



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR YEARS ENDED DECEMBER 31, 2018 & 2017

SAFE, LOW-COST, ABUNDANT, DEPENDABLE, HIGH-QUALITY WATER



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Years Ended December 31, 2018 & 2017

Prepared by the Central Arkansas Water Finance Department
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Central Arkansas Water

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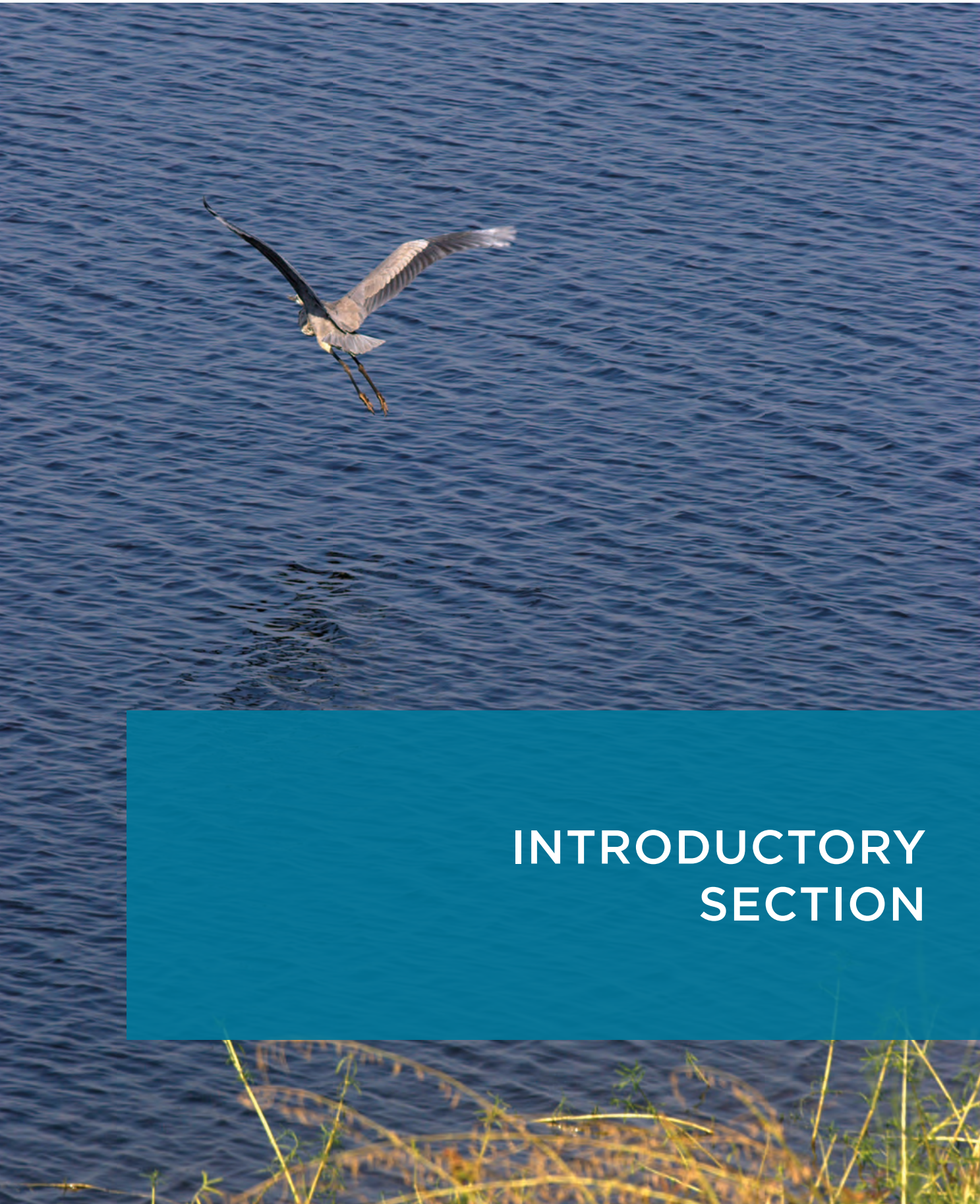
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**INTRODUCTORY
SECTION**



April 15, 2019

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, 2018 and 2017.

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, 2018 and 2017. See Management's Discussion and Analysis, beginning on Page 22. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utility.

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

There are inherent limitations to internal controls, however. The first is perhaps the most recognized; the cost of an internal control should not exceed the related benefit. Cost-benefit analyses are crucial to the success of a business and as such, are performed on proposed internal controls. Management override and risk of collusion are other inherent limitations to internal controls that must be considered in the maintenance and evaluation of the internal control structure.

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

THE REPORTING ENTITY

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

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

The Utility remains under public ownership. A seven-member Board of Commissioners governs the Utility and I, as Chief Executive Officer, oversee day-to-day operations and administration. The Utility's organizational structure includes eight departments: Administration, Distribution, Engineering, Finance, Customer Service, Information Services, Water Production, and Water Quality.

The Utility collects, stores, treats, and distributes water for a population of approximately 450,000 in central Arkansas. The major components of the system are two raw water supplies, Lake Winona and Lake Maumelle; a regulating and storage facility, Jackson Reservoir; two treatment facilities, Jack H. Wilson Treatment Plant (Wilson Plant) and Ozark Point Treatment Plant (Ozark Point Plant); approximately 2,518 miles of public pipeline; 26 remote booster pumping stations; and 29 remote storage facilities. As of December 31, 2018, the Utility provides water service to approximately 530 square miles and approximately 135,000 active customer accounts.

MAJOR INITIATIVES AND ACCOMPLISHMENTS IN 2018

As an organization, CAW saw a very busy 2018. One of the main focuses was to move forward with the replacement of the current customer information system (CIS). The Pinnacle Project team was created with members from the Finance, Engineering, and Information Services (IS) departments. This team was tasked with recommending a new CIS software platform and working with partners to successfully implement. After much research and consideration, the team recommended Cayenta Utilities. The implementation process is planned to continue through 2019 and end in mid-2020.

In February 2018, water began flowing from the CAW system to the former MWM customers. A 30-inch transmission main installation was completed in late 2017, which allowed the city of Maumelle to connect to the CAW water system. The decommissioning of the MWM water treatment plant and wells continued into 2019.

Jim McKenzie was selected as the newest CAW commissioner and began his term in March 2018. He is one of the four Little Rock appointees and will serve through June 2020.

Administration

CAW Administration had a year of transition with the retirement of the Chief Administrative Officer. With this retirement, the department was restructured with the addition of a Chief Innovation Officer and a Human Resources Director. Both positions are tasked with moving the department and the Utility forward in innovation, technology and process improvement.

CAW's turnover for 2018 was 6.31%, with a five-year average of 8.00%. Both statistics are significantly lower than the national average for state and local government of 31.50% in 2018 and 20.12% for the five-year average. These statistics are provided through the Bureau of Labor Statistics (BLS).

The Utility continued the VIP² training and High Performing, Innovative, Values-Driven, Informed, Passionate (HIVIP) culture initiatives with further training and communications through print and video bulletin boards.

The Diversity Inclusion Team (DIT) continued its efforts by sponsoring Ancestry DNA testing made available at a reduced pricing to further explore everyone's unique ancestry.

CAW's 2018 Cost of Benefits as a percent of total compensation (wages + benefits) remained flat at 29.67% and was closely aligned with the BLS/Society for Human Resources Management (SHRM) national average of 29.20%. However, the 2019 insurance renewal came in at an unusually high 17.7% increase due mostly to an extraordinary amount of high-dollar claims experience. To combat future benefit spikes, a total compensation analysis is scheduled to be performed in 2019.

