets. Tablet devices will allow field crews to process work orders in Cityworks over a cellular network in real-time. System administrators worked with software developers to migrate several custom, legacy GIS mapping tools from the current Desktop environment to the new mobile Cityworks map environment. The mobile device management system (MDM) has been expanded to track, manage and automate setup and configuration for over 110 mobile devices. Over 100 users have been trained to operate an iPad tablet, including several new applications that were not available on a Windows-based laptop. New workflows and technology were put in place, and users were trained to edit files and digital documents, such as a CAW department's standard forms and templates. The files and documents can be edited remotely on an iPad and synchronized back with the network server.

Water Production

The Utility completed upgrading SCADA Human-Machine Interface (HMI) software to enhance robustness, responsiveness, functionality, and resiliency of the system that monitors and controls the treatment plants and distribution system.

Improvement of the generator switchgear controls, at both the Lake Maumelle Pump Station and Wilson Water Treatment Plant, provide more reliable functionality and quicker response in restoring power to the operation in the event of a power interruption.

The Lake Maumelle Pump Station had the underground storage fuel tank removed enhancing water quality protection. The diesel tanks for the generators were inspected. Integrity of the complete generator system was tested and its reliable operation was substantiated. Repairs and load testing of the gantry crane were completed ensuring its reliability and safety.

Staff met with consulting engineers to prepare for the upcoming projects: the Ozark Point Plant improvements and expansion, the Wilson Plant high service pump station (HSPS) 1B pump installation and the Wilson Plant HSPS1A pump station rehabilitation project.

Jackson Reservoir security enhancements were made to mitigate the possible contamination of the reservoir in the event of a vehicle fence breach along Cantrell Road.

A workforce succession path was completed by staff with the aid of a consultant, resulting in a thorough training document.

Water Quality

The CAW laboratory section conducted over 96,000 water quality analyses in 2017, 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.

Subsequent to the MWM merger, Water Quality staff took responsibility of the compliance management processes for the MWM system. This included conducting all compliance monitoring (for example, Total Coliform Rule, Lead and Copper Rule and Disinfection by Products Rule) and reporting. Extensive water quality monitoring was conducted throughout the MWM system in order to assure that the transition in water sources would not create any human, health, or compliance risks.

With improvements in laboratory processes and analytical equipment, Laboratory staff worked toward gaining additional certification from the Arkansas Department of Environmental Quality for its analytical processes. This certification allows CAW's laboratory to expand services provided, as well as adding an additional layer of competency. This also positions the Laboratory to have reciprocity certification in multiple surrounding states. This certification enhances CAW's water quality monitoring in Lake Maumelle, Lake Winona, and their respective watersheds.

The watershed protection section gained two employees through departmental reorganization. These positions allowed the department to better fulfill its obligations related to the Forest Legacy Project through increased activity at the project area, additional completion of other watershed management efforts, increased inspections of illicit dump areas, user-created problems, Waterview ditch, Exxon Mobil pipeline and forest activities.

In 2017, Forest management efforts continued to be a major focus of efforts in the Lake Maumelle watershed. 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. Scoping of the next management units were conducted and selected for the season. Prescribed burn plans were updated to reflect the modified management units selected for the upcoming burn season. Additional notifications were developed and delivered to surrounding landowners to keep them informed of upcoming burns. Prescribed burns reduce the risk of catastrophic wildfire and improve water quality by reducing the amount of decaying woody debris and increasing the herbaceous understory.

An additional 255 acres of conservation lands were added in 2017. This included purchases in high-priority riparian areas such as Reece Creek, which is a major tributary of Lake Maumelle, and can significantly impact water quality and the life of the Lake Maumelle reservoir.

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, 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%.

Due to the 2017 tax reform bill, advance refunding issuances will no longer be allowed after December 31, 2017. As this option allowed state and local governments to save millions of dollars on debt service payments, legislation is to be introduced in 2018 to remove this provision.

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 bondholders, and the general public. The Utility contracted with the accounting firm BKD, 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, 2016. 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.

Risk Management

Largely on account of its sizable real property infrastructure, CAW exists in an environment that involves several risks:

- A natural disaster could damage real property assets of the Utility.
- Terrorism could damage real property assets of the Utility.
- A cyberattack could disrupt operations.

These risk factors are common to most sizable public water systems in the United States. Unlike some water systems in the United States that also must grapple with tort liability as a risk factor, CAW is statutorily immune from tort liability in Arkansas.

Acknowledgements

The preparation of this report has been accomplished due to the dedicated and professional efforts of the Finance and Customer Service department, along with 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,



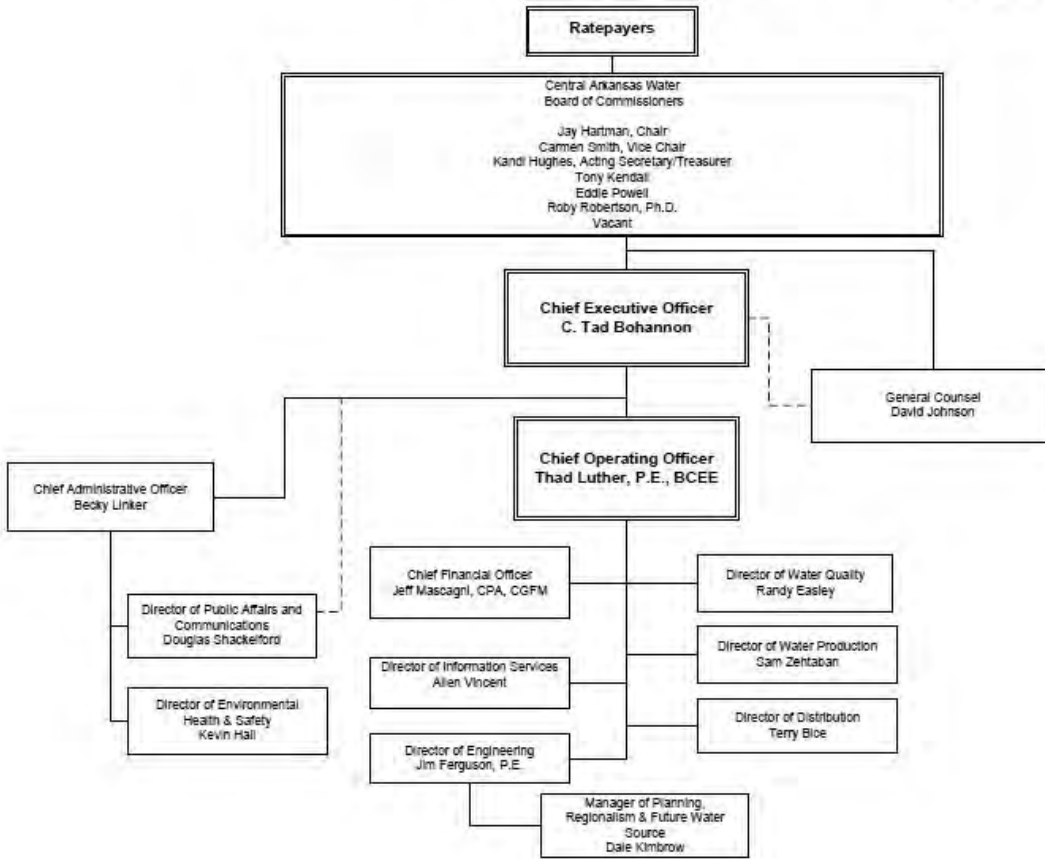
Tad Bohannon
Chief Executive Officer
CTB/jbm

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CENTRAL ARKANSAS WATER

Organizational Chart

Effective December 31, 2017



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**Central Arkansas Water
BOARD OF COMMISSIONERS**



Jay Hartman
Chair



Carmen Smith
Vice Chair



Kandi Hughes
Commissioner



Eddie Powell
Commissioner



Anthony Kendall
Commissioner



Roby Robertson
Commissioner

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Central Arkansas Water
MANAGEMENT TEAM

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

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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, 2016

Christopher P. Morrill

Executive Director/CEO

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Central Arkansas Water

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

AP	Access point
AWC	Average Winter Consumption
BCEE	Board Certified Environmental Engineer
BLS	Bureau of Labor Statistics
CAFR	Comprehensive Annual Financial Report
CAW	Central Arkansas Water
CGFM	Certified Government Financial Manager
CIS	Customer Information System
CPA	Certified Public Accountant
DIT	Diversity and Inclusion Team
EFT	Electronic Funds Transfer
EHS	Environmental Health and 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
HMI	Human Machine Interface
IS	Information Systems
ITMP	Information Technology Master Plan
IVR	Interactive Voice Response
JCA	Just Communities of Arkansas
J.D.	Juris Doctor
kWh	Kilowatts
LLP	Limited Liability Partnership
LRWRA	Little Rock Water Reclamation Authority
MGD	Million Gallons per Day
MWM	Maumelle Water Management
OPEB	Other Postemployment Benefits
P.E.	Professional Engineer
SCADA	Supervisory Control and Data Acquisition
SDWA	Safe Drinking Water Act
SHRM	Society for Human Resources Management

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FINANCIAL SECTION



Independent Auditor's Report

Board of Commissioners
Central Arkansas Water
Little Rock, Arkansas

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fiduciary fund information of Central Arkansas Water (the Utility) as of and for the year ended December 31, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities the aggregate remaining fiduciary fund information of the Utility as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2016 financial statements, before for the adoption of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* discussed in *Note 10*, were audited by other auditors whose unmodified report on those statements thereon, dated April 13, 2017, included an emphasis of matter paragraph that described the transfer of Maumelle Suburban Improvement District No. 500 of Pulaski County, Arkansas assets and liabilities to the Utility.

Emphasis of Matter

As discussed in *Note 10* to the financial statements, in 2017 the City adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* by applying the provisions of the Statement retrospectively to 2016. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pension and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections 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.

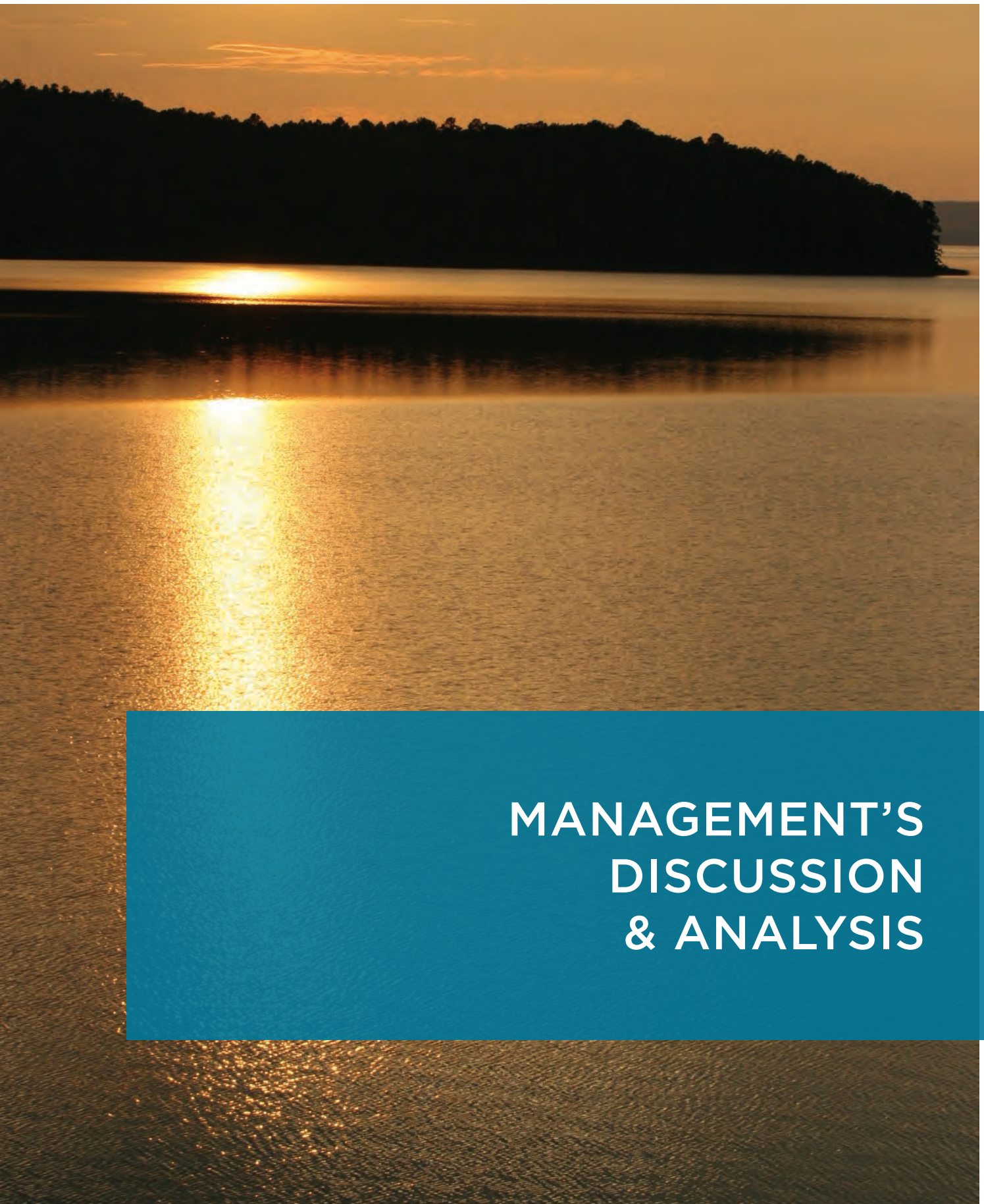
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018, on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
April 20, 2018

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**MANAGEMENT'S
DISCUSSION
& ANALYSIS**

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

This section of the CAFR presents management's analysis of the Utility's financial performance during the fiscal years ended December 31, 2017 and 2016. 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 \$6,085,000 in 2017 as compared to a \$12,441,000 increase in 2016. CAW's 2017 rate increase, along with increased investment income and increased ancillary charges combined with decreased bond interest expense, less workers' compensation costs, and controlled operational spending accounted for this increase. The MWM merger resulted in the 2016 increase.
- Operating revenues increased \$1,425,000, or 2.35%, in 2017 and \$6,615,000 in 2016. The 2017 increase was due to the rate increase, increased penalties, turn-on charges, and Maumelle surcharge income. The 2016 increase was primarily due to the addition of MWM water sales and an increase in ancillary charges. Operating expenses increased by \$1,683,000 from 2016 to 2017 and increased by \$6,514,000 from 2015 to 2016. The increase from 2016 to 2017 was primarily due to increased personnel costs and increased depreciation expense. The majority of the increase from 2015 to 2016 resulted from the MWM merger.
- The Utility's total noncurrent liabilities decreased during 2017 by \$2,335,000 and increased by \$22,638,000 in 2016. The 2017 decrease was due to bond principal payments made during the year. 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.

