

POPULAR ANNUAL FINANCIAL REPORT 2021



A Message from our Chief Financial Officer

We are pleased to present Central Arkansas Water's (CAW) 2021 Popular Annual Financial Report (PAFR). This report offers an easy-to-read snapshot of CAW's 2021 activities and is part of our continuous effort to enhance customer confidence, experience and understanding. The PAFR includes an unaudited summary of 2021 financial activities and operational milestones.

The financial information presented in this PAFR is derived from CAW's 2021 Annual Comprehensive Financial Report which was prepared in accordance with generally accepted accounting principles and includes financial statements audited by BKD, LLP. An electronic copy of the Annual Comprehensive Financial Report is available on the CAW website carkw.com/about/departments/finance/.

The year 2021 was a momentous one for CAW. The Utility celebrated its 20th anniversary since the merger of Little Rock Municipal Water Works and North Little Rock Water Department to create Central Arkansas Water.

As the largest water supplier in the state of Arkansas, CAW plays an integral role in the quality of life for residents and the economic health of the communities it serves. The utility's primary purpose is protecting public health by providing outstanding water services. This includes protecting the environment through world-class, cost-effective water resource management, leadership, and partnerships. The information contained herein highlights how CAW has strived to accomplish this mission over the last year.

Thank you for your interest in CAW. Follow our progress in 2022 at carkw.com and stay connected with us via social media. Find us by searching Central Arkansas Water on Facebook and LinkedIn, on Twitter @CARKW and on Instagram @centralARwater.

Sincerely,



Jeff Mascagni, CPA,
CGFM, CPFO
Chief Financial Officer

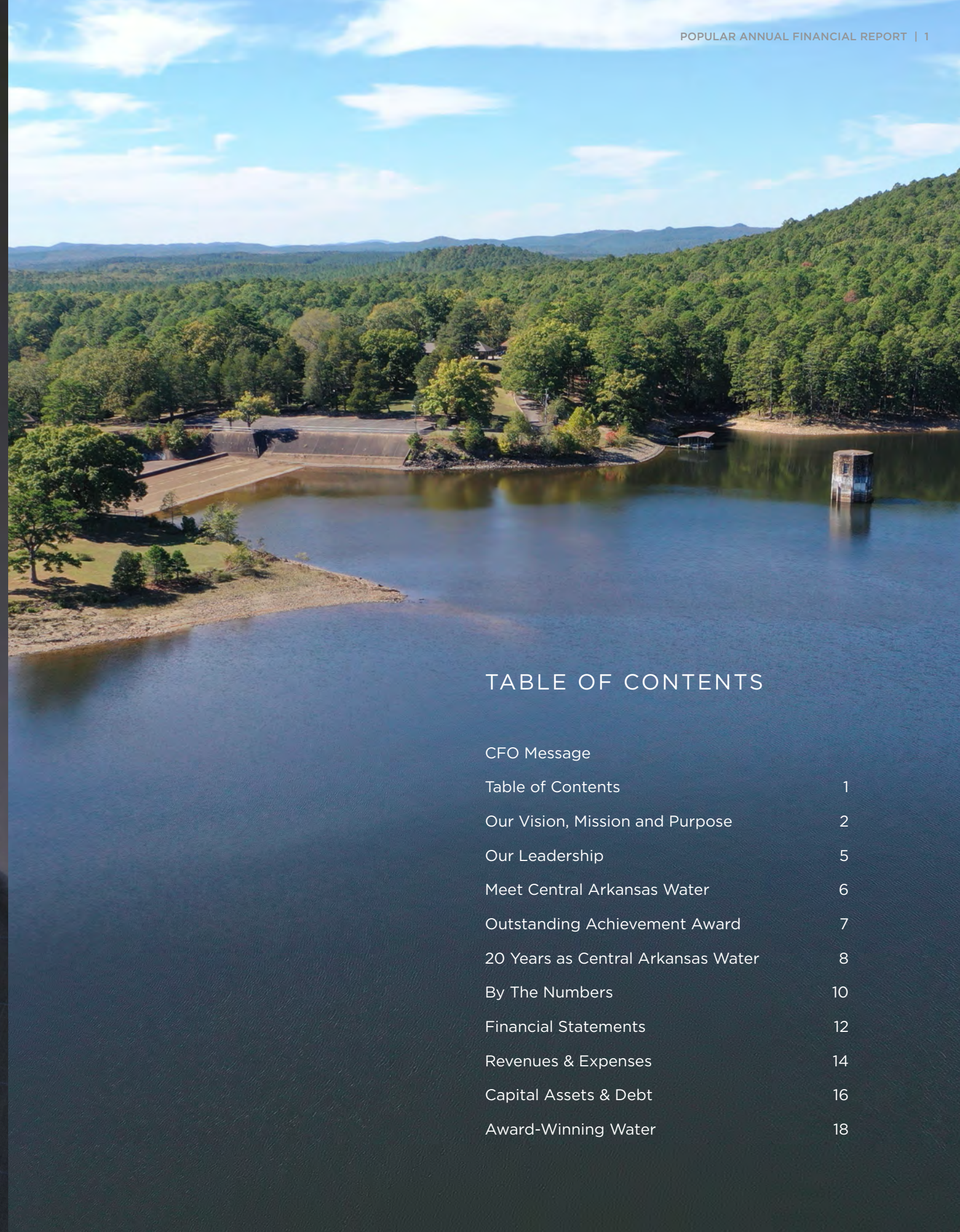


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RESILIENT TRUSTED UTILITY

VISION:

To be a resilient and trusted utility.