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

In 2018, Public Affairs and Communications created the position of Media Specialist, whose purpose is to further develop CAW social media platforms and expand into new social media avenues. Since the implementation of this position, CAW has experienced an increase in electronic media exposure, including a 600% increase in reach on social media. A large part of this success was due to the implementation of Nextdoor and LinkedIn pages. CAW also continues to strengthen its Facebook and Twitter presence.

Throughout 2018, Public Affairs and Communications issued over 30 press releases and spokesperson interviews regarding Utility activities for media outlets in central Arkansas. Public Affairs and Communications also implemented a REACH video bulletin board system in every CAW facility. These boards allow the sharing of real-time information with employees at duty stations to keep them informed and to celebrate staff and utility accomplishments.

During 2018, CAW held its second and third Citizens Water Academies to educate our communities. These events provided residents an opportunity to learn about the inner workings of the Utility, empowering them to become Utility ambassadors and educate others about the products and services CAW delivers. After-action surveys showed very favorable responses from academy participants regarding the acquired knowledge.

CAW also held its second "Power of Water" professional development program for local teachers. Thanks to a partnership with the University of Arkansas at Little Rock, CAW welcomed 18 elementary school teachers from across the state to spend a week learning about the day-to-day work performed by CAW. Due to the success of this professional development platform, CAW has since added a high school curriculum to the program. Because of the strong STEM (Science, Technology, Engineering and Math) focus of the program, the teachers were able to take back core STEM practices performed daily by CAW staff and share those concepts with students in a classroom setting.

CAW also experienced growth from community engagement efforts, educating consumers about the value of water and the Utility's operations. During 2018, CAW increased its education and outreach efforts by 7,000 people as a result of international partnerships with Global Ties, various municipalities, state agencies, community sponsorships, and various community events.

The Utility continued to have strong stakeholder involvement and heightened consumer interest in public-policy initiatives and the development of strategies to address various issues and challenges. In

In addition to embracing stakeholder input on various projects related to watershed protection, wise water consumption, and resource utilization, the Utility took a proactive approach to media relations for several key activities in 2018. These activities included education programs, tours, special events, television appearances, and public service involvement.

The Utility continued to market and promote enrollment in paperless billing and use of improved online account management features. At the end of 2018, approximately 14% of the Utility's customers were enrolled in paperless billing, which supports the Utility's sustainability initiatives and reduces expense.

During 2018, the Environmental Health and Safety (EHS) department emphasized personal safety through monthly safety meetings and other focused initiatives. EHS conducted 122 training sessions that provided over 3,600 hours of safety training for CAW employees. In addition, the EHS section continued emphasizing personal safety outside the classroom by conducting 19 facility inspections and 357 field inspections.

Distribution

In 2018, the Distribution department completed over 121,300 work orders on CAW assets including pump stations, treatment plants, storage tanks, wells, water mains, meters, valves, and hydrants. All work in the department is captured and tracked through a computerized work management system – Cityworks. In 2018, a major Cityworks upgrade was implemented and Distribution staff transitioned from using laptops to using iPads. Distribution staff has seen an increase in efficiency with this upgrade, eliminating downtime needed to 'data-pump' work orders to and from the laptops since the iPads operate in real time. This connectivity has streamlined the process and transition of work orders in the system.

The Distribution department staff is highly devoted to reducing unaccounted for water (UAW) and embarked with new technology provided by Utilis Ltd in late 2017. Utilis uses spectral aerial imaging, taken from a satellite-mounted sensor, to spot non-surfacing leaks. Utilis identified 156 possible leaks within 747 miles of pipe in CAW's gravity pressure system. In early 2018, Distribution personnel investigated these, finding 58 of the 156 to be actual leaks (33 leaks were CAW's, and 25 leaks were on the customer's house line). Distribution staff was also successful in finding several other larger leaks throughout the system, which reduced UAW by over 4%. For December 2018, the 12-month average had declined to 8.37%, which is well below the Arkansas Department of Health's UAW action level of 15%.

The department strives to maintain outstanding levels of service for customers. In 2018, the system had a total of 478 spontaneous main breaks; however, only 41 of those breaks caused unplanned outages due to the emergency nature.

With a combined effort from the Distribution and Engineering departments, the Utility replaced approximately 29,000 feet of 2-inch galvanized pipe in 2018. Distribution's proactive approach in replacing troublesome galvanized mains has paid great dividends, with the continued reduction of galvanized main breaks. The department enacted the 2-inch galvanized pipe replacement program in 2010, which has led to a decrease in the number of spontaneous breaks from 234 breaks per 100 mile of galvanized pipe in 2010 to 134 breaks per 100 miles of galvanized pipe in 2018.

Distribution staff continued its efforts in mapping meters within the system, collecting global positioning system (GPS) points on an additional 39,528 meters in 2018. With nearly 151,000 meters in the distribution system, the work in 2018 leaves only 775 meters remaining in 2019. The initiative to capture customer meter locations is twofold. One reason is to quickly locate a meter that may be covered by leaves or snow, and the second is that mapping meters is the first step in moving forward with a 'Smart Outage' type software. The 'Smart Outage' would allow field personnel to identify all valves needed for emergency shutdowns, the number of customers affected, and the names and addresses of each customer attached to the account in one click. Future features would include phone/text/email notification of emergency shutdowns in affected areas. Since nearly all meters have been mapped, Distribution will focus on mapping the service lines in 2019.

The Distribution department continued its Lead Service Replacement Program initiated in 2017. With renewed attention to lead within water systems, CAW began reviewing its Lead Service Replacement program dating back to the late 1980s. As a result of this review, staff discovered that 47,000 services had a material type listed as unknown. In 2016, Distribution began verifying unknown service material types, specifically on services that were installed prior to 1950. The department verified a total of 8,350 services between 2016 and 2017, confirming that 164 services were comprised of lead. In a multi-staff effort, the Distribution, Water Quality, and Public Affairs and Communications departments, along with executive staff, developed a protocol for lead service replacement that included community leaders and customers. Distribution staff began replacing lead services in late 2017 and by the end of 2018, only 12 known lead services remained in the system. Water Quality conducted over 500 samples on these replacements through 2018, with all post 90-day samples below the action level of 0.015mg/L for Lead. CAW's Lead Service Replacement program resulted in a proven replacement protocol that maintained customer confidence and confirmed no lead present on any private service/house line in the CAW system.

Distribution continued its efforts in Maumelle following the successful merger with MWM in 2016. In 2018, Distribution took the lead during the Maumelle Water Source Transition bringing CAW water into the entire Maumelle area in February 2018. Distribution flushed the entire Maumelle water system in order to strategically bring CAW water into Maumelle as the new 30-inch Maumelle transmission main was placed into service.

Along with the Maumelle Water Source Transition, Distribution continued to focus on service line replacements in Maumelle due to poor condition. Distribution replaced 165 services in 2016, 185 services in 2017, and 181 services in 2018. Service line replacements will continue to be of high importance in 2019 for the Maumelle area.

Finally, the 2018 Meter Change Out Program converted 10,230 meters in the Maumelle service area from gallon units to centum cubic feet (CCF) or as it is more commonly known, hundred cubic feet. Most of these meters were changed from April through September in order to accommodate the Average Winter Consumption Billing feature used by NLR Wastewater Utility. This required a large and coordinated effort including not only Distribution staff but also Billing, IS, and Customer Service. This interdepartmental effort resulted in replacing 12,315 meters systemwide, more than doubling the Utility's goal of 5,000 meters.

Engineering

The Engineering department, through capital improvement projects and private developer construction, managed and oversaw the installation and/or replacement of 22.9 miles of public water mains and the installation of 6.9 miles of new private water mains in 2018. Also, 5.6 miles of public water mains and 0.4 miles of private water mains were retired in 2018.

