



Central Arkansas Water

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Years Ended
December 31, 2013 and 2012

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P.O. Box 1789
Little Rock, Arkansas 72203
www.carkw.com

Prepared by the Finance Section – Finance and Customer Service Department

Central Arkansas Water

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Central Arkansas Water

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Introductory Section





April 10, 2014

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, 2013 and 2012.

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, 2013 and 2012. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utility.

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

THE REPORTING ENTITY

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

The Utility remains under public ownership. A 7 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 7 departments: Administration, Distribution, Engineering, Finance and Customer Service, Information Services, Source and Treatment, and Water Quality.

The Utility produces, stores, treats, and distributes water for a population of approximately 400,000 in Central Arkansas. The major components of the system are two raw water supplies, Lake Winona and Lake Maumelle; a regulating and storage facility, Jackson Reservoir; two treatment facilities, Jack H. Wilson Water Treatment Plant and Ozark Point Water Treatment Plant; 2,358 miles of public pipeline; 23 booster pumping stations; and 26 remote storage facilities. As of December 31, 2013, the Utility provides water service to approximately 400 square miles and approximately 125,000 active customer accounts.

The combined safe yield of the 2 water sources is approximately 120 million gallons per day (MGD). The maximum treatment capacity of the Wilson Plant is 133 MGD and the treatment capacity of the Ozark Point Plant is 24 MGD. The Utility has a combined 45.60 million gallons in remote storage capacity serving 19 pressure systems and another 25 million gallons in storage at the treatment plants.

MAJOR INITIATIVES AND ACCOMPLISHMENTS IN 2013

Administration

In 2013, CAW received the Diversity Award from The American Water Works Association (AWWA). This award recognizes an individual or organization that has created, promoted, and maintained diversity by establishing an environment that recognizes, encourages, and effectively utilizes each individual's talents. Specifically, CAW was recognized by AWWA for incorporating diversity and inclusion throughout its organization including in its community and stakeholder outreach efforts, its utility hiring practices, employee training and employee performance standards, internal and external communications, purchasing practices, management emphasis, and strategic planning.

CAW also received the Jack Evans Regional Leadership Award from Metroplan in 2013. Metroplan is a metropolitan planning organization serving more than 25 local municipalities in the area. CAW received this award for efforts to promote regionalism and protect source water in the region.

Environmental Health and Safety developed and implemented a Near Miss Program. A near miss is an unplanned event that did not result in injury, illness, or damage – but had the potential to do so. This program is designed to help employees become more proactive in reporting unsafe working conditions or unsafe acts that could lead to work related injuries, thus reducing their occurrence.

The Utility maintained cost of benefits as a percentage of total compensation at 35.73%, which is in line with the Society for Human Resource Management's national average of 35.60%. The average annual Utility turnover rate of 4.32% is well below the national average of 16.4% for state and local government employers. The average tenure of the Utility's employees is 13 years of service.

The Utility continues to have strong stakeholder involvement and heightened consumer interest in public-policy initiatives and the development of strategies to address various issues and challenges that the Utility is facing. In addition to embracing stakeholder input on various projects related to watershed protection, water conservation, and resources utilization, the Utility took a proactive approach to media-relations for a number of key utility activities in 2013, including education programs, tours, special events of CAW and other organizations, television appearances, and public service involvement. Through these efforts, we educated over 100,000 individuals throughout the Central Arkansas region regarding leak detection, wise water use for irrigation systems, freeze precaution efforts, and other core initiatives.

The Utility generated \$119,000 in private-sector revenue for the Help to Others Customer Assistance Fund (Help to Others). In addition, the Utility contributed \$13,200 to this special program that provides assistance to families, senior citizens and other individuals who are experiencing financial crisis and need assistance in paying their utility bills. Help to Others, a substantively self-sustaining program, has been funded with over \$974,000 since its inception in November of 2004. Its primary revenue source is advertising fees that local merchants and businesses pay to place coupon advertising in the monthly billing statements of CAW and its utility billing partners. The program is an essential component of our community outreach, as families and senior citizens weather this difficult economic climate.

Distribution

The Distribution Department assumed the operational maintenance and repair responsibility of the Wye Mountain Water system in 2013. This added 24 square miles of distribution system, 56 miles of new water mains and over 550 new service accounts to its area of responsibility. Distribution developed, staffed, and implemented an aggressive valve and fire hydrant inspection program beginning in May of 2013. Additionally, Distribution updated the Raw Water Line Emergency Action Plan to include procurement of all needed large diameter repair fittings. There was significant research and development completed on needed water piping infrastructure replacement and rehabilitation needs in the form of an Asset Management Plan. Distribution also replaced 9,372 water meters through the Change-out Program.

Engineering

The Engineering Department, through capital improvement projects and private developer construction, managed and oversaw the installation of 15.3 miles of new public water mains and 4.7 miles of private water mains in 2013. Also, 7.9 miles of public and 0.1 miles of private water mains were retired from service in 2013.

In 2013, the Engineering Department managed and inspected to completion the \$3,580,000 Maumelle Raw Water Transmission Main Surge Suppression Facility project, which began construction in 2012. The Engineering Department continued to manage and inspect the \$13,300,000 U.S. Environmental Protection Agency (USEPA) Stage 2 Disinfectant/Disinfection By-Product (D/DBP) Rule Water Treatment Plant Improvement project, scheduled for construction completion in May 2014. Other major projects the Engineering Department managed and inspected to completion in 2013 include: 30 MGD pump and motor rebuild at the Lake Maumelle Pumping Station, 6,300 linear feet of 16-inch and 12-inch water mains to two new water storage tanks, two new water storage tanks totaling 2,900,000 gallons of treated water storage, replacement of 1,000 linear feet of 114 year old 12-inch water main in downtown Little Rock, replacement of 1,100 linear feet of 16-inch water main in Baseline Road (State Highway No. 338), and replacement of 11,000 linear feet of 2-inch galvanized pipe with new 8-inch through 2-inch pipe in various locations within the Central Arkansas Water service area. Also in 2013, the Engineering Department completed engineering design for several new projects scheduled for construction in 2014.

Finance and Customer Service

For the fourth consecutive year, the Finance and Customer Service 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.

Purchasing personnel researched CAW's current fuel acquisition and usage method and implemented modifications providing an average savings of 21 cents per gallon on diesel and 35 cents per gallon on unleaded fuel. CAW moved from consignment fuel purchases to bulk purchases and participation in the State of Arkansas Cooperative fuel contract with TAC Energy. Monthly savings based on fuel consumption average \$1,400 in fuel and \$500 in administrative charges.

Finance coordinated the financial transition of the Wye Mountain water system which was completed in the fourth quarter of 2013. Finance and Customer Service along with Engineering have begun a pilot program using advanced metering infrastructure in the Wye Mountain system. This metering technology allows wireless transmission of meter readings and will improve reliability and speed of meter reading in remote areas.

Information Services

Information Services personnel working with vendor support transitioned CAW to the enQuesta4 billing system. The new version of enQuesta will introduce new features to the CAW staff streamlining work flow processes and resulting in improved customer service. The new system runs on an improved database design allowing better integration with existing modules such as asset maintenance.

Concurrently, with enQuesta4, CAW began taking customer payments via Invoice Cloud. This service allows CAW to send electronic invoices to those customers who opt into electronic delivery and to accept payment via a customer account portal. It is anticipated that cost savings will be realized from electronic transmission by decreasing mailing costs.

Source and Treatment

The Utility assured the highest quality of water by conducting 145,000 water quality analyses and maintaining 100% compliance with the federal Safe Drinking Water Act (SDWA) and the State of Arkansas' Rules and Regulations Pertaining to Public Water Systems for the 39th consecutive year. CAW's laboratory remains one of the few utility laboratories in the State of Arkansas certified for coliform monitoring under the Total Coliform Rule of the SDWA.

The Utility issued the 2012 Water Quality Report in May and June 2013, ahead of the federal deadline, and mailed it to 166,000 addresses within the service area.

In May 2013, successful start-up and testing of the Lake Maumelle surge tank project was completed. The surge tank project was designed to minimize surge and vacuum pressures in the Lake Maumelle raw water transmission mains during an electrical power failure. After completion of construction, an emergency stop of the pumps was performed to simulate an electrical power failure. The resulting pressures were recorded and compared to prior surge analysis used during design of the project. The surge tanks did dampen the pressure surges as designed. This will significantly minimize the potential for a raw water main break during an electrical power failure, while also reducing surge pressures during the normal starting and stopping of the pumps. In the past, there have been several raw water main breaks caused by electrical power failures. The Lake Maumelle raw water transmission mains are critical to the Source and Treatment Department goal of providing an uninterrupted supply of high quality potable water. The surge tanks will significantly improve system reliability by reducing the risk of future raw water main breaks.

In March 2013, work began on the \$13,300,000 treatment plants construction project necessary for CAW to comply with the Stage 2 D/DBP Rule, set to see enforcement in 2014. Work is expected to be substantially complete in May 2014.

Water Quality

The Water Quality Department was formed in mid-2012 and encompasses Watershed Management, Watershed Stewardship, Water Quality, and the Analytical Laboratory. The formation of this department allows CAW to take a more holistic approach to water quality management from the source to the tap. The Water Quality Department shares its Mission and some goals with the Source and Treatment Department.

Watershed Management

The Watershed Management Program is the Utility's source water protection program for its 2 water supply reservoirs; Lake Maumelle and Lake Winona. Responsibilities include: implementation of the Lake Maumelle Watershed Management Plan, a strong water quality monitoring program for both lakes and select tributaries, working with county and state government for implementation of regulatory programs, and inspection of activities that may pose a water quality risk in the respective watersheds.

The Utility continued its efforts on various projects involving water quality protection, water conservation, and resource utilization. The Utility negotiated a long-term (99-year) Wildlife Management Agreement with Arkansas Game and Fish Commission (AGFC) and secured a \$1 million commitment in exchange. This agreement will allow the Utility to seek additional funding sources that would not have been made available otherwise.

Watershed staff developed a matrix for making land acquisition decisions and conducted several evaluations of properties for possible purchase in 2013. Negotiations continue regarding a potential conservation easement on 335 acres in the watershed with a goal of completion by 2014. CAW also closed on the acquisition of a 150-acre property on Hundley Road, approved at the July board meeting; with financing to be paid off by August 2015.

Watershed staff continued to work with Pulaski County and other stakeholders on the development of a land use plan and watershed zoning code for the portion of the Maumelle Watershed within Pulaski County. The Pulaski County Land Use Plan and Zoning Code were adopted for the Lake Maumelle Watershed in April of 2013. However, implementation of a number of elements of the Code was delayed until April of 2014 to give stakeholders additional time to propose modifications to the Code that would improve its broad-based support. Watershed staff has continued to work through this evaluation process to identify opportunities to improve water quality protection provisions of the Code while addressing lingering concerns by watershed property owners. The 2013 version of the Code will become fully implemented in April of 2014 unless the County acts to amend it. The final provisions of the Zoning Code, determined in April of 2014, will determine CAW actions in 2014 and beyond.

A Forest Legacy grant application for the purchase of 388 acres in the Reece Creek drainage area was submitted to the U.S. Forest Service (USFS). This is the first of a phased request and additional acreage will be added when funding is available. The national ranking list of Forest Legacy projects was released in March 2014 and CAW's project was not funded in either the 2014 or 2015 budget cycle.

ExxonMobil Pipeline Corporation constructed a facility at the old North Shore Marina that houses 3,000 feet of containment boom for the purpose of responding to a potential pipeline rupture or spill in the watershed north of Lake Maumelle. Both ExxonMobil and CAW have completed activities in this area to facilitate quick access to the containment boom and to the lake in the event of an emergency situation. At CAW's request, ExxonMobil has also repaired a number of exposed sections of their pipeline within the watershed.

As part of ongoing collaborative efforts, CAW provided comments on a river-crossing rehabilitation project that USFS has proposed within the Winona watershed. At the request of USFS, CAW provided input on Best Management Practices (BMPs), and sediment and erosion control activities.

Watershed Stewardship

This program's purpose is to assist CAW in meeting its watershed goals by being cognizant of and attentive to the impacts its programs have on current and future watershed residents and the health and welfare of the watershed; by managing operations, infrastructure, and investments to protect, restore, and enhance the natural environment; and by considering a variety of pollution prevention, watershed, and source water protection approaches as part of an overall strategy to maintain and enhance ecological and community sustainability.

In 2013, the Utility increased the number of low-income and/or elderly homeowners assisted during the USEPA Fix a Leak Week program from 40 to 80. CAW personnel identified the customers who needed assistance, purchased the necessary supplies and solicited assistance from local plumbing companies to donate their time to assist these customers.

In 2013, a prescribed burn was conducted on approximately 195 acres on the north shore of Lake Maumelle and on 50 acres adjacent to Alotian Golf Course. The use of prescribed burns reduces risk of catastrophic wildfire and improves water quality by reducing the amount of decaying woody debris and increasing the herbaceous understory.

Ecological thinnings and selective harvests were conducted on 36-acres of the Sleepy Hollow area and 130-acres of the Lunsfords Corner area in the Lake Maumelle Watershed to improve water quality. These activities are a continuation of CAW's ecological restoration efforts recommended within the Lake Maumelle Watershed Management Plan.

Ecological restoration is an intentional set of activities that initiates or accelerates the recovery of an ecosystems health. CAW uses both controlled burns and ecological thinning to reduce the risk of wildfire, improve forest filtration, enhance wildlife habitat, and create a healthier forest and watershed.

Geosyntec Consultants completed a long-term site plan for the Winrock Grass Farm. The plan includes: reforestation, as required by the USFS Forest Legacy Grant, stream bank stabilization, wetland restoration, creation of shrub land/grassland habitat, riparian buffer improvement, invasive species removal, hiking trails, an archery range, and a proposed educational facility. The conceptual plan for the educational facility, developed by the University of Arkansas Community Design Center, won the 2013 Unbuilt Architecture and Design Award from the Boston Society of Architects.

The Utility completed construction on a 400 foot stream bank restoration project at the Winrock Grass Farm. The project stabilized an area of stream bank that annually eroded nearly 70 dump truck loads of sediment into the Maumelle River, reducing deposition of sediment into Lake Maumelle.

The Utility held its 4th Annual Lake Sweep around Lake Maumelle. This annual clean-up event was expanded to include educational activities for children in partnership with Audubon. Approximately 50 volunteers participated in the event.

The Utility entered into a Memorandum of Agreement with the University of Arkansas and Louisiana State University to research and determine the optimal procedures for our forest restoration strategy on the Winrock Grass Farm. The assessment will evaluate various methods of eradicating zoysia grass to reduce competition for future tree seedlings. The researchers will also evaluate and identify any nutrient deficiencies that may need to be considered when full-scale planting occurs, ensuring successful reforestation efforts at the site. Work on this project began in late 2012 and will continue for 3 years.

Water Quality

The Water Quality program investigates water quality changes and trends in the watersheds, source waters, water treatment and delivery systems through sample collection and analysis. Targeted studies initiated at these systems are conducted in order to better understand and assess water quality and implications for management and treatment.

The Water Quality Department negotiated an agreement with the USGS for the long term, ongoing water quality and flow monitoring of Lake Maumelle and its tributaries. As a part of the program, staff contributed \$22,500 of in-kind services for work associated with the 2013 monitoring plan, reducing costs associated with relying solely on USGS personnel.

The process of evaluating and purchasing water quality monitoring equipment to expand current capabilities continued. Purchases in 2013 include: additional multi-parameter water quality sampling instrument, 4 ISCO Model 6712 automated sampling devices, and other additional safety equipment. Purchase of this equipment will allow staff to better assess water quality in the watersheds, lakes, treatment, and distribution systems.