MISSION:

Deliver high-quality, affordable, abundant, dependable water services.

PURPOSE:

Protect public health by providing outstanding water services.

Central Arkansas Water (CAW) will be resilient when its workforce (HVIP Employees) is able to provide uninterrupted and safe water services in the midst of foreseen and unforeseen threats (System Reliability) without harm to the environment (Environmental Sustainability) in a fiscally sound manner (Financial Viability).

CAW will be trusted when it has conveyed the value of water to and achieved strong support from customers, community leadership, and regulatory agencies (Community Support).

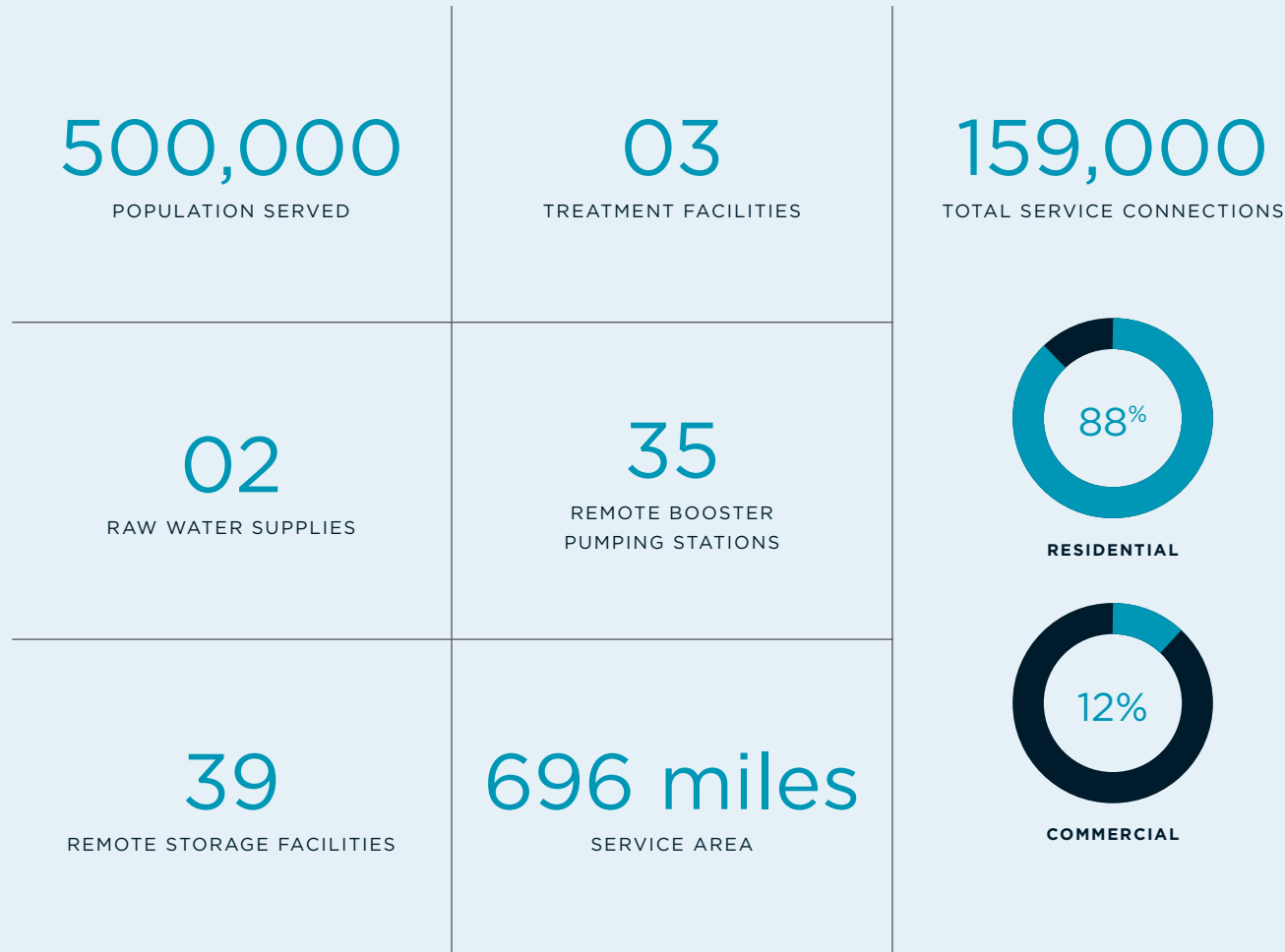
Board of Commissioners

- Jim McKenzie, Chair
- Kevin Newton, Vice Chair
- Jay Barth, Ph.D., Secretary/Treasurer
- Jay Hartman, Commissioner
- Kandy Hughes, Commissioner
- Anthony Kendall, Commissioner
- Carmen Smith, Commissioner