In 2018, the Engineering department designed and managed through contract construction, the installation of approximately 28,660 feet of galvanized, PVC, and asbestos-cement pipe replacement. Less than half of the pipe replacement, 12,083 feet, was performed inside Maumelle, while the remaining pipe replacement of 16,577 feet was performed in other CAW service areas. The Engineering department also designed for installation approximately 14,000 feet of galvanized pipe replacement that was performed in-house by the CAW Distribution department. The Engineering department managed to completion the installation of 32,923 feet of new pipe along previously unserved routes.

Major projects that the Engineering department designed, managed and/or inspected to completion in 2018 include:

- Managed the contract construction phase of 5.5 miles of 30-inch transmission main installed to connect the City of Maumelle to the CAW system. This project was finished and placed on-line in February 2018 at a construction cost of \$6,900,000.
- Completed several major and minor relocation projects for street, road, and drainage improvements initiated by the Arkansas Department of Transportation (ARDOT) and the cities of Little Rock, North Little Rock, and Sherwood, including the following significant projects: (1) relocation by contract of 7,210 feet of 24-inch and 3-inch water mains along East Maryland Avenue for Sherwood, (2) completed and finalized the relocation by contract of 2,674 feet of 12-inch and 8-inch water pipe along Kanis Road Phase 1, and (3) relocation by the CAW Distribution department of 950 feet of 12-inch pipe along Kanis Road Phase 2.
- Phase 1 of the rehabilitation and improvement to the Wilson Plant Pump Station No. 1A was bid and awarded in late 2017. Work progressed on this \$3,600,000 project through 2018 and should be completed by the end of the first quarter of 2019. Phase 2 of the project is scheduled to start in 2021 under a new approximately \$3,000,000 contract. The total work through both phases will replace all 10 pumping units and electrical switchgear in the 55-year-old pumping station.
- After completion of the Preliminary Engineering Report in 2017 for improvements to the Ozark Point Plant, a professional services contract for the detailed design of those improvements was signed with Carollo Engineers in February 2018. Detailed design of approximately \$36,000,000 of improvements were ongoing during 2018 and are scheduled to be completed in the first quarter of 2019. The Engineering department is supervising and managing this design project.
- Continued consultation with ARDOT for water line relocations along the proposed 30 Crossing Project, which will include the installation of a replacement 24-inch transmission main on the proposed new Interstate 30 Arkansas River Bridge.

- Started consultation with ARDOT for water line relocations along the proposed Highway 10 (Cantrell Road) improvements west of Interstate 430. Water line relocation design was not completed by the end of 2018 but could result in relocation costs exceeding \$1,000,000.
- Completed the Phase 1 and Phase 2 water line replacement projects inside the Maumelle service area. Design of a Phase 3 water line replacement project was completed in 2018, with construction occurring in 2019.
- Completed the installation of 2,238 feet of 12-inch water line along West Baseline Road to provide an interconnection between the West Markham and Mabelvale pressure zones.
- Completed the installation of 1,538 feet of 12-inch water line along Manitou Drive in Maumelle to alleviate suction supply problems with Booster Pump Station No. 31.
- Designed and bid the rehabilitation of water storage Tank No. 30A, including the complete replacement of its damaged roof and the painting of the interior and exterior of the tank.
- Managed to completion a \$125,000 repair of a soil slide on the downstream face of the Lake Maumelle Dam.
- Managed the repair and rewinding of the 2,250 HP Motor No. 4 at the Lake Maumelle Raw Water Pumping Station.
- Managed the purchase and installation of the new pumping unit No. 8 in the Wilson Plant High-Service Pump Station (HSPS) No. 1B.

Also in 2018, the Engineering department started other engineering designs for new projects scheduled for construction in 2019 and beyond, including water main relocations due to new street/highway improvements and replacement of troublesome galvanized, PVC, and asbestos-cement water mains.

Finance

For the ninth consecutive year, the Finance department received both the Distinguished Budget Presentation Award and the Certificate of Achievement for Excellence in Financial Reporting from the GFOA.

The GFOA Distinguished Budget Presentation Awards Program recognizes those state and local governments that prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting.

The GFOA Certificate of Achievement for Excellence in Financial Reporting Program (CAFR Program) recognizes those state and local governments that go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure.

Three members of the Finance department staff transitioned to the Pinnacle Project team, with two of them on a full-time basis. Several subject matter experts (SMEs) from the Finance department assisted with input during the request for proposal and implementation processes.

Finance assisted in the issuance of \$25 million in water revenue bonds. The proceeds were used to finance capital improvements at the Ozark Point Plant, land purchases in the Lake Maumelle watershed, a portion of the CIS replacement, and distribution system projects.

Customer Service

Customer traffic in the Little Rock and North Little Rock offices was flat, with 36,000 residents served in person in both 2018 and 2017. CAW cashiers received 67,000 customer payments in 2018, which was down slightly from the 2017 count of 70,000. While the total number of customer accounts continues to increase and the number of in-person transactions are decreasing, a trend of alternate paying methods is emerging. Marked increases were seen in phone payments, web payments, and other electronic fund transfer (EFT) methods. More and more customers are taking advantage of the varied payment methods that the Utility offers. During 2018, customers could pay by recurring automated clearinghouse (ACH), Auto Pay, EFT, interactive voice response (IVR), web, text, cash, check, or certified funds. Web payments alone saw an increase of 22%.

More customers continued to take advantage of some of the newer features offered at CAW. Customers created over 12,000 new online accounts in 2018. Over 12,000 customers per month in 2018 chose to receive e-bill notices rather than standard paper billing invoices. Each e-bill saves CAW about \$0.50 in printing, mailing, and postage cost, resulting in savings of \$6,000 per month.

CAW saw a slight decrease in customer phone contact in 2018. For the year, CAW's call center fielded 205,000 calls from valued customers. This equates to a reduction of calls than were received in 2017. The abandoned call percentage improved from 6.15% in 2017 to 5.70% in 2018. Most of the improved performance can be attributed to a better departmental structure, which reduced Customer Service Representative (CSR) phone time.

CAW's Meter Reading team again did an excellent job in keeping up with monitoring nearly 151,000 meters each month last year. Altogether, approximately 1.5 million readings were captured throughout 2018. It should be noted that more than 99% of CAW meters are "Direct Read" meter types which require a reader to physically inspect the meter to obtain the reading. These readings were collected with an extremely high accuracy rate of nearly 99.9% and allowed the Utility to bill rate payers in a timely manner. This high accuracy and production are instrumental in maintaining a consistent level of revenue flow and ensures that necessary funds are collected to maintain CAW operational costs.

Information Services (IS)

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

In order to support the 2020 strategic plan, CAW contracted with EMA, Inc. to develop an Information Technology Master Plan (ITMP) for the Utility. The ITMP project began in 2017 and completed in early 2018. In addition to the ITMP recommendation to either upgrade or replace the CIS system, enQuesta, the ITMP also analyzed the overall technology utilization by CAW and made recommendations for new systems and improvements to existing systems. IS staff are now in the process of implementing these

recommendations starting with an Information Services Governance Committee (ISGC). The ISGC is comprised of several key stakeholders from CAW business units as well as the IS Director, and Geographic Information System (GIS) Manager. The group will evaluate all projects recommend in the ITMP as well as any other projects that are competing for IS resources to determine a prioritized approach to completing them.

IS staff are heavily involved in the Pinnacle Project. The GIS Manager served as Interim Co-Project Manager during Phase 1, Request for Proposal (RFP) preparation, and Phase 2, Vendor Selection and Contract Negotiation. The IS Department also provided key staff for the core project team. A Database Coordinator, served as a technical and business analyst lead, while the IS Director and Network Administrator participated in RFP requirements gathering, vendor selection, and planning for the implementation phase of the project. IS staff will continue to play a significant role in Phase 3 of the project and through project completion.