Additional real-time monitoring equipment was installed at the raw water lines at both Lake Maumelle and Lake Winona. Real-time monitoring will allow better operational control by water treatment staff and provide an additional measure of safety for the source water through rapid dissemination of monitoring data. Along with this increased capability, a web portal was developed integrating all USGS information for end users.

Water quality staff continue to consolidate and streamline the data review process and informational databases. A better integrated data management system will allow historical, current, and future data to be presented in a more efficient manner.

Analytical Laboratory

The Analytical Laboratory serves a support role to the Watershed Management, Watershed Stewardship, Water Quality, and Source and Treatment Sections. Through the analyses of a variety of environmental and operational samples for chemical and physical parameters, the Laboratory provides sound data that serve as the basis for determination of drinking water quality compliance, watershed and source water health, treatability, and long term monitoring initiatives.

During the period November 6-7, 2012, Laboratory Consulting Services, Longview, Texas, conducted a laboratory assessment of the CAW laboratory facility located at the Jack Wilson Water Treatment Plant. The assessment was performed at the request of the Utility to evaluate its compliance with the requirements of its *Quality Manual*, the testing requirements of the reference methods on which its procedures are based, and the *Manual for Certification of Laboratories Analyzing Drinking Water*. The results of this independent assessment are to provide a vehicle for continual improvements of laboratory functions. Staff began implementing assessment recommendations during 2013.

The process of evaluating and replacing analytical laboratory equipment to update current capabilities has continued with the purchase of an Inductively Coupled Plasma Mass Spectroscopy (ICP/MS) for metals analyses, a Hot Block digestion system for processing samples, and an Ion Chromatograph that will analyze both anions and cations enhancing CAW's analytical capabilities. Purchase or replacement of this equipment will allow staff to more efficiently and reliably assess water quality in the watersheds, lakes, treatment plants, and distribution systems.

Along with the purchase of the new or replacement equipment, several upgrades to the laboratory were necessary to continue meeting standards. Both the Inorganic Lab housing the ICP/MS and the Bacteriological Laboratory were upgraded. Additional upgrades throughout the laboratory have also been completed.

The addition of chlorine dioxide treatment technology at the Jack H. Wilson Water Treatment Plant and Ozark Point Water Treatment Plant required that laboratory staff obtain additional training, purchase new equipment, develop standard operating procedures monitoring protocols, and develop additional skill sets to better operate within the newly constructed chlorine dioxide facility.

RELEVANT FINANCIAL POLICIES

During 2013 CAW began a review process to determine interest expense savings accomplished with refinancing the Series 2004 Bonds. The estimated present value savings exceeds the 3% general rule included in CAW Capital Financing, Debt Management, and Fiscal Responsibility guidelines. As a result, CAW plans to issue 2014 Revenue Refunding Bonds. Based on current interest rates, the present value savings are approximately \$1,435,000 or 10.13%.

OTHER INFORMATION

Independent Audit

An independent audit by certified public accountants is important in determining the reliability of the Utility's financial statements. The importance of such verification has been recognized by the federal and state government, the Utility's bond holders and the general public. The Utility contracted with the accounting firm of Thomas & Thomas LLP for this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The auditors' 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, 2012. 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 1 year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

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

Respectfully submitted,



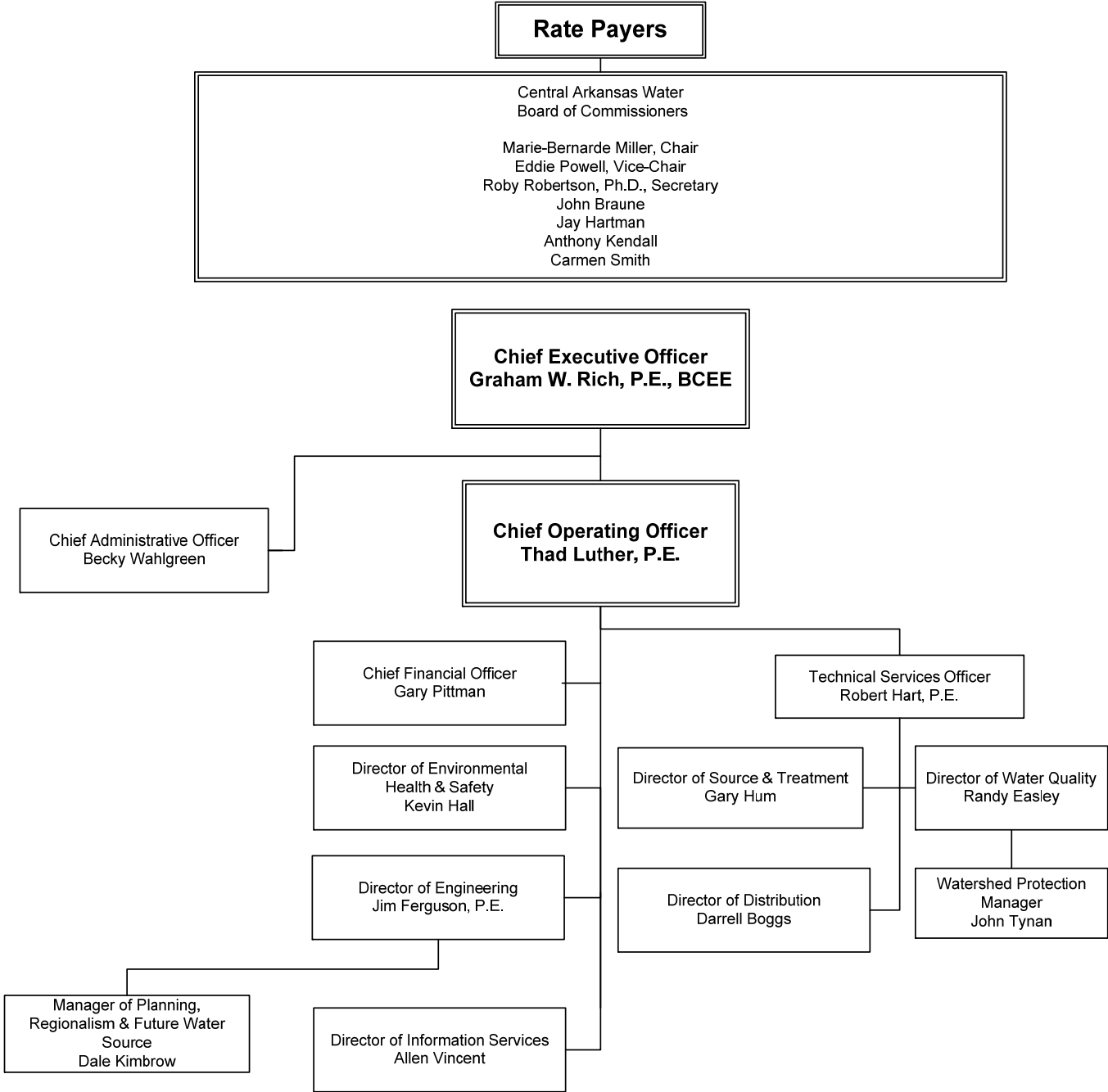
Graham W. Rich, P.E.
Chief Executive Officer

GWR/jbm

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CENTRAL ARKANSAS WATER

Organizational Chart



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Central Arkansas Water

BOARD OF COMMISSIONERS



Marie-Bernarde Miller
Chair



Eddie Powell
Vice Chair



Roby Robertson, Ph.D.
Secretary/Treasurer



Jay Hartman
Commissioner



Anthony Kendall
Commissioner



Carmen Smith
Commissioner



John Braune
Commissioner

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Central Arkansas Water

MANAGEMENT TEAM

Graham W. Rich, P.E., BCEE	Chief Executive Officer
Thad Luther, P.E.	Chief Operating Officer
Robert Hart, P.E., BCEE	Technical Services Officer
Gary P. Pittman	Chief Financial Officer
Becky Wahlgreen	Chief Administrative Officer
Darrell Boggs	Director of Distribution
Jim Ferguson, P.E.	Director of Engineering
Kevin Hall	Director of Environmental Health and Safety
Allen Vincent	Director of Information Services
Gary Hum	Director of Source and Treatment
Randy Easley	Director of Water Quality

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Central Arkansas Water

CERTIFICATE OF ACHIEVEMENT



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, 2012

A handwritten signature in black ink, appearing to read 'Jeffrey R. Ennis', is written in a cursive style.

Executive Director/CEO

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Financial Section

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Central Arkansas Water
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of **Central Arkansas Water (the Utility)** and its fiduciary funds as of and for the years ended December 31, 2013 and 2012, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditors' 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 Utility and its fiduciary funds as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 25 through 39 be presented to supplement the basic financial statements. Also required are a schedule of funding progress and schedule of employer contributions related to the other postemployment benefits (OPEB) trust, a fiduciary fund of the Utility, which are included on pages 76 and 77, respectively. 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The introductory section on pages 1 through 18 and statistical section on pages 83 through 107 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Thomas & Thomas LLP

Certified Public Accountants

April 10, 2014
Little Rock, Arkansas

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Management's Discussion and Analysis

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Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013 and 2012

This section of the comprehensive annual financial report presents management's analysis of the Utility's financial performance during the fiscal years ended December 31, 2013 and 2012. 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's net position increased by \$5,155,000 in 2013, as compared to a \$10,675,000 increase in 2012. A large part of these increases, \$913,000 in 2013 and \$2,998,000 in 2012, is attributable to funds or equity contributed by customers, developers, other entities or grantors for improvements and extensions of Utility assets.
- Operating revenues decreased \$2,224,000, or 4%, in 2013 after increasing \$1,998,000, or 4%, in 2012. The 2013 decrease and 2012 increase were primarily attributable to customer water consumption. Operating expenses increased by 1%, or \$517,000, from 2012 to 2013 and increased by 3%, or \$1,530,000, from 2011 to 2012. The current year increase is primarily due to additional Distribution personnel and equipment costs while the increase in 2012 is due to cost increases at the lakes and treatment plants along with an increase in depreciation expense.
- The Utility's total noncurrent liabilities decreased during 2013 by \$7,349,000 and increased during 2012 by \$14,777,000. The Utility used a \$4,000,000 grant through the U.S. Forest Service to pay down debt in addition to normal scheduled debt service in 2013. The increase in 2012 is attributable to the \$17,515,000 Series 2012A bond issue in addition to draws on the Series 2010A and Series 2011A Water Revenue Bonds - Arkansas Revolving Loan Fund, net of scheduled debt service.

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 additional 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 are 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.

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

December 31, 2013 and 2012

Overview of the Financial Statements (*Continued*)

The statements of net position include two new classifications distinct from assets and liabilities - deferred outflows of resources and deferred inflows of resources. Balances classified as deferred outflows of resources are required to be reported in a separate section following assets, and balances classified as deferred inflows of resources are reported in a separate section following liabilities. Net position (formerly referred to as net assets) is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Deferred outflows of resources comprise the cumulative balance of deferred loss on bond refunding transactions. The Utility has no deferred inflows of resources at December 31, 2013 or 2012. The *statements of net position* present information about the four elements that make up the Utility's statements of net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

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

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

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

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

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

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

December 31, 2013 and 2012

Financial Analysis (Continued)

	2013	2012	2011
Assets			
Total current assets	\$ 52,088,755	\$ 52,469,694	\$ 44,213,366
Restricted noncurrent assets	7,257,672	18,854,280	8,797,055
Net capital assets	391,752,526	381,023,639	372,269,134
Total Assets	\$ 451,098,953	\$ 452,347,613	\$ 425,279,555
Deferred Outflows of Resources			
Deferred loss on refunding of bonds payable	\$ 632,322	\$ 704,587	\$ 776,853
Liabilities			
Total current liabilities	\$ 17,279,137	\$ 16,405,485	\$ 14,861,152
Total noncurrent liabilities	82,912,785	90,262,049	75,485,129
Total Liabilities	\$ 100,191,922	\$ 106,667,534	\$ 90,346,281
Net Position			
Net investment in capital assets	\$ 309,457,263	\$ 302,315,617	\$ 299,621,462
Restricted – expendable	7,121,040	7,988,462	6,466,366
Unrestricted	34,961,050	36,080,587	29,622,299
Total Net Position	\$ 351,539,353	\$ 346,384,666	\$ 335,710,127
Operating Revenues			
Little Rock			
Residential	\$ 11,191,258	\$ 11,492,125	\$ 11,615,668
Commercial	7,119,916	7,025,124	6,991,300
Large volume	1,802,110	2,004,988	2,159,688
Private fire service	554,079	530,807	522,412
Sprinkler	8,502,223	10,859,723	9,693,369
Other	36,192	61,699	54,907
North Little Rock			
Residential	7,440,918	7,765,437	7,583,077
Commercial	3,045,464	2,984,800	2,998,129
Large volume	473,616	547,413	510,735
Private fire service	135,559	144,934	123,495
Sprinkler	1,889,935	2,370,607	2,063,273
Wholesale	3,807,271	3,660,944	3,583,548
Penalties	859,938	891,014	915,430
Turn-on charges	1,101,038	1,195,622	1,019,839
Ancillary charges	4,096,139	4,018,001	3,840,807
Other revenue	1,990,277	716,994	596,503
Total Operating Revenues	54,045,933	56,270,232	54,272,180

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2013 and 2012

Financial Analysis *(Continued)*

	2013	2012	2011
Operating Expenses			
Administration	\$ 2,816,030	\$ 2,633,988	\$ 2,842,433
Distribution	10,495,249	9,817,795	9,994,051
Engineering	1,773,172	1,768,725	1,779,691
Finance and customer service	6,310,870	6,279,598	6,186,750
Information services	2,902,303	3,013,314	3,005,343
Source and treatment	7,889,209	9,423,762	8,556,749
Watershed protection	-	1,062,484	1,158,939
Water quality	1,936,431	-	-
General	2,017,004	2,345,009	2,048,645
Depreciation	11,068,273	10,346,997	9,589,451
Total Operating Expenses	47,208,541	46,691,672	45,162,052
Operating Income	6,837,392	9,578,560	9,110,128
Nonoperating Revenues (Expenses)			
Transfers to Cities of LR and NLR	(608,436)	(602,832)	(584,388)
Gain (Loss) on disposal of capital assets	249,854	204,043	(476,219)
Investment income	111,482	76,650	118,372
Bond interest expense, net	(2,334,445)	(1,557,922)	(848,244)
Other interest expense	(13,707)	(21,801)	(52,224)
Total Nonoperating Expenses	(2,595,252)	(1,901,862)	(1,842,703)
Income Before Contributions	4,242,140	7,676,698	7,267,425
Contributions			
Capital contributions from grantors	47,903	171,514	4,000,000
Contributions-in-aid of construction	864,644	2,826,327	9,573,703
Total Contributions	912,547	2,997,841	13,573,703
Change in Net Position	5,154,687	10,674,539	20,841,128
Net Position – Beginning of Year	346,384,666	335,710,127	314,868,999
Net Position – End of Year	\$ 351,539,353	\$ 346,384,666	\$ 335,710,127

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 2013 and 2012, the Utility's assets and deferred outflows of resources exceed liabilities by \$351,539,000 and \$346,385,000, respectively.