Staff

- C. Tad Bohannon, J.D., LL.M, MBA
Chief Executive Officer
- Blake Weindorf, P.E., BCEE
Chief Operating Officer
- David Johnson, J.D.
General Counsel
- Jeff Mascagni, CPA, CGFM, CPFO
Chief Financial Officer
- Tamika Edwards, J.D., CGF
Special Advisor to the CEO
- Danny Dunn
Director of Distribution
- Jim Ferguson, P.E.
Director of Engineering
- Kevin Hall
Director of Environmental Health and Safety
- Cynthia Edwards, CPA
Director of Finance
- Tatiana Herrington, PHR, SHRM-CP
Director of Human Resources
- Allen Vincent
Director of Information Services
- Douglas Shackelford
Director of Public Affairs and Communications
- Linda Smith
Director of Sustainability and Facilities
- Sam Zehtaban
Director of Water Production

Meet Central Arkansas Water and Those We Serve



TOP TEN CUSTOMERS*

- | | | |
|---------------------------------|---------------------|----------------------------------|
| 01 Jacksonville Waterworks | 05 3M Company | 08 Shannon Hills Water Dept |
| 02 Salem Water Users P W A | 06 UAMS | 09 Sardis Public Water Authority |
| 03 Bryant Water & Sewer | 07 Cabot Waterworks | 10 Kimberly Clark |
| 04 AR Department of Corrections | | |

* CAW's top 10 customers account for 7.01% of total revenue for 2021.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

Central Arkansas Water

For its Annual Financial Report for the Fiscal Year Ended

December 31, 2020

Executive Director/CEO



20 Years as Central Arkansas Water

In 2001, a study by the University of Arkansas at Little Rock inspired the cities of Little Rock and North Little Rock to make a major change in their relationship by moving past geographical differences and corporate interests to benefit the entire customer base and surrounding area. The result was a unanimous decision by the cities' governing bodies and water commissions to merge Little Rock Municipal Water Works and the North Little Rock Water Department into a single regional water provider ultimately named Central Arkansas Water. On July 1, 2021, CAW celebrated its 20th anniversary since this merger.

Snowpocalypse

In February of 2021, central Arkansas was impacted by an unprecedented winter storm. This storm brought over 20 inches of snow and record cold temperatures. The extreme cold caused water pipes to freeze and burst. CAW crews worked tirelessly to repair water mains, ensure continued adequate water pressure, and treat additional water to account for that lost through breaks.

Pinnacle Project

During 2021, CAW completed the Pinnacle Project and brought the new Customer Information System (CIS) online. This system not only acts as a warehouse of all customer data for the approximately 141,000 accounts the Utility serves, but also functions as a billing system and integrates with our work order system, CityWorks. In 2021, CAW completed the user acceptance testing, Go-Live, and post-stabilization phases of the project with assistance from the Customer Service, Information Services, Finance and Engineering departments.

Awards

The Utility's Board of Commissioners received a 2021 WaterNow Impact Award for their long-term support of watershed protection as green infrastructure as exemplified by their support of issuing the world's first certified green bond for the purchase of forest lands as water infrastructure. CAW also earned recognition for the second year in a row as a Utility of the Future Today by the Water Environment Federation (WEF).

Watershed Protection

In 2021, CAW received certification of 2,509 acres of Lake Maumelle watershed forest lands under Sustainable Forest Initiative, becoming the first water utility in the world to achieve this certification. The Lake Maumelle watershed was also recognized by the American Tree Farm System as a Forest of Recognized Importance (FORI), one of only two non-federally owned FORIs in the state of Arkansas.

