

**Central Arkansas Water  
Water Revenue Bonds  
Series 2010A, 2010C, 2011A, 2012A, 2014, 2015, 2016 (Maumelle Water Acquisition  
Project), 2016 (Refunding), and 2017A**

**Annual Report  
Year Ended December 31, 2017**

*Customers.* As of December 31, 2017, the Central Arkansas Water ("CAW") System served a total of 135,130 customer accounts. Such customers were classified as follows:

<u>Customer Type</u>	<u>2017</u>
Residential	117,015
Commercial	11,824
Large Volume	52
Sprinkler	4,082
Private Fire Service	2,145
Wholesale	9
Raw Water	3
	135,130
	135,130

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

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

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

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

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

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

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

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

Upon completion of the Transition Period, the Issuer's outside-city rates for the Minimum Monthly Charge and the volumetric additional monthly charges will commence. The transition period will end January 31, 2018.

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

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

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

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

*Debt Surcharges.* In addition to the Minimum Monthly Charges and other rates set forth above, the Issuer shall also assess debt surcharges on each meter within the service territory established by MWM. The debt surcharges shall be in an amount sufficient to pay for the expenses identified in the Water Consolidation Agreement, dated as of October 13, 2015. Each debt surcharge will continue until the debt associated with the respective surcharge is repaid. Debt associated with the Short-Term Debt Surcharge was fully repaid and collection discontinued as of 12/31/2017.

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

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

The Water System’s top ten customers, based upon revenues produced during the twelve months ended December 31, 2017, were as follows:

<u>Customer</u>	<u>2017 Revenues</u>	<u>Percentage of Total 2017 System Revenues</u>	<u>Customer Type</u>
Jacksonville Water Works	\$1,456,000	2.33%	Wholesale
Bryant Water and Sewer Department	1,084,000	1.73%	Wholesale
Salem Water Users PWA	1,082,000	1.73%	Wholesale
University of Arkansas for Medical Sciences	217,000	0.35%	Retail
Cabot Waterworks	201,000	0.32%	Wholesale
Arkansas Department of Corrections	198,000	0.32%	Retail
Kimberly-Clark	172,000	0.27%	Retail
Sage V Foods, LLC	165,000	0.26%	Retail
3M Company	153,000	0.24%	Retail
Baptist Health Medical Center	148,000	0.24%	Retail

Usage. The following table shows the Water System's water usage statistics for the year ended December 31, 2017:

<u>Year</u>	<u>Average Daily Use in Million Gallons</u>	<u>Maximum Day's Use in Million Gallons</u>
2017	57.5 MG	87.1 MG

*Water Rates.* On December 10, 2015, the Issuer adopted Resolution 2015-20 which amended the Issuer's rate schedules as set forth in Resolution 2012-07 and Resolution 2014-10, respectively. Resolution 2015-20 established new water rate schedules effective January 1, 2017, January 1, 2018 and January 1, 2019. A summary of the rates in place effective January 1, 2017 and approved rates effective January 1, 2018 follows:

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

Minimum Monthly Charge

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

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE		MINIMUM MONTHLY CHARGE	
	EFFECTIVE JANUARY 1, 2017		EFFECTIVE JANUARY 1, 2018	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
5/8"	\$6.85	\$8.97	\$7.85	\$10.28
3/4"	8.85	11.59	10.14	13.28
1"	12.58	16.46	14.41	18.87
1 1/2"	21.26	27.83	24.37	31.9
2"	34.48	45.14	39.52	51.73
3"	63.76	83.46	73.07	95.64
4"	103.71	135.76	118.85	155.58
6"	205.14	268.52	235.08	307.72
8"	346.98	454.20	397.64	520.51
10"	499.56	653.92	572.49	749.38
12"	909.83	1,190.97	1,042.65	1,364.83

[Remainder of page left blank.]

Additional Monthly Charge

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

CUSTOMER CLASS	RATES				RATES			
	EFFECTIVE JANUARY 1, 2017				EFFECTIVE JANUARY 1, 2018			
	INSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		OUTSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		INSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		OUTSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)	
	3 - 33	OVER 33	3 - 33	OVER 33	3 - 33	OVER 33	3 - 33	OVER 33
RESIDENTIAL	\$1.65	\$2.15	\$2.64	\$3.44	\$1.71	\$2.22	\$2.73	\$3.57
COMMERCIAL	1.54	1.54	2.47	2.47	1.6	1.6	2.56	2.56
LARGE VOLUME	1.26	1.26	2.02	2.02	1.3	1.3	2.09	2.09
SPRINKLER	1.65	2.15	2.64	3.44	1.71	2.22	2.73	3.57

Customer Classes

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

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

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

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

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

[Remainder of page left blank.]