Distribution field crews began using iPads in place of laptops for work order and service request management. In May, Cityworks and ArcGIS were upgraded to support a web browser-based user interface. The web browser-based software runs in a tablet mode allowing it to be used as an application on an iPad. The iPad technology is constantly connected to the CAW web servers over a cellular data connection. The constant connection allows for real-time data transfer and communication between field and office staff. The real-time data transfer replaced the check-in/check-out process that field crews were required to run twice a day. These advancements resulted in a major gain in work productivity and access to more accurate and current information. To accomplish these advancements, IS staff spent a significant amount of effort in 2018 on software upgrades, mobile device management, system reconfiguration and testing, as well as end user training.

Water Production

The Utility purchased Supervisory Control and Data Acquisition (SCADA) remote site radios and programmable logic controllers due to legacy issues. The radios were installed in half of the CAW system.

Treatment chemicals were a high priority in 2018. CAW contracted a study to determine lime feed necessity for raw water. Staff also began working with chlorine dioxide generators to increase the feeding ability.

Water Production worked with the Engineering department to repair a dry side slide on the dam at Lake Maumelle.

Water Production staff met with consulting engineers to prepare for the Ozark Point Plant improvements and expansion and the Wilson Plant HSPS No. 1A pump station rehabilitation project.

Several additional projects were accomplished at the Wilson Plant with reduced pressure zone (RPZ) devices installed on the supply waters to the plant and the lab facilities located at the plant, fencing replaced to enhance security measures, and the cleaning and repair of the baffle curtain in Clearwell No. 2.

The Water Production department was heavily involved in the closure and decommissioning of the MWM treatment plant. For safety and compliance with regulations, staff assisted in the removal of unused treatment chemicals.

Water Quality

The CAW laboratory section conducted over 85,000 water quality analyses in 2018, ensuring customers received the highest quality water, and the Utility maintained full compliance with the federal Safe Drinking Water Act (SDWA) and the State of Arkansas' Rules and Regulations Pertaining to Public Water Systems. CAW's laboratory remained one of the few utility laboratories in the state certified for coliform analyses under the Total Coliform Rule of the SDWA.

With improvements in laboratory processes and analytical equipment, laboratory staff worked toward gaining additional certification from the Arkansas Department of Environmental Quality (ADEQ) for its analytical processes. This certification allows CAW's laboratory to expand services provided, as well as adding an additional layer of competency. This also positions the laboratory to have reciprocity certification in multiple surrounding states. This certification enhances CAW's water quality monitoring in Lake Maumelle, Lake Winona, and their respective watersheds. The certification was confirmed after competency evaluations and audits were conducted by ADEQ in March 2018. Additionally, the tri-annual Arkansas Department of Health audit and certification renewal was performed in March 2018, reaffirming the lab's certification for bacteriological analyses.

Staff conducted and participated in additional water quality research studies, primarily focused on the presence/absence of Legionella in the distribution system, the conclusion of a two-year study in July 2018 with the Centers for Disease Control related to water system line breaks (a total nine events were sampled in 2018) and continuation of the lead service line replacement program which included individual site testing for lead and copper and extensive customer interaction. The dedicated sample station project also continued in 2018 with an additional 20 sites installed. This project ensures the highest quality of data for decision making are provided through improved sample collection.

In 2018, forest management efforts continued to be a major focus of in the Lake Maumelle watershed. 505 acres were burned in prescribed burns, and 195 acres were prepped to burn. Additional burn plans were written for Sleepy Hollow (multiple units) and West Lake 4. An emergency ecological thinning was completed in June along Hwy 10 in the Farkleberry 1 Unit; the Farkleberry 1 and 2 Units are marked and went to bid for an upcoming thinning (341 acres). The University of Central Arkansas Spring Environmental Capstone Course created an unpaved roads identification template and started work for CAW to incorporate into a broader project. The Water Quality department is working with the GIS section to get the proper GPS setup to make this work more accurate and efficient. Approximately seven miles of roads were re-seeded in 2018. The annual tree survivability study on the Forest Legacy Project reforestation was conducted in the spring of 2018. The mountain bike pilot study was completed, and Phase II: User-Based Study began. After installation of experimental sites, participant selection, and conducted user orientations, the trails were opened in December to begin data collection.

An additional 1,356.3 acres of conservation lands were added in 2018 at an approximate cost of \$10 million dollars. This included purchases in high-priority riparian areas such as Reece Creek, which is a major tributary of Lake Maumelle, as well as along the Maumelle River and can significantly impact water quality and the life of the Lake Maumelle reservoir.

RELEVANT FINANCIAL POLICIES

Based on capital financing, debt management and fiscal responsibility guidelines, periodic reviews of all outstanding debt are performed to identify refunding opportunities. Refunding is considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding, or the refunding is needed in order to modernize covenants essential to operations, or to restructure the payment of existing debt. As a rule, the present value savings of a refunding should exceed 3%. Due to the 2017 tax reform bill, advance refunding issuances are no longer allowed. As this option allowed state and local governments to save millions of dollars on debt service payments, efforts are continuing to remove this provision.

In 2018, CAW implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Details of the statement and the financial impact are discussed in *Note 11* of the Notes to Financial Statements.

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 governments, the Utility's bondholders, and the general public. The Utility contracted with the accounting firm **BKD, LLP** for this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The auditor's report has been included in the Financial Section of this report.

Award

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to CAW for its CAFR for the year ended December 31, 2017. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local governmental financial reports.

A Certificate of Achievement was awarded because CAW published an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Risk Management

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

- A natural disaster could damage real property assets of the Utility.