2021 BY THE NUMBERS



2021 Financial Statements

Statement of Net Position (14)

December 31, 2021 & 2020	FY 2021	FY 2020
Assets (1)		
Current Unrestricted Assets (3)	\$ 56,949,952	\$ 50,839,969
Current Restricted Assets (3)	12,608,965	11,982,573
Non-current Assets	542,379,625	534,141,835
Total Assets	611,938,542	596,964,377
Deferred Outflows Of Resources (6)		
Total Deferred Outflows of Resources	11,023,203	16,663,188
Liabilities (8)		
Current Unrestricted Liabilities (4)	18,546,225	18,103,873
Current Restricted Liabilities (4)	12,608,965	11,982,573
Non-current Liabilities	178,373,225	205,697,060
Total Liabilities	209,528,415	235,783,506
Deferred Inflows Of Resources (5)		
Total Deferred Inflows of Resources	23,064,301	4,219,449
Net Position (10)		
Net Investment In Capital Assets (9)	373,343,220	367,648,777
Restricted Net Position (13)	10,459,371	8,851,333
Unrestricted Net Position (16)	6,566,438	(2,875,500)
Total Net Position	\$ 390,369,029	\$ 373,624,610

Statement of Revenues, Expenses and Changes in Net Position

December 31, 2021 & 2020	FY 2021	FY 2020
Operating Revenues (12)	\$ 75,573,117	\$ 66,925,527
Operating Expenses (11)	59,609,914	61,563,495
Operating Income	15,963,203	5,362,032
Transfers to Cities of North Little Rock and Little Rock (15)	(795,408)	(802,260)
Gain on Disposal of Capital Assets (7)	281,258	80,724
Investment Income, Net	47,001	255,819
Bond & Other Interest Expense, Net	(3,986,125)	(3,707,779)
Intergovernmental	214,223	—
Income Before Contributions & Special Items	11,724,152	1,188,536
Contributions	3,845,608	1,090,750
Change in Net Position (2)	15,569,760	2,279,286
Total Net Position, Beginning	373,624,610	369,566,409
Net Position of Merged Entities, Beginning	1,174,659	1,778,915
Total Net Position, Beginning as Adjusted	374,799,269	371,345,324
Total Net Position, Ending	\$ 390,369,029	\$ 373,624,610



- Assets Resources** with present service capacity that CAW currently controls.
- Change in Net Position** Difference between revenues and expenses, which is similar to Net Income in a for-profit business.
- Current Assets** Assets that can be converted to cash, sold, or consumed within one year of the financial statement date.
- Current Liabilities** Debts that are due within one year of the financial statement date.
- Deferred Inflows of Resources** Acquisition of net position by CAW that is applicable to a reporting period later than 2019.
- Deferred Outflows of Resources** Consumptions of net assets by CAW that are applicable to a reporting period later than 2019.
- Gain on Disposal of Capital Assets** Excess amount received over the current cost of an asset.
- Liabilities** Debts of CAW to sacrifice resources that it has little or no discretion to avoid.
- Net Investment in Capital Assets** 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** Residual of all other elements presented in a Statement of Net Position. This is similar to Equity in a for-profit business.
- Operating Expenses** Costs that occur as a result of the day-to-day operations. These expenses include payroll, materials, and repairs.
- Operating Revenues** Revenues that occur due to normal operations. This includes water sales, fees, and billing service fees.
- Restricted Net Position** Restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Statement of Net Position** Statement of the financial position of a governmental entity. It is similar to a Balance Sheet in a for-profit business.
- Transfers to Cities of Little Rock and North Little Rock** Payments made to the cities in lieu of property taxes.
- Unrestricted Net Position** 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.

Financial Performance Revenues & Expenses

CAW had operating expenses of \$59,610,000 during 2021, \$1,954,000 lower than in 2020.

Where the money comes from
Approximately 80% of all Central Arkansas Water operating revenues comes from water sales. Retail water sales accounted for 73.6% of total operating revenues with wholesale water sales making up another 6.8%. These percentages have slightly decreased over the past five years due to the implementation of a billing fee of \$1.92 in July of 2019 that increased overall ancillary charges.

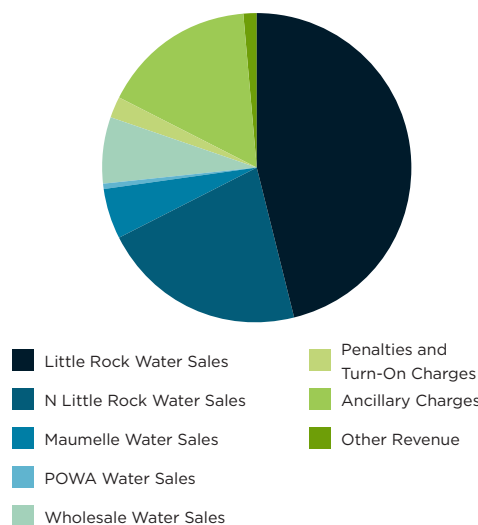
Total operating revenues for 2021 were \$75,573,000. Increased consumption was the major driver in the \$8.6 million, or 12.9%, increase over 2020 revenues. As evidenced in the following graph, Little Rock water sales accounted for just under half of the operating revenue for 2021 at 46.2%. North Little Rock water sales and ancillary charges made up the next largest revenue segments, with 21.5% and 16.2%, respectively.