The largest portion of net position, 88% in 2013 and 87% in 2012, reflects the Utility's investment in capital assets, less related outstanding debt incurred to acquire those assets. The Utility uses these capital assets to provide services to customers of the Utility and consequently, these assets are not available for future spending. Although the Utility's investment in capital assets is 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

Central Arkansas Water

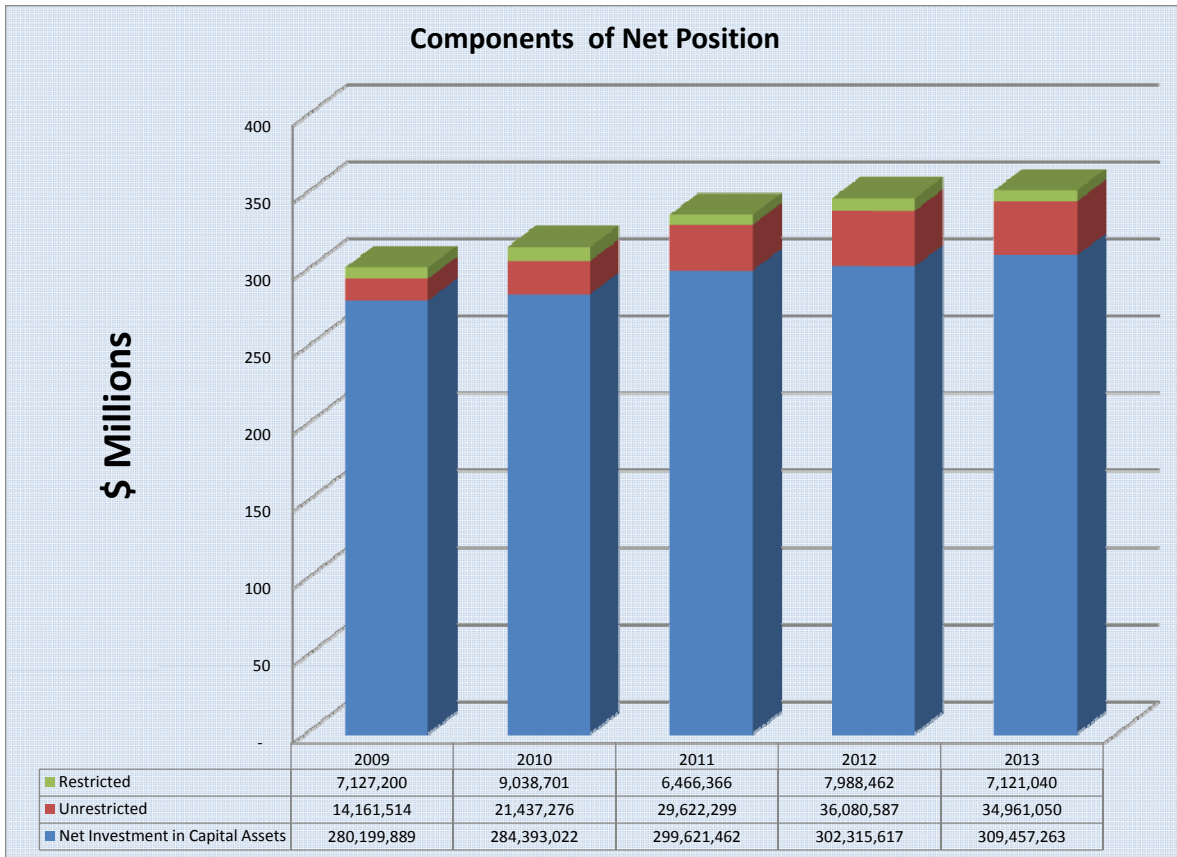
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2013 and 2012

Financial Analysis (Continued)

the capital assets themselves cannot be used to liquidate these liabilities. Depreciation is recorded on all capital assets using the straight-line method. During the year, 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 year.

An additional portion of the Utility's net position, 2% in 2013 and 2012, is comprised of resources that are subject to external restrictions on how they may be used. In 2013, restricted net position decreased by \$867,000, and there was an increase of \$1,522,000 during 2012. 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, \$34,961,000 in 2013 and \$36,081,000 in 2012, is unrestricted and may be used to meet the Utility's ongoing obligations to customers and creditors. Unrestricted net position decreased \$1,120,000 in 2013 and increased \$6,458,000 in 2012. The 2013 decrease is primarily attributable to a decline in sprinkler consumption while the 2012 increase is primarily attributable to elevated consumption and working capital.



Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) December 31, 2013 and 2012

Financial Analysis (*Continued*)

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, 2013 and 2012 are 3.0 and 3.2, respectively. This ratio means for every \$1.00 in current liabilities as of December 31, 2013, the Utility has \$3.00 in current assets. For the periods ending December 31, 2013 and 2012, the Quick Ratios for each year are 2.9 and 3.1, respectively.

Efficiency can be demonstrated by calculating the average collection period of billed revenue. Other agencies are included in the monthly bills issued to customers (i.e., Little Rock Wastewater Utility, North Little Rock Waste Water Utility, Little Rock Solid Waste Services Division, Pulaski County Sanitation Division, and others); however, these balances are subtracted from accounts receivable so that a comparison can be made between water receivables and water revenues. Turnover is calculated by dividing total operating revenue by total water accounts receivable; then 365 days is divided by the Receivables Turnover to arrive at an Average Collection Period of 21 days and 18 days as of December 31, 2013 and 2012, respectively.

The Utility continues 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 offers flexibility in bill payment options by allowing customers to pay their bills by automatic bank draft, on-line at the Utility website, by mail, by telephone through a third-party service provider, on-line through third-party payment providers, or at third-party payment locations throughout the service area.

Another important ratio is the Debt Utilization Ratio. The Debt Utilization Ratio is calculated by dividing total liabilities by total assets and is 22% and 24% for 2013 and 2012, respectively. According to American Water Works Association's 2005 benchmarks, the median ratio is 40%.

It is the policy of the Utility not to make any adjustments to net position unless a prior period adjustment is necessary. Prior period adjustments were recorded during 2012 as a result of early adoption of applicable accounting pronouncements.

Statements of Revenues, Expenses and Changes in Net Position

Operating Revenues

A cost of services study completed during 2012 resulted in the Board of Commissioners passing a rate resolution for the years 2013, 2014, and 2015. A goal of the merger of the former Little Rock Municipal Water Works and the former North Little Rock Water Department into the Utility was to equalize the water rates within respective inside-city customer classes in both Little Rock and North Little Rock. In order to equalize inside-city rates, the rates for customers in Little Rock needed to increase while the rates for customers in North Little Rock needed to remain stable. Rates within customer classes were equalized in 2010. On January 1, 2013 and January 1, 2014, rate revenues increased by 3.8% and 3.7% respectively. Currently there is no plan to adjust rates in 2015.

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2013 and 2012

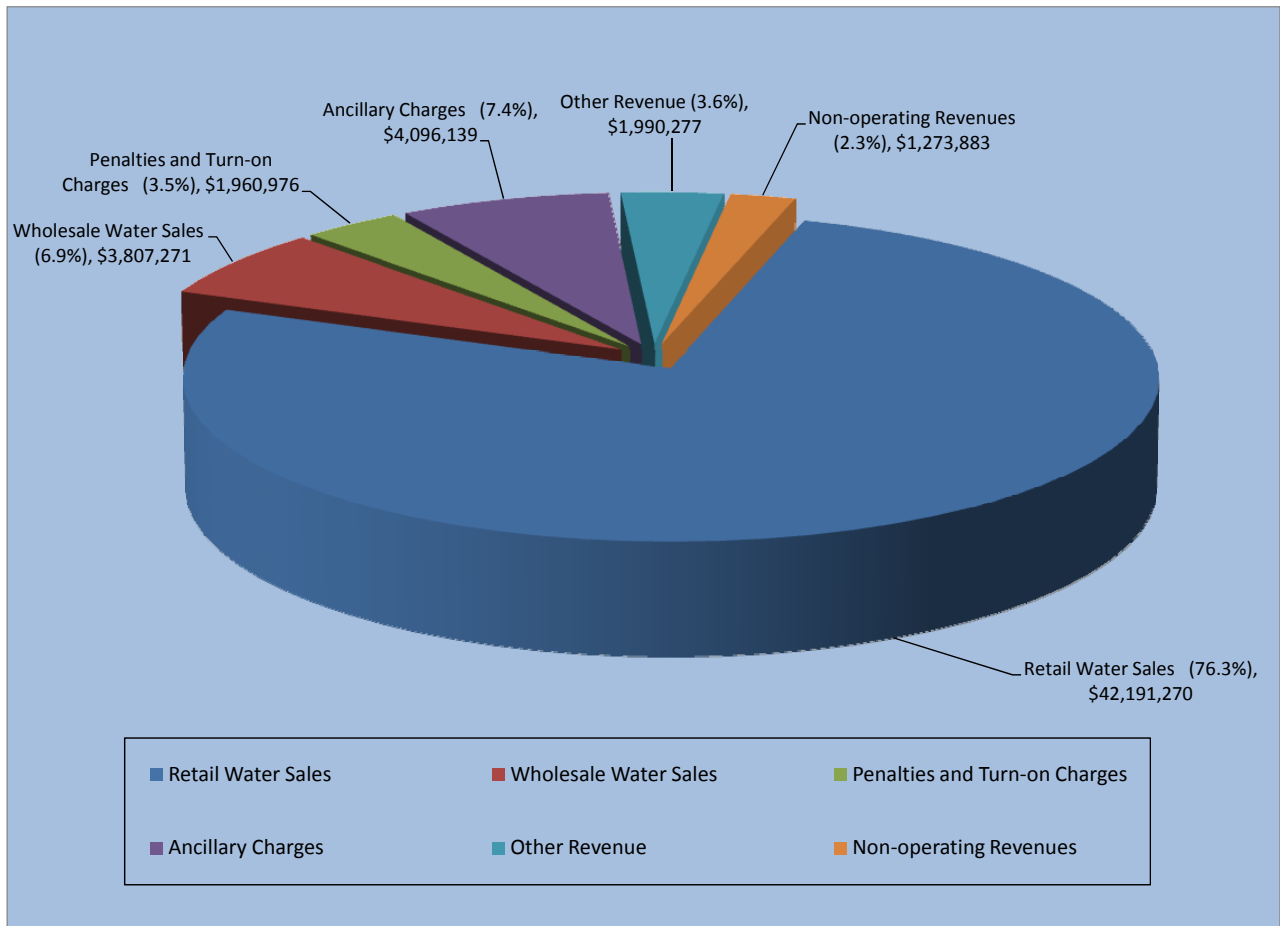
Financial Analysis (Continued)

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

Operating Revenues (Continued)

Operating revenue for 2013 decreased \$2,224,000 over 2012 levels and increased \$1,998,000 in 2012 over 2011 levels. Water consumption totaled 18.2, 20.3 and 19.8 billion gallons in 2013, 2012 and 2011, respectively. The operating revenue decrease in 2013 and increase in 2012 are primarily due to these consumption fluctuations as a result of weather conditions. There were no rate adjustments in 2012.

The following graph illustrates sources of revenue during the year ended December 31, 2013.



Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2013 and 2012

Financial Analysis *(Continued)*

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

Operating Expenses

- *Administration* – Administration costs include management, human resources, communications, and environmental health and safety expenses. During 2013, expenses for total management costs increased \$125,000, human resources decreased by \$8,000, communications increased by \$69,000, and safety decreased by \$4,000 to account for the total increase of \$182,000 over 2012. Management cost increases are the result of increased legal fees during 2013. Communications increases were the result of additional advertising expenditures. During 2012, expenses for management line items decreased by \$60,000, human resources increased by \$28,000, communications decreased by \$139,000, safety decreased by \$36,000, commissioner expense increased by \$5,000, and miscellaneous other decreases of \$6,000 account for the \$208,000 decrease in Administration costs compared to 2011.
- *Distribution* – The Distribution Department includes expenses for maintaining water mains, booster pumping stations, water storage tanks, vehicles, treatment plants, and other facilities. 2013 costs increased \$677,000 over 2012. Administration increased \$107,000 including \$52,000 additional expense in contract inspections. Five distribution specialist positions were budgeted and filled increasing labor and benefit costs. Capitalized labor increased by \$119,000 which results in a reduction in operation and maintenance costs in distribution system maintenance. Capitalized labor in 2013 totaled \$1,301,000 compared to \$1,182,000 in 2012. Equipment costs of \$233,000 were recorded in conjunction with the donated usage of equipment. 2012 Distribution Department costs decreased \$176,000 from 2011. Payroll costs resulting from retirements and unfilled water distribution specialist positions were the primary factor in the decrease.
- *Engineering* – The Engineering Department includes expenses for the planning, design, and inspection of construction improvements within the water system. Engineering is comprised of divisions for administrative staff, new service, cross connection, and regionalism. 2013 engineering costs increased \$4,000. The departmental total of employees was reduced by one with the transfer of an administrative assistant from Regionalism. Capitalized labor increased by \$130,000 over 2012. 2012 engineering costs decreased by \$11,000 from 2011 costs with the majority of the decrease coming from the regionalism section.
- *Finance and Customer Service* – The Finance and Customer Service Department includes costs related to finance and budgeting, customer service-office and field operations, purchasing, and billing. Expenses for the department rose by \$32,000 in 2013. Banking and payment processing fees were reduced by \$49,000 after banking services were fully converted to First Security Bank. Meter reading costs rose by \$44,000 for labor and benefits. Field and walk in labor costs contributed the additional excess cost. 2012 costs increased over 2011 costs by \$93,000. Increased costs were seen in fuel \$10,000, banking and payment processing fees \$11,000, and payroll and associated costs \$72,000.

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) December 31, 2013 and 2012

Financial Analysis (*Continued*)

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

Operating Expenses (*Continued*)

- *Information Services* – The Information Services Department expenses are related to maintaining information systems, computer operations, and telecommunications of the Utility. Information Services is divided into Information Services administration and GIS services. Department costs decreased by \$111,000 from 2012 to 2013. The IS section decreased by \$76,000 and the GIS section decreased by \$35,000 during the period. Network and PC hardware cost savings contributed to the costs savings in IS and GIS saw reductions in software and equipment costs. Departmental costs increased by \$8,000 when comparing 2012 to 2011. When comparing the two years, cost increases in some areas were offset by decreases in other areas. Security costs increased \$12,000 as additional buildings at Wilson and Ozark were added to the system. Computer hardware replacements increased \$44,000, payroll and benefit costs increased \$75,000, and miscellaneous supplies increased \$3,000. Several cost decreases offsetting the increases were software maintenance in the amount of \$74,000 and special projects in the amount of \$53,000.
- *Source and Treatment* – Expenses for the Source and Treatment Department include treatment and maintenance of the lakes. The total Source and Treatment decrease of \$1,535,000 was the result of moving laboratory, water quality personnel, and associated expenses to the Water Quality department. Of the expense decreases, chemicals accounted for \$195,000 and power decreased by \$307,000. The total Source and Treatment increase of \$867,000 from 2011 to 2012 resulted in part from \$332,000 in additional cost at Lake Maumelle, which includes \$265,000 in increased electrical costs. From the Wilson Plant, the total increase of \$476,000 was made up of chemical cost increases of \$131,000, \$99,000 in Wastewater Utility charges, \$80,000 in payroll and associated costs, \$17,000 in laboratory supplies, and \$13,000 in increased special projects costs. Continuing the comparison of 2012 to 2011, Booster Stations increased by \$68,000 in increased electrical costs.
- *Water Quality (Formerly consisting of Watershed activities)* – After a restructuring and realignment of personnel, the Watershed Department was incorporated into Water Quality in 2013 to more accurately reflect the departmental goals and initiatives. The department contained a department director, a watershed protection manager, a watershed administrator, a stewardship coordinator, a water quality specialist, a laboratory manager, three laboratory technicians, and two field technicians. The increase of \$874,000 over 2012 Watershed expenses was made up of increased personnel costs and departmental expansion. Originally, the Watershed section was added in 2008 to oversee Watershed protection for the Utility. Related expenses include monitoring water-quality and Watershed land-use activities, building support for Watershed protection and providing the Board of Commissioners with water quality recommendations. The major expenses for this section include salaries and related employee benefit costs associated with a director and two administrative positions, water-quality monitoring, and legal expenses. Watershed expenses decreased by \$96,000 from 2011 to 2012. Two new positions were added in mid-2012 – Director of Water Quality and Watershed Protection Manager. However, additional payroll costs were offset by reductions in contract services and project costs.