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

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

Acknowledgements

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

Respectfully submitted,

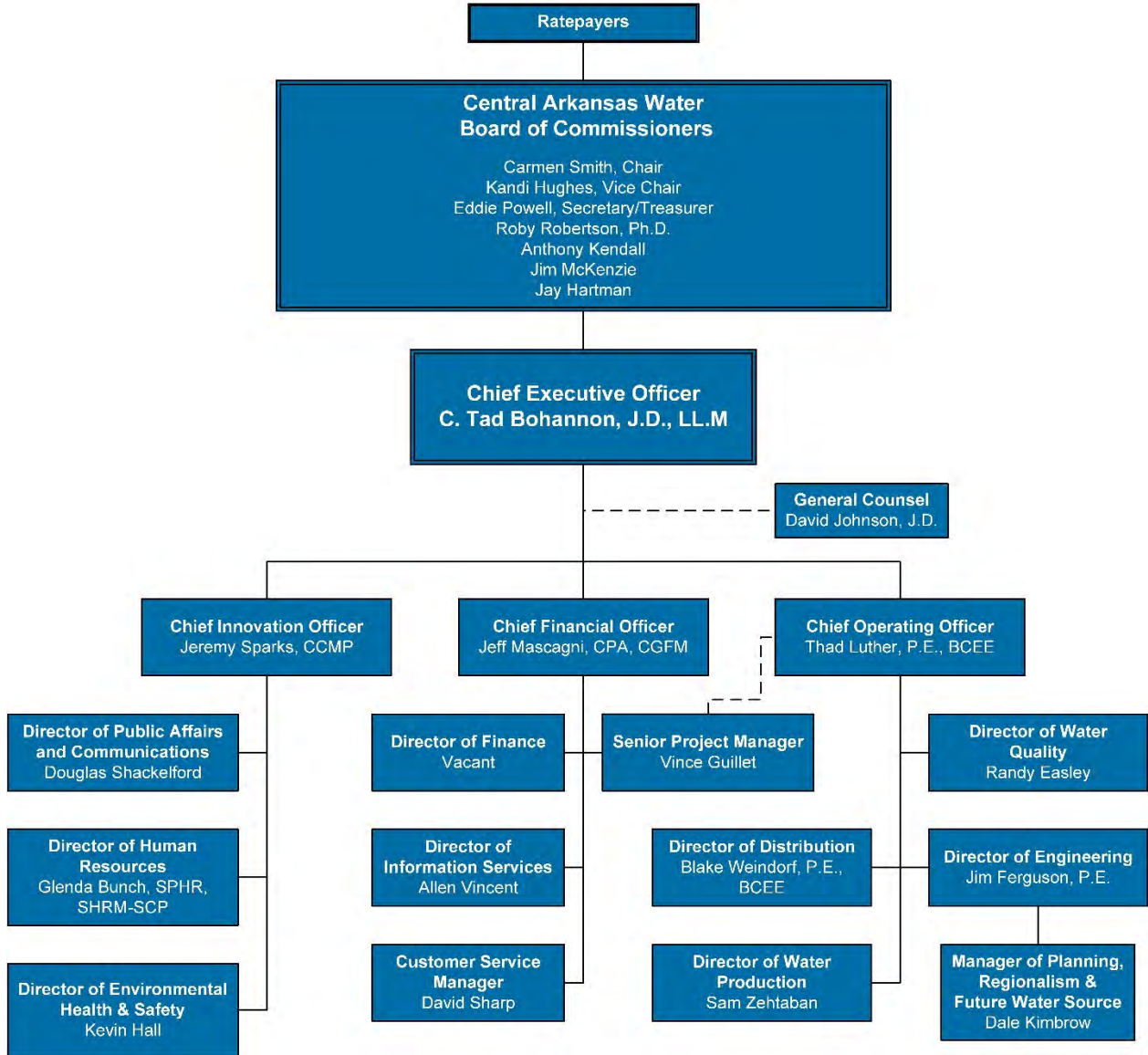


Tad Bohannon
Chief Executive Officer
CTB/jbm

CENTRAL ARKANSAS WATER

Organizational Chart

Effective: December 31, 2018



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**Central Arkansas Water
BOARD OF COMMISSIONERS**



Carmen Smith
Chair



Kandi Hughes
Vice Chair



Eddie Powell
Secretary / Treasurer



Jay Hartman
Commissioner



Jim McKenzie
Commissioner



Anthony Kendall
Commissioner



Roby Robertson
Commissioner

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Central Arkansas Water

MANAGEMENT TEAM

C. Tad Bohannon, J.D., LL.M	Chief Executive Officer
Thad Luther, P.E., BCEE	Chief Operating Officer
David Johnson, J.D.	General Counsel
Jeff Mascagni, CPA, CGFM	Chief Financial Officer
Jeremy Sparks, CCMP	Chief Innovation Officer
Blake Weindorf, P.E., BCEE	Director of Distribution
Jim Ferguson, P.E.	Director of Engineering
Kevin Hall	Director of Environmental Health and Safety
Glenda Bunch, SHRM-SCP, SPHR	Director of Human Resources
Allen Vincent	Director of Information Services
Douglas Shackelford	Director of Public Affairs and Communications
Sam Zehtaban	Director of Water Production
Randy Easley	Director of Water Quality

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Government Finance Officers Association

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Central Arkansas Water

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

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Central Arkansas Water

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

ACH	Automated Clearinghouse
ADEQ	Arkansas Department of Environmental Quality
ARDOT	Arkansas Department of Transportation
BCEE	Board Certified Environmental Engineer
BLS	Bureau of Labor Statistics
CAFR	Comprehensive Annual Financial Report
CAW	Central Arkansas Water
CCF	Centum Cubic Feet (Hundred Cubic Feet)
CCMP	Certified Change Management Professional
CGFM	Certified Government Financial Manager
CIS	Customer Information System
CPA	Certified Public Accountant
CSR	Customer Service Representative
DIT	Diversity and Inclusion Team
EFT	Electronic Funds Transfer
EHS	Environmental Health and Safety
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association of the United States and Canada
GIS	Geographic Information System
GPS	Global Positioning System
HIVIP	High Performing, Innovative, Values Driven, Informed, Passionate
HSPS	High-Service Pump Station
IS	Information Services
ISGC	Information Services Governance Committee
ITMP	Information Technology Master Plan
IVR	Interactive Voice Response
J.D.	Juris Doctor
MWM	Maumelle Water Management
OPEB	Other Postemployment Benefits
P.E.	Professional Engineer
RFP	Request for Proposal
RPZ	Reduced Pressure Zone
SCADA	Supervisory Control and Data Acquisition
SDWA	Safe Drinking Water Act
SHRM	Society for Human Resources Management

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Central Arkansas Water
GLOSSARY OF ACRONYMS AND ABBREVIATIONS

SHRM-SCP	Society for Human Resources Management
SPHR	Senior Professional in Human Resources
STEM	Science, Technology, Engineering, and Math
SME	Subject Matter Expert
UAW	Unaccounted For Water

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FINANCIAL SECTION





**MANAGEMENT'S
DISCUSSION
& ANALYSIS**

Independent Auditor's Report

Board of Commissioners
Central Arkansas Water
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fiduciary fund information of Central Arkansas Water (the Utility) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fiduciary fund information of the Utility as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in *Note 11* to the financial statements, in 2018, the Utility adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, by applying the provisions of the Statement retrospectively to 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Commissioners
Central Arkansas Water

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

BKD, LLP

Little Rock, Arkansas
April 15, 2019

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Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017

This section of the CAFR presents management's analysis of the Utility's financial performance during the fiscal years ended December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the transmittal letter, the financial statements, and the notes to the financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand dollars.

Financial Highlights

- The Utility net position increased by \$10,678,000 in 2018 as compared to a \$6,411,000 decrease in 2017. CAW's 2018 rate increase, increased consumption, and increased investment income combined with less workers' compensation costs and controlled operational spending accounted for this increase. The 2017 decrease was primarily due to the restatement of beginning net position due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75.
- Operating revenues increased \$5,086,000, or 8.2%, in 2018 and \$1,138,000 in 2017. A five percent (5%) increase in consumption from 2017, coupled with the rate increase, accounted for the increased revenues in 2018. The 2017 increase was due to the rate increase, increased penalties, turn-on charges, and Maumelle surcharge income. Operating expenses increased by \$865,000 from 2017 to 2018 and increased by \$1,517,000 from 2016 to 2017. The 2017 to 2018 increase was due to increased personnel costs, offset by decreased workers' compensation costs. The increase from 2016 to 2017 was primarily due to increased personnel costs and increased depreciation expense.
- The Utility's total noncurrent liabilities increased during 2018 by \$14,921,000 and increased by \$10,809,000 in 2017. The issuance of three bonds was the reason for the increase in 2018. The 2017 increase was due to the implementation of GASB Statement No. 75 as mentioned above.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. The basic financial statements are comprised of the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows, as well as the statements of fiduciary net position, and the statements of changes in fiduciary net position. The notes to financial statements provide additional information regarding amounts presented in the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

The financial statements of the Utility are designed to provide readers with a broad overview of the Utility's finances in a manner similar to a private sector business. The Utility's financial statements were prepared using the economic resources measurement focus and full accrual basis of accounting, consistent with the requirements of GASB applicable to enterprise funds.

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Utility's deferred outflows and inflows of resources consisted of deferred loss and gain on debt refunding transactions, pension-

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

related deferred outflows and inflows, and other postemployment benefits (OPEB)-related deferred outflows and inflows.

A deferred loss or gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt. Pension-related deferred outflows and inflows consisted of CAW's proportionate share of pension-related items due to differences between projected and actual experience, contributions to the plan not recognized in pension expense, and changes in actuarial assumptions. These items were a result of new accounting standards requiring CAW to recognize its share of pension plan liabilities and pension expense. OPEB-related deferred outflows and inflows consisted of differences between projected and actual experience and changes in actuarial assumptions. These items were also a result of new accounting standards.