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

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

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 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 health care 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 health care 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.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Total current assets	\$ 60,048,000	\$ 59,654,000	\$ 54,890,000
Restricted noncurrent assets	9,453,000	15,067,000	1,977,000
Net capital assets	<u>419,203,000</u>	<u>410,009,000</u>	<u>396,445,000</u>
 Total Assets	 <u>\$ 488,704,000</u>	 <u>\$ 484,730,000</u>	 <u>\$ 453,312,000</u>
 Deferred Outflows of Resources	 <u>\$ 9,157,000</u>	 <u>\$ 8,129,000</u>	 <u>\$ 4,909,000</u>
Liabilities			
Total current liabilities	\$ 23,200,000	\$ 21,556,000	\$ 20,276,000
Total noncurrent liabilities	<u>109,127,000</u>	<u>111,530,000</u>	<u>89,426,000</u>
 Total Liabilities	 <u>\$ 132,327,000</u>	 <u>\$ 133,086,000</u>	 <u>\$ 109,702,000</u>
 Deferred Inflows of Resources	 <u>\$ 685,000</u>	 <u>\$ 1,009,000</u>	 <u>\$ 2,196,000</u>
Net Position			
Net investment in capital assets	\$ 337,465,000	\$ 329,906,000	\$ 320,026,000
Restricted – expendable	9,094,000	7,684,000	7,188,000
Unrestricted	<u>18,290,000</u>	<u>21,174,000</u>	<u>19,109,000</u>
 Total Net Position	 <u>\$ 364,849,000</u>	 <u>\$ 358,764,000</u>	 <u>\$ 346,323,000</u>
 Operating Revenues			
Little Rock water sales	\$ 30,210,000	\$ 29,905,000	\$ 30,213,000
North Little Rock water sales	13,461,000	13,185,000	13,525,000
Maumelle water sales	3,771,000	4,453,000	-
Wholesale	4,206,000	3,782,000	3,721,000
Penalties	923,000	885,000	879,000
Turn-on charges	1,343,000	1,092,000	989,000
Ancillary charges	7,308,000	6,575,000	4,022,000
Other revenue	<u>899,000</u>	<u>819,000</u>	<u>732,000</u>
 Total Operating Revenues	 <u>62,121,000</u>	 <u>60,696,000</u>	 <u>54,081,000</u>
 Operating Expenses			
Administration	3,448,000	2,668,000	2,599,000
Distribution	14,257,000	13,313,000	10,257,000
Engineering	2,050,000	1,804,000	1,694,000
Finance	3,079,000	3,104,000	2,582,000
Customer service	3,152,000	4,955,000	4,436,000
Information services	3,329,000	3,186,000	3,050,000
Water production	9,341,000	8,240,000	8,012,000
Water quality	2,135,000	2,051,000	2,024,000
General	2,650,000	3,057,000	2,113,000
Depreciation	<u>12,770,000</u>	<u>12,150,000</u>	<u>11,247,000</u>
 Total Operating Expenses	 <u>56,211,000</u>	 <u>54,528,000</u>	 <u>48,014,000</u>
 Operating Income	 <u>5,910,000</u>	 <u>6,168,000</u>	 <u>6,067,000</u>

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

	2017	2016	2015
Nonoperating Revenues (Expenses)			
Transfers to Cities of LR and NLR	\$ (706,000)	\$ (676,000)	\$ (659,000)
Gain on disposal of capital assets	70,000	77,000	76,000
Investment income	413,000	238,000	195,000
Bond and other interest expense	<u>(2,044,000)</u>	<u>(3,285,000)</u>	<u>(2,408,000)</u>
Total Nonoperating Expenses	<u>(2,267,000)</u>	<u>(3,646,000)</u>	<u>(2,796,000)</u>
Income Before Contributions	3,643,000	2,522,000	3,271,000
Contributions			
Capital contributions from grantors	-	26,000	127,000
Contributions-in-aid of construction	2,442,000	2,148,000	3,022,000
Transfer of operations from MWM	<u>-</u>	<u>7,745,000</u>	<u>-</u>
Total Contributions	2,442,000	9,919,000	3,149,000
Change in Net Position	6,085,000	12,441,000	6,420,000
Net Position – Beginning of Year	<u>358,764,000</u>	<u>346,323,000</u>	<u>355,159,000</u>
Pension-Related Restatement of Net Position	<u>-</u>	<u>-</u>	<u>(15,256,000)</u>
Net Position – Beginning of Year, as Restated	<u>358,764,000</u>	<u>346,323,000</u>	<u>339,903,000</u>
Net Position – End of Year	<u>\$ 364,849,000</u>	<u>\$ 358,764,000</u>	<u>\$ 346,323,000</u>

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

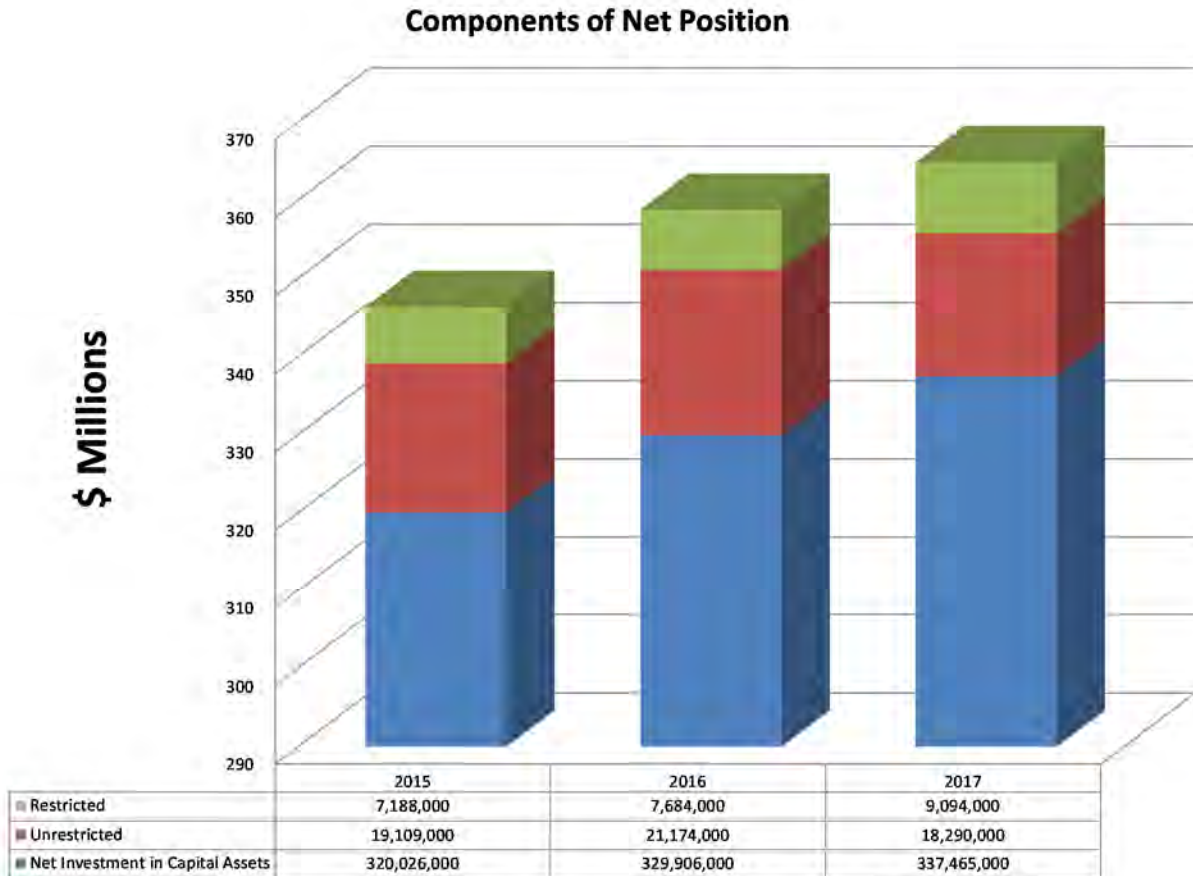
Statements of Net Position

As noted earlier, net position may serve, over time, as a useful indicator of the Utility's financial position. At the close of 2017 and 2016, the Utility's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$364,849,000 and \$358,764,000, respectively. The largest portion of net position, 92% in both 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016.

An additional portion of the Utility's net position, 2% in 2017 and 2016, is comprised of resources that are subject to external restrictions on how they may be used. In 2017, restricted net position increased \$1,410,000 and increased \$496,000 in 2016. Balances in restricted net position accounts will fluctuate as resources are accumulated to repay outstanding bonds and construction proceeds are spent.

The remaining balance of net position, \$18,290,000 in 2017 and \$21,174,000 in 2016, was unrestricted and was used to meet the Utility's ongoing obligations to customers and creditors. Unrestricted net position decreased \$2,884,000 in 2017 and increased \$2,065,000 in 2016. The 2017 decrease was due to the increase in the other two components of net position, while the 2016 increase was attributable to the MWM merger.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016



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, 2017 and 2016, were 2.6 and 2.8, respectively. This ratio means for every \$1.00 in current liabilities as of December 31, 2017, the Utility had \$2.60 in current assets. For the periods ended December 31, 2017 and 2016, the quick ratios were 2.5 and 2.6, respectively.

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 Water Reclamation Authority, 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.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

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 24 days and 18 days as of December 31, 2017 and 2016, 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, online at the Utility website, by mail, by telephone through a third-party service provider, online through third-party payment providers, or at third-party payment locations throughout the service area. During 2017, CAW continued to promote paperless billing, which resulted in approximately 13% of customers being enrolled at the end of 2017. Electronic means of payment also continued to increase in 2017.

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 27% for 2017 and 2016, 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.

Statements of Revenues, Expenses and Changes in Net Position

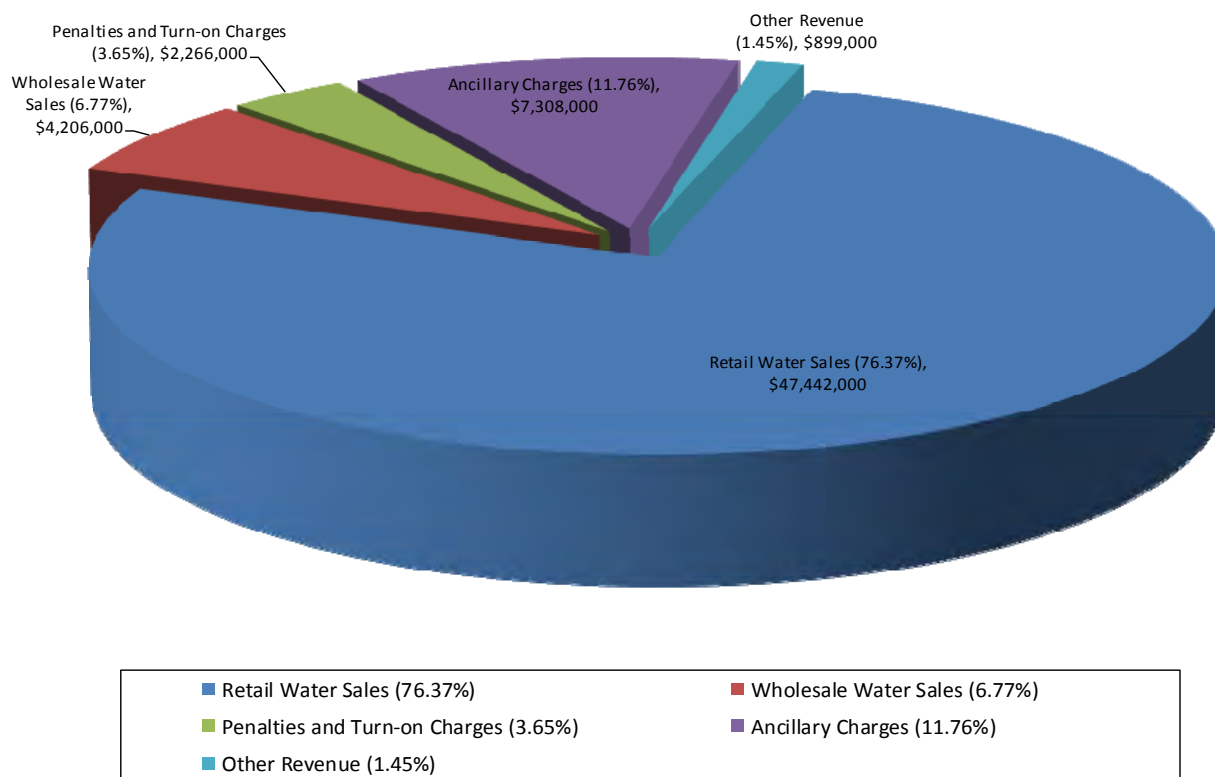
Operating Revenues

A retail rate increase of 8.9% went into effect on January 1, 2017. Wholesale rates increased approximately 10.7% in 2017. The CAW Board of Commissioners approved a rate schedule covering the former MWM customers in 2015, resulting in a separate set of rates for MWM customers through the end of 2017. Pursuant to CAW Board of Commissioner approval, an additional rate increase of 8.9% is scheduled to go into effect on January 1, 2018.

Operating revenue for 2017 increased \$1,425,000 over 2016 levels and increased \$6,615,000 in 2016 over 2015 levels. Water consumption totaled 17.2, 18.2, and 17.7 billion gallons in 2017, 2016 and 2015, respectively. The 2017 increase in operating revenue was mainly due to the increase in ancillary charges, while the operating revenue increase in 2016 was primarily due to the addition of MWM and its revenue streams. Higher than normal rainfall in the spring and summer months can have a significant impact on sprinkler consumption.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

The following graph illustrates sources of revenue during the year ended December 31, 2017.



Operating Expenses

- Administration – Administration costs included commissioner, management, human resources, public affairs and communications, and environmental health and safety expenses. During 2017, total administrative costs increased \$780,000. Over half of this increase was due to increased payroll and benefits of \$423,000. The driving force behind this increase was the addition of an Education/Outreach Specialist and full annual salaries and benefits for the CEO, General Counsel, and the Director of Public Affairs and Communications, all of whom were hired during 2016. Management increases of \$84,000 in education, \$98,000 in professional services, and \$41,000 in community relations accounted for the remainder of the increase. The 2016 increase was due primarily to MWM administrative costs.
- Distribution – The Distribution department included expenses for maintaining water mains, booster pumping stations, water storage tanks, vehicles, treatment plants, and other facilities. The 2017 costs increased \$944,000 over 2016. The 2017 increase was due primarily to the transfer of the field operations section from Customer Service to Distribution and the addition of a facilities maintenance section, resulting in additional costs of \$1,385,000 and \$293,000, respectively.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

These increases were offset by a decrease in costs in the distribution systems maintenance section of \$414,000. In 2016, the addition of MWM distribution costs accounted for over three-quarters of the increase, along with payroll and related costs increasing in all areas.