Where the money goes
The largest portion of CAW expenditures is operating expenses. These are the expenses

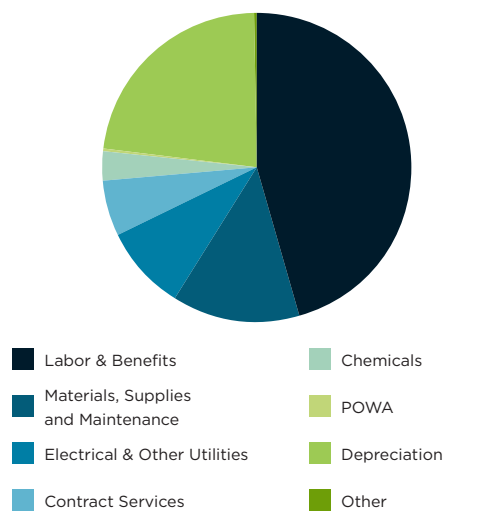
associated with acquiring, treating and distributing water to customers. Fluctuations in consumption year over year often drive the fluctuation in operating costs.

CAW had operating expenses of \$59,610,000 during 2021. Operating expenses were \$1,954,000 lower than in 2020. This decrease was primarily due to a reduction in labor and benefits expense for the year which stemmed from an increased return on investment in pension funds, thereby lowering pension expense for the year. Depreciation expense accounted for the largest percentage of expenses at 22.7%, with the Distribution department and Water Production being a close second and third with 22.0% and 21.6% of total operating costs, respectively.