Central Arkansas Water

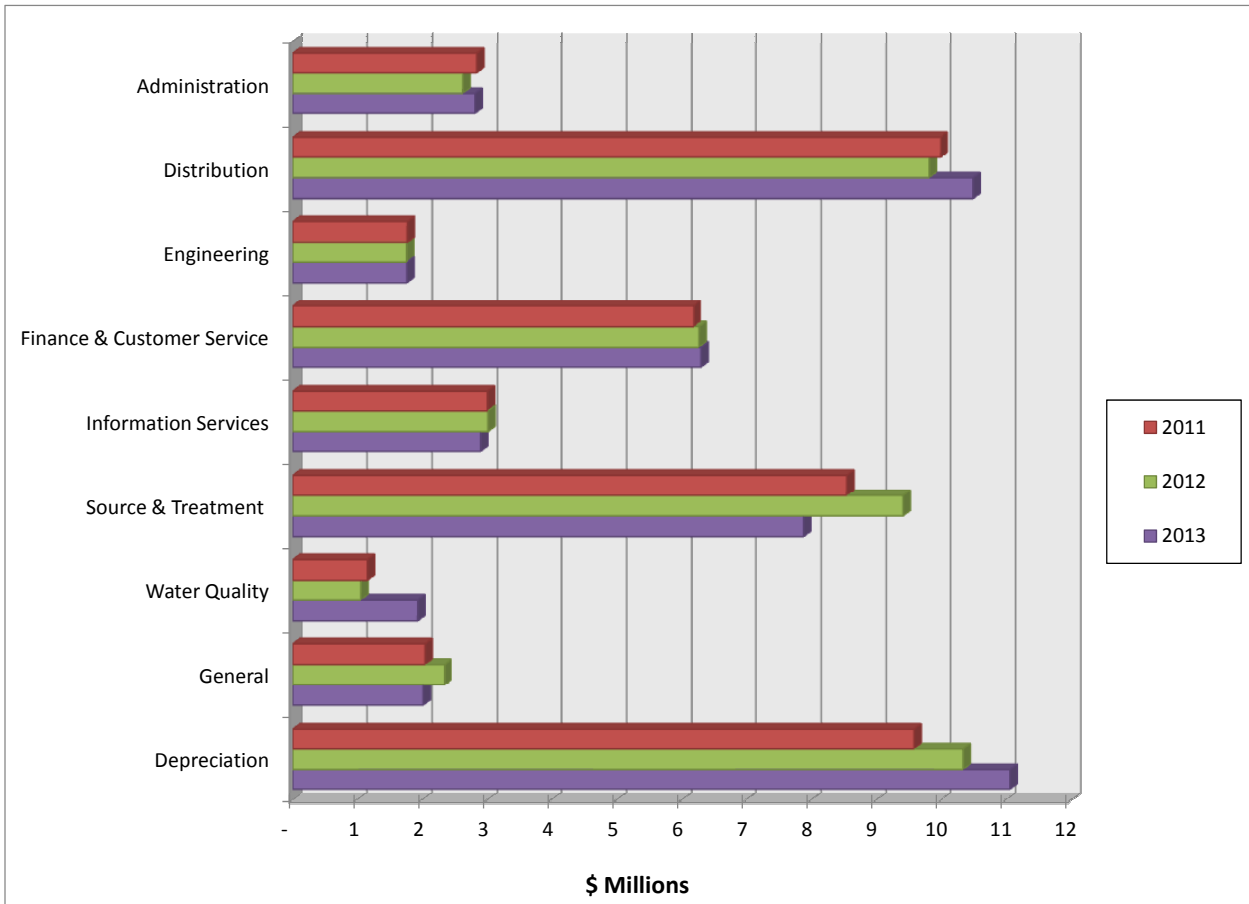
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2013 and 2012

Financial Analysis (Continued)

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

Operating Expenses (Continued)

- General** – General expenditures include expenditures for insurance and building maintenance at the James T. Harvey Administration Building, along with other costs. General expenditures decreased \$328,000 from 2012. Bond issue costs, which are recorded as a period expense in the year incurred, amounted to \$271,000 in 2012 and zero in 2013. Combined insurance costs for group insurance, retiree insurance, workers compensation and business insurance decreased by \$37,000. General expenditures in 2012 increased \$297,000 as compared to 2011, primarily due to bond issuance costs.



Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2013 and 2012

Financial Analysis (Continued)

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

Nonoperating Revenues (Expenses)

- *Investment Income* – 2013 investment income increased by \$35,000 from 2012, and 2012 decreased \$42,000 from 2011. The 2013 increase was generated when 2012 maturities were converted from cash to bonds resulting in increased yield. In addition, CAW changed banks in July 2012 generating an increase in revenue with improved money market terms. The previous bank paid 0% on money market funds and the current bank, First Security, pays .25%. During 2013, a decrease in income from bonds maturing in the Rate Stabilization account was largely offset by the increase in money market income. Relating to the 2012 decrease in income, a number of investments matured and the cash was reinvested at a lower yield.
- *Bond Interest Expense* – Net bond interest expense for 2013 is \$2,334,000, compared to \$1,558,000 for 2012. Capitalized interest, which offsets interest expense, totaled \$574,000 in 2013 and \$1,575,000 in 2012.
- *Capital Contribution from Grantors* – During 2013, the Utility was awarded a capital grant through the Department of Homeland Security and Arkansas Department of Emergency Management in the amount of \$48,000. During 2012, the Utility was awarded three capital grants: a Disaster Grant (Public Assistance) through the Department of Homeland Security and Arkansas Department of Emergency Management in the amount of \$136,000; a Partner's for Fish and Wildlife Grant through the Department of the Interior Fish and Wildlife Service in the amount of \$20,000; and a \$16,000 grant through Arkansas Game and Fish.
- *Contributions-In-Aid of Construction* – Contributions-in-aid of construction may be received as cash or equity. In 2013, contributed equity totaled \$830,000 and contributed cash totaled \$35,000. In 2012, contributed equity totaled \$1,836,000 and contributed cash totaled \$990,000. These two years show the variability of contributions from year to year as a result of new construction. Contributed equity is an asset of the Utility and is maintained as part of the system.

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 2013 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Improvements of Maumelle River stream bank.	\$ 136,000
Construct Maumelle raw water transmission main surge suppression facility.	\$ 3,585,000

(Continued)

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2013 and 2012

Capital Assets and Debt Administration *(Continued)*

Capital Assets *(Continued)*

<u>Project Description</u>	<u>Total Cost</u>
Rebuild motor and replace pump at Maumelle Pump Station Pump No. 2.	\$ 349,000
Construct 2,500,000 Gallon Water Storage Tank No. 16B and 400,000 Gallon Water Storage Tank No. 17B.	\$ 2,227,000
Installation of new water main to Tank No. 16B and Tank No. 17B consisting of 4,386 feet of 16-inch pipe and 1,920 feet of 12-inch pipe.	\$ 603,000
Replacement of cast iron water mains along W. 2 nd Street and Spring Street in downtown Little Rock consisting of 379 feet of 12-inch pipe and 628 feet of 8-inch pipe.	\$ 369,000
Replacement of cast iron and asbestos-cement water mains along Baseline Road (State Hwy 338), Dreher Lane, and Loetscher Lane consisting of 1,097 feet of 16-inch pipe, 926 feet of 12-inch pipe, 40 feet of 8-inch pipe, and 623 feet of 3-inch pipe.	\$ 417,000
Replacement of galvanized water mains in three sites inside Little Rock and three sites inside North Little Rock consisting of 1,380 feet of 8-inch pipe, 1,530 feet of 6-inch pipe, 7,200 feet of 3-inch pipe, and 900 feet of 2-inch pipe.	\$ 691,000

Major capital projects completed during 2012 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Mechanical renovations and improvements to the HVAC system at the James T. Harvey Administration Building.	\$ 289,000
Reconstruction of the 6-inch meter installation serving the Wild River Country Water Park in North Little Rock.	\$ 52,000
Completion of the design phase for the water treatment plant improvements necessary for the Utility to meet the 2014 USEPA Stage 2 D/DBP Rule.	\$ 1,681,000

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2013 and 2012

Capital Assets and Debt Administration *(Continued)*

Capital Assets *(Continued)*

<u>Project Description</u>	<u>Total Cost</u>
Installation of 7,200 linear feet of 6-inch and 3-inch water main to replace old, high maintenance galvanized pipe in three locations in North Little Rock and rural Pulaski County.	\$ 356,000
Installation of 6,800 linear feet of 2-inch, 3-inch, and 8-inch water main to replace old, high maintenance galvanized pipe in several locations in Little Rock.	\$ 344,000
Interior and exterior painting of elevated steel water storage Tank No. 9 - Arch Street.	\$ 163,000
Installation of 37,350 linear feet of 12-inch and 16-inch water main along Arkansas State Highway No. 10 to provide water service to the Wye Mountain service area.	\$ 2,055,000
Property for the construction of two new water storage tanks in Little Rock was acquired and the sites were graded for construction. Considerable hard rock removal was required to finish the construction sites.	\$ 980,000
Section "C" of the Northbelt Transmission Main project was completed. This section consisted of the installation of 9,737 linear feet of 42-inch water main.	\$ 2,578,000
Section "D" of the Northbelt Transmission Main project was completed. This section consisted of the installation of 8,826 linear feet of 30-inch and 695 linear feet of 42-inch water main.	\$ 6,649,000
Section "F-2" of the Northbelt Transmission Main project was completed. This section consisted of the installation of 31,130 linear feet of 42-inch water main.	\$ 6,020,000
Section "G" of the Northbelt Transmission Main project was completed. This section consisted of the installation of 20,446 linear feet of 42-inch water main.	\$ 4,379,000

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

Central Arkansas Water

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) December 31, 2013 and 2012

Capital Assets and Debt Administration (*Continued*)

Debt Administration

At the end of 2013, The Utility had total outstanding debt of \$85,443,000. Total debt decreased by \$7,064,000, or 8%, in 2013, after increasing \$17,042,000, or 23%, in 2012. The 2013 decrease is primarily attributable to a \$4,000,000 grant used to pay off debt in addition to normal recurring debt service payments. The 2012 increase is primarily due to the Series 2012A revenue bond issue, offset by normal recurring principal payments. Total 2010A draws completed through December 31, 2013 amount to \$13,400,000. Remaining 2010A construction projects were completed during 2013. Total 2011A draws completed through December 31, 2013 amount to \$2,263,000, leaving a balance of \$1,737,000 to be drawn as construction progresses.

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 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 slowed but compares favorably to national figures in many categories. Unemployment in Pulaski County is currently 6.6%, which is a significant increase from 5.1% in 2004, but favorable compared to the 6.7% national rate.

Net accounts receivable write-offs continue at 0.5% of total operating revenue. However, the number of customers requesting payment assistance continues to increase.

As a result of the current economic situation, the Utility factored in a minimal rate increase in 2014. Under the 2014 rates, the average Little Rock and North Little Rock household will pay 3.8% (48 cents) more per month. The Utility also continued to factor in conservative consumption estimates, reduced levels of growth-related revenues, and a minimal return on financial investments in the 2014 Financial Plan.

The 2014 Financial Plan outlines the Utility's plans to continue to provide high quality, cost-effective service to its customers. The 2014 Financial Plan includes \$20,046,000 in total capital expenditures which will be funded \$4,316,000 from bonds, \$25,000 from system development charges, \$1,983,000 from capital grants, and \$1,083,000 from Watershed protection fees. Budgeted capital expenditures also include the purchase of water rights for 60 million gallons per day from DeGray Lake in the amount of \$4,640,000 from Department of U.S. Army. The remaining capital expenditures budgeted will be 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, 2013 and 2012

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, Assistant Chief Financial Officer; Central Arkansas Water; 221 East Capitol Avenue; Little Rock, Arkansas 72202.

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Basic Financial Statements

Central Arkansas Water

STATEMENTS OF NET POSITION December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents		
Unrestricted	\$ 14,117,488	\$ 18,352,349
Board designated	7,423,202	1,258,683
Investments		
Unrestricted	6,993,757	8,029,431
Board designated	2,001,348	4,983,431
Accounts receivable – consumers, net	11,101,310	10,169,839
Grant receivable	-	20,000
Other receivables	276,113	308,117
Inventory	2,441,827	2,296,921
Other current assets	360,198	331,677
Total Unrestricted Current Assets	44,715,243	45,750,448
Restricted cash and cash equivalents	6,863,839	6,719,246
Restricted investments	509,673	-
Total Restricted Current Assets	7,373,512	6,719,246
Total Current Assets	52,088,755	52,469,694
Noncurrent Assets		
Restricted cash and cash equivalents	-	10,443,056
Restricted investments	7,234,960	8,386,580
Restricted accrued interest receivable	22,712	24,644
Total Restricted Noncurrent Assets	7,257,672	18,854,280
Capital assets, net of accumulated depreciation	391,752,526	381,023,639
Total Noncurrent Assets	399,010,198	399,877,919
Total Assets	451,098,953	452,347,613
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of bonds payable	632,322	704,587
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 451,731,275	\$ 453,052,200

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF NET POSITION (*Continued*)

December 31, 2013 and 2012

	2013	2012
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,696,212	\$ 2,330,740
Payroll and related liabilities	2,256,775	2,108,016
Long-term obligations - current portion	151,432	7,377
Due to other agencies	5,801,206	5,240,106
Total Current Liabilities Payable from Unrestricted Assets	9,905,625	9,686,239
Consumer deposits - current portion	876,869	872,291
Long-term obligations - current portion	4,953,805	4,740,952
Accrued interest payable	701,328	785,720
Accounts payable and accrued expenses	841,510	320,283
Total Current Liabilities Payable from Restricted Assets	7,373,512	6,719,246
Total Current Liabilities	17,279,137	16,405,485
Noncurrent Liabilities		
Consumer deposits	2,575,216	2,503,987
Long-term obligations, net	80,337,569	87,758,062
Total Noncurrent Liabilities	82,912,785	90,262,049
Total Liabilities	100,191,922	106,667,534
Net Position		
Net investment in capital assets	309,457,263	302,315,617
Restricted - expendable:		
Bond requirements	5,993,545	6,558,503
Future capital expenditures	1,127,495	1,420,935
Consumer deposits	-	9,024
Unrestricted	34,961,050	36,080,587
Total Net Position	351,539,353	346,384,666
TOTAL LIABILITIES AND NET POSITION	\$ 451,731,275	\$ 453,052,200

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Little Rock		
Residential	\$ 11,191,258	\$ 11,492,125
Commercial	7,119,916	7,025,124
Large volume	1,802,110	2,004,988
Private fire service	554,079	530,807
Sprinkler	8,502,223	10,859,723
Other	36,192	61,699
North Little Rock		
Residential	7,440,918	7,765,437
Commercial	3,045,464	2,984,800
Large volume	473,616	547,413
Private fire service	135,559	144,934
Sprinkler	1,889,935	2,370,607
Wholesale	3,807,271	3,660,944
Penalties	859,938	891,014
Turn-on charges	1,101,038	1,195,622
Ancillary charges	4,096,139	4,018,001
Other revenue	1,990,277	716,994
Total Operating Revenues	54,045,933	56,270,232
OPERATING EXPENSES		
Administration	2,816,030	2,633,988
Distribution	10,495,249	9,817,795
Engineering	1,773,172	1,768,725
Finance and customer service	6,310,870	6,279,598
Information services	2,902,303	3,013,314
Source and treatment	7,889,209	9,423,762
Watershed protection	-	1,062,484
Water quality	1,936,431	-
General	2,017,004	2,345,009
Depreciation	11,068,273	10,346,997
Total Operating Expenses	47,208,541	46,691,672
Operating Income	6,837,392	9,578,560

(Continued)

See accompanying notes to financial statements.