The *statements of net position* present information about the four elements that make up the Utility's statements of net position. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The *statements of revenues, expenses and changes in net position* present information that shows how the Utility's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements 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 OPEB Trust to fund the costs of postemployment health care benefits for eligible employees, as well as the assets and liabilities of Brushy Island Public Water Authority (Brushy Island) held by the Utility as receiver. These resources were held in trust and were not available to support the Utility's programs or to satisfy any of the Utility's liabilities that were not directly related to funding postemployment health care benefit costs or Brushy Island debt service.

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

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

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Total current assets	\$ 62,176,000	\$ 60,048,000	\$ 69,760,000
Restricted noncurrent assets	23,474,000	9,453,000	4,961,000
Net capital assets	<u>438,549,000</u>	<u>419,203,000</u>	<u>410,009,000</u>
Total Assets	<u>\$ 524,199,000</u>	<u>\$ 488,704,000</u>	<u>\$ 484,730,000</u>
Deferred Outflows of Resources	<u>\$ 10,000,000</u>	<u>\$ 13,580,000</u>	<u>\$ 8,129,000</u>
Liabilities			
Total current liabilities	\$ 26,507,000	\$ 23,200,000	\$ 18,297,000
Total noncurrent liabilities	<u>140,519,000</u>	<u>125,598,000</u>	<u>114,789,000</u>
Total Liabilities	<u>\$ 167,026,000</u>	<u>\$ 148,798,000</u>	<u>\$ 133,086,000</u>
Deferred Inflows of Resources	<u>\$ 4,142,000</u>	<u>\$ 1,133,000</u>	<u>\$ 1,009,000</u>
Net Position			
Net investment in capital assets	\$ 348,267,000	\$ 337,465,000	\$ 329,906,000
Restricted – expendable	10,518,000	9,094,000	7,684,000
Unrestricted	<u>4,246,000</u>	<u>5,794,000</u>	<u>21,174,000</u>
Total Net Position	<u>\$ 363,031,000</u>	<u>\$ 352,353,000</u>	<u>\$ 358,764,000</u>
Operating Revenues			
Little Rock water sales	\$ 33,935,000	\$ 30,210,000	\$ 29,905,000
North Little Rock water sales	14,969,000	13,461,000	13,185,000
Maumelle water sales	3,601,000	3,771,000	4,453,000
Wholesale	4,759,000	4,206,000	3,782,000
Penalties	991,000	923,000	885,000
Turn-on charges	1,335,000	1,343,000	1,092,000
Ancillary charges	6,769,000	7,308,000	6,575,000
Other revenue	<u>561,000</u>	<u>612,000</u>	<u>819,000</u>
Total Operating Revenues	<u>66,920,000</u>	<u>61,834,000</u>	<u>60,696,000</u>
Operating Expenses			
Administration	4,019,000	3,448,000	2,668,000
Distribution	14,981,000	14,257,000	13,313,000
Engineering	2,039,000	2,050,000	1,804,000
Finance	2,895,000	3,079,000	3,104,000
Customer service	3,299,000	3,152,000	4,955,000
Information services	3,302,000	3,329,000	3,186,000
Water production	9,121,000	9,341,000	8,240,000
Water quality	2,268,000	2,135,000	2,051,000
General	2,299,000	2,484,000	3,057,000
Depreciation	<u>12,687,000</u>	<u>12,770,000</u>	<u>12,150,000</u>
Total Operating Expenses	<u>56,910,000</u>	<u>56,045,000</u>	<u>54,528,000</u>
Operating Income	<u>10,010,000</u>	<u>5,789,000</u>	<u>6,168,000</u>

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Nonoperating Revenues (Expenses)			
Transfers to Cities of LR and NLR	\$ (709,000)	\$ (706,000)	\$ (676,000)
Gain (loss) on disposal of capital assets	(18,000)	70,000	77,000
Investment income	847,000	413,000	238,000
Bond and other interest expense	<u>(2,032,000)</u>	<u>(2,044,000)</u>	<u>(3,285,000)</u>
Total Nonoperating Expenses	<u>(1,912,000)</u>	<u>(2,267,000)</u>	<u>(3,646,000)</u>
Income Before Contributions	8,098,000	3,522,000	2,522,000
Contributions			
Capital contributions from grantors	-	-	26,000
Contributions-in-aid of construction	2,580,000	2,442,000	2,148,000
Transfer of operations from MWM	<u>-</u>	<u>-</u>	<u>7,745,000</u>
Total Contributions	2,580,000	2,442,000	9,919,000
Change in Net Position	10,678,000	5,964,000	12,441,000
Net Position – Beginning of Year	<u>352,353,000</u>	<u>358,764,000</u>	<u>346,323,000</u>
OPEB Related Restatement of Net Position	<u>-</u>	<u>(12,375,000)</u>	<u>-</u>
Net Position – Beginning of Year, as Restated	<u>352,353,000</u>	<u>346,389,000</u>	<u>346,323,000</u>
Net Position – End of Year	<u>\$ 363,031,000</u>	<u>\$ 352,353,000</u>	<u>\$ 358,764,000</u>

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

Statements of Net Position

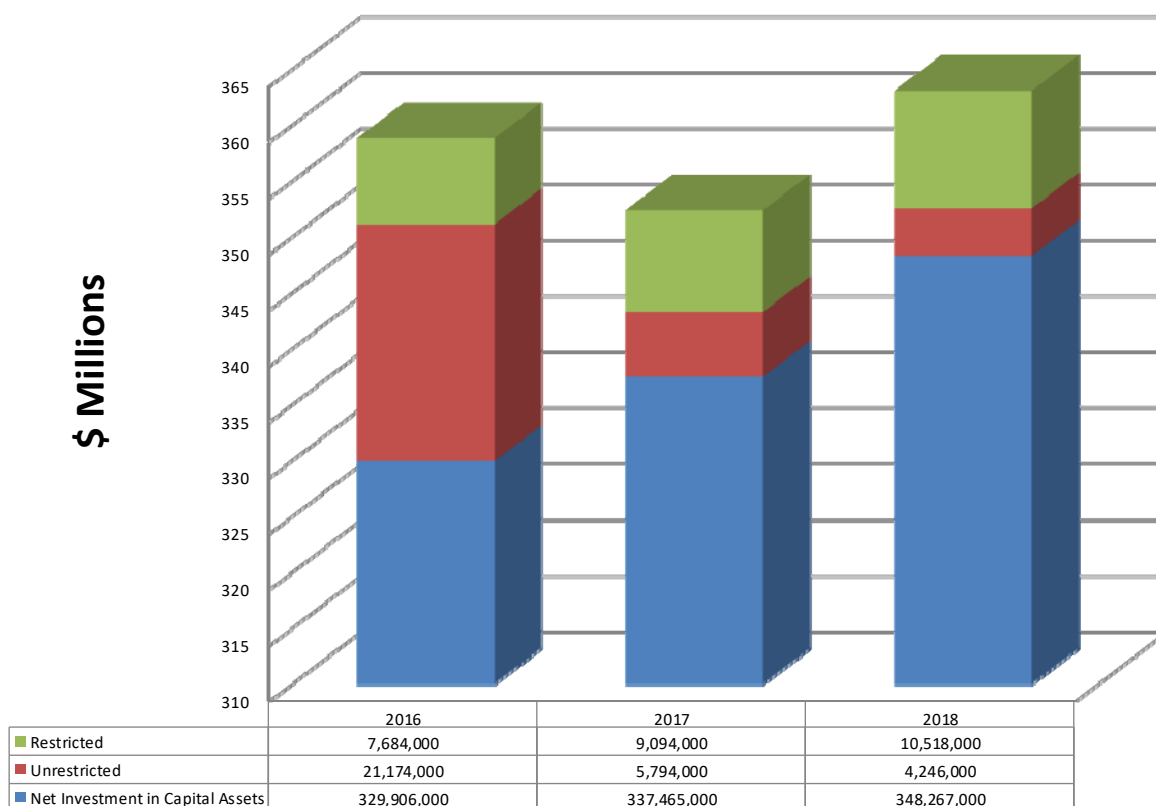
As noted earlier, net position may serve, over time, as a useful indicator of the Utility's financial position. At the close of 2018 and 2017, the Utility's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$363,031,000 and \$352,353,000, respectively. The largest portion of net position, 96% in both 2018 and 2017, reflected the Utility's investment in capital assets, less related outstanding debt incurred to acquire those assets. The Utility used these capital assets to provide services to customers of the Utility, and, consequently, these assets were not available for future spending. Although the Utility's investment in capital assets was reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Depreciation was recorded on all depreciable capital assets using the straight-line method. During the years ended December 31, 2018 and 2017, no changes were made in the method of recording capital assets, nor were there any changes made to any of the standard service lives of those assets. There were no significant changes in the condition of infrastructure assets. Funds that were budgeted for infrastructure maintenance were adequate for needs that arose during the years ended December 31, 2018 and 2017.

