



SAFE
LOW-COST
ABUNDANT
DEPENDABLE
HIGH-QUALITY
WATER

2017
Popular Annual
Financial Report



In 2017, our employees expressed an overall job satisfaction rate of 93%.



A LETTER FROM OUR CFO

We are pleased to present Central Arkansas Water's (CAW) first Popular Annual Financial Report (PAFR). This report offers an easy-to-read snapshot of CAW's 2017 activities, and is part of our continuous effort to enhance customer confidence, experience, understanding and to provide transparency. The PAFR includes a summary of the 2017 financial activities of CAW.

The financial information presented in this PAFR is derived from CAW's 2017 Comprehensive Annual Financial Report (CAFR), which was prepared in accordance with generally accepted accounting principles (GAAP) and includes financial statements audited by BKD, LLP. An electronic copy of the CAFR is available on the CAW website at carkw.com/comprehensive-annual-financial-report/.

During the past year, CAW completed a Customer Information System (CIS) account migration, and constructed a water transmission line to complete merger milestones with Maumelle Water Management (MWM). We also developed an Information Technology Master Plan (ITMP) that identified multiple opportunities for technology improvements, including replacing the current CIS. Employees expressed overall job satisfaction of 93% and overall satisfaction with the organization of 88% through an Employee Job Satisfaction and Engagement Survey. We held the inaugural Citizens Water Academy, providing residents an opportunity to learn about the inner workings of the organization and become Utility Ambassadors.

Looking ahead, 2018 will be another industrious year with many activities on tap. Beginning February 2018, former MWM customers began receiving water from the CAW system through the recently-completed water transmission line. The ITMP-recommended CIS replacement project will continue with vendor selection and implementation phase kick-off. Developing new infrastructure and addressing current infrastructure needs are also an integral part of CAW's future. In addition to these and other projects, CAW remains committed to providing high-quality water and dependable service to you, our customers.

Thank you for your interest in CAW, and follow our progress in 2018 at carkw.com. You may also stay connected with us via social media at facebook.com/CentralARWater or twitter.com/carkw.

Sincerely,

A handwritten signature in black ink that reads 'Jeffrey B. Mascagni'.

Jeffrey B. Mascagni, CPA, CGFM
Chief Financial Officer

WHAT WE ENVISION

OUR MISSION

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.

OUR VALUES

PROFESSIONALISM

I will be courteous and responsible in my dealings with others and will adhere to the technical and professional standards of my job.

INTEGRITY

I will display honesty in my work and interactions with others and will adhere to high moral and ethical standards. I will be fiscally responsible and conservative in the use of funds and resources entrusted to our utility.

CONTINUAL IMPROVEMENT

I will search for a new and better way of doing things, embracing new technologies and sustainable business practices. I will seek ways to enhance my own professional development, as well as that of my co-workers.

TEAMWORK

I will support my co-workers with enthusiasm, work collaboratively, and do my part to ensure Central Arkansas Water achieves its goals.

UNITY

I will work in harmony with others to ensure a positive, safe, and healthy work environment. I will consider the needs and viewpoints of customers and community stakeholders and work collaboratively with each. I will appreciate diversity and value the differences that each individual brings to any situation.

RESPECT

I will treat others with high regard, fairness, and consideration.

EXCELLENCE

I will work to ensure that Central Arkansas Water meets and exceeds "world class" standards and the expectations of those I work with and the customers we serve.



CAW SYSTEM

Central Arkansas Water had its beginning in 1936 when the City of Little Rock purchased the water facilities serving the south side of the Arkansas River. On the north side of the 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. Pursuant to a March 5, 2001, Water Utilities Consolidation Agreement, Little Rock Municipal Water Works and the North Little Rock Water Department officially merged operations on July 1, 2001, and became CAW. On March 1, 2016, Maumelle Water Management became part of CAW through a merger that added 7,500 customers in the City of Maumelle.

CAW remains under public ownership. A seven-member Board of Commissioners governs CAW. Four of the commissioners represent the City of Little Rock, and three commissioners represent the City of North Little Rock. CAW's Chief Executive Officer, Tad Bohannon, leads CAW by overseeing day-to-day operations and the seven departments (Administration, Distribution, Engineering, Finance & Customer Service, Information Services, Water Production, and Water Quality) that have been tasked with these operations.