Central Arkansas Water

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

Years Ended December 31, 2013 and 2012

	2013	2012
NONOPERATING REVENUES (EXPENSES)		
Transfers to Cities of Little Rock and North Little Rock	\$ (608,436)	\$ (602,832)
Gain on disposal of capital assets	249,854	204,043
Investment income	111,482	76,650
Bond interest expense, net	(2,334,445)	(1,557,922)
Other interest expense	(13,707)	(21,801)
Total Nonoperating Expenses	(2,595,252)	(1,901,862)
INCOME BEFORE CONTRIBUTIONS	4,242,140	7,676,698
CONTRIBUTIONS		
Capital contributions from grantors	47,903	171,514
Contributions-in-aid of construction	864,644	2,826,327
Total Contributions	912,547	2,997,841
CHANGE IN NET POSITION	5,154,687	10,674,539
NET POSITION, BEGINNING OF YEAR	346,384,666	335,710,127
NET POSITION, END OF YEAR	\$ 351,539,353	\$ 346,384,666

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF CASH FLOWS Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 51,793,096	\$ 55,561,325
Cash payments to suppliers for goods and services	(16,170,689)	(15,203,090)
Cash payments to employees for services	(21,454,724)	(21,528,169)
Proceeds from other sources	1,990,277	716,994
Net Cash Provided by Operating Activities	16,157,960	19,547,060
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Cities of Little Rock and North Little Rock	(608,436)	(602,832)
Net Cash Used by Noncapital Financing Activities	(608,436)	(602,832)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(20,054,917)	(16,602,865)
Proceeds from sale of capital assets	1,259,097	1,270,452
Proceeds from issuance of bonds	1,809,221	21,687,453
Principal payments on long-term obligations	(8,748,329)	(5,729,085)
Interest paid on long-term obligations	(3,059,160)	(3,081,388)
Capital contributions from grantors	67,903	4,151,514
Contributions-in-aid of construction	34,738	1,864,177
Net Cash (Used) Provided by Capital and Related Financing Activities	(28,691,447)	3,560,258
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities	7,621,476	10,859,298
Purchases of investment securities	(3,029,563)	(23,412,073)
Interest and dividends	181,205	104,297
Net Cash Provided (Used) by Investing Activities	4,773,118	(12,448,478)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,368,805)	10,056,008
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,773,334	26,717,326
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 28,404,529	\$ 36,773,334

(Continued)

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF CASH FLOWS *(Continued)* Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 6,837,392	\$ 9,578,560
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	11,068,273	10,346,997
Bad debt expense	278,307	281,377
Change in operating assets and liabilities		
Accounts receivable - consumers, net	(1,209,778)	(720,505)
Other receivables	32,004	-
Inventory	(1,511,475)	(1,514,267)
Other current assets	(28,521)	(12,858)
Accounts payable and accrued expenses	(93,908)	1,065,227
Payroll and related liabilities	148,759	75,314
Due to other agencies	561,100	334,330
Consumer deposits	75,807	112,885
Net Cash Provided by Operating Activities	\$ 16,157,960	\$ 19,547,060
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Current Assets - Cash and Cash Equivalents		
Unrestricted	\$ 14,117,488	\$ 18,352,349
Board designated	7,423,202	1,258,683
Restricted	6,863,839	6,719,246
Noncurrent Assets - Cash and Cash Equivalents		
Restricted	-	10,443,056
Total Cash and Cash Equivalents	\$ 28,404,529	\$ 36,773,334
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS		
Gain on disposal of capital assets	\$ 249,854	\$ 204,043
Equity contributions-in-aid of construction	829,906	1,836,621
Capital grant receivable	-	20,000
Inventory capitalized	1,366,569	1,379,365
Capital asset acquisitions in accounts payable	540,620	518,506
Decrease in fair value of investments	67,791	44,821
Donated usage of equipment	233,000	-
SUPPLEMENTAL DISCLOSURES OF CASH TRANSACTIONS		
Interest expense incurred	2,922,556	3,154,923
Interest capitalized	574,404	1,575,200

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF FIDUCIARY NET POSITION December 31, 2013 and 2012

	2013		2012	
	OPEB Trust	Brushy Island	OPEB Trust	Brushy Island
ASSETS				
Cash and cash equivalents	\$ 1,036,164	\$ 109,359	\$ 504,811	\$ 83,425
Restricted cash and cash equivalents	-	105,412	-	105,408
Investments	1,598,992	-	1,718,771	-
Accounts receivable	-	8,157	-	8,217
Accrued interest receivable	7,537	4	6,724	-
Capital assets, net	-	1,786,552	-	1,819,863
TOTAL ASSETS	<u>\$ 2,642,693</u>	<u>\$ 2,009,484</u>	<u>\$ 2,230,306</u>	<u>\$ 2,016,913</u>
LIABILITIES				
Accounts payable	\$ 2,874	\$ 79	\$ 2,339	\$ -
Long-term obligations	-	927,606	-	990,184
Accrued interest payable	-	549	-	805
Consumer deposits	-	6,075	-	7,500
Total Liabilities	<u>2,874</u>	<u>934,309</u>	<u>2,339</u>	<u>998,489</u>
NET POSITION				
Held in trust	<u>2,639,819</u>	<u>1,075,175</u>	<u>2,227,967</u>	<u>1,018,424</u>
Total Net Position	<u>2,639,819</u>	<u>1,075,175</u>	<u>2,227,967</u>	<u>1,018,424</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,642,693</u>	<u>\$ 2,009,484</u>	<u>\$ 2,230,306</u>	<u>\$ 2,016,913</u>

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION Years Ended December 31, 2013 and 2012

	2013		2012	
	OPEB Trust	Brushy Island	OPEB Trust	Brushy Island
ADDITIONS				
Employer contributions	\$ 678,354	\$ -	\$ 666,413	\$ -
Water sales	-	93,108	-	91,440
Debt service fees	-	98,659	-	97,519
Investment income	2,873	44	20,147	28
Total Additions	<u>681,227</u>	<u>191,811</u>	<u>686,560</u>	<u>188,987</u>
DEDUCTIONS				
Premiums paid	258,194	-	248,316	-
Transfers to Central Arkansas Water	-	91,682	-	91,440
Administrative expenses	11,181	665	9,128	4,837
Depreciation	-	33,312	-	33,312
Interest	-	9,401	-	12,336
Total Deductions	<u>269,375</u>	<u>135,060</u>	<u>257,444</u>	<u>141,925</u>
CHANGE IN NET POSITION	411,852	56,751	429,116	47,062
NET POSITION, BEGINNING OF YEAR	<u>2,227,967</u>	<u>1,018,424</u>	<u>1,798,851</u>	<u>971,362</u>
NET POSITION, END OF YEAR	<u>\$ 2,639,819</u>	<u>\$ 1,075,175</u>	<u>\$ 2,227,967</u>	<u>\$ 1,018,424</u>

See accompanying notes to financial statements.

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Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(a) Reporting Entity

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

The governing board of the Utility is a Board of Commissioners, comprised of 7 members who serve 7 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 3 months notice to the City of Little Rock Board of Directors and the North Little Rock City Council and hold at least 1 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 2013 and 2012. 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 \$3,300,000 and \$3,500,000 for the years ended December 31, 2013 and 2012, respectively. The Utility is also required to pay an additional amount to each city equal to ad valorem taxes that would have been payable to each city if such taxes were assessed on the Utility's real property and improvements. These payments, which are reported as a nonoperating expense on the Utility's statements of revenues, expenses and changes in net position, totaled approximately \$608,000 and \$603,000 for the years ended December 31, 2013 and 2012, respectively.

During 2013, the City of Sherwood adopted a 4.25% franchise fee. Funds collected under the city ordinance, which are not included in revenues or expenses on the Utilities statements of revenue, expenses and changes in net position, totaled approximately \$40,000 during 2013.

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

(b) Basis of Accounting

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

(c) Basis of Presentation

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

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

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(c) Basis of Presentation (Continued)

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

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

The *Brushy Island Public Water Authority Fund* 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 by the Third Division Circuit Court of Pulaski County, Arkansas.

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

(d) Cash and Cash Equivalents

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

(e) Investments

Investments are reported at fair value based on quoted market prices. Purchases and sales of investments are recorded on a trade date basis. Interest income is accrued as it is earned. Investment income includes all interest earned on investments, as well as realized and unrealized gains and losses.

(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.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(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 reported at the lower of cost, determined using the weighted average method, or market.

(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 1 year are reported as capital assets. Capital assets are recorded at historical cost, including all direct salaries, materials and supplies related to construction and improvements completed by Utility personnel. Interest costs related to acquiring or constructing capital assets are also capitalized as part of the cost of the related asset. Contributed assets are recorded at the estimated fair value on the date of contribution.

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

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

<u>Asset Type</u>	<u>Years</u>
Water source and mains	75
Buildings and improvements	15 – 40
Land improvements	10 – 20
Purification, pumping and distribution equipment	6 – 20
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, 2013 and 2012.

(i) Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Utility only has one item that qualifies for reporting in this category. It is the deferred loss on refunding of bonds payable reported in the statements of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

(j) Compensated Absences

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

(k) Long-Term Obligations

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

(l) Due to Other Agencies

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

(m) Revenue Recognition

Revenues for water supply, treatment and distribution services are recognized in the period during which the related services are provided. Revenues include an estimate of charges for services provided but unbilled at year end. Revenues are reported net of conservation rate discounts totaling approximately \$213,000 and \$217,000 for the years ended December 31, 2013 and 2012, respectively.

(n) Contributions-in-Aid of Construction

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

(o) 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.

(p) Reclassifications

Certain reclassifications have been made to the 2012 balances in order to conform to presentation in the Utility's 2013 financial statements.

(q) Income Taxes

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(r) Recently Adopted Accounting Standards

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*, issued November 2010, became effective for the Utility on January 1, 2013. This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government (i.e., blending) in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. The adoption of this statement did not have a material impact on the Utility's financial statements or related disclosures.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, became effective for the Utility on January 1, 2013. This statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and internal service fund types. This Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis, the difference between the purchase price and the principal amount of a purchased loan or group of loans and servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. The adoption of this statement did not have a material impact on the Utility's financial statements or related disclosures.

(s) Recently Issued Accounting Standards

GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, issued June 2012, will be effective for the Utility on January 1, 2014. This statement improves financial reporting by state and local governmental pension plans and replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. Management of the Utility has not yet determined the impact that adoption of this statement will have, if any, on the Utility's financial statements or related disclosures.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, issued June 2012, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, issued November 2013, will be effective for the Utility on January 1, 2015. This statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope set forth in the statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. Management of the Utility has not yet determined the impact that adoption of this statement will have, if any, on the Utility's financial statements or related disclosures.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(s) Recently Issued Accounting Standards (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for the Utility on January 1, 2014. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Management of the Utility has not yet determined the impact that adoption of this statement will have, if any, on the Utility's financial statements or related disclosures.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for the Utility on January 1, 2014. This statement seeks to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Management has not yet determined the impact that adoption of this statement will have, if any, on the Utility's financial statements or related disclosures.

NOTE 2: DEPOSITS AND INVESTMENTS

Investments at December 31 for the Utility and the OPEB Trust include the following:

The Utility

Type	2013				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Classified as Investments					
Unrestricted:					
U.S. Treasury obligations	\$ 3,013,125	\$ 1,003,242	\$ 2,009,883	\$ -	\$ -
U.S. agency obligations	5,981,979	965,323	5,016,656	-	-
Restricted:					
U.S. Treasury obligations	2,006,484	2,006,484	-	-	-
U.S. agency obligations	5,738,150	4,938,104	800,046	-	-
Total	<u>\$ 16,739,738</u>	<u>\$ 8,913,153</u>	<u>\$ 7,826,585</u>	<u>\$ -</u>	<u>\$ -</u>
Type	2012				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Classified as Investments					
Unrestricted:					
U.S. Treasury obligations	\$ 10,022,571	\$ 6,988,509	\$ 3,034,062	\$ -	\$ -
U.S. agency obligations	2,990,291	-	2,990,291	-	-
Restricted:					
U.S. Treasury obligations	2,619,172	592,766	2,026,406	-	-
U.S. agency obligations	5,767,408	-	5,767,408	-	-
Total	<u>\$ 21,399,442</u>	<u>\$ 7,581,275</u>	<u>\$ 13,818,167</u>	<u>\$ -</u>	<u>\$ -</u>

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

OPEB Trust

Type	2013				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Classified as Investments					
Restricted:					
U.S. Treasury obligations	\$ 601,054	\$ 253,994	\$ 347,060	\$ -	\$ -
Certificates of deposit	997,938	695,934	302,004	-	-
Total	<u>\$ 1,598,992</u>	<u>\$ 949,928</u>	<u>\$ 649,064</u>	<u>\$ -</u>	<u>\$ -</u>
Type	2012				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Classified as Investments					
Restricted:					
U.S. Treasury obligations	\$ 964,987	\$ 611,737	\$ 353,250	\$ -	\$ -
U.S. agency obligations	50,012	50,012	-	-	-
Certificates of deposit	703,772	200,346	503,426	-	-
Total	<u>\$ 1,718,771</u>	<u>\$ 862,095</u>	<u>\$ 856,676</u>	<u>\$ -</u>	<u>\$ -</u>

In addition, the Utility invests in the Federated Treasury Obligation Fund, a publicly traded money market mutual fund comprised primarily of short-term U.S. Treasury securities. This investment is classified with 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 & Poors credit rating of AAAM. At December 31, 2013 and 2012, the Utility's restricted investment in this fund totaled \$5,098,817 and \$15,208,429, 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 5 years from the date of purchase.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

(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 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.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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 expenditures include the following accounts and their related accrued interest receivable:

Construction accounts include unspent bond proceeds and are maintained for the first 3 years of each of the Utility's bond issues to pay construction invoices associated with the capital project funded by the related debt.