- **Engineering** – The Engineering department included expenses for the planning, design and inspection of construction improvements within the water system. Engineering is comprised of sections for engineering administrative staff, new service, cross connection, and regionalism. During 2017, total engineering costs increased by \$246,000. During 2017, administrative costs increased by \$278,000, cross connections increased by \$27,000, regionalism increased by \$13,000 and were offset by decreases in the new service section of \$17,000 and capitalized labor of \$55,000. The 2016 engineering costs increased \$110,000 due to increased payroll and related costs.
- **Finance** – The Finance section of the Finance and Customer Service department included costs related to finance and budgeting, purchasing, and billing. Decreases in all Finance section accounted for an overall decrease of \$25,000 during 2017. Expenses for the department increased by \$522,000 in 2016. These increases were due primarily to payroll and related costs.
- **Customer Service** – Customer Service included costs related to customer service-office and meter reading. Costs decreased \$1,803,000 from 2016 to 2017. This decrease was due to the aforementioned transfer of field operations to the Distribution department and Public Affairs and Communications to Administration. The 2016 expenses increased \$519,000 from 2015 levels and were attributable to the MWM merger and increase in payroll and related costs in the field operation of customer service.
- **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 2017, total department costs increased by \$143,000. Increases in network services and software maintenance and licensing were the reason for the departmental increase. Department costs increased by \$136,000 in 2016 compared to the previous year, primarily attributable to the addition of MWM and increased telephone/network services.
- **Water Production** – Expenses for Water Production included treatment and maintenance of the lakes. Department costs increased by \$1,101,000 during 2017. Increased expenses of \$154,000 in management and \$304,000 at the Wilson Plant, along with the Maumelle plant operations of \$294,000 attributed to the increase. During 2016, total department costs increased by \$228,000. Increased chemical costs and the MWM merger were the forces behind the 2016 increase in costs.
- **Water Quality** – The Water Quality department 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.

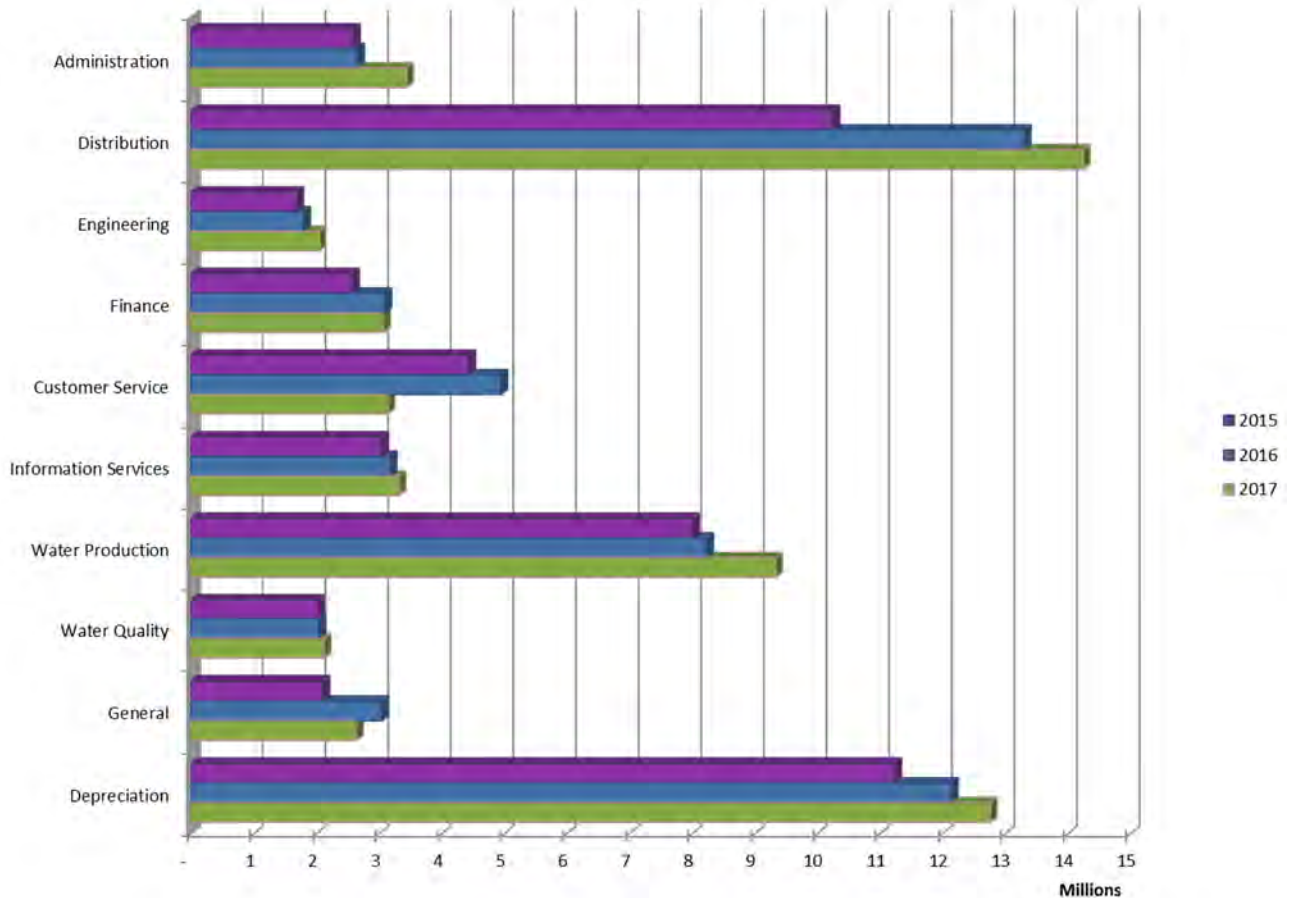
Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*

December 31, 2017 and 2016

The 2017 expenses increased by \$84,000 due to an increase in lab supplies and the watershed management professional fees. Decreases in contracts for outside services offset this increase. Water Quality expenses increased by \$27,000 in 2016 compared to 2015. A majority of this increase was due to the addition of MWM, an increase in payroll and related costs, and an increase in lab supplies.

- General – General expenses included costs for insurance and building maintenance at the James T. Harvey (JTH) Administration Building, along with other costs. The largest expense items included group and retiree insurance, workers' compensation expenses, bad debt expense, and business insurance premiums. The 2017 general expenses decreased \$407,000 from 2016. Workers' compensation costs returned to a normal level after increased costs in past years. General costs increased in 2016 by \$944,000 from 2015 to 2016. This increase was primarily due to an increase in workers' compensation expenses.



Central Arkansas Water
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

Nonoperating Revenues (Expenses)

- Investment Income – 2017 investment income increased by \$175,000 from 2016 and by \$43,000 from 2015. The 2017 increase was due to investing in higher performing money market accounts. The 2016 increase was due to improved market conditions.
- Bond Interest Expense – Net bond interest expense for 2017 was \$2,044,000, compared to \$3,285,000 for 2016. This decrease is due to \$257,000 of MWM pre-merger interest expense paid in 2016, \$654,000 of bond issuance costs in 2016, an increase in capitalized interest of \$161,000 in 2017, an increase of \$56,000 in bond premium amortization in 2017, and decreased interest expense on outstanding bonds of \$115,000 in 2017.
- Capital Contribution from Grantors – There were no capital grants awarded in 2017, while \$26,000 was awarded during 2016.
- Contributions-In-Aid of Construction – Contributions-in-aid of construction may be received as cash or equity in the form of infrastructure assets. Contributions-in-aid of construction were \$3,022,000 in 2015, decreased to \$2,148,000 in 2016, and increased in 2017 to \$2,442,000.

These fluctuating amounts show the variability of contributions from year to year as a result of new construction.

There were no special items in 2017. However, 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 2017 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Completion of construction project to relocate 551 feet of 8-inch water pipe along Geyer Springs Road in the City of Little Rock for the pending construction of a railroad overpass	\$ 110,000
Completion of construction project to relocate 2,674 feet of 12-inch and 8-inch water pipe along the first phase of the pending Kanis Road improvements in the City of Little Rock	\$ 483,000
Completion of construction project to relocate 2,861 feet of 8-inch water pipe along North Chicot Road and Mabelvale Pike in the City of Little Rock for pending street and drainage improvements	\$ 239,000

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

Project Description	Total Cost
Completion of the installation/replacement of 1,265 feet of 20-inch water transmission pipe on the new Broadway Bridge crossing of the Arkansas River	\$ 1,319,000
Completion of construction project to replace 3,682 feet of 2-inch galvanized water pipe in various locations within Little Rock, North Little Rock and Pulaski County	\$ 231,000
Completion of construction project to replace 4,824 feet of 2-inch galvanized water pipe in various locations within Sherwood and Gravel Ridge	\$ 587,000
Completion of construction project to replace 7,104 feet of 2-inch galvanized water pipe in various locations within Little Rock, North Little Rock, and Pulaski County	\$ 667,000
Completion of construction project to replace 1,061 feet of 2-inch galvanized water pipe in the Heights area of Little Rock	\$ 287,000
Completion of an 18-month project to prepare Preliminary Engineering Report for \$36,000,000 worth of recommended improvements to the Ozark Point Water Treatment Plant	\$ 427,000
Completion of a Preliminary Engineering Report investigating the best alternative for the re-installation of the 24-inch water transmission main currently attached to the Interstate 30 Arkansas River Bridge	\$ 61,000

Major capital projects completed during 2016 include the following:

Project Description	Total Cost
Completion of construction project to replace 700 feet of 16-inch asbestos-cement water pipe with ductile iron in Little Rock along Rock Street from 4th St. to 6th St.	\$ 184,000
Completion of construction project to replace 800 feet of 16-inch steel water pipe with ductile iron across Cantrell Road in the Riverdale area of Little Rock	\$ 416,000

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2017 and 2016

Project Description	Total Cost
Completion of construction project to replace 3,700 feet of 12-inch asbestos-cement water pipe with ductile iron along East Roosevelt west of I-30	\$ 649,000
Completion of construction project to replace 6,300 feet of 2-inch galvanized water pipe with 2-inch PVC, 6-inch ductile iron, and 8-inch ductile iron 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

Major capital projects completed during 2015 include the following:

Project Description	Total Cost
Completion of construction project to replace 5,870 feet of galvanized water pipe with 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 Department of Transportation 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 Department of Transportation Highway 367 (South Arch Street) viaduct over the Union Pacific railroad located in Little Rock	\$ 200,000

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
December 31, 2017 and 2016

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

Debt Administration

At the end of 2017, the Utility had total outstanding debt of \$87,322,000. Total debt decreased by \$6,058,000, or 6%, in 2017, after increasing \$16,653,000, or 22%, in 2016. The 2017 decrease was due to bond principal payments. The 2016 increase was primarily due to the additional debt taken on by the Utility in connection with the MWM merger.

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 2017 was 3.4%, 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 4.1%.

Net accounts receivable write-offs increased from 0.5% to 0.6% of total operating revenue from 2016 to 2017, respectively.

The Utility factored in a retail rate increase of 8.9% for 2017 and second 8.9% retail rate increase in 2018. Wholesale rates increased 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 2018 Financial Plan.

The 2018 Financial Plan outlines the Utility's plans to continue to provide high-quality, cost-effective service to its customers. The 2018 Financial Plan includes \$32,299,000 in total capital costs, which will be funded with the following sources: \$750,000 from excess working capital; \$225,000 from capital grants; \$900,000 from Maumelle surcharges; \$10,839,000 from bond issues; \$400,000 from capital improvement charges; \$2,500,000 from developer funds; \$4,640,000 from loan proceeds; and \$1,535,000 from watershed protection fees. The remaining \$10,510,000 is funded from rates and primarily consists of routine asset additions and replacements in the system.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
December 31, 2017 and 2016

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

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A scenic view of a lake with a forested hillside in the background under a clear blue sky. The water is calm, reflecting the surrounding greenery and the clear sky. The trees on the hillside are a mix of evergreens and deciduous trees, some of which appear to be in autumn. The overall atmosphere is peaceful and natural.

BASIC FINANCIAL STATEMENTS

Central Arkansas Water
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Unrestricted cash and cash equivalents	\$ 15,224,196	\$ 16,343,209
Unrestricted investments	17,118,859	17,493,705
Accounts receivable – consumers, net	12,912,845	11,837,181
Other receivables	551,146	591,811
Inventory	2,710,151	2,569,930
Other current assets	812,717	460,145
Total unrestricted current assets	49,329,914	49,295,981
Restricted cash and cash equivalents	10,717,882	10,357,839
Total restricted current assets	10,717,882	10,357,839
Total current assets	60,047,796	59,653,820
Noncurrent Assets		
Restricted cash and cash equivalents	1,105,958	10,105,811
Restricted investments	8,324,953	4,951,797
Restricted accrued interest receivable	22,229	8,869
Total restricted noncurrent assets	9,453,140	15,066,477
Capital assets, net of accumulated depreciation	419,202,599	410,009,129
Total noncurrent assets	428,655,739	425,075,606
Deferred Outflows of Resources		
Deferred outflows related to pensions	8,566,698	7,477,649
Deferred amounts from refunding bonds payable	590,480	651,824
Total deferred outflows of resources	9,157,178	8,129,473
Total assets and deferred outflows of resources	\$ 497,860,713	\$ 492,858,899

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF NET POSITION (Continued)
December 31, 2017 and 2016

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,694,822	\$ 1,846,397
Payroll and related liabilities	2,934,104	2,820,643
Long-term obligations – current portion	7,069	250,797
Due to other agencies	6,845,854	6,280,380
Total current liabilities payable from unrestricted assets	12,481,849	11,198,217
Consumer deposits	4,395,745	4,230,015
Long-term obligations – current portion	5,651,993	5,409,436
Accrued interest payable	670,144	718,388
Total current liabilities payable from restricted assets	10,717,882	10,357,839
Total current liabilities	23,199,731	21,556,056
Noncurrent Liabilities		
Unearned revenue	971,942	982,043
Long-term obligations, net	81,669,634	87,726,642
Net pension liability	26,485,412	22,821,130
Total noncurrent liabilities	109,126,988	111,529,815
Total liabilities	132,326,719	133,085,871
Deferred Inflows of Resources		
Deferred Inflows related to pensions	528,796	829,750
Deferred amounts from refunding bonds payable	155,799	179,465
Total deferred outflows of resources	684,595	1,009,215
Total liabilities and deferred inflows of resources	133,011,314	134,095,086
Net Position		
Net investment in capital assets	337,464,890	329,906,226
Restricted – expendable:		
Bond requirements	4,652,867	4,547,968
Future capital spending	4,440,976	3,135,751
Unrestricted	18,290,666	21,173,868
Total net position	364,849,399	358,763,813
Total liabilities, deferred inflows, and net position	\$ 497,860,713	\$ 492,858,899