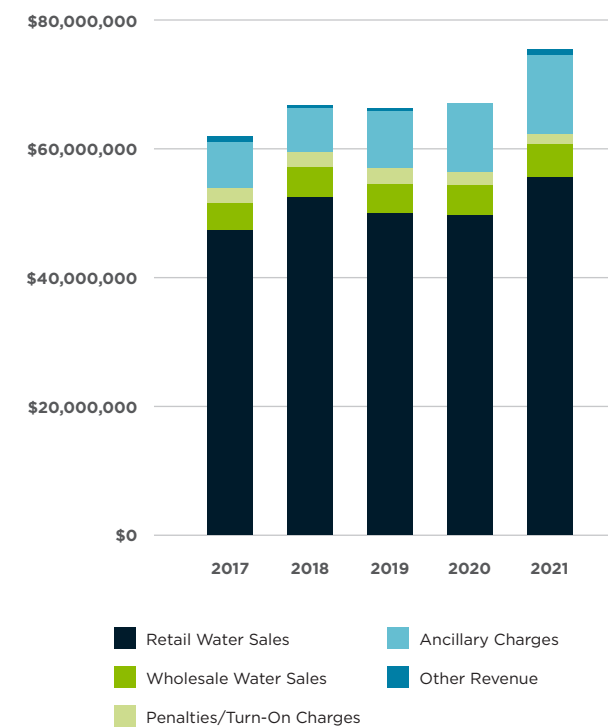
2021 Revenues by Category



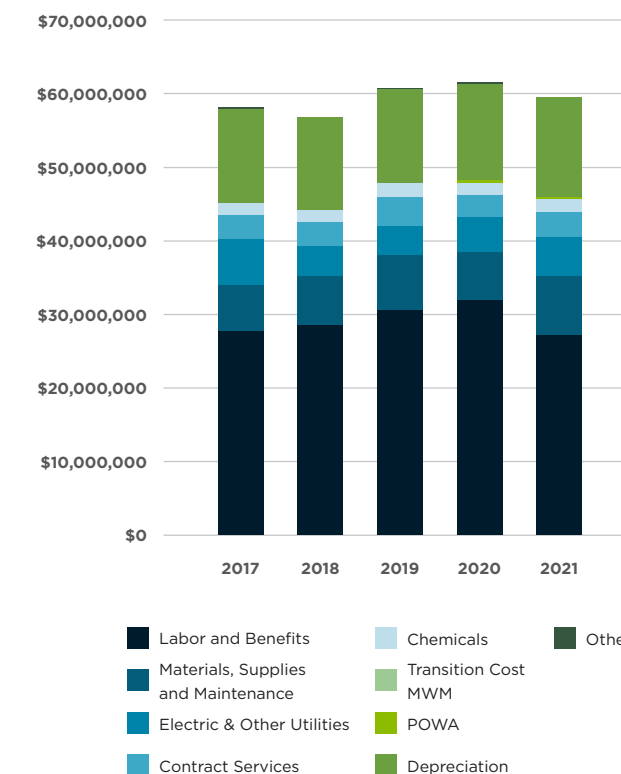
2021 Expenses by Natural Classification



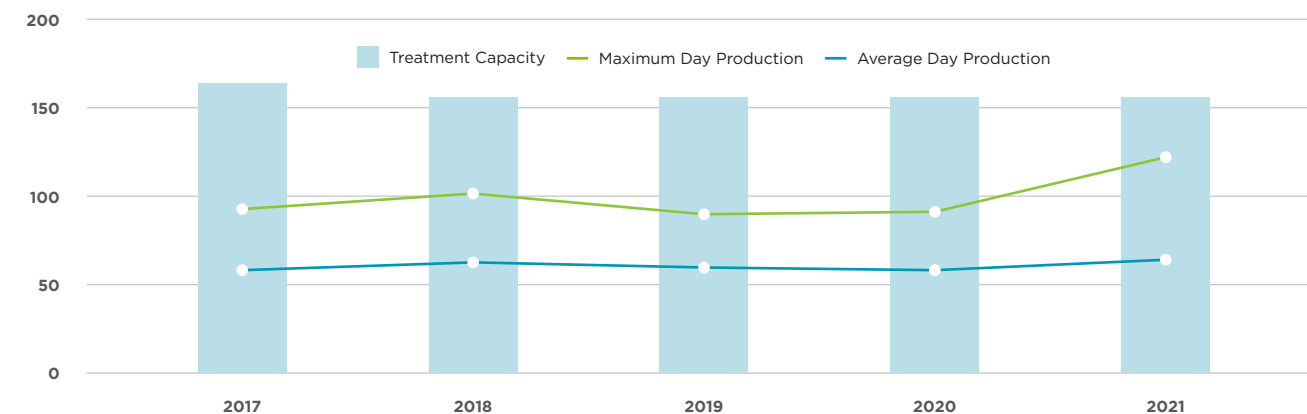
Revenues by Category



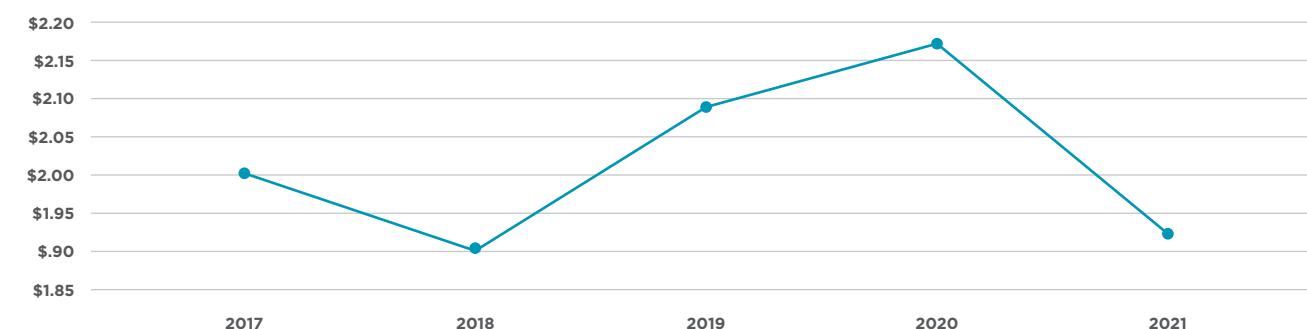
Expenses by Natural Classification



Water Production in Millions of Gallons



O&M Cost per CCF Produced



Financial Performance Capital Assets & Debt

The gross amount of capital assets grew over \$33.2 million dollars from 2020 to 2021.

What we own

Capital assets comprise the largest percent of CAW's assets 83.0% of total assets. Capital assets are considered any asset over \$5,000 with a useful life of greater than one year. The largest portion of CAW's capital assets is distribution infrastructure at 53.8%. The next largest are construction in progress, building and grounds, and land and use rights at 8.78%, 8.71%, and 8.47%, respectively.

The gross amount of capital assets grew over \$33.2 million dollars from 2020 to 2021. CAW received \$3.7 million dollars in capital assets under the consolidation agreement with Wye Mountain. Renovations to the Ozark treatment plant contributed to \$8.7 million dollars; \$2.0 million dollars was used to purchase land; costs associated with the Pinnacle Project accounted for \$2.1 million dollars; while the bulk of the remaining \$20.4 million dollars was spent on the installation and/or replacement of 12.21 miles of public water mains. An increase in accumulated

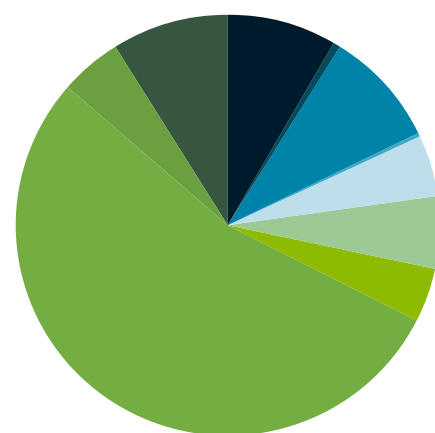
depreciation of \$14.0 million dollars offset these acquisitions, resulting in a net increase of capital assets of \$19.1 million dollars.