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

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

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

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

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

	<u>2013</u>	<u>2012</u>
Bond requirements	\$ 6,694,873	\$ 7,344,223
Future capital expenditures	4,525,431	14,844,001
Consumer deposits	<u>3,410,880</u>	<u>3,385,302</u>
Total Restricted Assets	<u>\$ 14,631,184</u>	<u>\$ 25,573,526</u>

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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:

	2013	2012
Water sales and services	\$ 4,755,670	\$ 4,449,154
Billed for other agencies	6,590,666	5,926,363
Less allowance for doubtful accounts	(245,026)	(205,678)
Total Accounts Receivable - Consumers, Net	<u>\$ 11,101,310</u>	<u>\$ 10,169,839</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:

	2013	2012
Rate stabilization	\$ 8,014,761	\$ 4,695,882
Watershed protection	1,409,789	1,546,232
Total Board Designated Assets	<u>\$ 9,424,550</u>	<u>\$ 6,242,114</u>

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 6: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the years ended December 31, 2013 and 2012 follows:

	<u>Balance 12/31/2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers, Net</u>	<u>Balance 12/31/2013</u>
Capital Assets, Non-depreciable					
Land and land use rights	\$ 45,521,648	\$ 598,398	\$ -	\$ (87,884)	\$ 46,032,162
Construction in progress	11,868,158	21,098,649	-	(11,438,931)	21,527,876
Total capital assets, Non-depreciable	<u>57,389,806</u>	<u>21,697,047</u>	<u>-</u>	<u>(11,526,815)</u>	<u>67,560,038</u>
Capital Assets, Depreciable					
Buildings and improvements	42,749,907	10,671	-	6,394,042	49,154,620
Land improvements	1,400,361	5,176	-	73,357	1,478,894
Water source Purification	32,920,887	-	-	6,431	32,927,318
Pumping	37,261,755	257,076	-	-	37,518,831
Distribution	25,740,465	51,068	-	5,358	25,796,891
Other equipment	318,974,140	-	(417,415)	5,033,722	323,590,447
Total capital assets, depreciable	<u>27,885,674</u>	<u>785,331</u>	<u>(1,544,954)</u>	<u>13,905</u>	<u>27,139,956</u>
	<u>486,933,189</u>	<u>1,109,322</u>	<u>(1,962,369)</u>	<u>11,526,815</u>	<u>497,606,957</u>
Less Accumulated Depreciation					
Buildings and improvements	21,035,987	1,150,625	-	-	22,186,612
Land improvements	33,005	70,986	-	-	103,991
Water source Purification	11,882,771	1,142,325	-	-	13,025,096
Pumping	14,242,079	1,367,284	-	-	15,609,363
Distribution	13,383,009	747,985	-	-	14,130,994
Other equipment	79,921,068	5,281,498	(410,766)	-	84,791,800
Total accumulated depreciation	<u>22,801,437</u>	<u>1,307,570</u>	<u>(542,394)</u>	<u>-</u>	<u>23,566,613</u>
	<u>163,299,356</u>	<u>11,068,273</u>	<u>(953,160)</u>	<u>-</u>	<u>173,414,469</u>
Total Capital Assets, Net	<u>\$ 381,023,639</u>	<u>\$ 11,738,096</u>	<u>\$ (1,009,209)</u>	<u>\$ -</u>	<u>\$ 391,752,526</u>

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 6: CAPITAL ASSETS (Continued)

	Balance 12/31/2011	Additions	Disposals	Transfers, Net	Balance 12/31/2012
Capital Assets,					
Non-depreciable					
Land and land use rights	\$ 43,779,013	\$ 72,193	\$ (10,000)	\$ 1,680,442	\$ 45,521,648
Construction in progress	42,175,471	17,793,782	-	(48,101,095)	11,868,158
Total capital assets, Non-depreciable	85,954,484	17,865,975	(10,000)	(46,420,653)	57,389,806
Capital Assets, Depreciable					
Buildings and improvements	41,954,807	20,607	-	774,493	42,749,907
Land improvements	-	-	-	1,400,361	1,400,361
Water source Purification	32,778,582	-	-	142,305	32,920,887
	36,299,049	120,324	-	842,382	37,261,755
Pumping	22,323,783	48,175	-	3,368,507	25,740,465
Distribution	279,106,680	374,012	(265,184)	39,758,632	318,974,140
Other equipment	27,374,484	1,738,816	(1,361,599)	133,973	27,885,674
Total capital assets, depreciable	439,837,385	2,301,934	(1,626,783)	46,420,653	486,933,189
Less Accumulated					
Depreciation					
Buildings and improvements	19,946,330	1,089,657	-	-	21,035,987
Land improvements	-	33,005	-	-	33,005
Water source Purification	11,295,992	586,779	-	-	11,882,771
	12,898,502	1,343,577	-	-	14,242,079
Pumping	12,373,850	1,009,159	-	-	13,383,009
Distribution	75,347,387	4,820,649	(246,968)	-	79,921,068
Other equipment	21,660,674	1,464,171	(323,408)	-	22,801,437
Total accumulated depreciation	153,522,735	10,346,997	(570,376)	-	163,299,356
Total Capital Assets, Net	\$ 372,269,134	\$ 9,820,912	\$ (1,066,407)	\$ -	\$ 381,023,639

NOTE 7: NONCURRENT LIABILITIES

At December 31, 2013 and 2012, the Utility's noncurrent liabilities include the following:

(a) Revenue Bonds

2004 Water Revenue Bonds

The Series 2004 Bonds were issued in November 2004 to finance the cost of certain capital improvements to the water system, to establish a debt service reserve for the Series 2004 Bonds and to pay the costs of issuing the Series 2004 Bonds. The Series 2004 Bonds are special obligations of the Utility, payable solely from the net revenues of the water system. Principal payments are due annually on October 1 beginning in 2005, with the final payment scheduled in 2024. Interest payments are due semiannually on April 1 and October 1.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 7: NONCURRENT LIABILITIES

(a) Revenue Bonds (Continued)

2007 Water Revenue Bonds

The Series 2007 Bonds were issued in July 2007 to finance the cost of certain capital improvements to the water system, to establish a debt service reserve for the Series 2007 Bonds and to pay the costs of issuing the Series 2007 Bonds. The Series 2007 Bonds are special obligations of the Utility, payable solely from the net revenues of the water system. Principal payments are due annually on October 1 beginning in 2008, with the final payment scheduled in 2027. Interest payments are due semiannually on April 1 and October 1.

2010A Water Revenue Bond

The Series 2010A Bond was issued in July 2010 to replace the Series 2009 Bond. The new bond was issued to change terms, particularly the security for the Series 2009 Bond. The bond was issued through the Arkansas Natural Resources Commission (ANRC) and the Arkansas 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 semi-annually on April 15 and October 15 beginning in 2013, with the final payment scheduled in 2032.

2010B Water Revenue Bonds

The Series 2010B Bonds were issued to finance the cost of certain capital improvements to the water system, to establish a debt service reserve for the Series 2010B Bonds and to pay the costs of issuing the Series 2010B Bonds. The Series 2010B 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 beginning in 2011 with the final payment scheduled in 2030. Interest payments are due semiannually on April 1 and October 1.

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 beginning in 2011. Interest payments are due semiannually on April 1 and October 1. The Utility redeemed bonds totaling \$4,000,000 on February 1, 2013, which reduced the final payment date from 2030 to 2023.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 7: NONCURRENT LIABILITIES (Continued)

(a) Revenue Bonds (Continued)

2011A Water Revenue Bond

The Series 2011A Bond was issued in July 2011. The bond was issued through the ANRC and the ADFA from monies in the Revolving Loan Fund to finance the cost of planning, design, construction, and/or rehabilitation of the treatment facilities of the water system, paying cost incidental thereto, and paying approved expenses incurred in connection with the issuance of the bond. The Series 2011A Bond is a special obligation of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semi-annually on April 15 and October 15 beginning in 2014, with the final payment scheduled in 2034.

2011B Refunding Water Revenue Bonds

On October 1, 2011, the Utility issued \$13,500,000 of revenue refunding bonds to refund the outstanding balance of the Series 2002 Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$794,919. This difference is reported as a deferred outflow of resources in the statements of net position. The Series 2011B 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 semi-annually on April 15 and October 15 beginning in 2012, with the final payment scheduled in 2022.

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 outstanding balance on the capital lease obligation described at (b) below, to establish a debt service reserve for the Series 2012A Bonds and to pay the cost of issuing the Series 2012A Bonds. The Series 2012A Bonds are special obligations of the Utility, payable solely from stabilized revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1 beginning in 2013 with the final scheduled in 2032. Interest payments are due semiannually on April 1 and October 1.

(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 9 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 9 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, 2013 and 2012). The amortization period of the debt depends upon actual repayments of all parties to the agreement and may vary; however, at December 31, 2013, there were 20 payments remaining, resulting in a final payment due in 2033.

(c) Note Payable

The Utility borrowed \$287,500 from a financial institution in order to purchase additional land in the Lake Maumelle Watershed at a rate of 4.0%. The note is payable in two annual installments of \$143,750, due in August of 2014 and 2015.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 7: NONCURRENT LIABILITIES (Continued)

Changes in noncurrent liabilities for the years ended December 31, 2013 and 2012, are as follows:

	Balance December 31, 2012	Increases	Decreases	Balance December 31, 2013	Amounts Due Within One Year	Amounts Due Greater Than One Year
Bonds Payable						
Revenue bonds	\$ 90,701,760	\$ 1,521,721	\$ (8,740,952)	\$ 83,482,529	\$ 4,953,805	\$ 78,528,724
Add issuance premiums	1,567,596	-	(124,477)	1,443,119	-	1,443,119
Bonds Payable, Net	92,269,356	1,521,721	(8,865,429)	84,925,648	4,953,805	79,971,843
Other Long-term Obligations	237,035	287,500	(7,377)	517,158	151,432	365,726
Consumer Deposits	3,376,278	953,073	(877,266)	3,452,085	876,869	2,575,216
Total Noncurrent Liabilities	<u>\$ 95,882,669</u>	<u>\$ 2,762,294</u>	<u>\$ (9,750,072)</u>	<u>\$ 88,894,891</u>	<u>\$ 5,982,106</u>	<u>\$ 82,912,785</u>

	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012	Amounts Due Within One Year	Amounts Due Greater Than One Year
Bonds payable						
Revenue bonds	\$ 72,852,812	\$ 21,203,948	\$ (3,355,000)	90,701,760	\$ 4,740,952	\$ 85,960,808
Add issuance premiums	1,206,553	483,505	(122,462)	1,567,596	-	1,567,596
Bonds Payable, Net	74,059,365	21,687,453	(3,477,462)	92,269,356	4,740,952	87,528,404
Other Long-term Obligations	2,611,120	-	(2,374,085)	237,035	7,377	229,658
Consumer Deposits	3,263,393	986,571	(873,686)	3,376,278	872,291	2,503,987
Total Noncurrent Liabilities	<u>\$ 79,933,878</u>	<u>\$ 22,674,024</u>	<u>\$ (6,725,233)</u>	<u>\$ 95,882,669</u>	<u>\$ 5,620,620</u>	<u>\$ 90,262,049</u>

Bonds payable at December 31, 2013, include the outstanding principal balance of the following revenue bond issues:

	Interest Rates	Final Maturity	Original Issue	Total Outstanding
2004 Water revenue bonds	4.0% - 4.75%	2024	\$ 22,000,000	\$ 14,170,000
2007 Water revenue bonds	4.75%	2027	17,625,000	14,060,000
2010A Water revenue bond	1.00% ⁽¹⁾	2032	13,400,000	12,849,048
2010B Water revenue bonds	2.0% - 4.0%	2030	9,230,000	8,125,000
2010C Water revenue bonds	2.0% - 4.0%	2023	8,830,000	3,775,000
2011A Water revenue bond	2.25% ⁽¹⁾	2034	4,000,000	2,263,481
2011B Refunding water revenue bonds	2.5% - 4.0%	2022	13,500,000	11,415,000
2012A Water revenue bonds	2.0% - 4.0%	2032	17,515,000	16,825,000
			<u>\$ 106,100,000</u>	<u>\$ 83,482,529</u>

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 7: NONCURRENT LIABILITIES (Continued)

The following schedule shows the annual debt service of the revenue bonds outstanding at December 31, 2013:

Fiscal Year	Principal	Interest	Total
2014	\$ 4,953,805	\$ 2,818,615	\$ 7,772,420
2015	5,190,399	2,719,526	7,909,925
2016	5,361,739	2,548,148	7,909,887
2017	5,543,474	2,365,088	7,908,562
2018	5,710,606	2,186,188	7,896,794
2019-2023	29,804,693	7,844,789	37,649,482
2024-2028	18,549,015	3,171,996	21,721,011
2029-2033	9,970,733	715,315	10,686,048
2034	134,584	2,187	136,771
	<u>\$ 85,219,048</u>	<u>\$ 24,371,852</u>	<u>\$ 109,590,900</u>
Less amounts to be drawn by the Utility after December 31, 2013	<u>(1,736,519)</u>		
	<u>\$ 83,482,529</u>		

Payment of principal and interest on all bonds is secured by a pledge of Utility revenues. The 2010A, 2010B, 2010C, 2011A, 2011B and 2012A Water Revenue Bonds are subordinate to the 2004 and 2007 Water Revenue Bonds.

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

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

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

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

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 7: NONCURRENT LIABILITIES (Continued)

The Utility is also required to maintain working capital in an amount sufficient to ensure efficient operation and maintenance of the water system, and such reserve must not be less than an amount reasonably estimated to pay the operations and maintenance costs of the water system for the next 3 calendar months.

The Utility was in compliance with all debt covenants for the years ended December 31, 2013 and 2012.

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 \$400,000 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 \$2,600,000 and \$15,400,000 at December 31, 2013 and 2012, respectively, for construction contracts. Included in the commitments at December 31, 2012, were contracts totaling approximately \$12,400,000 to design and construct improvements at the Jack H. Wilson and Ozark Point Treatment Plants to conform to regulatory requirements that will be effective in 2014. 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 \$631,000 and \$361,000 at December 31, 2013 and 2012, 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.

The Utility is a defendant in a legal action filed February 19, 2013, challenging collection of the rate charged to customers which is used for watershed protection activities. The Utility intends to vigorously contest this case. Management and legal counsel believe that the likelihood of a financially material unfavorable outcome is remote; therefore, no provision for a potential liability has been made in the financial statements at December 31, 2013.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 10: PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

(a) Arkansas Public Employees Retirement System

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching 5 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. The APERS issues a stand-alone 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.

Plan members hired after July 1, 2005, are required to contribute 5.0% of their annual covered salary, and the Utility is required to contribute a percent of covered salary at an actuarially determined rate. The contribution rates applicable were 13.47% (January 1, 2012 to June 30, 2012); 14.24% (July 1, 2012 to June 30, 2013); and 14.88% (July 1, 2013 to December 31, 2013). The contribution requirements of plan members and the Utility are established and may be amended by the APERS Board of Trustees. The Utility's contributions for the years ending December 31, 2013, 2012 and 2011 were \$2,386,830, \$2,150,389 and \$1,828,158, respectively, which were equal to the required contributions for each year.

(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 optional. At December 31, 2013, there were 279 plan members. Plan members are required to contribute 1% of covered salary, and the Utility is required to match that 1% contribution. Plan provisions and contribution requirements are established and may be amended by the Utility's Board of Commissioners. Plan member contributions and the Utility's matching contribution for the years ending December 31, 2013 and 2012, were \$166,514 and \$159,958, respectively.

(c) Other Post-Employment Benefits

General

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

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

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(c) Other Post-Employment Benefits (Continued)

General (Continued)

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

At December 31, 2013, there were 70 retirees receiving health care benefits under the plan.

Contributions, Benefits and Funding Policy

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

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

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

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

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

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(c) Other Post-Employment Benefits (Continued)
Contributions, Benefits and Funding Policy (Continued)

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

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

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

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

(c) Other Post-Employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2013, 2012 and 2011, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

	2013	2012	2011
Annual required contribution	\$ 678,354	\$ 666,413	\$ 710,820
Interest on net OPEB obligation	-	-	-
Adjustment to actuarial required contribution	-	-	-
Annual OPEB cost	678,354	666,413	710,820
Contributions made	678,354	666,413	710,820
Decrease in net OPEB obligation	-	-	-
Net OPEB obligation – beginning of year	-	-	-
Net OPEB obligation – end of year	\$ -	\$ -	\$ -

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 678,354	\$ 678,354	100%	\$ -
12/31/2012	\$ 666,413	\$ 666,413	100%	\$ -
12/31/2011	\$ 710,820	\$ 710,820	100%	\$ -

Funded Status and Funding Progress

As of December 31, 2013, the actuarial accrued liability (AAL) for benefits was \$9,561,054, and the actuarial value of assets was \$2,639,819, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,921,235 and a funded ratio of 27.6%. At December 31, 2013, the most recent actuarial valuation date, the covered payroll (annual payroll of active employees who may eventually receive benefits covered by the plan) was \$15,981,665, and the ratio of the UAAL to the covered payroll was 43.3%.