CAW collects, stores, treats, and distributes water for a population of approximately 450,000 in Central Arkansas. The major components of the system are two raw water supplies, Lake Winona and Lake Maumelle; a regulating and storage facility, Jackson Reservoir; three treatment facilities, Jack H. Wilson Water Treatment Plant, Ozark Point Water Treatment Plant, and Maumelle Water Treatment Plant; approximately 2,506 miles of public pipeline; 26 remote booster pumping stations; and 29 remote storage facilities. As of December 31, 2017, CAW provides water service to approximately 135,000 customers via the CAW distribution system, which is roughly 530 square miles.

LEADER RESPONSIBILITIES

Every leader's job is different, but all have one thing in common. Leaders at CAW have been entrusted to guide, support and serve the employees in this organization. These primary responsibilities reflect the prescribed caliber of leaders at CAW.

OUR PRIMARY RESPONSIBILITIES ARE:

- Champion our values and utility pride
- Champion health and safety
- Champion outstanding customer service
- Champion quality
- Communicate excellence
- Foster a positive work environment
- Develop employees
- Ensure accountability
- Make sound decisions
- Support the communities we serve



WE ARE

HIGH-PERFORMING

INNOVATIVE

VALUES-DRIVEN

INFORMED

PASSIONATE



STRATEGIC PLANNING TEAM

BOARD OF COMMISSIONERS

Jay Hartman, Chair
Carmen Smith, Vice Chair
Kandi Hughes, Acting Secretary/Treasurer
Anthony Kendall, Commissioner
Eddie Powell, Commissioner
Roby Robertson, Ph.D., Commissioner
Commission Position (Vacant)

STAFF

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



HIGH QUALITY FOR LOW COST

CAW is proud to offer one of the lowest water rates in the country. According to the 2017 Annual Rate Survey conducted by Memphis Light, Gas, and Water (MLGW), CAW had the third lowest water rate of those cities included in the survey. MLGW began collecting rate data in the 1990s, and CAW has participated in this survey since 1991 (as the former Little Rock Municipal Water Works/North Little Rock Water Department). This survey has included cities from all over the United States (U.S.), including those that are geographically close to CAW, such as Oklahoma City, OK; Louisville, KY; and Huntsville, AL, as well as some of the largest metropolitan areas in the U.S.—New York City, Los Angeles, Atlanta, and Houston. As seen in the table below, Little Rock provides a great service for its customers: high-quality water for low cost.

2017 UTILITY RATE COMPARISONS				
CITY, STATE	COMPANY	5 CCF	10 CCF	15 CCF
Orlando, FL	Orlando Utilities Commission	\$10.48	\$13.71	\$20.07
Memphis, TN	Memphis Light, Gas and Water	\$9.18	\$18.36	\$27.54
LITTLE ROCK, AR	CENTRAL ARKANSAS WATER	\$11.80	\$20.05	\$28.30
Phoenix, AZ	City of Phoenix	\$6.50	\$20.14	\$36.84
Lincoln, NE	City of Lincoln	\$12.42	\$20.27	\$29.83
San Antonio, TX	San Antonio Water System	\$14.53	\$20.43	\$28.84
Salt Lake City, UT	Salt Lake City Public Utilities	\$15.56	\$21.61	\$27.66
Nashville, TN	Metro Water Services	\$10.12	\$21.77	\$33.42
Dover, DE	City of Dover	\$14.50	\$23.50	\$35.50
Lakeland, FL	Lakeland Electric	\$16.18	\$23.76	\$32.81

Proudly supplying high-quality drinking water to over 450,000 people in Central Arkansas.

The tables on the two following pages that present the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position further explain the financial condition of Central Arkansas Water at the end of fiscal year 2017.