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Little Rock Water Sales	\$ 30,209,712	\$ 29,904,883
North Little Rock Water Sales	13,461,456	13,184,738
Maumelle Water Sales	3,770,704	4,453,643
Wholesale	4,206,302	3,781,830
Penalties	922,616	885,551
Turn-on charges	1,342,974	1,091,867
Ancillary charges	7,308,642	6,574,845
Other revenue	898,993	818,766
Total operating revenues	62,121,399	60,696,123
 Operating Expenses		
Administrative	3,447,845	2,668,488
Distribution	14,256,900	13,313,139
Engineering	2,049,525	1,803,704
Finance	3,078,676	3,103,823
Customer service	3,151,815	4,954,842
Information services	3,328,787	3,186,317
Water production	9,341,319	8,239,835
Water quality	2,134,930	2,050,733
General	2,650,583	3,057,387
Depreciation	12,770,370	12,149,744
Total operating expenses	56,210,750	54,528,012
 Operating Income	 5,910,649	 6,168,111

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION *(Continued)*

Years Ended December 31, 2017 and 2016

	2017	2016
Nonoperating Revenues (Expenses)		
Transfers to Cities of Little Rock and North Little Rock	\$ (706,716)	\$ (676,408)
Gain on disposal of capital assets	70,231	76,664
Investment income	413,111	237,700
Bond and other interest expense, net	(2,043,741)	(3,284,945)
Net nonoperating expenses	(2,267,115)	(3,646,989)
 Income Before Contributions and Special Item	 3,643,534	 2,521,122
Contributions-in-aid of construction	2,442,052	2,148,229
Capital contributions from grantors	-	26,112
Special item – transfer of operations from Maumelle	-	7,745,408
	2,442,052	9,919,749
 Change in Net Position	 6,085,586	 12,440,871
Net position – beginning of year	358,763,813	346,322,942
Net position – end of year	\$ 364,849,399	\$ 358,763,813

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 60,357,279	\$ 60,542,290
Cash payments to suppliers for goods and services	(15,197,440)	(17,944,495)
Cash payments to employees for services	(22,192,694)	(22,158,673)
Cash payments for employees pension benefits	(2,751,501)	(2,626,580)
Cash receipts from other sources	898,993	818,766
Net cash provided by operating activities	<u>21,114,637</u>	<u>18,631,308</u>
Cash Flows from Noncapital Financing Activities		
Transfers to Cities of Little Rock and North Little Rock	<u>(706,716)</u>	<u>(676,408)</u>
Net cash used in noncapital financing activities	<u>(706,716)</u>	<u>(676,408)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(19,063,398)	(7,387,195)
Proceeds from issuance of bonds	667,497	42,828,117
Payment to refunded bond escrow agent	-	(20,928,460)
Principal paid on long-term obligations	(6,119,435)	(11,473,471)
Interest paid on long-term obligations	(3,101,853)	(4,380,837)
Payments received from lessee	-	(9,820)
Contributions-in-aid of construction	-	19,228
Capital contributions from grantors	-	26,112
Proceeds from sale of capital assets	76,812	87,285
Net cash used in capital and related financing activities	<u>(27,540,377)</u>	<u>(1,219,041)</u>
Cash Flows from Investing Activities		
Proceeds from maturities of investment securities	14,451,016	20,249,570
Purchases of investment securities	(17,450,601)	(16,451,016)
Interest and dividends on investment securities	373,218	187,308
Net cash provided by (used in) investing activities	<u>(2,626,367)</u>	<u>3,985,862</u>
Net increase (decrease) in cash and cash equivalents	(9,758,823)	20,721,721
Cash and cash equivalents – beginning of year	<u>36,806,859</u>	<u>16,085,138</u>
Cash and cash equivalents – end of year	<u>27,048,036</u>	<u>36,806,859</u>

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 5,910,649	\$ 6,168,111
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	12,770,370	12,149,744
Other revenue	-	237,356
Change in operating assets and liabilities		
Accounts receivable – customers, net	(1,030,857)	(836,248)
Other receivables		597,251
Inventory	(140,221)	(1,567,504)
Other current assets	(352,572)	(61,399)
Accounts payable and accrued expenses	838,324	(238,343)
Payroll and related liabilities	113,461	245,871
Due to other agencies	565,474	529,210
Consumer deposits	165,730	137,364
Net pension liability and related pension deferred outflows and inflows of resources	2,274,279	1,269,895
Net cash provided by operating activities	\$ 21,114,637	\$ 18,631,308
 Supplemental Disclosure of Noncash Transactions		
Gain on disposal of capital assets	\$ 70,231	\$ 76,664
Contributions-in-aid of construction	2,442,052	2,129,001
Inventory capitalized	1,557,082	1,404,141
Capital asset acquisitions in accounts payable	45	70,395
Net position transferred from Maumelle	-	7,745,408
Increase in fair value of investments	1,275	-
 Supplemental Disclosure of Cash Transactions		
Interest expense incurred	\$ 2,508,712	\$ 3,586,115
Interest capitalized	464,971	301,170

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF FIDUCIARY NET POSITION
Years Ended December 31, 2017 and 2016

	<u>2017</u>		<u>2016</u>	
	<u>OPEB Trust fund</u>	<u>Brushy Island</u>	<u>OPEB Trust fund</u>	<u>Brushy Island</u>
Assets				
Cash and cash equivalents	\$ 2,655,047	\$ 93,977	\$ 742,709	\$ 88,900
Restricted cash and cash equivalents	-	8,136	-	7,876
U.S. Treasury obligations	253,696	-	249,775	-
Certificates of deposit	494,243	-	2,639,629	-
Exchange-traded funds	980,316	-	255,276	-
Accounts receivable	-	8,971	-	8,273
Accrued interest receivable	9,680	5	10,483	3
Capital assets, net	-	1,653,305	-	1,686,617
Total assets	<u>\$ 4,392,982</u>	<u>\$ 1,764,394</u>	<u>\$ 3,897,872</u>	<u>\$ 1,791,669</u>
Liabilities				
Accounts payable	\$ 4,938	\$ -	\$ 4,423	\$ 207
Long-term obligations	-	493,902	-	558,420
Accrued interest payable	-	2,186	-	2,327
Consumer deposits	-	5,275	-	5,575
Total liabilities	<u>4,938</u>	<u>501,363</u>	<u>4,423</u>	<u>566,529</u>
Net Position				
Net position restricted for OPEB benefits	4,388,044	-	3,893,449	-
Held in receivership	-	1,263,031	-	1,225,140
Total net position	<u>4,388,044</u>	<u>1,263,031</u>	<u>3,893,449</u>	<u>1,225,140</u>
Total liabilities and net position	<u>\$ 4,392,982</u>	<u>\$ 1,764,394</u>	<u>\$ 3,897,872</u>	<u>\$ 1,791,669</u>

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended December 31, 2017 and 2016

	<u>2017</u>		<u>2016</u>	
	<u>OPEB Trust fund</u>	<u>Brushy Island</u>	<u>OPEB Trust fund</u>	<u>Brushy Island</u>
Additions				
Employer contributions	\$ 927,000	\$ -	\$ 844,936	\$ -
Water sales	-	98,957	-	89,881
Debt service fees	-	103,158	-	99,733
Net investment income	27,980	299	45,872	41
Total additions	<u>954,980</u>	<u>202,414</u>	<u>890,808</u>	<u>189,655</u>
Deductions				
Premiums paid	440,888	-	390,662	-
Transfers to Central Arkansas Water	-	98,656	-	89,631
Administrative expenses	19,497	2,808	17,294	4,217
Depreciation	-	33,312	-	33,312
Interest	-	29,747	-	30,109
Total deductions	<u>460,385</u>	<u>164,523</u>	<u>407,956</u>	<u>157,269</u>
Change in Fiduciary Net Position	494,595	37,891	482,852	32,386
Beginning of year	<u>3,893,449</u>	<u>1,225,140</u>	<u>3,410,597</u>	<u>1,192,754</u>
End of year	<u>\$ 4,388,044</u>	<u>\$ 1,263,031</u>	<u>\$ 3,893,449</u>	<u>\$ 1,225,140</u>

See accompanying notes to financial statements.

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Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 450,000 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 11* 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 2016.

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 2017 and 2016. 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 \$3,301,800 and \$3,306,700 for the years ended December 31, 2017 and 2016, 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.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

These payments, which are reported as a nonoperating expense on the Utility's statements of revenues, expenses and changes in net position, totaled approximately \$707,000 and \$676,000 for the years ended December 31, 2017 and 2016, respectively.

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 (U.S. 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 U.S. 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 spending, 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.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

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 employee 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 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 three months or less at the date of purchase.

(e) Investments

Generally accepted accounting principles prescribed by GASB require that the Utility's investments be measured at fair value and non-negotiable CDs be measured at cost, fair value measurements are 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, 2017 and 2016

(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 acquisition 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.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Asset Type	<u>Years</u>
Water source	75
Buildings and improvements	10–40
Land improvements	10–20
Purification and pumping	10–20
Distribution and transmission mains	15–75
Other equipment	5–20

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, 2017 and 2016.

(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.

Central Arkansas Water
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(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 \$291,000 and \$231,000 for the years ended December 31, 2017 and 2016, 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.

(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.

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NOTES TO FINANCIAL STATEMENTS
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(r) Recently Adopted Accounting Standards

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes accounting and financial reporting standards, but not funding or budgetary standards, for state and local governmental other postemployment benefit (OPEB) plans. The statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The retroactive adoption of Statement No. 74 had no impact on the Utility's financial statements. The adoption also resulted in no changes to the presentation of the financial statements of the Utility's OPEB Trust Fund. Note disclosures and Required Supplementary Information (RSI) were incorporated to comply with Statement No. 74.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses 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 had no impact on the Utility's financial statements. Note disclosures and RSI were incorporated to comply with Statement No. 82.

(s) Recently Issued Accounting Standards

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.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and OPEB arrangements, and other fiduciary activities.

The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

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This standard becomes effective for the Utility in fiscal year 2019. 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.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, eliminates an inconsistency in the literature related to in-substance defeasance of debt. Under previous guidance, debt could only be considered defeased if there was a refunding. GASB 86 now allows defeasance treatment even if the government uses existing assets and does not issue new debt. However, any resulting gain or loss will be recognized in the period of the defeasance. GASB 86 also includes guidance on handling prepaid insurance in any debt extinguishment. Additionally, there is a new requirement for all in-substance defeasances to disclose any ability to substitute risk-free monetary assets with those that are not. This standard becomes effective for the Utility in fiscal year 2018. 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.

GASB Statement No. 87, *Leases*, provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the Utility in fiscal year 2020. 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.

(t) Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on net position.

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NOTES TO FINANCIAL STATEMENTS
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Note 2: DEPOSITS AND INVESTMENTS

Investments at December 31 for the Utility include the following:

The Utility

Type	2017				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Unrestricted:					
U.S. agencies obligations	\$ 10,743,859	\$ 8,994,902	\$ 1,748,957	\$ -	\$ -
Certificate of deposit	6,375,000	6,375,000	-	-	-
Money Market Mutual Funds	15,224,196	15,224,196	-	-	-
Restricted:					
U.S. Treasury obligations	2,925,847	2,925,847	-	-	-
U.S. agencies obligations	2,499,106	1,000,000	1,499,106	-	-
Certificates of deposit	2,900,000	2,900,000	-	-	-
Money Market Mutual Funds	11,823,848	-	-	-	-
	<u>\$ 52,491,856</u>	<u>\$ 37,419,945</u>	<u>\$ 3,248,063</u>	<u>\$ -</u>	<u>\$ -</u>
Type	2016				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Unrestricted:					
U.S. Treasury obligations	\$ 5,003,905	\$ -	\$ 5,003,905	\$ -	\$ -
U.S. agencies obligations	1,989,800	-	1,989,800	-	-
Certificate of deposit	10,500,000	10,500,000	-	-	-
Money Market Mutual Funds	5,804,287	5,804,287	-	-	-
Restricted:					
U.S. Treasury obligations	1,000,781	-	1,000,781	-	-
Certificates of deposit	3,951,016	3,951,016	-	-	-
Money Market Mutual Funds	19,295,530	19,295,530	-	-	-
	<u>\$ 47,545,319</u>	<u>\$ 20,255,303</u>	<u>\$ 7,994,486</u>	<u>\$ -</u>	<u>\$ -</u>

The Utility's investment in U.S. agency obligations at December 31, 2017, 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 Morgan Stanley Institutional Liquidity 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, 2017, the Utility's restricted investment in this fund totaled \$8,155,515. At 2016, the Utility invested 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

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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, the Utility's restricted investment in this fund totaled \$18,077,969.

Investment Valuation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Central Arkansas Water
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The following table presents the fair value measurement of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017:

Type	2017			
	Fair Value	Level 1	Level 2	Level 3
Classified as Investments				
Unrestricted:				
U.S. Treasury obligations	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
U.S. agency obligations	1,998,808	-	1,998,808	-
Money Market Mutual Funds	2,108,752	2,108,752	-	-
Restricted:				
U.S. Treasury obligations	7,227,890	-	7,227,890	-
U.S. agency obligations	5,244,157	-	5,244,157	-
Money Market Mutual Funds	13,190,470	13,190,470	-	-
	<u>\$31,770,077</u>	<u>\$15,299,222</u>	<u>\$16,470,855</u>	<u>\$ -</u>
Type	2016			
	Fair Value	Level 1	Level 2	Level 3
Classified as Investments				
Unrestricted:				
U.S. Treasury obligations	\$ 5,003,905	\$ -	\$ 5,003,905	\$ -
U.S. agency obligations	1,989,800	-	1,989,800	-
Money Market Mutal Funds	5,804,287	5,804,287	-	-
Restricted:				
U.S. Treasury obligations	1,000,781	-	1,000,781	-
Money Market Mutal Funds	19,295,530	19,295,530	-	-
	<u>\$33,094,303</u>	<u>\$25,099,817</u>	<u>\$ 7,994,486</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

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- Obligations that are fully guaranteed, secured or insured by United States government agencies, instrumentalities and government-sponsored entities
- 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.

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Investments at December 31 for the OPEB Trust, of which U.S. Treasury obligations and money market fund are Level 1 investments and certificates of deposits are Level 2 investments, include the following:

OPEB Trust

Type	2017				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Classified as Investments					
Restricted:					
U.S. Treasury obligations	\$ 253,696	\$ 253,696	\$ -	\$ -	\$ -
Certificate of deposit	1,475,559	980,316	494,243	-	-
Money market fund	2,655,047	2,655,047	-	-	-
	<u>\$ 4,384,302</u>	<u>\$ 3,889,059</u>	<u>\$ 494,243</u>	<u>\$ -</u>	<u>\$ -</u>

Type	2016				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Classified as Investments					
Restricted:					
U.S. Treasury obligations	\$ 249,775	\$ 249,775	\$ -	\$ -	\$ -
Certificate of deposit	2,639,629	1,154,230	1,485,339	-	-
Exchange-traded funds	255,276	255,276	-	-	-
Money market fund	742,709	742,709	-	-	-
	<u>\$ 3,887,389</u>	<u>\$ 2,401,990</u>	<u>\$ 1,485,339</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2017 and 2016, the OPEB Trust invested 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, 2017 and 2016, the Utility's restricted investment in this fund totaled \$2,665,047 and \$742,709, respectively.