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).

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

(c) Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the December 31, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 5.5%. 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 \$353.40, with health care costs expected to increase 10.0% the next year, 9.0% in the second year, 8.0% in the third year, and decreasing 0.5% each year thereafter until the rate reached 5.0% in the ninth year. The discount rate and the health care cost trend rate incorporate an assumed annual inflation rate of 3.5%. Life expectancies were projected using the 1994 Uninsured Pensioners Mortality Table. Prior to January 1, 2010, the UAAL was being amortized using the level dollar method over a 30 year period on an open basis. As the plan was closed to new participants on January 1, 2010, the UAAL is now being amortized using the level dollar method, with 26 years remaining at December 31, 2013. The assumed discount rate was lowered from 6% to 5.5% as of December 31, 2011. The net impact of this change and other changes in assumptions was to increase the UAAL by almost \$580,000.

NOTE 11: BRUSHY ISLAND PUBLIC WATER AUTHORITY

In August 2005, the Utility was appointed by the Third District Court in Pulaski County, Arkansas, to serve as receiver for Brushy Island Public Water Authority (Brushy Island). As receiver, the Utility is responsible for the day-to-day and long-term management and operation of Brushy Island as a water supplier for Brushy Island customers. The Utility is not responsible for or liable for any debts or obligations of Brushy Island, except in its role as receiver. The order requires that all collections relating to Brushy Island operations, excluding collections for water charges, be segregated and used to pay Brushy Island debt and certain expenses. Water charges may be transferred to the Utility to cover costs incurred by the Utility in its role as receiver for Brushy Island. A debt service charge is included in each Brushy Island customer's monthly water bill, and this charge may be adjusted as deemed necessary by the Utility to ensure sufficient resources are available to repay principal and interest payments as they come due. Once all debt is retired, the Utility has the right to dissolve Brushy Island, at which time all assets belonging to Brushy Island become assets of the Utility. 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.

Central Arkansas Water

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 12: WYE MOUNTAIN OPERATIONS

Pursuant to an agreement executed in November 2011 by and between the Utility, Wye Mountain Water Facilities Board (Wye Mountain) and the ANRC, the Utility assumed day-to-day and long-term management and operation of Wye Mountain in October 2013. The Utility is not responsible for or liable for any debts or obligations of Wye Mountain. A debt service charge is included in each Wye Mountain customer's monthly water bill, and this charge may be adjusted as deemed necessary by the Utility to ensure sufficient resources are available to repay principal and interest payments as they come due. Once all debt is retired, all assets belonging to Wye Mountain will become assets of the Utility.

Required Supplementary Information

Central Arkansas Water

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefit Plan (OPEB) - Schedule of Funding Progress December 31, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2007	\$ -	\$ 7,386,362	\$ 7,386,362	0.0%	\$ 14,784,212	50.0%
12/31/2009	\$ 910,113	\$ 7,800,935	\$ 6,890,822	11.7%	\$ 15,646,127	44.0%
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%

See independent auditors' report.

Central Arkansas Water

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefit Plan (OPEB) - Schedule of Employer Contributions December 31, 2013

<u>Actuarial Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
12/31/2009	\$ 645,613	177%
12/31/2011	\$ 710,820	100%
12/31/2013	\$ 678,354	100%

See independent auditors' report.

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Supplementary Information

Central Arkansas Water

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended December 31, 2013

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>
Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds Passed through the Arkansas Natural Resources Commission - State Revolving Fund Program:		
Water Revenue Bonds (Series 2010A)	66.468	\$ 13,400,000
Water Revenue Bonds (Series 2011A)	66.468	\$ 4,000,000
United States Department of Agriculture, Forest Service		
Forest Legacy Program	10.676	\$ 4,000,000
Federal Emergency Management Agency		
Passed through the Arkansas Department of Emergency Management:		
Disaster Grants - Public Assistance	97.036	\$ 47,903

NOTE 1: GENERAL

The schedule of expenditures of federal awards (the Schedule) presents the federal award activity of the Utility under programs of the federal government for the year ended December 31, 2013. Because the Schedule presents only a selected portion of the operations of the Utility, it is not intended to and does not present the financial position, changes in net position or cash flows of the Utility. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2: BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented using the same basis of accounting as described in Note 1 to the financial statements.

NOTE 3: PURPOSE OF AWARD

Awards received under the State Revolving Fund Program must be used for construction and/or rehabilitation of the Utility's water treatment, storage and distribution facilities. Awards received under the Forest Legacy Program must be used for the acquisition of land that will further the protection of forest vital to the Utility's drinking water supply. Awards received under the State Department of Emergency Management must be used for debris removal, emergency protective measures and permanent restoration of infrastructure in response to and recovery from disasters.

See independent auditors' report.

Central Arkansas Water

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended December 31, 2013

Bonds Payable December 31, 2012	Cash Received 2013	Principal Repayments in 2013	Bonds Payable December 31, 2013	Total Expenditures in 2013
\$ 11,970,645	\$ 1,429,355	\$ 550,952	\$ 12,849,048	\$ 1,429,355
\$ 2,171,115	\$ 92,366	\$ -	\$ 2,263,481	\$ 92,366
\$ -	\$ -	\$ -	\$ -	\$ 4,000,000
\$ -	\$ -	\$ -	\$ -	\$ 47,903

NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS

Proceeds received in 2013 are included in the statements of cash flows. Bonds payable are included in the statements of net position. Total expenditures in 2013 are included in capital asset purchases in the statements of cash flows and are included in capital assets, net of accumulated depreciation, in the statements of net position.

NOTE 5: AMERICAN RECOVERY AND REINVESTMENT ACT

A portion of the Series 2010A Water Revenue Bonds were funded with capitalization grants made available under the American Recovery and Reinvestment Act as follows:

2009	\$ 810,017
2010	3,074,983
2011	1,175,924
2012	-
2013	-
	\$ 5,060,924

See independent auditors' report.

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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 Trends85

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

Revenue and Debt Capacity..... 91

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

Demographic and Economic Information 97

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

Operating Information..... 101

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 2004 – 2013 (Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues				
Water sales	\$ 28,424,185	\$ 32,682,358	\$ 35,608,990	\$ 37,442,971
Penalties	542,043	616,952	635,521	714,390
Turn-on charges	957,529	980,295	995,720	1,020,307
Ancillary charges	2,859,577	3,294,146	3,259,665	3,238,139
Watershed protection fees	-	-	-	-
Other revenue	1,084,178	574,859	732,109	1,118,918
Total Operating Revenues	<u>33,867,512</u>	<u>38,148,610</u>	<u>41,232,005</u>	<u>43,534,725</u>
Operating Expenses				
Administration	3,329,545	2,478,384	2,698,346	2,946,927
Distribution	7,868,135	8,425,774	9,423,267	9,200,010
Engineering	1,461,241	1,317,025	1,387,524	1,551,157
Finance and customer service	5,174,194	5,309,342	5,482,798	5,679,973
Information services	2,158,601	2,506,892	2,857,553	2,805,933
Source and treatment	5,165,710	5,895,826	6,562,594	7,054,139
Watershed protection	-	-	-	-
Water quality	-	-	-	-
General	1,647,144	1,623,138	1,971,479	1,955,895
Depreciation and amortization	7,655,361	7,510,750	8,396,197	8,287,340
Total Operating Expenses	<u>34,459,931</u>	<u>35,067,131</u>	<u>38,779,758</u>	<u>39,481,374</u>
Nonoperating Revenues (Expenses)				
Transfers to Cities of LR and NLR	(364,872)	(374,421)	(401,275)	(412,656)
Gain (loss) on disposal of capital assets	(7,656)	97,162	138,154	75,004
Investment income	586,949	1,249,752	1,415,298	1,530,756
Bond interest expense, net	(441,317)	(835,632)	(883,116)	(1,256,639)
Other interest expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>(226,896)</u>	<u>136,861</u>	<u>269,061</u>	<u>(63,535)</u>
Contributions				
Capital contributions from grantors	-	-	-	-
Contributions-in-aid of construction	8,139,703	3,445,874	6,417,351	6,930,433
Total Contributions	<u>8,139,703</u>	<u>3,445,874</u>	<u>6,417,351</u>	<u>6,930,433</u>
Change in Net Position	<u>\$ 7,320,388</u>	<u>\$ 6,664,214</u>	<u>\$ 9,138,659</u>	<u>\$ 10,920,249</u>
% Water Rate Increase ⁽¹⁾	<u>7.00%</u>	<u>7.20%</u>	<u>9.40%</u>	<u>9.80%</u>

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

⁽¹⁾ Little Rock inside-city residential typical bill % increase (typical bill based on 800 cubic feet consumption)

Central Arkansas Water

TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES *(Continued)* 2004 – 2013 (Unaudited)

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 37,547,537	\$ 37,706,526	\$ 44,734,656	\$ 47,899,601	\$ 49,448,601	\$ 45,998,541
742,402	754,955	888,654	915,430	891,014	859,938
1,132,302	1,110,714	1,057,057	1,019,839	1,195,622	1,101,038
3,044,787	2,797,505	2,631,082	2,841,724	3,014,509	3,083,148
-	651,652	982,812	999,083	1,003,492	1,012,991
839,430	524,358	636,345	596,503	716,994	1,990,277
43,306,458	43,545,710	50,930,606	54,272,180	56,270,232	54,045,933
3,107,367	2,945,649	2,766,339	2,842,433	2,633,988	2,816,030
9,536,879	9,832,889	9,915,785	9,994,051	9,817,795	10,495,249
1,637,505	1,700,254	1,758,261	1,779,691	1,768,725	1,773,172
5,751,256	5,980,026	5,992,816	6,186,750	6,279,598	6,310,870
2,834,869	2,752,820	2,818,444	3,005,343	3,013,314	2,902,303
7,555,875	7,882,414	8,181,092	8,556,749	9,423,762	7,889,209
849,428	965,800	1,032,201	1,158,939	1,062,484	-
-	-	-	-	-	1,936,431
2,355,892	2,033,790	2,549,123	2,048,645	2,345,009	2,017,004
8,642,459	8,640,467	9,138,823	9,589,451	10,346,997	11,068,273
42,271,530	42,734,109	44,152,884	45,162,052	46,691,672	47,208,541
(462,528)	(537,936)	(551,290)	(584,388)	(602,832)	(608,436)
184,625	157,520	118,562	(476,219)	204,043	249,854
738,133	163,318	56,820	118,372	76,650	111,482
(1,315,979)	(1,042,072)	(788,310)	(848,244)	(1,557,922)	(2,334,445)
-	-	(261,680)	(52,224)	(21,801)	(13,707)
(855,749)	(1,259,170)	(1,425,898)	(1,842,703)	(1,901,862)	(2,595,252)
-	4,000,000	-	4,000,000	171,514	47,903
10,232,358	5,253,734	8,552,085	9,573,703	2,826,327	864,644
10,232,358	9,253,734	8,552,085	13,573,703	2,997,841	912,547
\$ 10,411,537	\$ 8,806,165	\$ 13,903,909	\$ 20,841,128	\$ 10,674,539	\$ 5,154,687
9.60%	3.40%	5.90%	5.30%	0.00%	3.80%

Central Arkansas Water

TEN YEAR SUMMARY OF NET POSITION 2004 – 2013 (Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net Position				
Net investment in capital assets	\$ 227,473,696	\$ 237,418,736	\$ 250,633,560	\$ 258,483,966
Restricted – expendable	15,260,531	11,824,799	5,689,550	7,942,708
Unrestricted	<u>12,813,552</u>	<u>12,968,458</u>	<u>15,027,542</u>	<u>15,844,227</u>
Total Net Position	<u>\$ 255,547,779</u>	<u>\$ 262,211,993</u>	<u>\$ 271,350,652</u>	<u>\$ 282,270,901</u>

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

Central Arkansas Water

TEN YEAR SUMMARY OF NET POSITION *(Continued)* 2004 – 2013 (Unaudited)

2008	2009	2010	2011	2012	2013
\$ 268,480,427	\$ 280,199,889	\$ 284,393,022	\$ 299,621,462	\$ 302,315,617	\$ 309,457,263
8,841,017	7,127,200	9,038,701	6,466,366	7,988,462	7,121,040
15,360,994	14,161,514	21,437,276	29,622,299	36,080,587	34,961,050
\$ 292,682,438	\$ 301,488,603	\$ 314,868,999	\$ 335,710,127	\$ 346,384,666	\$ 351,539,353

Central Arkansas Water

TEN YEAR SUMMARY OF WRITE-OFFS 2004 – 2013 (Unaudited)

<u>Year</u>	<u>Water Sales</u>	<u>Write-Offs</u>	<u>Write-Offs / Water Sales</u>
2004	\$ 28,424,185	\$ 194,252	0.68%
2005	32,682,358	142,488	0.44%
2006	35,608,990	144,898	0.41%
2007	37,442,971	225,043	0.60%
2008	37,547,537	205,420	0.55%
2009	37,706,526	193,601	0.51%
2010	44,734,656	249,268	0.56%
2011	47,899,601	290,008	0.61%
2012	49,448,601	257,771	0.52%
2013	45,998,541	239,301	0.52%

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

Revenue and Debt Capacity

Central Arkansas Water

TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE 2004 – 2013 (Unaudited)

	Actual			
	2004	2005	2006	2007
Revenues				
Water sales	\$ 28,424,185	\$ 32,682,358	\$ 35,608,990	\$ 37,442,971
Penalties	542,043	616,952	635,521	714,390
Turn-on charges	957,529	980,295	995,720	1,020,307
Ancillary charges	2,859,577	3,294,146	3,259,665	3,238,139
Watershed protection fees	-	-	-	-
Proceeds from sale of capital assets	518,317	102,869	887,107	852,053
Investment income	586,949	1,249,752	1,415,298	1,530,756
Other revenue	1,084,178	574,859	732,109	1,118,918
Total Revenues	34,972,778	39,501,231	43,534,410	45,917,534
Expenses				
Administration	3,329,545	2,478,384	2,698,346	2,946,927
Distribution	7,868,135	8,425,774	9,423,267	9,200,010
Engineering	1,461,241	1,317,025	1,387,524	1,551,157
Finance and customer service	5,174,194	5,309,342	5,482,798	5,679,973
Information services	2,158,601	2,506,892	2,857,553	2,805,933
Source and treatment	5,165,710	5,895,826	6,562,594	7,054,139
Watershed protection	-	-	-	-
Water quality	-	-	-	-
General	1,647,144	1,623,138	1,971,479	1,955,895
Transfers to Cities of LR and NLR	364,872	374,421	401,275	412,656
Total Expenses	27,169,442	27,930,802	30,784,836	31,606,690
Transfers to rate stabilization account⁽²⁾	-	-	-	-
NET REVENUES	\$ 7,803,336	\$ 11,570,429	\$ 12,749,574	\$ 14,310,844
Maximum Annual Debt Service on Revenue Bonds	\$ 3,323,528	\$ 3,323,528	\$ 3,323,528	\$ 4,720,529
Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Bonds⁽¹⁾	2.35	3.48	3.84	3.03