STATEMENT OF NET POSITION

DECEMBER 31, 2017 & 2016

ASSETS	FY 2017	FY 2016
Current Unrestricted Assets	49,329,914	49,295,981
Current Restricted Assets	10,717,882	10,357,839
Noncurrent Assets	428,655,739	425,075,606
TOTAL ASSETS	488,703,535	484,729,426
DEFERRED OUTFLOWS OF RESOURCES		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,157,178	8,129,473
LIABILITIES		
Current Unrestricted Liabilities	12,481,849	11,198,217
Current Restricted Liabilities	10,717,882	10,357,839
Noncurrent Liabilities	109,126,988	111,529,815
TOTAL LIABILITIES	132,326,719	133,085,871
DEFERRED INFLOWS OF RESOURCES		
TOTAL DEFERRED INFLOWS OF RESOURCES	684,595	1,009,215
NET POSITION		
Net Investment in Capital Assets	337,464,890	329,906,226
Restricted	9,093,843	7,683,719
Unrestricted	18,290,666	21,173,868
TOTAL NET POSITION	364,849,399	358,763,813

To help you better understand these terms, we've provided the following definitions:

Assets are resources with present service capacity that CAW currently controls.

Current Assets are assets that can be converted to cash, sold or consumed within one year of the financial statement date.

Current Liabilities are debts that are due within one year of the financial statement date.

Deferred Inflows of Resources are an acquisition of net position by CAW that is applicable to a reporting period later than 2017.

Deferred Outflows of Resources are a consumption of net position by CAW that is applicable to a reporting period later than 2017.

Liabilities are debt of CAW to sacrifice resources that it has little or no discretion to avoid.

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any debt that was used to purchase, construct, or improve those assets.

Net Position is the residual of all other elements presented in a Statement of Net Position. This is similar to Equity in a for-profit business.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

DECEMBER 31, 2017 & 2016

	FY 2017	FY 2016
Operating Revenues	62,121,399	60,696,123
Operating Expenses	56,210,750	54,528,012
Operating Income	5,910,649	6,168,111
Transfers to Cities of Little Rock and North Little Rock	(706,716)	(676,408)
Gain on Disposal of Capital Assets	70,231	76,664
Investment Income, Net	413,111	237,700
Bond and Other Interest Expense, Net	(2,043,741)	(3,284,945)
Income Before Contributions and Special Items	3,643,534	2,521,122
Contributions	2,442,052	2,174,341
Transfer of Operations from Maumelle	—	7,745,408
Change in Net Position	6,085,586	12,440,871
Total Net Position, Beginning	358,763,813	346,322,942
Total Net Position, Ending	364,849,399	358,763,813

Restricted Resources are those resources that can be used only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Statement of Net Position is a statement of the financial position of a governmental entity. It is similar to a Balance Sheet in a for-profit business.

Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources not included in the Net Investment of Capital Assets or Restricted Net Position.

Change in Net Position is the difference between revenues and expenses, which is similar to Net Income in a for-profit business.

Gain on Disposal of Capital Assets is the excess amount received over the current cost of an asset.

Operating Expenses are costs that occur as a result of the day-to-day operations. These expenses include payroll, materials, and repairs.

Operating Revenues are revenues that occur due to normal operations. This included water sales, fees, and billing service fees.

Transfer of Operations from Maumelle is the amount associated with the Maumelle Water Management merger that occurred in 2016.

Transfers to Cities of Little Rock and North Little Rock are payments made to the cities in lieu of property taxes.

Transfer of Operations from Maumelle is the amount associated with the Maumelle Water Management merger that occurred in 2016.