(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.

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(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
- 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 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.

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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*).

Assets restricted for future capital costs 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. Three percent (3%) of water consumption-based revenues (including wholesale revenues) and private fire service 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:

	2017	2016
Bond requirements	\$ 6,909,437	\$ 6,434,489
Future capital costs	8,903,745	15,170,395
Consumer deposits	4,357,840	3,819,432
Total Restricted Assets	\$ 20,171,022	\$ 25,424,316

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NOTES TO FINANCIAL STATEMENTS
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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:

	<u>2017</u>	<u>2016</u>
Water sales and services	\$ 5,968,402	\$ 4,842,873
Billed for other agencies	7,133,835	7,192,713
Less allowance for doubtful accounts	<u>(189,392)</u>	<u>(198,405)</u>
Total Accounts Receivable – Consumers, Net	<u>\$ 12,912,845</u>	<u>\$ 11,837,181</u>

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>2017</u>	<u>2016</u>
Rate stabilization	\$ 8,168,433	\$ 8,115,127
Watershed protection	<u>1,064,001</u>	<u>1,860,153</u>
Total Board-Designated Assets	<u>\$ 9,232,434</u>	<u>\$ 9,975,280</u>

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
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The board-designated assets were reported on the statements of net position in the following classifications at December 31:

	2017	2016
Cash and cash equivalents	\$ 2,108,626	\$ 1,973,718
Investments	7,123,808	8,001,562
Total Board-Designated Assets	\$ 9,232,434	\$ 9,975,280

Note 6: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the years ended December 31, 2017 and 2016, follows:

	Balance 12/31/2016	Additions	Disposals	Transfers, net	Balance 12/31/2017
Capital Assets, Nondepreciable					
Land and land use rights	\$ 47,892,367	\$ 1,085,216	\$ -	\$ -	\$ 48,977,583
Construction in progress	8,044,217	19,518,865	-	(5,931,043)	21,632,039
Total capital assets, nondepreciable	55,936,584	20,604,081	-	(5,931,043)	70,609,622
Capital Assets, Depreciable					
Building and improvements	62,556,517	47,052	-	163,795	62,767,364
Land improvements	2,702,932	20,898	-	107,505	2,831,335
Water source	33,419,723	-	-	-	33,419,723
Purification	45,268,031	208,418	-	50,815	45,527,264
Pumping	27,159,362	83,948	-	14,616	27,257,926
Distribution	363,391,220	-	(387,197)	5,408,032	368,412,055
Other equipment	31,001,583	1,006,028	(478,708)	186,280	31,715,183
Total capital assets, depreciable	565,499,368	1,366,344	(865,905)	5,931,043	571,930,850
Less Accumulated Depreciation					
Building and improvements	26,906,224	1,577,657	-	-	28,483,881
Land improvements	730,394	136,730	-	-	867,124
Water source	14,743,209	547,162	-	-	15,290,371
Purification	21,695,557	2,149,029	-	-	23,844,586
Pumping	16,730,281	827,884	-	-	17,558,165
Distribution	103,891,779	6,244,982	(381,111)	-	109,755,650
Other equipment	26,729,379	1,286,941	(478,224)	-	27,538,096
Total accumulated depreciation	211,426,823	12,770,385	(859,335)	-	223,337,873
Total Capital Assets, Net	\$ 410,009,129	\$ 9,200,040	\$ (6,570)	\$ -	\$ 419,202,599

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	Balance 12/31/2015	Additions	Disposals	Transfers, net	Balance 12/31/2016
Capital Assets, Nondepreciable					
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, nondepreciable	56,368,343	9,940,975	(6,000)	(10,366,734)	55,936,584
Capital Assets, Depreciable					
Building 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	533,992,308	21,969,671	(829,345)	10,366,734	565,499,368
Less Accumulated Depreciation					
Building 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	193,915,770	18,330,042	(818,989)	-	211,426,823
Total Capital Assets, Net	\$ 396,444,881	\$ 13,580,604	\$ (16,356)	\$ -	\$ 410,009,129

Included in 2016 additions are assets totaling approximately \$14,573,500, which transferred to the Utility from Maumelle (see *Note 11*).

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NOTES TO FINANCIAL STATEMENTS
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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 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 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.

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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 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 result is 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.

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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.

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.

2017A Water Revenue Bond

The Series 2017A Bond was issued through the ANRC and 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 2017A 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 2041.

(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, 2017 and 2016). The amortization period of the debt depends upon actual repayments of all parties to the agreement and may vary; however, at December 31, 2017, there were 16 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.

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Changes in long-term debt for the years ended December 31, 2017 and 2016, are as follows:

	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due Within One Year	Amounts Due Greater Than One Year
Bonds Payable						
Bonds payable	\$ 89,085,603	\$ 667,497	\$ (6,119,435)	\$ 83,633,665	\$ 5,651,993	\$ 77,981,672
Add issuance premiums	3,853,498	-	(386,987)	3,466,511	-	3,466,511
Bonds Payable, Net	92,939,101	667,497	(6,506,422)	87,100,176	5,651,993	81,448,183
Other Long-term						
Obligations	447,774	30,147	(249,399)	228,522	7,069	221,453
Consumer Deposits	4,230,015	1,820,355	(1,654,625)	4,395,745	4,395,745	-
Total Long-Term Debt	<u>\$ 97,616,890</u>	<u>\$ 2,517,999</u>	<u>\$ (8,410,446)</u>	<u>\$ 91,724,443</u>	<u>\$ 10,054,807</u>	<u>\$ 81,669,636</u>

	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016	Amounts Due Within One Year	Amount Due Greater Than One Year
Bonds Payable						
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
Bonds Payable, Net	75,886,844	49,868,425	(32,816,168)	92,939,101	5,409,436	87,529,665
Other Long-term						
Obligations	847,655	-	(399,881.00)	447,774	250,797	196,977
Consumer Deposits	3,719,994	1,482,696	(972,675.00)	4,230,015	4,230,015	-
Total Long-Term Debt	<u>\$ 80,454,493</u>	<u>\$ 51,351,121</u>	<u>\$ (34,188,724)</u>	<u>\$ 97,616,890</u>	<u>\$ 9,890,248</u>	<u>\$ 87,726,642</u>

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Bonds payable at December 31, 2017, 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% ⁽¹⁾	2032	\$ 13,400,000	\$ 10,532,253
2010C Water Revenue Bonds	2.0% - 4.0%	2030	8,830,000	2,270,000
2011A Water Revenue Bond	2.25% ⁽¹⁾	2034	4,000,000	3,472,375
2012A Water Revenue Bond	2.0% - 4.0%	2032	17,515,000	13,930,000
2014 Refunding Water Revenue Bonds	2.0% - 5.0%	2024	10,850,000	8,180,000
2015 Refunding Water Revenue Bonds	2.0% - 3.0%	2030	7,445,000	6,580,000
Frazier Pike/ANRC Bond	3.90%	2033	250,000	246,540
2016 Construction & Acquisition Water Revenue Bonds	2.0% - 3.5%	2046	22,750,000	21,600,000
2016 Refunding Water Revenue Bonds	2.0% - 5.0%	2027	17,860,000	16,155,000
2017A Water Revenue Bond	1.50% ⁽¹⁾	2041	5,000,000	667,497
			<u>\$ 107,900,000</u>	<u>\$ 83,633,665</u>

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

The following schedule shows the annual debt service of the bonds payable outstanding at December 31, 2017:

Fiscal Year	Principal	Interest	Total
2018	\$ 5,651,993	\$ 2,651,040	\$ 8,303,033
2019	5,849,976	2,439,963	8,289,939
2020	6,048,398	2,249,628	8,298,026
2021	6,359,375	2,062,433	8,421,808
2022	6,704,471	1,825,550	8,530,021
2023–2027	24,472,430	6,028,480	30,500,910
2028–2032	15,694,455	3,405,400	19,099,855
2033–2037	4,427,567	1,807,813	6,235,380
2038–2042	4,730,000	1,066,128	5,796,128
2043–2047	3,695,000	228,113	3,923,113
	<u>\$ 83,633,665</u>	<u>\$ 23,764,548</u>	<u>\$ 107,398,213</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

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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 three calendar months. The Utility was in compliance with all debt covenants for the years ended December 31, 2017 and 2016.

(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.

(e) Brushy Island Public Water Authority (the Authority) Revenue Bonds

2005B Water Revenue Bonds

The Series 2005B Bonds were issued to finance the cost of certain capital improvements to the water system, to establish a debt service reserve for the Series 2005B Bonds and to pay the cost of issuing the Series 2005B Bonds. The Series 2005B Bonds are special obligations of the Authority, payable solely from stabilized revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due annually on December 1, with the final payment scheduled in 2028.

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Changes in long-term debt for the years ended December 31, 2017 and 2016, are as follows:

	Balance December 31, 2016			Balance December 31, 2017		
	Increases	Decreases	Increases	Decreases	Amounts Due Within One Year	Amounts Due Greater Than One Year
Bonds Payable						
Bonds payable	\$ 558,420	\$ -	\$ (64,518)	\$ 493,902	\$ 37,407	\$ 456,495

	Balance December 31, 2015			Balance December 31, 2016		
	Increases	Decreases	Increases	Decreases	Amounts Due Within One Year	Amount Due Greater Than One Year
Bonds Payable						
Bonds payable	\$ 621,739	\$ -	\$ (63,319)	\$ 558,420	\$ 25,184	\$ 533,236

Bonds payable at December 31, 2017, include the outstanding principal balance of the following revenue bond issues:

	Interest Rates	Final Maturity	Original Issue	Total Outstanding
2005B Water Revenue Bond	5.00%	2035	\$ 793,100	\$ 493,902

The following schedule shows the annual debt service of the bonds payable outstanding at December 31, 2017:

Fiscal Year	Principal	Interest	Total
2018	\$ 37,407	\$ 26,233	\$ 63,640
2019	40,815	22,825	63,640
2020	42,856	20,784	63,640
2021	44,999	18,641	63,640
2022	47,249	16,391	63,640
2023–2027	274,134	44,067	318,201
2028–2032	6,442	322	6,764
	<u>\$ 493,902</u>	<u>\$ 149,263</u>	<u>\$ 643,165</u>

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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 \$8,448,940 and \$1,890,000 at December 31, 2017 and 2016, 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 \$525,000 and \$32,000 at December 31, 2017 and 2016, 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 POSTEMPLOYMENT 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.

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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 14.50% (July 1, 2015 to June 30, 2016), 14.50% (July 1, 2016 to June 30, 2017), and 14.75% (July 1, 2017 to December 31, 2017). 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 ended December 31, 2017 and 2016, were \$2,751,581 and \$2,521,470, 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, 2017 and 2016, the Utility reported a liability of \$26,485,412 and \$22,821,130, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017 and 2016, the Utility’s proportion was 1.02492152% and 0.95432071%, respectively.

Contributions payable to APERS at December 31, 2017 and 2016, totaled approximately \$74,000 and \$107,000, respectively, and are included in payroll and related liabilities in the statements of net position.

For the years ended December 31, 2017 and 2016, the Utility recognized the actuarially determined pension expense of approximately \$5,025,836 and \$3,531,644. At December 31, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 4,261,462	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,287,191	7,887
Differences between expected and actual experience	513,432	520,909
Net difference between projected and actual investment earnings on pension plan investments	1,109,819	-
Utility contributions subsequent to the measurement date	<u>1,394,794</u>	<u>-</u>
Total	<u>\$ 8,566,698</u>	<u>\$ 528,796</u>

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December 31, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in 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	<u>1,321,712</u>	<u>-</u>
Total	<u>\$ 7,477,649</u>	<u>\$ 829,750</u>

Deferred outflows of resources resulting from the Utility's contributions subsequent to the measurement date totaling approximately \$1,395,000 and \$1,322,000 at December 31, 2017 and 2016, 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, 2018 and 2017, 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,	
2018	\$ 1,852,368
2019	2,947,661
2020	1,956,971
2021	(113,892)
2022	-
Thereafter	<u>-</u>
Total	<u>\$ 6,643,108</u>

Actuarial Assumptions. The total pension liability in the June 30, 2017, 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	7.15%

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.

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.

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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, 2017, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	18%	0.83%
Total	<u>100%</u>	

The target allocation for the June 30, 2016, measurement date was as follows:

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	<u>100%</u>	

Discount Rate. The discount rate used to measure the total pension liability at June 30, 2017 and 2016, was 7.15% and 7.50%, respectively. 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.

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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, 2017 measurement date, calculated using the discount rate of 7.15%, 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 (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	Discount Rate	Utility's Proportionate Share of Net Pension Liability
1% decrease	6.15%	\$ 40,333,870
Current discount rate	7.15%	\$ 26,485,412
1% increase	8.15%	\$ 14,986,406

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, or online at www.apers.org/publications.

(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, 2017, 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 Postemployment Benefits

Retiree Health Care Plan (Under GASB Statement No. 45)

The Utility sponsors and administers a single-employer defined benefit health care 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.

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Assets of the plan are held in the Other Postemployment Benefits (OPEB) Trust and may only be used to pay expenses associated with administration of the plan and health care benefits for participating retirees. Arkansas Municipal League serves as Trust Administrator. Management of the trust is vested in the Central Arkansas Water Board of Commissioners which consists of seven members, each of whom are elected by the remaining members of the Board and confirmed by the Little Rock Board of Directors and the North Little Rock City Council.

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.

Plan membership as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Membership		
Active members	172	194
Inactive members receiving benefits	91	80
Inactive members not yet receiving benefits	<u>-</u>	<u>-</u>
	<u>263</u>	<u>274</u>

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 health care 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.

For fiscal year 2017, the Utility contributed a total of \$927,000 to the plan for current premiums. Of the \$927,000, \$486,000 was contributed to the OPEB Trust and \$441,000 was for health insurance premium activity. For fiscal year 2016, the Utility contributed a total of \$844,935 to the plan for current premiums. Of the \$ 844,935, \$454,273 was contributed to the OPEB Trust and \$390,662 was for health insurance premium activity.

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.

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- 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 health care 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 health care 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 health care 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

- 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 health care 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 50% by the Retiree</u>
At least 20	3	3
At least 25	4	4
At least 30	5	5

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

- 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 health care 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 50% by the Retiree</u>
At least 20	3	3
At least 25	4	4
At least 30	5	5

Employees hired on or after January 1, 2010, are not entitled to retiree health care 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.