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

Note: Revenues and expenses included in statements of revenues, expenses and changes in net position, but excluded above include: depreciation and amortization, loss on 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)* 2004 – 2013 (Unaudited)

Actual					
2008	2009	2010	2011	2012	2013
\$ 37,547,537	\$ 37,706,526	\$ 44,734,656	\$ 47,899,601	\$ 49,448,601	\$ 45,998,541
742,402	754,955	888,654	915,430	891,014	859,938
1,132,302	1,110,714	1,057,057	1,019,839	1,195,622	1,101,038
3,044,787	2,797,505	2,631,082	2,841,724	3,014,509	3,083,148
-	651,652	982,812	999,083	1,003,492	1,012,991
1,036,972	972,888	1,154,252	1,378,313	1,270,452	1,259,097
738,133	163,318	56,820	118,372	76,650	111,482
839,430	524,358	636,345	596,503	716,994	1,990,277
<u>45,081,563</u>	<u>44,681,916</u>	<u>52,141,678</u>	<u>55,768,865</u>	<u>57,617,334</u>	<u>55,416,512</u>
3,107,367	2,945,649	2,766,339	2,842,433	2,633,988	2,816,030
9,536,879	9,832,889	9,915,785	9,994,051	9,817,795	10,495,249
1,637,505	1,700,254	1,758,261	1,779,691	1,768,725	1,773,172
5,751,256	5,980,026	5,992,816	6,186,750	6,279,598	6,310,870
2,834,869	2,752,820	2,818,444	3,005,343	3,013,314	2,902,303
7,555,875	7,882,414	8,181,092	8,556,749	9,423,762	7,889,209
849,428	965,800	1,032,201	1,158,939	1,062,484	-
-	-	-	-	-	1,936,431
2,355,892	2,033,790	2,549,123	2,048,645	2,345,009	2,017,004
462,528	537,936	551,290	584,388	602,832	608,436
<u>34,091,599</u>	<u>34,631,578</u>	<u>35,565,351</u>	<u>36,156,989</u>	<u>36,947,507</u>	<u>36,748,704</u>
-	-	(2,100,000)	(2,600,000)	(3,300,000)	-
<u>\$ 10,989,964</u>	<u>\$ 10,050,338</u>	<u>\$ 14,476,327</u>	<u>\$ 17,011,876</u>	<u>\$ 17,369,827</u>	<u>\$ 18,667,808</u>
<u>\$ 4,720,529</u>	<u>\$ 5,536,739</u>	<u>\$ 6,799,714</u>	<u>\$ 6,884,537</u>	<u>\$ 8,061,331</u>	<u>\$ 7,909,925</u>
<u>2.33</u>	<u>1.82</u>	<u>2.13</u>	<u>2.47</u>	<u>2.15</u>	<u>2.36</u>

Central Arkansas Water

TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT 2004 – 2013 (Unaudited)

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Large Volume</u>	<u>Wholesale</u>
2004	101,095	10,795	60	6
2005	102,822	10,925	64	7
2006	103,492	10,881	60	7
2007	105,419	11,003	62	7
2008	105,905	11,064	57	7
2009	106,371	11,041	64	7
2010	106,235	11,041	63	8
2011	106,556	11,160	63	9
2012	106,961	11,243	64	9
2013	108,116	11,297	57	9

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

Central Arkansas Water

TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT *(Continued)* 2004 – 2013 (Unaudited)

<u>Sprinkler</u>	<u>Private Fire Services</u>	<u>Total Customers</u>	<u>Total Outstanding Debt</u>	<u>Total Outstanding Debt to Customer Count</u>
3,889	1,413	117,258	\$ 43,287,299	\$ 369
3,507	1,445	118,770	\$ 40,949,911	\$ 345
4,091	1,445	119,976	\$ 39,175,000	\$ 327
3,358	1,552	121,401	\$ 55,135,000	\$ 454
3,357	1,593	121,983	\$ 53,025,000	\$ 435
3,568	1,661	122,712	\$ 59,520,017	\$ 485
3,758	1,686	122,791	\$ 72,891,876	\$ 594
3,497	1,723	123,008	\$ 75,463,932	\$ 613
3,554	1,772	123,603	\$ 92,506,391	\$ 748
3,748	1,821	125,048	\$ 85,442,806	\$ 683

Central Arkansas Water

TEN YEAR SUMMARY OF TEN LARGEST WATER CUSTOMERS 2004 – 2013 (Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Jacksonville Water Works	1	1	1	1	1	1	1	1	1	1
Bryant Water and Sewer	2	2	2	2	2	2	3	2	2	2
North Pulaski Waterworks	3	3	3	3	3	3	2	3	4	4
Chicopee/Polymer Group	8	4	10	10	-	-	-	-	-	-
Veterans Administration Hospitals	4	-	8	7	6	5	7	-	8	8
3-M Company	6	5	5	4	4	6	6	8	-	-
University of Arkansas for Medical Sciences	7	10	9	8	5	4	5	6	5	5
U.S. Army Reserve Center	9	7	-	-	-	-	-	-	-	-
Baptist Health System	5	9	7	9	7	7	8	7	7	7
Odom Sausage Company	10	8	-	-	-	-	-	-	-	-
Salem Water Alliance	-	-	-	6	8	8	4	4	3	3
Cabot WaterWorks	-	-	-	-	-	-	-	-	9	10
Arkansas Electric Cooperative	-	-	4	5	-	-	9	5	6	6
North Little Rock Burns Park	-	6	6	-	-	-	-	-	-	-
St. Vincent Doctors Hospital	-	-	-	-	9	-	-	-	-	-
Arkansas Military Department	-	-	-	-	10	-	-	10	-	-
Little Rock Parks Department	-	-	-	-	-	9	-	-	-	-
Arkansas Department of Corrections	-	-	-	-	-	10	10	9	10	9

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

Demographic and Economic Information

Central Arkansas Water

LARGEST EMPLOYERS WITHIN PULASKI COUNTY 2013 vs. 2004 (Unaudited)

Employer	Type of Business	2013			2004	
		Rank	Employees	Percentage of Total Employment	Rank	Employees
State of Arkansas	Government	1	32,200	19%	1	28,100
Local Government	Government	2	28,800	17%		
Federal Government	Government	3	9,200	5%	2	9,400
University of Arkansas for Medical Sciences	Medical Services	4	8,500	5%	3	7,800
Pulaski County Public School Districts	Education	5	7,411	4%	4	7,411
Baptist Health	Medical Services	6	7,000	4%	5	7,000
Little Rock Air Force Base	Government	7	4,500	3%	6	4,500
Acxiom	Data Processing	8	4,388	3%		
Central Arkansas Veterans Health Care Systems	Medical Services	9	3,500	2%	10	2,700
Entergy Arkansas	Utility (Electric)	10	2,738	2%	8	3,254
St. Vincent Infirmary Medical Center	Medical Services	-	-	-	7	4,200
Verizon Corporation	Telecommunications	-	-	-	9	2,734
Total			<u>108,237</u>	<u>63%</u>		<u>77,099</u>
Total Employment			<u>172,175</u>			<u>179,500</u>

Source: Little Rock Regional Chamber of Commerce.

Central Arkansas Water

TEN YEAR SUMMARY OF DEMOGRAPHIC AND ECONOMIC STATISTICS WITHIN PULASKI COUNTY 2004 – 2013 (Unaudited)

Year	Population	Households	Median Household Income	Per Capita Personal Income	Total Personal Income (000's)	Unemployment Rate
2004	367,477	167,528	40,499	36,481	13,374,249	5.1%
2005	369,221	170,505	40,629	38,515	14,183,969	4.7%
2006	372,157	173,102	43,338	41,006	15,239,922	4.8%
2007	374,011	174,414	44,909	44,292	16,538,757	4.5%
2008	376,797	175,963	45,215	45,019	16,952,779	4.4%
2009	381,904	177,521	42,107	42,209	16,041,795	6.0%
2010	382,748	175,555	44,482	42,438	16,278,265	6.9%
2011	386,299	176,324	45,897	43,938	16,973,344	6.4%
2012	388,953	178,704	44,819	45,875	17,843,080	6.3%
2013	(1)	(1)	(1)	(1)	(1)	6.6%

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

⁽¹⁾ Information is not available.

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Operating Information

Central Arkansas Water

TEN YEAR SUMMARY OF NEW CONNECTIONS 2004 – 2013 (Unaudited)

<u>Year</u>	<u>Meters</u>	<u>Fire Hydrants</u>	<u>New Pipe (in Miles)</u>
2004	2,236	296	64.50
2005	3,222	84	31.00
2006	2,507	316	29.00
2007	2,598	376	65.20
2008	1,753	336	37.30
2009	1,686	321	35.50
2010	1,144	160	19.70
2011	1,187	86	11.90
2012	1,442	61	28.50
2013	2,158	137	15.30

Source: Central Arkansas Water Engineering Department

Central Arkansas Water

TEN YEAR SUMMARY OF SYSTEM HIGHLIGHTS 2004 – 2013 (Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Miles of public water distribution pipe	2,060	2,114	2,145	2,198	2,229	2,255	2,276	2,280	2,295	2,358
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Maximum treatment capacity (MGD)	124.0	124.0	124.0	124.0	157.0	157.0	157.0	157.0	157.0	157.0
Maximum day consumption (MG)	90.3	108.6	120.3	119.6	109.4	103.3	108.4	119.4	126.0	106.0
Percentage of maximum capacity utilized	73%	88%	97%	96%	70%	66%	69%	76%	80%	68%

Source: Central Arkansas Water Engineering and Source and Treatment Departments

MGD = Millions of Gallons per Day

MG = Million Gallons

Central Arkansas Water

TEN YEAR SUMMARY OF CAPITAL ASSETS 2004 – 2013 (Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Land and land use rights	\$ 11,654,379	\$ 17,634,844	\$ 20,934,589	\$ 24,817,358
Building and grounds	35,242,896	36,693,337	37,004,974	37,493,939
Land improvements	-	-	-	-
Water source	32,153,585	32,153,585	32,309,610	32,549,548
Purification	20,898,023	21,174,776	24,575,320	24,824,032
Pumping	12,748,685	12,748,685	12,756,729	15,959,091
Distribution	196,980,597	210,126,690	226,235,752	236,865,670
Other equipment	19,200,727	20,096,385	23,109,970	24,256,523
Construction in progress	20,498,763	22,120,177	20,934,029	27,706,013
	<u>349,377,655</u>	<u>372,748,479</u>	<u>397,860,973</u>	<u>424,472,174</u>
Less accumulated depreciation	<u>100,557,450</u>	<u>107,681,372</u>	<u>114,372,648</u>	<u>120,973,768</u>
Net Capital Assets	<u><u>\$ 248,820,205</u></u>	<u><u>\$ 265,067,107</u></u>	<u><u>\$ 283,488,325</u></u>	<u><u>\$ 303,498,406</u></u>

Source: Central Arkansas Water Finance Section – Finance and Customer Service Department

Central Arkansas Water

TEN YEAR SUMMARY OF CAPITAL ASSETS *(Continued)* 2004 – 2013 (Unaudited)

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 28,147,590	\$ 40,550,430	\$ 40,544,764	\$ 43,779,013	\$ 45,521,648	\$ 46,032,162
39,037,397	39,719,805	40,917,775	41,954,807	42,749,907	49,154,620
-	-	-	-	1,400,361	1,478,894
32,621,672	32,621,672	32,778,582	32,778,582	32,920,887	32,927,318
25,176,369	25,176,369	29,512,295	36,299,049	37,261,755	37,518,831
15,956,236	15,956,236	22,254,975	22,323,783	25,740,465	25,796,891
249,181,501	257,532,685	272,131,704	279,106,680	318,974,140	323,590,447
25,762,336	25,933,787	26,463,728	27,374,484	27,885,674	27,139,956
30,887,428	36,626,465	34,450,027	42,175,471	11,868,158	21,527,876
446,770,529	474,117,449	499,053,850	525,791,869	544,322,995	565,166,995
129,122,942	136,877,016	145,172,084	153,522,735	163,299,356	173,414,469
\$ 317,647,587	\$ 337,240,433	\$ 353,881,766	\$ 372,269,134	\$ 381,023,639	\$ 391,752,526

Central Arkansas Water

TEN YEAR SUMMARY OF FILLED POSITIONS BY DEPARTMENT 2004 – 2013 (Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Administration	13	14	14	14	15	17	14	14	11	11
Distribution	128	126	115	125	114	111	102	104	106	109
Engineering	20	21	21	21	22	22	23	22	23	23
Finance and customer service	76	71	78	78	77	75	78	75	79	79
Information services	16	17	18	18	16	17	17	17	17	17
Source and treatment	31	34	37	37	37	39	37	40	32	31
Water Quality	-	-	-	-	-	-	-	-	10	9
Total	<u>284</u>	<u>283</u>	<u>283</u>	<u>293</u>	<u>281</u>	<u>281</u>	<u>271</u>	<u>272</u>	<u>278</u>	<u>279</u>

Source: Central Arkansas Water Administration Department

Central Arkansas Water

SCHEDULE OF WATER RATES 2013 (Unaudited)

Minimum Monthly Charge (all customers):

Meter Size	Charge	
	Inside City	Outside City
5/8"	\$ 5.60	\$ 7.33
3/4"	\$ 7.23	\$ 9.46
1"	\$ 10.28	\$ 13.45
1 1/2"	\$ 17.38	\$ 22.73
2"	\$ 28.18	\$ 36.88
3"	\$ 52.11	\$ 68.20
4"	\$ 84.76	\$ 110.94
6"	\$ 167.65	\$ 219.42
8"	\$ 283.57	\$ 371.12
10"	\$ 408.26	\$ 534.33
12"	\$ 743.55	\$ 973.15

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

Customer Class	Charge			
	Inside City	Outside City	On Peak	Off Peak
Residential	\$ 1.56	\$ 2.50	n/a	n/a
Commercial	\$ 1.46	\$ 2.33	n/a	n/a
Large Volume	\$ 1.19	\$ 1.90	n/a	n/a
Sprinkler	\$ 1.56	\$ 2.50	n/a	n/a
Wholesale	n/a	n/a	\$ 1.15	\$ 1.00
Raw Water	\$ 0.54	n/a	n/a	n/a

Watershed Protection Fee (all customers):

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

- (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.

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Other Schedules and Required Reports



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

Board of Commissioners
Central Arkansas Water
Little Rock, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Central Arkansas Water (the Utility) and its fiduciary funds, as of and for the year ended December 31, 2013, 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 10, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Thomas & Thomas LLP

Certified Public Accountants

Little Rock, Arkansas
April 10, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Commissioners
Central Arkansas Water
Little Rock, Arkansas

Report on Compliance for the Major Federal Program

We have audited Central Arkansas Water's (the Utility) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Utility's major federal program for the year ended December 31, 2013. The Utility's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Utility's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Utility's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Utility's compliance.

Opinion on the Major Federal Program

In our opinion, the Utility complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of the Utility is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Utility's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thomas & Thomas LLP
Certified Public Accountants

Little Rock, Arkansas
April 10, 2014

Central Arkansas Water

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2013

Summary of Auditors' Results

1. The opinion expressed in the independent accountants' report was:
 Unmodified Qualified Adverse Disclaimed

2. The independent auditors' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditors' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major federal awards was:
 Unmodified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The Utility's major program was:

Cluster/Program	CFDA Number
Forest Legacy Program	10.676

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Utility qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

No matters are reportable.

Central Arkansas Water

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year Ended December 31, 2012

Findings Required to be Reported by *Government Auditing Standards*

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
No matters are reportable.		