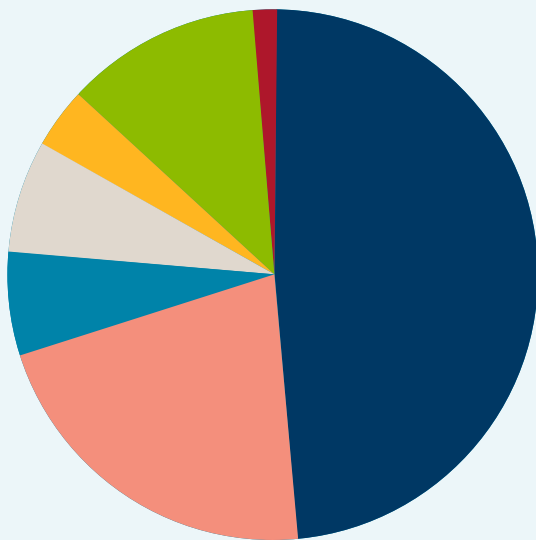
REVENUES & EXPENSES

WHERE THE MONEY COMES FROM

Total operating revenues for 2017 were \$62,121,000. A retail rate increase of 8.9% went into effect on January 1, 2017, which aided the \$1,425,000 increase in revenues from 2016. The 2017 increase in operating revenues was also helped by increases in non-consumption related amounts. As evidenced in the graph below, Little Rock water sales accounted for almost half of the operating revenue, with 48.6%, for 2017. North Little Rock water sales and ancillary charges, with 21.7% and 11.8%, respectively, were the next largest segments of operating revenue.

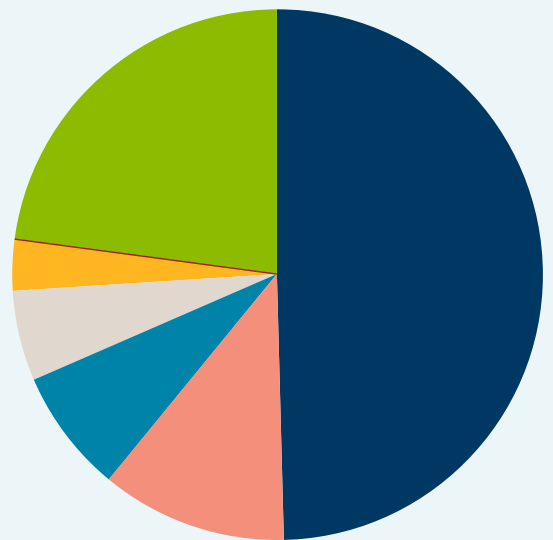
WHERE THE MONEY GOES

CAW had operating expenses of \$56,211,000 during 2017. Operating expenses were \$1,683,000 higher than in 2016. Ordinary cost of living adjustments to staffing costs and increased depreciation expense, due to more capital assets, were the main causes of the increase. The Distribution department amassed the largest percentage of expenses for the year with 25.4%, with depreciation expense being a close second at 22.7% of total operating cost.



- Little Rock Water Sales
- Penalties and Turn-On Charges
- North Little Rock Water Sales
- Ancillary Charges
- Maumelle Water Sales
- Other Revenue
- Wholesale Water Sales

2017 REVENUES BY CATEGORY



- Labor and Benefits
- Contract Services
- Materials, Supplies and Maintenance
- Chemicals
- Electric and Other Utilities
- Transition Cost—MWM
- Depreciation