What we owe

CAW utilizes revenue bonds and notes from direct placements to finance large projects. At December 31, 2021, the Utility's credit rating by Moody's Investors Service was AA2. Strong credit ratings allow CAW to pay less interest on debt issuances and is also a good indicator of the Utility's strong financial position and stability.

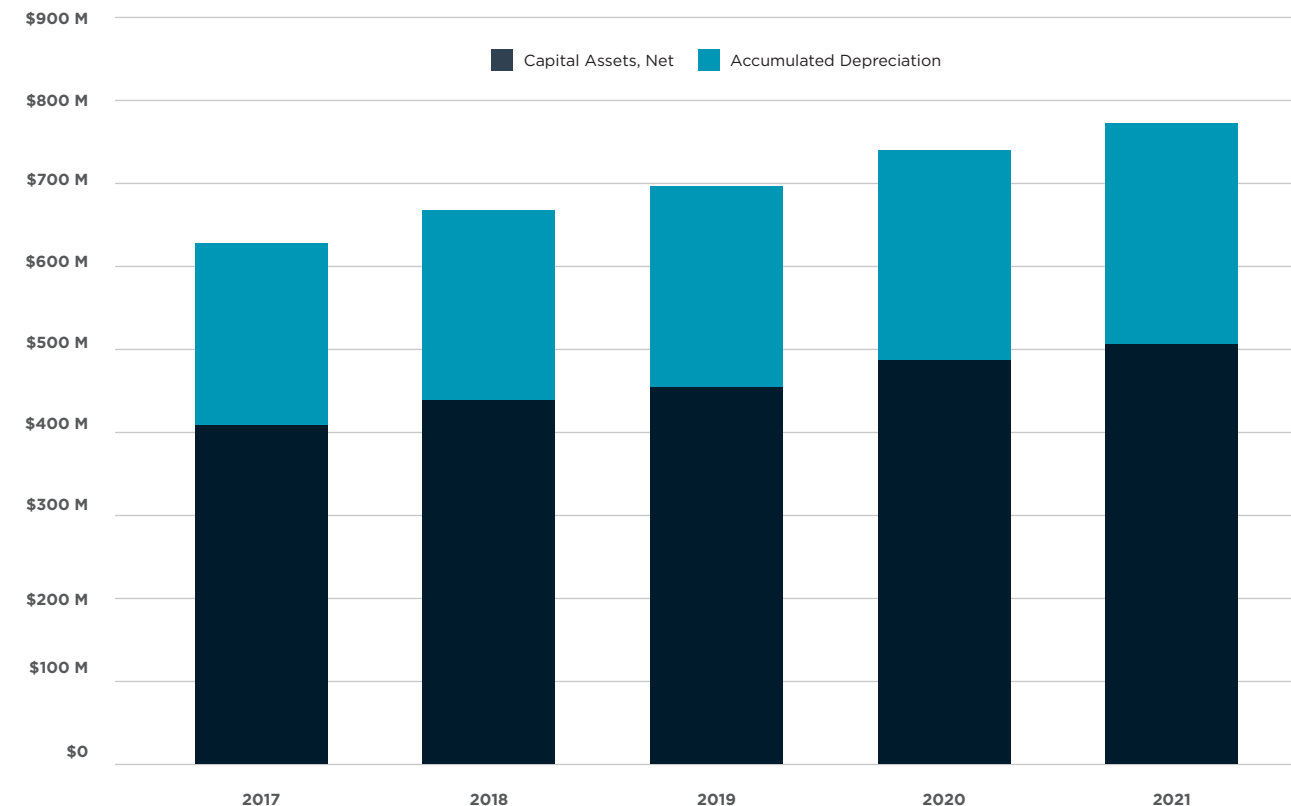
CAW began 2020 with an outstanding debt balance (excluding bonds with a debt surcharge levied specifically for repayment) of \$141,460,000. Principal payments decreased the ending balance to 140,855,000. The slight decrease in outstanding debt in 2021 offset by a decrease in the number of customers led to the increase in outstanding debt amount per customer from \$1,001 to \$1,032.