An additional portion of the Utility's net position, 3% in 2018 and 2017, is comprised of resources that are subject to external restrictions on how they may be used. In 2018, restricted net position increased \$1,424,000 and increased \$1,410,000 in 2017. 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, \$4,246,000 in 2018 and \$5,794,000 in 2017, was unrestricted and was used to meet the Utility's ongoing obligations to customers and creditors. Unrestricted net position decreased \$1,548,000 in 2018 and decreased \$15,380,000 in 2017. The 2018 decrease was due to the increase in the other two components of net position, while the 2017 decrease was attributable to the implementation of GASB Statement No. 75.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

Components of Net Position



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, 2018 and 2017, were 2.3 and 2.6, respectively. This ratio means for every \$1.00 in current liabilities as of December 31, 2018, the Utility had \$2.30 in current assets. For the years ended December 31, 2018 and 2017, the quick ratios were 2.2 and 2.5, respectively.

Efficiency can be demonstrated by calculating the average collection period of billed revenue. Other agencies were included in the monthly bills issued to customers (*i.e.*, Little Rock Water Reclamation Authority, North Little Rock Waste Water Utility, Little Rock Solid Waste Services Division, Pulaski County Sanitation Division and others); however, these balances were subtracted from accounts receivable so that a comparison can be made between water receivables and water revenues.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

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 20 days as of both December 31, 2018 and 2017.

The Utility continued to strive to improve cash flow and customer service by offering a variety of payment options. In addition to accepting payments at the Capitol Avenue office in Little Rock, the Utility offered flexibility in bill payment options by allowing customers to pay their bills by automatic bank draft, online at the Utility website, by mail, by telephone through a third-party service provider, online through third-party payment providers, or at third-party payment locations throughout the service area. During 2018, CAW continued to promote paperless billing. Electronic means of payment were also promoted in 2018, resulting in a 22% increase in web payments.

Another important ratio is the debt utilization ratio. The debt utilization ratio is calculated by dividing total liabilities by total assets and was 32% and 30% for 2018 and 2017, respectively. These ratios were both well below the median ratio of 39% as determined by the American Water Works Association's 2017 benchmark.

It is the policy of the Utility not to make any adjustments to net position unless a prior period adjustment is necessary.

Statements of Revenues, Expenses and Changes in Net Position

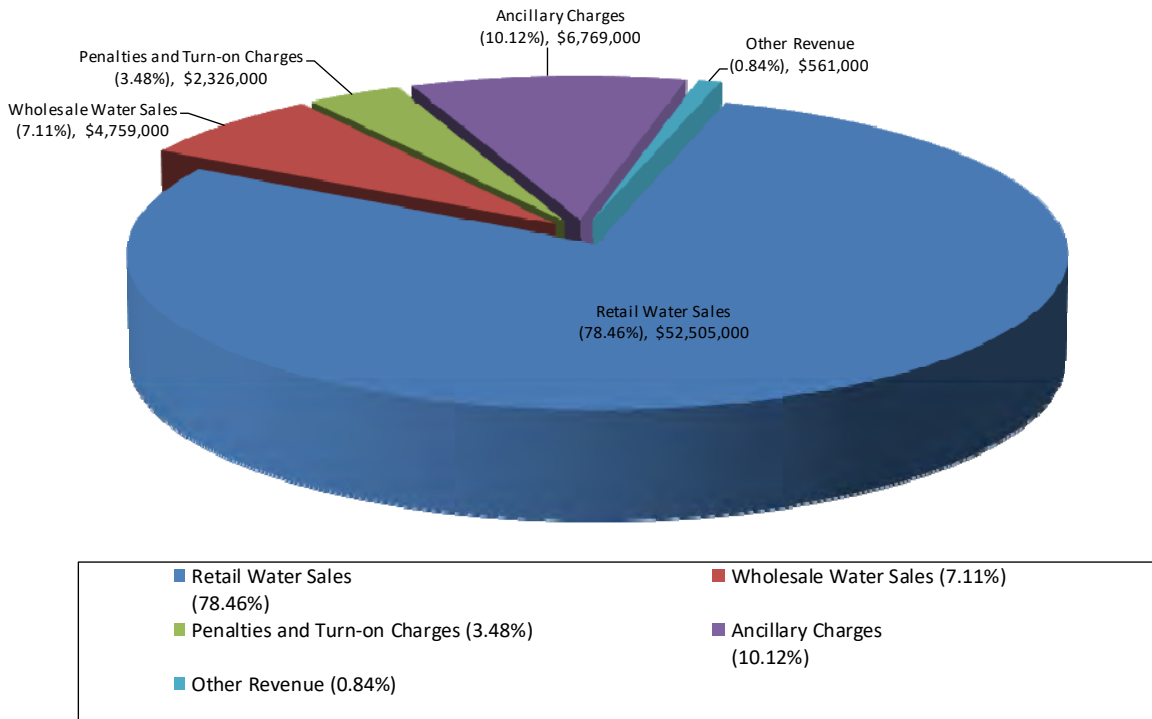
Operating Revenues

A retail rate increase of 8.9% went into effect on January 1, 2018. Wholesale rates increased approximately 11.0% in 2018. No consumption-based retail increase was planned for 2019.

Operating revenue for 2018 increased \$5,086,000 over 2017 levels and increased \$1,138,000 in 2017 over 2016 levels. Water consumption totaled 18.0, 17.2, and 18.2 billion gallons in 2018, 2017, and 2016, respectively. The 2018 increase in operating revenue was mainly due to the rate increase and increased consumption from 2017, while the operating revenue increase in 2017 was primarily due to the increase in ancillary charges. Higher-than-normal rainfall in the spring and summer months can have a significant impact on sprinkler consumption.

Central Arkansas Water
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

The following graph illustrates sources of revenue during the year ended December 31, 2018.



Operating Expenses

- **Administration** – Administration costs included commissioner, management, human resources, public affairs and communications, environmental health and safety, and special project team expenses. During 2018, total Administrative costs increased \$571,000. The driving force behind this increase was the addition of a Chief Innovation Officer and the creation of the Pinnacle Project team, which involved the transfer of five staff members into Administration, accounting for \$369,000 of this increase. Management increases of \$110,000 in legal fees, \$21,000 in dues and subscriptions, and \$29,000 in special projects, along with a \$33,000 increase in public affairs and communications advertising, accounted for the remainder of the increase. During 2017, total administrative costs increased by \$780,000. The 2017 increase was due primarily the addition of an Education/Outreach Specialist and full annual salaries and benefits for the CEO, General Counsel, and the Director of Public Affairs and Communications, all of whom were hired during 2016.