2017 EXPENSES BY NATURAL CLASSIFICATION

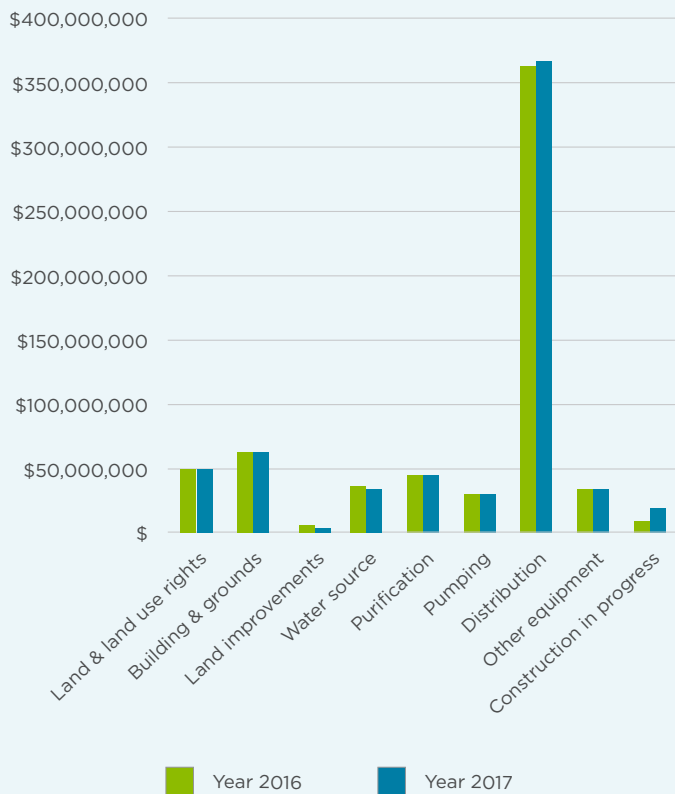
CAPITAL ASSETS & DEBT

WHAT WE OWN

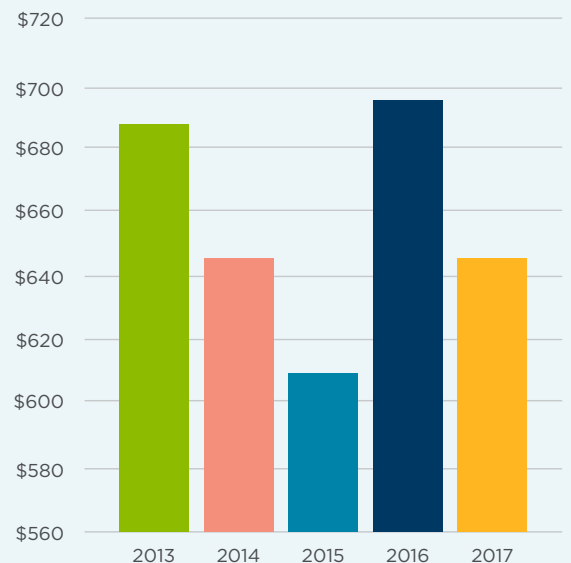
CAW began 2017 with an outstanding debt balance of \$93,387,000. The amount of capital assets grew over \$9 million dollars from 2016 to 2017. The majority of this increase is due to the construction of the 5.5 mile, 30-inch water transmission main extending to the City of Maumelle to provide all future water needs to the city, as per the Maumelle merger agreement. The project resulted in an additional \$6.2 million dollars in the Construction in Progress component as seen below. Upon its completion in 2018, this project will be transferred from Construction in Progress to the Distribution portion of capital assets.

WHAT WE OWE

CAW began 2017 with an outstanding debt balance of \$93,387,000. Making bond principal payments throughout the year allowed the ending balance to decrease to \$87,329,000. With this decrease and a slight increase in number of customers in 2017, the outstanding debt per customer decreased from \$695 in 2016 to \$646 in 2017.



SUMMARY OF CAPITAL ASSETS (2016 - 2017)



TOTAL OUTSTANDING DEBT PER CUSTOMER (2013 - 2017)



CAW AWARDS 2001 - 2017

Gold Award for Exceptional Utility Performance, AMWA, 2001
America's Crown Communities Award, National League of Cities, 2001
Big Heart Award, Watershed Human and Community Development Agency, 2005
Public Agency of the Year, Sierra Club of Arkansas, 2006
The International Davey Award, 2012
Platinum Award for Utility Excellence, AMWA, 2012
Jack Evans Regional Leadership Award, Metroplan, 2012
Diversity Award, AWWA, 2013
Leadership in Fitness Award, AR Governor's Council on Fitness and Baptist Health, 2013
Best Tasting Drinking Water, Central District AWW&WEA, 2014 - 2015
Government Recycler of the Year Award, Arkansas Recycling Coalition, 2015
Sustainable Water Utility Management Award, AMWA, 2015
GFOA Certificate of Achievement for Excellence in Financial Reporting, 8 years
GFOA Distinguished Budget Presentation Award, 8 years
Outstanding Performance Award, Arkansas Workers' Compensation Commission, 15 years

CAW STAFF AWARDS 2001 - 2017

GLEN T. KELLOGG LEADERSHIP AWARD RECIPIENTS

Fred Glover, 2001	Marie Crawford, 2007
Steve Morgan, 2002	Robert Hart, 2012
Bruno Kirsch, Jr., 2006	Dale Kimbrow, 2014
Ron Brown, 2006	Blake Weindorf, 2016

WATER MANAGER OF THE YEAR, AWW&WEA, 2017

Terry Bice

PURCHASING MANAGER OF THE YEAR, NIGP, 2016

Elizabeth Tuck-Rowan

SAFETY PROFESSIONAL OF THE YEAR, AWEA, 2014

Robert Martin



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carkw.com