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2017, 2016 and 2015, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 855,993	\$ 844,935	\$ 710,052
Interest on net OPEB obligation	-	-	-
Adjustment to actuarial required contribution	-	-	-
Annual OPEB cost	855,993	844,935	710,052
Less: total annual employer contribution	927,000	844,935	710,052
Increase (decrease) in net OPEB obligation	(71,007)	-	-
Net OPEB obligation – beginning of year	-	-	-
Net OPEB obligation – end of year	<u>\$ (71,007)</u>	<u>\$ -</u>	<u>\$ -</u>

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 710,052	100%	\$ -
12/31/2016	844,935	100%	-
12/31/2017	855,993	108%	(71,007)

Funded Status and Funding Progress

As of December 31, 2017, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$15,342,017, and the actuarial value of assets was \$4,388,044, resulting in an unfunded actuarial accrued liability (UAAL) of \$10,953,973 and a funded ratio of 28.6%. At December 31, 2017, the covered payroll (annual payroll of active employees who may eventually receive benefits covered by the plan) was \$18,221,916, and the ratio of the UAAL to the covered payroll was 60.1%.

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 health care 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.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

In December 31, 2017, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 4.5%. 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%. The UAAL is amortized using the level dollar method with 23 years remaining at December 31, 2017, as the plan was closed to new participants on January 1, 2010. The assumed discount rate was lowered from 5.0% to 4.5% as of December 31, 2015. The net impact of this change and other changes in assumptions was to increase the UAAL by approximately \$1,111,000.

Retiree Health Care Plan (Under GASB Statement No. 74)

The Utility's Retired Employees Healthcare Plan is supported by employer contributions. Using the entry age normal method, contributions are determined such that contributions will fund the projected benefits over a closed 29-year funding period.

The net OPEB liability is measured as the total OPEB liability, less the amount of the plan's fiduciary net position. A single discount rate of 3.16% and 3.78% was used to measure the total OPEB liability as of December 31, 2017 and 2016, respectively. The long-term rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates rate of return. The target allocation is 100% in cash with a long-term expected rate of return of .16% and .78% for December 31, 2017 and 2016, respectively. The long-term rate of return also included an expected 3.00% inflation for both 2017 and 2016. This single discount rate was based on an expected rate of return on OPEB plan investments of 3.16% and 3.78% at December 31, 2017 and 2016, respectively. The significant assumptions used to actuarially determine the OPEB plan's total OPEB liability were as follows:

Actuarial cost method:	Entry Age Normal
Amortization method:	Level Dollar over 30 years from January 1, 2017
Remaining amortization period:	29 years
Asset valuation method:	Market value
Inflation:	3.0 percent per year
Health care cost trend rates:	8 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent
Single discount rate:	3.78 percent at 12/31/2016 and 3.16 percent at 12/31/2017
Retirement age:	Expected retirement ages of general employees are based on information provided by Arkansas Public Employees Retirement System.
Mortality:	RP-2014 Healthy Annuitant Mortality Table

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Based on the stated assumptions and the projection of cash flows, the OPEB plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The components of the net OPEB liability of the Utility at December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016⁽¹⁾</u>
Total OPEB liability	\$ 20,859,071	\$ 15,840,132
Less: plan fiduciary net position	4,388,044	3,893,449
Net OPEB liability	<u>\$ 16,471,027</u>	<u>\$ 11,946,683</u>
Plan fiduciary net position as a % of total OPEB liability	21.0%	24.6%

⁽¹⁾The 2016 information was obtained through a roll forward process from the December 31, 2015 valuation date which was reperformed under GASB 74 requirements.

The schedule of investment return for the Utility's Retired Employees Healthcare Plan is as follows:

	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	0.2%	0.8%

Below is a table providing the sensitivity of the net OPEB liability to changes in the discount rate as of December 31, 2017 and 2016. In particular, the table presents the plan's net OPEB liability, if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the assumed rate:

<u>Net OPEB Liability at December 31,</u>	<u>Discount Rate</u>	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
2017	3.16%	\$ 20,212,927	\$ 16,471,027	\$ 13,472,782
2016	3.78%	\$ 14,247,046	\$ 11,946,683	\$ 9,070,632

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Below is a table providing the sensitivity of the net OPEB liability to changes in the Health care trend rate as of December 31, 2017 and 2016. In particular, the table presents the plan's net OPEB liability, if it were calculated using a single Health Care Cost Trend Rate that is one-percentage-point lower or one-percentage-point higher than the assumed rate:

Net OPEB Liability at December 31,	Health Care Cost Trend Rates		
	1% Decrease (7% decreasing to 4%)	(8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
2017	\$ 12,520,458	\$ 16,471,027	\$ 20,814,090
2016	\$ 8,556,772	\$ 11,946,683	\$ 15,027,903

The Utility's Retired Employee Healthcare Plan's policy in regard to the allocation in invested assets is established and may be amended by the Utility's Board by a majority votes of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent investment in low risk asset classes. As discussed in *Note 2*, the Utility's Investment Policy details acceptable investment types to ensure the preservation of capital and meet stated liquidity and yield objectives.

The fair value of individual investments that represented 5% or more of the Plan's net position restricted for other postemployment benefits were as follows:

December 31, 2017	
Investment	Fair Value
Federated Treasury Obligations FD 68	\$ 2,655,047
BMO Harris Bank NA Death PUT FDIC Certificate	245,025
Sallie Mae Bank of Salt Lake Death PUT FDIC Certificate	245,017
Merrick Bank Death PUT FDIC Certificate	244,498
Insured Certificate of Deposit - Goldman Sachs Bank	248,427
Synchrony Bank Death PUT FDIC Certificate	245,777
Insured Certificate of Deposit - Inland Northwest Bank	245,816
December 31, 2016	
Investment	Fair Value
Federated Treasury Obligations AS-115	\$ 742,709
Capital One NA Death PUT FDIC Certificate	244,904
Discover Bank Death PUT FDIC Certificate	244,892
Everbank/ Jacksonville FL Death PUT FDIC Certificate	244,890
United States Treasury Note	249,775
ZB NA Death PUT FDIC Certificate	244,488
BMO Harris Bank NA Death PUT FDIC Certificate	245,853
Sallie Mae Bank of Salt Lake Death PUT FDIC Certificate	245,713
Merrick Bank Death PUT FDIC Certificate	244,007
Insured Certificate of Deposit - Goldman Sachs Bank	250,956
Synchrony Bank Death PUT FDIC Certificate	246,390
Insured Certificate of Deposit - Inland Northwest Bank	249,478

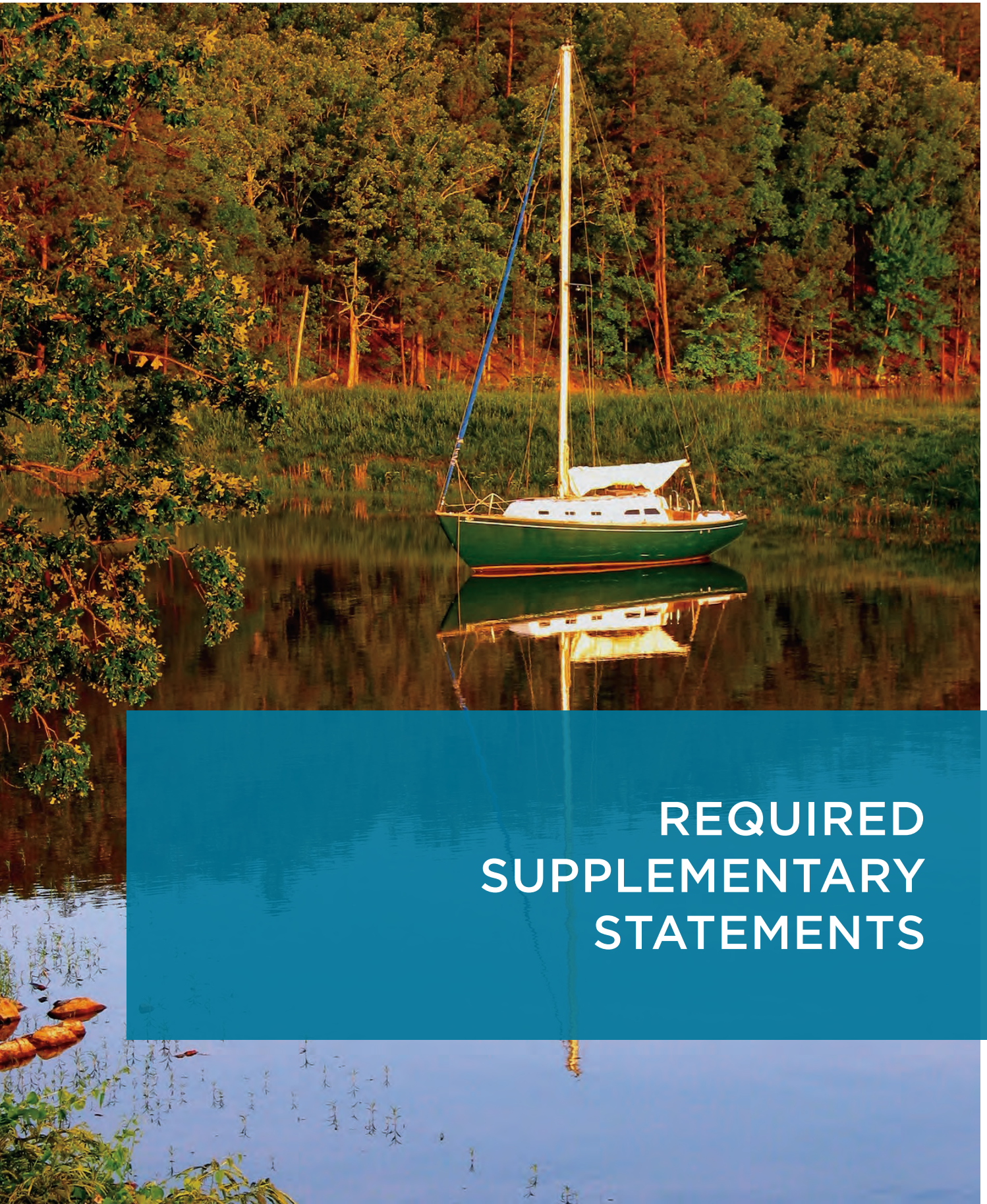
Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 11: 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:

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



**REQUIRED
SUPPLEMENTARY
STATEMENTS**

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
TEN YEAR SUMMARY OF UTILITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
2008 – 2017 (Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability	1.02%	0.95%	0.94%
Utility's proportionate share of the net pension liability	\$ 26,485,412	\$ 22,821,130	\$ 17,301,107
Utility's covered payroll	\$ 18,472,503	\$ 17,290,639	\$ 16,700,073
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	143.38%	131.99%	103.60%
Plan fiduciary net position as a percentage of the total pension liability	75.65%	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 three years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
TEN YEAR SUMMARY OF UTILITY'S CONTRIBUTIONS TO ARKANSAS PUBLIC EMPLOYEES
RETIREMENT SYSTEM
2008 – 2017 (Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,751,581	\$ 2,521,470	\$ 2,479,699
Contributions in relation to the contractually required contribution	<u>2,751,581</u>	<u>2,521,470</u>	<u>2,479,699</u>
Utility's proportionate share of the net pension liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered payroll	\$ 18,812,453	\$ 18,791,818	\$ 16,881,194
Contributions as a percentage of covered payroll	14.63%	13.42%	14.69%

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 three years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
Other Postemployment Benefit Plan (OPEB) – Schedule of Funding Progress
December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (AAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
12/31/2017	\$ 4,388,044	\$ 15,342,017	\$ 10,953,973	28.6%	\$ 18,221,916	60.1%

Central Arkansas Water

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefit Plan (OPEB) – Ten Year Schedule of Changes in Net OPEB Liability and Related Ratios (under GASB Statement 74)

December 31, 2017

	2017	2016
Total OPEB liability		
Service cost	\$ 266,786	\$ 284,194
Interest	595,466	566,116
Changes of benefit terms	-	-
Differences between expected and actual experience	2,662,481	-
Changes of assumptions	1,935,094	(530,347)
Benefit payments	(440,888)	(390,661)
Net change in total OPEB liability	5,018,939	(70,698)
Total OPEB liability - beginning	15,840,132	15,910,830
Total OPEB liability- ending (a)	\$ 20,859,071	\$ 15,840,132
Plan fiduciary net position		
Contributions - employer	\$ 927,000	\$ 844,935
Net investment income	8,485	28,577
Benefit payments	(440,888)	(390,661)
Administrative expense	-	-
Net change in fiduciary net position	494,596	482,851
Plan fiduciary net position - beginning	3,893,449	3,410,598
Plan fiduciary net position - ending (b)	\$ 4,388,044	\$ 3,893,449
Utility's net OPEB liability - ending (a) - (b)	\$ 16,471,027	\$ 11,946,683
Plan fiduciary net position as a percentage of the total OPEB liability	21.04%	24.58%
Covered-employee payroll	\$ 18,221,916	\$ 17,104,744
Utility's net OPEB liability as a percentage of covered-employee payroll	90.39%	69.84%

Notes to the Schedule

Changes of assumptions. In 2017, the assumed single discount rate was reduced from 3.78% to 3.16% to more closely reflect the expected rate of return on investments.