Private Fire Service

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

	RATES		RATES	
	EFFECTIVE JANUARY 1, 2017		EFFECTIVE JANUARY 1, 2018	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
FIRE HYDRANTS	\$74.24	\$107.39	\$79.51	\$115.02
FIRE CONNECTION MINIMUM CHARGE	86.08	124.54	92.2	133.38
AUTOMATIC SPRINKLER SYSTEM MINIMUM CHARGE (1,000 HEADS)	86.08	124.54	92.2	133.38
ADDITIONAL HEADS, EACH	0.09	0.14	0.09	0.15
STANDPIPE 1 1/4" (OR SMALLER) DIAMETER, EACH	16.84	24.37	18.03	26.1
1 1/2" DIAMETER, EACH	26.21	37.90	28.07	40.59
2" DIAMETER, EACH	43.06	62.27	46.12	66.69
2 1/2" DIAMETER, EACH	86.08	124.54	92.2	133.38

Wholesale Customers

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

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE	MINIMUM MONTHLY CHARGE
	EFFECTIVE JANUARY 1, 2017	EFFECTIVE JANUARY 1, 2018
	(INCLUDES FIRST 200CF)	(INCLUDES FIRST 200CF)
5/8"	\$8.97	\$10.28
3/4"	11.59	13.28
1"	16.46	18.87
1 1/2"	27.83	31.90
2"	45.14	51.73
3"	83.46	95.64
4"	135.76	155.58
6"	268.52	307.72
8"	454.20	520.51
10"	653.92	749.38
12"	1,190.97	1,364.83

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

Any public water system acquiring water from CAW without a written agreement for the purchase and sale of surplus water shall be charged the rates applicable to the “outside the city” Commercial customer class, as established in accordance with Section 2 of Resolution 2015-20, as amended from time to time.

Raw Water Customers

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

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

Conservation Rate Discount

Inside City Residential accounts with a single house meter (no sprinkler meter) using 100, 200 or 300 cubic feet of monthly usage shall be given a Conservation Rate Discount of 15%. The discount shall not apply to zero consumption billings. Total discounts amounted to approximately \$291,000 in 2017.

[Remainder of page left blank.]

## Watershed Protection Fee

The Watershed Protection Fee, in amounts as set forth in the table below (no change since 2009 implementation), is added to the monthly bills of all customers. This fee is accumulated in a fund to be used for small land purchases, to service the debt on larger land purchases, and/or fund the administration of the Watershed Protection Program. If debt is incurred for any of the aforementioned purposes and the fee is pledged as collateral or a source of repayment for the debt, then the fee will continue as necessary throughout the life of the debt to service debt repayment. The fee may be suspended should CAW deem it no longer necessary for the Watershed Protection Program. Fee charges totaled approximately \$1,120,000 in 2017.

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

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

*Rate Stabilization Account.* The Rate Stabilization Account was established to provide more stable retail water rates to customers and to assist CAW in its efforts to meet financial performance indicators and goals specified in bond covenants and monitored by various financial rating agencies. Deposits or withdrawals may be made up to and including the date ninety (90) days after the end of the fiscal year for which the deposit or withdrawal will be included in the net revenue calculation. A \$20,000,000 funding limit has been established on the account. At December 31, 2017, the account balance totaled approximately \$8,168,000.

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



restricted, limited or even fully disconnected at CAW’s discretion. In such event, CAW may levy a service charge for installation and removal of the device installed to restrict or limit flow or a reconnection charge in the case of disconnection.

The following table details account data for the Water System for the year ended December 31, 2017. An inactive account is written off after 90 days. When a customer with a written off balance returns to the Water System, any amount previously written off must be paid in full before service can be connected or reconnected. Outside collection services are used in attempts to collect from inactive customer accounts.

<u>Year</u>	<u>System Revenues</u>	<u>Bad Debt Expense</u>	<u>Percentage</u>
2017	\$62,611,000	\$287,000	0.46%

*Projected Capital Expenditures.* The Issuer anticipates the cost of contemplated expansions and capital improvements to the Water System over the next five years to be as set forth in the following table. Said expansions and improvements are expected to be financed from a combination of sources, including (i) proceeds from the 2016 Maumelle Bonds; (ii) proceeds from Water Revenue Bonds Series 2017A; (iii) an additional bond issue in mid-2018 in the approximate principal amount of \$17.0 million; (iv) an additional bond issue in early-2019 in the principal amount not to exceed \$31.0 million; and (v) cash funds generated by the Water System.

<u>Category of Improvement</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Totals</u>
Lake Maumelle Watershed Protection	\$1,760,000	\$1,010,000	\$860,000	\$860,000	\$760,000	\$5,250,000
Equipment and Services	10,042,400	13,051,800	5,726,800	4,178,000	3,929,000	36,928,000
Water Rights	4,640,000	—	—	—	—	4,640,000
Storage and Surge Tanks	—	1,005,000	210,000	600,000	850,000	2,665,000
Facilities Upgrades	6,158,700	6,504,000	13,873,000	14,558,000	2,258,000	43,351,700
Transmission Mains	3,700,000	650,000	2,200,000	550,000	300,000	7,400,000
Distribution Mains	<u>5,998,200</u>	<u>5,598,000</u>	<u>5,668,000</u>	<u>7,645,000</u>	<u>7,697,000</u>	<u>32,606,200</u>
Totals:	<u>\$32,299,300</u>	<u>\$27,818,800</u>	<u>\$28,537,800</u>	<u>\$28,391,000</u>	<u>\$15,794,000</u>	<u>\$132,840,900</u>

*Annual Audit of Central Arkansas Water for Year Ended December 31, 2017.* Attached is the annual audit of Central Arkansas Water for the years ended December 31, 2017 and 2016, as prepared by BKD, LLP, independent certified public accountants.

[Remainder of page left blank.]