2021 Total Capital Assets

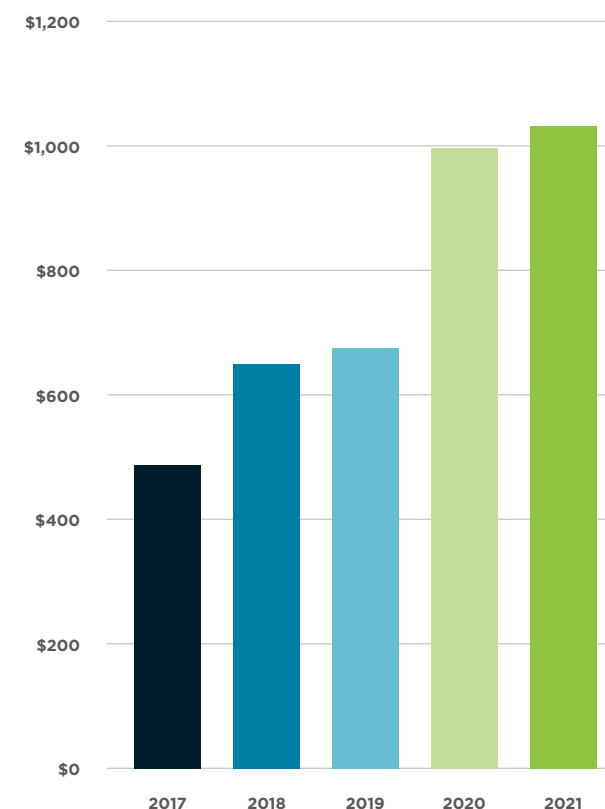


- Land and Land Use Rights, \$66,094,876
- Water Rights, \$4,974,114
- Building and Grounds, \$67,986,688
- Land Improvements, \$2,832,752
- Water Source, \$37,087,551
- Purification, \$43,306,480
- Pumping, \$33,338,528
- Distribution, \$419,813,215
- Other Equipment, \$36,655,974
- Construction in Progress, \$68,557,235

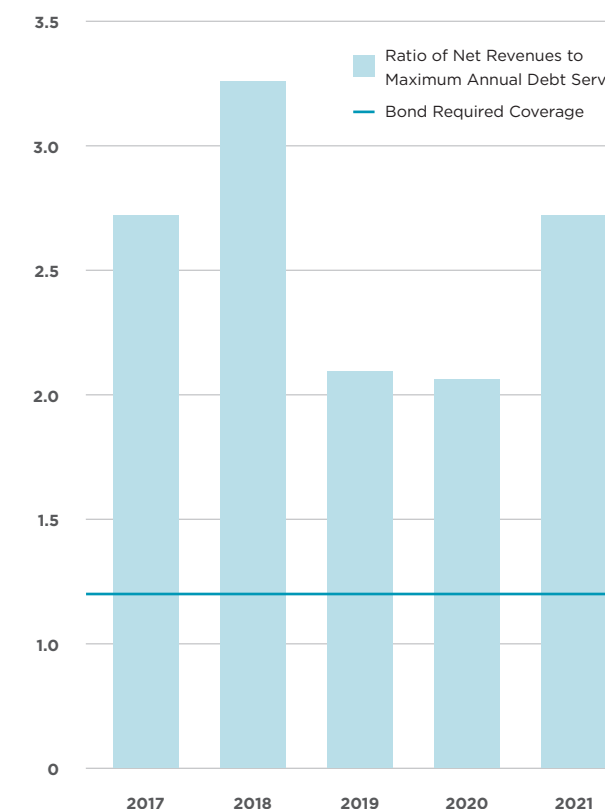
Total Capital Assets



Total Outstanding Debt per Customer



Net Revenue Coverage



Award-Winning Water

- America's Crown Communities Award, National League of Cities, 2001
- Gold Award for Exceptional Utility Performance, AMWA, 2001
- Big Heart Award, Watershed Human and Community Development Agency, 2005
- Public Agency of the Year, Sierra Club of Arkansas, 2006
- Jack Evans Regional Leadership Award, Metroplan, 2012
- Platinum Award for Utility Excellence, AMWA, 2012
- The International Davey Award, 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
- Best Tasting Drinking Water in Arkansas, AWW&WEA, 2018
- Best Places to Work in Arkansas, Arkansas Business, 2019
- Best Tasting Drinking Water, Southwest Section AWWA, 2019
- Patriot Award, Employer Support of the Guard and Reserve, 2019
- GFOA Certificate of Achievement for Excellence in Financial Reporting, 2009 - 2020
- GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting, 2017 - 2020
- GFOA Triple Crown Award, 2019 - 2020
- Large Business of the Year, North Little Rock Chamber, 2020
- Partnership for Safe Water Director's Award, Industry Collaboration, 2020
- GFOA Distinguished Budget Presentation Award, 2010 - 2021
- Utility of the Future Today Award, Water Environment Federation, 2020 - 2021
- Arkansas GIS User's Forum Excellence Award, 2021
- ATT Technology Innovation Award, 2021
- Best of the Best Drinking Water, North American Top 5 Finalist, American Water Works Association, 2021
- Cityworks Innovate Conference Excellence in Department Practice Award, 2021
- Forest of Recognized Importance, Arkansas Tree Farm Program, 2021
- Forest of Recognized Importance, Lake Maumelle Watershed, Arkansas Forestry Association, 2021
- Outstanding Performance Award, Arkansas Workers' Compensation Commission, 2004 - 2021
- Sustainable Forestry Initiative Certification, 2021
- Water Environment Federation Water Utility of the Future Today, 2021
- WaterNow Alliance Impact Award, CAW Board of Commissioners, 2021





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Stay Connected

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