OPEB schedules under GASB Statement 74 included in the required supplementary information are intended to show information for ten years. GASB Statement 74 was implemented in 2017; therefore, only two years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefit Plan (OPEB) – Schedule of Employer Contributions (under GASB Statement 74)

December 31, 2017

<u>Plan Year Ending December 31:</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 1,068,588	\$ 699,905
Contributions in relation to the actuarially determined contribution	927,000	844,935
Contribution deficiency (excess)	141,588	(145,030)
Covered employee payroll	18,221,916	17,104,744
Contributions as a percentage of covered employee payroll	5.09%	4.94%

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of December 31 after the valuation date.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age Normal
 Amortization method: Level Dollar over 30 years from January 1, 2017
 Remaining amortization period: 29 years
 Asset valuation method: Market value
 Inflation: 3.0 percent per year
 Health care cost trend rates: 8 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent
 Single discount rate: 3.78 percent at 12/31/2016 and 3.16 percent at 12/31/2017
 Retirement age: Expected retirement ages of general employees are based on information provided by Arkansas Public Employees Retirement System.
 Mortality: RP-2014 Healthy Annuitant Mortality Table

OPEB schedules under GASB Statement 74 included in the required supplementary information are intended to show information for ten years. GASB Statement 74 was implemented in 2017; therefore, only two years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water

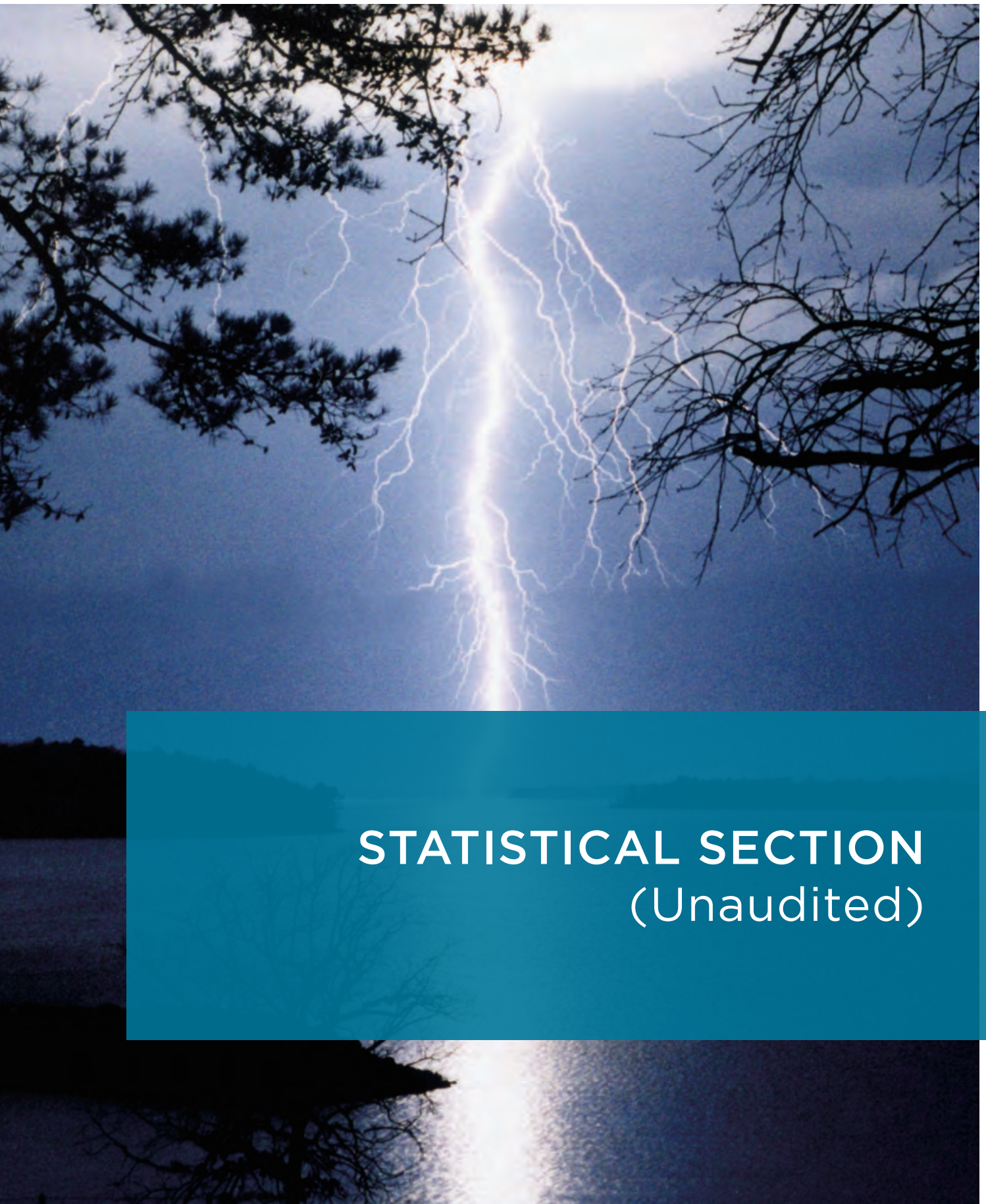
REQUIRED SUPPLEMENTARY INFORMATION

Other Post Employment Benefit Plan (OPEB) – Ten Year Schedule of Investment Returns

December 31, 2017

	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	0.2%	0.8%

OPEB schedules under GASB Statement 74 included in the required supplementary information are intended to show information for ten years. GASB Statement 74 was implemented in 2017; therefore, only two years of information are shown, and additional years' information will be added as it becomes available.



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 88

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 93

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 98

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

Operating Information 100

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 2008 – 2017 (Unaudited)

	2008	2009	2010	2011
Operating Revenues				
Water Sales	\$ 37,547,537	\$ 37,706,526	\$ 44,734,656	\$ 47,899,601
Penalties	742,402	754,955	888,654	915,430
Turn-on charges	1,132,302	1,110,714	1,057,057	1,019,839
Ancillary charges	3,044,787	2,797,505	2,631,082	2,841,724
Watershed protection fees	-	651,652	982,812	999,083
Other Revenue	839,430	524,358	636,345	596,503
Total Operating Revenues	<u>43,306,458</u>	<u>43,545,710</u>	<u>50,930,606</u>	<u>54,272,180</u>
Operating Expenses				
Administration	\$ 3,107,367	\$ 2,945,649	\$ 2,766,339	2,842,433
Distribution	9,536,879	9,832,889	9,915,785	9,994,051
Engineering	1,637,505	1,700,254	1,758,261	1,779,691
Finance and customer service	5,751,256	5,980,026	5,992,816	6,186,750
Finance	-	-	-	-
Customer service	-	-	-	-
Information services	2,834,869	2,752,820	2,818,444	3,005,343
Water production	7,555,875	7,882,414	8,181,092	8,556,749
Watershed protection	849,428	965,800	1,032,201	1,158,939
Water quality	-	-	-	-
General	2,355,892	2,033,790	2,549,123	2,048,645
Depreciation and amortization	8,642,459	8,640,467	9,138,823	9,589,451
Total Operating Expenses	<u>42,271,530</u>	<u>42,734,109</u>	<u>44,152,884</u>	<u>45,162,052</u>
Nonoperating Revenues (Expenses)				
Transfers to Cities of LR and NLR	(462,528)	(537,936)	(551,290)	(584,388)
Gain (loss) on disposal of capital assets	184,625	157,520	118,562	(476,219)
Investment income	738,133	163,318	56,820	118,372
Bond and other interest expense, net	(1,315,979)	(1,042,072)	(1,049,990)	(900,468)
Total Nonoperating Revenues (Expenses)	<u>(855,749)</u>	<u>(1,259,170)</u>	<u>(1,425,898)</u>	<u>(1,842,703)</u>
Contributions				
Contributions-in-aid of construction	10,232,358	5,253,734	8,552,085	9,573,703
Capital contributions from grantors	-	4,000,000	-	4,000,000
Special item – transfer of assets from Maumelle	-	-	-	-
Total Contributions	<u>10,232,358</u>	<u>9,253,734</u>	<u>8,552,085</u>	<u>13,573,703</u>
Change in Net Position	<u>\$ 10,411,537</u>	<u>\$ 8,806,165</u>	<u>\$ 13,903,909</u>	<u>\$ 20,841,128</u>
% Water Rate Increase ⁽¹⁾	<u>9.6%</u>	<u>3.4%</u>	<u>5.9%</u>	<u>5.3%</u>

Source: Central Arkansas Water Finance and Customer Service Department

⁽¹⁾ 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) 2008 – 2017 (Unaudited)

	2012	2013	2014	2015	2016	2017
\$	49,448,601	\$ 45,998,541	\$ 45,070,592	\$ 47,459,563	\$ 51,325,094	\$ 51,648,173
	891,014	859,938	916,613	878,500	885,551	922,616
	1,195,622	1,101,038	1,010,229	989,227	1,091,867	1,342,974
	3,014,509	3,083,148	2,917,964	3,005,354	5,549,781	6,188,546
	1,003,492	1,012,991	1,012,005	1,017,055	1,025,064	1,120,097
	716,994	1,990,277	670,741	731,607	818,766	898,993
	<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>	<u>62,121,399</u>
	2,252,142	2,364,744	2,471,360	2,598,576	2,668,488	3,447,845
	9,817,795	10,495,249	10,659,085	10,256,858	13,313,139	14,256,900
	1,768,725	1,773,172	1,821,276	1,694,457	1,803,704	2,049,525
	-	-	-	-	-	-
	2,605,926	2,585,870	2,548,209	2,582,474	3,103,823	3,078,676
	4,055,518	4,176,286	4,458,680	4,436,408	4,954,842	3,151,815
	3,013,314	2,902,303	3,133,821	3,050,213	3,186,317	3,328,787
	9,423,762	7,889,209	7,717,004	8,011,935	8,239,835	9,341,319
	1,062,484	-	-	-	-	-
	-	1,936,431	1,911,167	2,024,136	2,050,733	2,134,930
	2,345,009	2,017,004	1,971,006	2,112,725	3,057,387	2,650,583
	10,346,997	11,068,273	10,786,930	11,246,626	12,149,744	12,770,370
	<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>	<u>56,210,750</u>
	(602,832)	(608,436)	(658,776)	(659,088)	(676,408)	(706,716)
	204,043	249,854	26,456	76,092	76,664	70,231
	76,650	111,482	199,334	194,795	237,700	413,111
	<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>(2,043,741)</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>	<u>(2,267,115)</u>
	2,826,327	864,644	2,253,550	3,021,520	2,148,229	2,442,052
	171,514	47,903	-	127,396	26,112	-
	-	-	-	-	7,745,408	-
	<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>2,442,052</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>\$ 6,085,586</u>
	<u>0.0%</u>	<u>3.8%</u>	<u>3.7%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>8.9%</u>

Central Arkansas Water
TEN YEAR SUMMARY OF NET POSITION
2008 – 2017 (Unaudited)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Position				
Net investment in capital assets	\$ 268,480,427	\$ 280,199,889	\$ 284,393,022	\$ 299,621,462
Restricted – expendable	8,841,017	7,127,200	9,038,701	6,466,360
Unrestricted	<u>15,360,994</u>	<u>14,161,514</u>	<u>21,437,276</u>	<u>29,622,305</u>
Total Net Position	<u>\$ 292,682,438</u>	<u>\$ 301,488,603</u>	<u>\$ 314,868,999</u>	<u>\$ 335,710,127</u>

Source: Central Arkansas Water Finance and Customer Department

⁽¹⁾ 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.

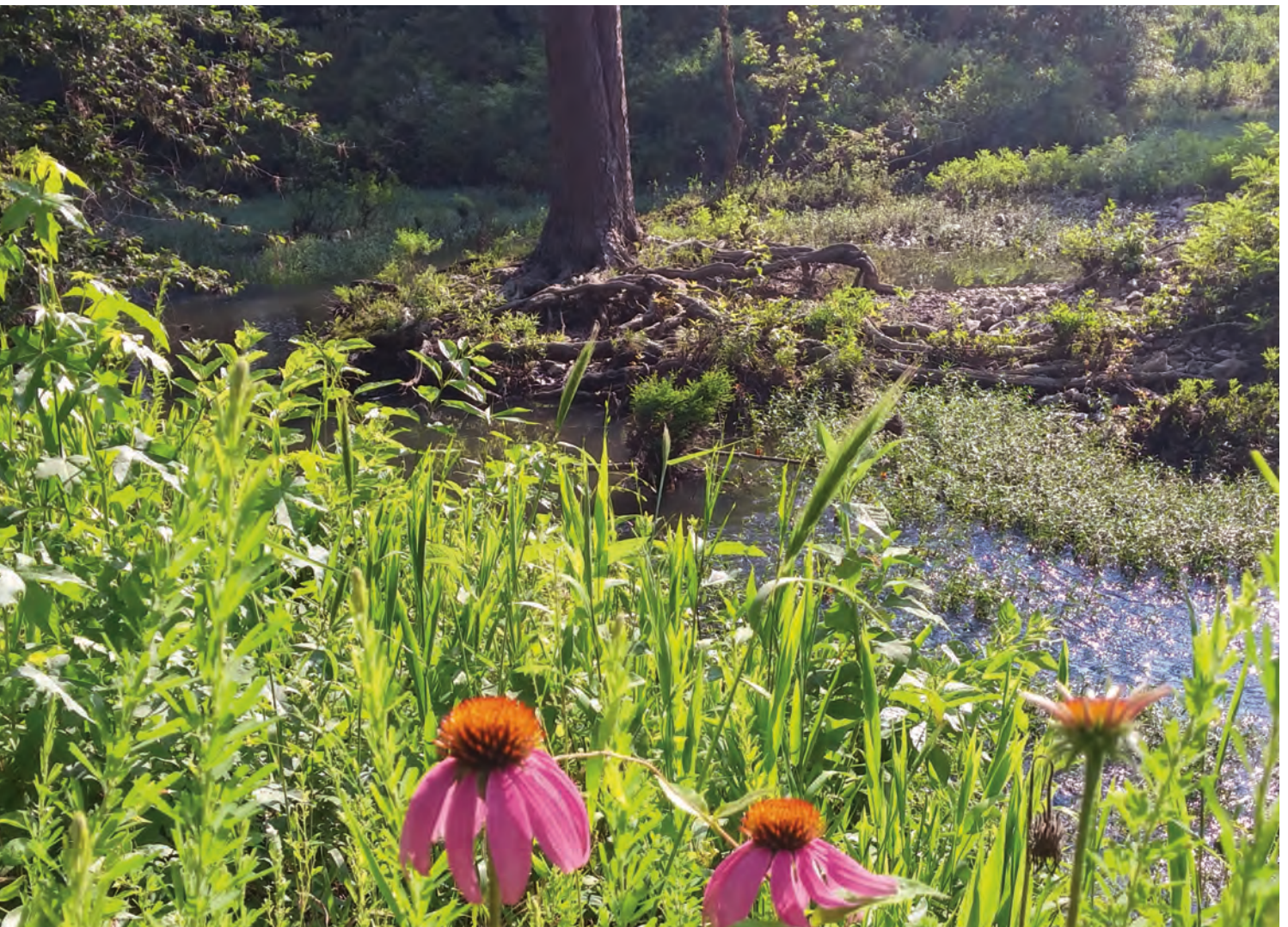
Central Arkansas Water
TEN YEAR SUMMARY OF NET POSITION (*Continued*)
2008 – 2017 (Unaudited)

2012	2013	2014	2015⁽¹⁾	2016	2017
\$ 302,315,617	\$ 309,457,263	\$ 312,635,439	\$ 320,025,891	\$ 329,906,226	\$ 337,464,890
7,988,462	7,121,040	6,059,324	7,188,147	7,683,719	9,093,843
<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>18,290,666</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>	<u>\$ 364,849,399</u>

Central Arkansas Water
TEN YEAR SUMMARY OF WRITE-OFFS
2008 – 2017 (Unaudited)

Year	Water Sales	Write-Offs	Write-Offs / Water Sales
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%
2017	51,648,173	287,151	0.56%

Source: Central Arkansas Water Finance and Customer Service Department



REVENUE & DEBT CAPACITY



Central Arkansas Water
TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
2008 – 2017 (Unaudited)

	2008	2009	2010	2011
Revenues				
Water Sales	\$ 37,547,537	\$ 37,706,526	\$ 44,734,656	\$ 47,899,601
Penalties	742,402	754,955	888,654	915,430
Turn-on charges	1,132,302	1,110,714	1,057,057	1,019,839
Ancillary charges	3,044,787	2,797,505	2,631,082	2,841,724
Watershed protection fees	-	651,652	982,812	999,083
Proceeds from sale of capital assets	1,036,972	972,888	1,154,252	1,378,313
Investment income	738,133	163,318	56,820	118,372
Other Revenue	839,430	524,358	636,345	596,503
Total Revenues	<u>45,081,563</u>	<u>44,681,916</u>	<u>52,141,678</u>	<u>55,768,865</u>
Expenses				
Administration	3,107,367	2,945,649	2,766,339	2,842,433
Distribution	9,536,879	9,832,889	9,915,785	9,994,051
Engineering	1,637,505	1,700,254	1,758,261	1,779,691
Finance and customer service	5,751,256	5,980,026	5,992,816	6,186,750
Finance	-	-	-	-
Customer service	-	-	-	-
Customer relations and public affairs	-	-	-	-
Information services	2,834,869	2,752,820	2,818,444	3,005,343
Water production	7,555,875	7,882,414	8,181,092	8,556,749
Watershed protection	849,428	965,800	1,032,201	1,158,939
Water quality	-	-	-	-
General	2,355,892	2,033,790	2,549,123	2,048,645
Transfers to Cities of LR and NLR	462,528	537,936	551,290	584,388
Total Expenses	<u>34,091,599</u>	<u>34,631,578</u>	<u>35,565,351</u>	<u>36,156,989</u>
Transfers to rate stabilization account ⁽²⁾	<u>-</u>	<u>-</u>	<u>(2,100,000)</u>	<u>(2,600,000)</u>
Net Revenues	<u>\$ 10,989,964</u>	<u>\$ 10,050,338</u>	<u>\$ 14,476,327</u>	<u>\$ 17,011,876</u>
Maximum Annual Debt Service on Revenue Bonds	<u>\$ 4,720,529</u>	<u>\$ 5,536,739</u>	<u>\$ 6,799,714</u>	<u>\$ 6,884,537</u>
Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Bonds ⁽¹⁾	<u>2.33</u>	<u>1.82</u>	<u>2.13</u>	<u>2.47</u>

Source: Central Arkansas Water Finance and Customer Service 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 of disposal of capital assets, interest expense, contributions-in-aid of construction, and capital contributions from grantors.

⁽¹⁾ Bond Requirement is 1.2.

⁽²⁾ 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)* 2008 – 2017 (Unaudited)

2012	2013	2014	2015	2016	2017
\$ 49,448,601	\$ 45,998,541	\$ 45,070,592	\$ 47,459,563	\$ 51,325,094	\$ 51,648,173
891,014	859,938	916,613	878,500	885,551	922,616
1,195,622	1,101,038	1,010,229	989,227	1,091,867	1,342,974
3,014,509	3,083,148	2,917,964	3,005,354	5,549,781	6,188,546
1,003,492	1,012,991	1,012,005	1,017,055	1,025,064	1,120,097
1,270,452	1,259,097	62,548	93,675	87,285	70,231
76,650	111,482	199,334	194,795	237,700	413,111
716,994	1,990,277	670,741	731,607	818,766	898,993
57,617,334	55,416,512	51,860,026	54,369,776	61,021,108	62,604,741
2,252,142	2,364,744	2,471,360	2,598,576	2,668,488	3,447,845
9,817,795	10,495,249	10,659,085	10,256,858	13,313,139	14,256,900
1,768,725	1,773,172	1,821,276	1,694,457	1,803,704	2,049,525
-	-	-	-	-	-
2,605,926	2,585,870	2,548,209	2,582,474	3,103,823	3,078,676
-	-	-	-	-	3,151,815
4,055,518	4,176,286	4,458,680	4,436,408	4,954,842	-
3,013,314	2,902,303	3,133,821	3,050,213	3,186,317	3,328,787
9,423,762	7,889,209	7,717,004	8,011,935	8,239,835	9,341,319
1,062,484	-	-	-	-	-
-	1,936,431	1,911,167	2,024,136	2,050,733	2,134,930
2,345,009	2,017,004	1,971,006	2,112,725	3,057,387	2,650,583
602,832	608,436	658,776	659,088	676,408	706,716
36,947,507	36,748,704	37,350,384	37,426,870	43,054,676	44,147,096
(3,300,000)	-	-	-	-	-
\$ 17,369,827	\$ 18,667,808	\$ 14,509,642	\$ 16,942,906	\$ 17,966,432	\$ 18,457,645
\$ 8,061,331	\$ 7,909,925	\$ 7,645,191	\$ 7,600,019	\$ 7,125,431	\$ 7,113,368
2.15	2.36	1.90	2.23	2.52	2.59

Central Arkansas Water
TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT
2008 – 2017 (Unaudited)

Year	Residential	Commercial	Large Volume	Wholesale
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	48	9
2017	117,015	11,824	52	9

Source: Central Arkansas Water Finance and Customer Service Department

Central Arkansas Water

TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT *(Continued)* 2008 – 2017 (Unaudited)

Sprinkler	Private Fire Service	Total Customers	Outstanding Debt	Debt to Customer Count
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	134,437	\$ 93,386,875	\$ 695
4,082	2,145	135,127	\$ 87,328,696	\$ 646

Central Arkansas Water

TEN YEAR SUMMARY OF TEN LARGEST WATER CUSTOMERS 2008 – 2017 (Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Jacksonville Water Works	1	1	1	1	1	1	1	1	1	1
Bryant Water and Sewer	2	2	3	2	2	2	2	2	3	2
Salem Water Alliance	8	8	4	4	3	3	3	3	2	3
Mid-Arkansas Utilities	3	3	2	3	4	4	4	5	-	-
University of Arkansas for Medical Sciences	5	4	5	6	5	5	5	6	5	4
Arkansas Department of Corrections	-	10	10	9	10	9	6	7	6	6
Sage V Foods	-	-	-	-	-	-	7	10	-	8
Cabot WaterWorks	-	-	-	-	9	10	8	8	7	5
Shannon Hills Water Department	-	-	-	-	-	-	9	4	9	-
Baptist Health System	7	7	8	7	7	7	10	9	10	10
Veterans Administration Hospitals	6	5	7	-	8	8	-	-	-	-
3-M Company	4	6	6	8	-	-	-	-	4	9
Arkansas Electric Cooperative	-	-	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	-	-	-	-	-	-	-	-
Kimberly-Clark	-	-	-	-	-	-	-	-	-	7

Source: Central Arkansas Water Finance and Customer Service Department



DEMOGRAPHIC & ECONOMIC INFORMATION

Central Arkansas Water
LARGEST EMPLOYERS WITHIN PULASKI COUNTY
2017 vs. 2008 (Unaudited)

Employer	Type of Business	2017			2008	
		Rank	Employees	Percentage of Total Employment	Rank	Employees
State of Arkansas	Government	1	35,200	19%	1	32,000
Local Government	Government	2	26,500	15%	2	28,600
Federal Government	Government	3	10,200	6%	3	9,000
University of Arkansas for Medical Sciences	Medical Services	4	9,100	5%	4	8,500
Baptist Health	Medical Services	5	6,590	4%	6	7,000
Little Rock Air Force Base	Government	6	4,500	2%	7	4,500
Arkansas Children's Hospital	Medical Services	7	4,000	2%	-	-
Little Rock School District	Education	8	3,500	2%	-	-
Central Arkansas Veterans Health Care Systems	Medical Services	9	2,800	2%	10	2,765
Entergy Arkansas	Utility (Electric)	10	2,740	2%	9	2,781
Pulaski County Public School District	Education	-	2,700	0%	5	8,433
Axiom	Data Processing	-	300	-	8	3,000
Total			<u>110,730</u>	<u>58%</u>		<u>106,579</u>
Total Employment			181,536			

Source: Central Arkansas Water Finance and Customer Service Department

Central Arkansas Water
TEN YEAR SUMMARY OF
DEMOGRAPHIC AND ECONOMIC STATISTICS WITHIN PULASKI COUNTY
2008 – 2017 (Unaudited)

Year	Population	Households	Median Household Income	Per Capita Personal Income	Total Personal Income (000s)	Unemployment Rate
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	393,250	(1)	(1)	47,834	18,810,571	3.2%
2017	(1)	(1)	(1)	(1)	(1)	3.4%

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

⁽¹⁾ Information is not available.



OPERATING INFORMATION

Central Arkansas Water
TEN YEAR SUMMARY OF NEW CONNECTIONS
2008 – 2017 (Unaudited)

Year	Meters	Fire Hydrants	New Pipe (in Miles)
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
2017	1,450	166	16.30

Source: Central Arkansas Water Engineering Department

Central Arkansas Water
TEN YEAR SUMMARY OF SYSTEM HIGHLIGHTS
2008 – 2017 (Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Miles of public water distribution pipe	2,229	2,255	2,276	2,280	2,295	2,358	2,366	2,372	2,497	2,506
Number of treatment plants	2	2	2	2	2	2	2	2	3	3
Maximum treatment capacity (MGD)	157.0	157.0	157.0	157.0	157.0	157.0	157.0	157.0	163.7	163.7
Maximum day consumption (MG)	109.4	103.3	108.4	119.4	126.0	106.0	88.3	98.9	98.1	92.0
Percentage of maximum capacity utilized	70%	66%	69%	76%	80%	68%	56%	63%	60%	56%

Source: Central Arkansas Water Engineering and Water Production Departments

MGD = Millions of Gallons per Day

MG = Million Gallons

Central Arkansas Water
TEN YEAR SUMMARY OF CAPITAL ASSETS
2008 – 2017 (Unaudited)

	2008	2009	2010	2011
Land and land use rights	\$ 28,147,590	\$ 40,550,430	\$ 40,544,764	\$ 43,779,013
Building and grounds	39,037,397	39,719,805	40,917,775	41,954,807
Land improvements	-	-	-	-
Water source	32,621,672	32,621,672	32,778,582	32,778,582
Purification	25,176,369	25,176,369	29,512,295	36,299,049
Pumping	15,956,236	15,956,236	22,254,975	22,323,783
Distribution	249,181,501	257,532,685	272,131,704	279,106,680
Other equipment	25,762,336	25,933,787	26,463,728	27,362,197
Construction in progress	30,887,428	36,626,465	34,450,027	42,187,758
	<u>446,770,529</u>	<u>474,117,449</u>	<u>499,053,850</u>	<u>525,791,869</u>
Less accumulated depreciation	<u>129,122,942</u>	<u>136,877,016</u>	<u>145,172,084</u>	<u>153,522,735</u>
Net Capital Assets	<u>\$ 317,647,587</u>	<u>\$ 337,240,433</u>	<u>\$ 353,881,766</u>	<u>\$ 372,269,134</u>

Source: Central Arkansas Water Finance and Customer Service Department

Central Arkansas Water
TEN YEAR SUMMARY OF CAPITAL ASSETS (CONTINUED)
2008 – 2017 (Unaudited)

	2012	2013	2014	2015	2016	2017
\$	45,521,648	\$ 46,032,162	\$ 46,192,915	\$ 47,488,299	\$ 47,892,367	\$ 48,977,583
	44,160,573	49,154,620	60,806,083	60,916,771	62,556,517	62,767,365
	-	1,478,894	2,253,459	2,259,083	2,702,932	2,831,335
	32,920,887	32,927,318	33,211,941	33,211,941	33,419,723	33,419,723
	37,261,755	37,518,831	42,180,124	42,449,597	45,268,031	45,527,263
	25,740,465	25,796,891	26,233,796	26,410,016	27,159,362	27,257,925
	318,974,140	323,590,447	335,078,600	339,621,061	363,365,749	368,386,584
	27,875,369	27,139,956	28,573,745	29,123,839	31,027,067	31,740,663
	11,868,158	21,527,876	2,150,054	8,880,044	8,044,217	21,632,031
	<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>642,540,472</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>223,337,873</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>	<u>\$ 419,202,599</u>

Central Arkansas Water

TEN YEAR SUMMARY OF FILLED POSITIONS BY DEPARTMENT 2008 – 2017 (Unaudited)

	<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>	<u>2017</u>
Administration	15	17	14	14	11	11	12	11	14	15
Distribution	114	111	102	104	106	109	108	110	135	141
Engineering	22	22	23	22	23	23	22	21	22	24
Finance and customer service	77	75	78	75	79	79	-	-	69	64
Finance	-	-	-	-	-	-	17	20	-	-
Customer relations and public affairs	-	-	-	-	-	-	61	63	-	-
Information services	16	17	17	17	17	17	17	17	16	16
Water quality	-	-	-	-	10	9	-	-	13	12
Water quality and operations	-	-	-	-	-	-	40	41	-	-
Source and treatment/Water production	<u>37</u>	<u>39</u>	<u>37</u>	<u>40</u>	<u>32</u>	<u>31</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>35</u>
Total	<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>	<u>307</u>

Source: Central Arkansas Water Administration Department

Central Arkansas Water
SCHEDULE OF WATER RATES FOR CAW
2017 (Unaudited)

Minimum Monthly Charge (CAW):

Meter Size	Central Arkansas Water	
	Charge	
	Inside City	Outside City
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

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

Customer Class	Charge			
	Inside City – LR & NLR		Outside City – LR & NLR	
	3-33 CCFs	Over 33 CCFs	3-33 CCFs	Over 33 CCFs
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	Charge	
	On Peak	Off Peak
Wholesale	\$ 1.43	\$ 1.29
Raw Water	\$ 0.60	\$ 0.60

Watershed Protection Fee (all CAW customers):

Meter Size	City
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

⁽¹⁾ 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 and Customer Service Department

Central Arkansas Water
Schedule of Water Rates – Maumelle
2017 (Unaudited)

Minimum Monthly Charge (Maumelle):

<u>Meter Size</u>	<u>Central Arkansas Water</u>	
	<u>Charge</u>	
	<u>Residential</u>	<u>Sprinkler</u>
	<u>Account</u>	<u>Account</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>Charge</u>	
	<u>Water</u>	<u>Sprinkler</u>
1,001 to 10,000	\$ 3.68	\$ 4.26
10,001 to 20,000	\$ 3.68	\$ 4.69
20,001 to 30,000	\$ 3.68	\$ 5.15
30,001+	\$ 3.68	\$ 5.41

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



**OTHER
REQUIRED
REPORT**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards***Independent Auditor's Report**

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 the business-type activities and the aggregate remaining fiduciary funds information of Central Arkansas Water (the Utility), as of and for the year ended December 31, 2017, 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 20, 2018, which contained an Emphasis of Matter paragraph regarding a change in accounting principle.

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 opinions 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.

Board of Commissioners
Central Arkansas Water

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 entity'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.

BKD, LLP

Little Rock, Arkansas
April 20, 2018