Distribution – The Distribution department included expenses for maintaining water mains, booster pumping stations, water storage tanks, vehicles, treatment plants, and other facilities. The 2018 costs increased \$724,000 over 2017, and the 2017 costs increased \$944,000 over 2016. The 2018

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

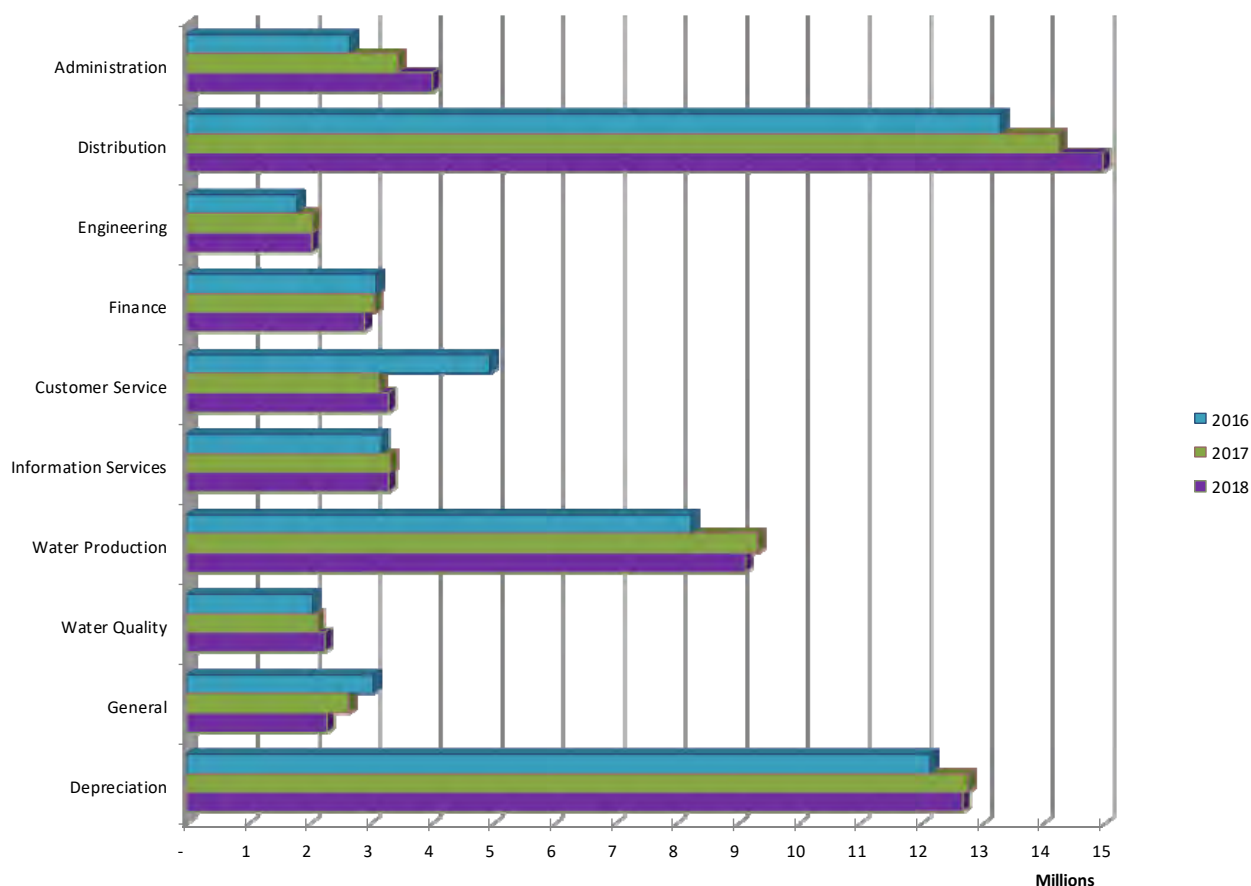
increase was due primarily to normal annual payroll increases and increases in distribution mains and services material and equipment job costs. In 2017, the transfer of the field operations section from Customer Service to Distribution and the addition of a facilities maintenance section were the reasons for increased expense.

- **Engineering** – The Engineering department included expenses for the planning, design and inspection of construction improvements within the water system. Engineering is comprised of sections for Engineering administrative staff, new service, cross connection, and regionalism. During 2018, total Engineering costs decreased by \$11,000. From 2017 to 2018, new service costs decreased by \$10,000 and capitalized labor increased \$9,000 and were offset by increases in the administrative section of \$4,000, cross connection section of \$3,000, and regionalism section of \$1,000. The 2017 Engineering costs increased \$246,000 due to increased payroll and related costs.
- **Finance** – The Finance department included costs related to finance and budgeting, purchasing, and billing. From 2017 to 2018, total department costs decreased by \$184,000. This was primarily due to increased capitalized labor related to the Pinnacle Project of \$12,000 and realized process efficiencies from the Maumelle merger, resulting in less payroll and benefits of \$171,000. Decreases in all Finance sections accounted for an overall decrease of \$25,000 during 2017.
- **Customer Service** – Customer Service included costs related to customer service-office and meter reading. Costs increased \$147,000 from 2017 to 2018. Additional call center representative positions accounted for this increase. The 2017 expenses decreased \$1,803,000 from 2016 due to the transfer of field operations to the Distribution department mentioned above.
- **Information Services** – The IS department expenses were related to maintaining information systems, computer operations, and telecommunications of the Utility. IS is divided into IS administration and GIS. During 2018, total department costs decreased by \$27,000. Decreases in payroll and related benefits of \$100,000, due to the transfer of two staff to the Pinnacle Project team, offset by increases in telephone and PC hardware costs of \$22,000 and \$54,000, respectively, were the reason for the department decrease. Department costs increased by \$143,000 in 2017 compared to 2016, primarily attributable to increases in network services and software maintenance and licensing.
- **Water Production** – Expenses for Water Production included treatment and maintenance of the lakes. Department costs decreased by \$220,000 during 2018. This decrease is due to realized process efficiencies from the Maumelle merger, resulting in less payroll and benefits, chemical, and electric utility costs of \$16,000, \$38,000, and \$156,000, respectively. During 2017, total department costs increased by \$1,101,000. Increased expenses of \$154,000 in management and \$304,000 at the Wilson Plant, along with Maumelle plant operations of \$294,000, attributed to the increase.
- **Water Quality** – The Water Quality department expenses included monitoring water-quality and watershed land-use activities, building support for watershed protection, and providing the Board of Commissioners with water quality recommendations. The 2018 expenses increased by \$133,000 due to an increase in administrative payroll and benefits of \$115,000 and administrative special projects of \$23,000. Water Quality expenses increased by \$84,000 in 2017 compared to 2016. This

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

increase was due to an increase in lab supplies and the watershed management professional fees, offset by decreases in contracts for outside services.

- General – General expenses included costs for insurance and building maintenance at the James T. Harvey (JTH) Administration Building, along with other costs. The largest expense items included group and retiree insurance, workers' compensation expenses, and business insurance premiums. General expenses decreased by \$185,000 from 2017 to 2018. A decrease in workers' compensation costs of \$273,000 and professional services of \$26,000, offset by an increase in retiree insurance of \$146,000, accounted for the overall decrease. The 2017 general expenses decreased \$573,000 from 2016 due to workers' compensation costs returning to a normal level after increased costs in past years.



Central Arkansas Water
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

Nonoperating Revenues (Expenses)

- Investment Income – 2018 investment income increased by \$434,000 from 2017 and by \$175,000 from 2016. The 2018 increase was due to interest rate increases, an additional bond fund, and favorable market conditions. The 2017 increase was due to investing in higher performing money market accounts.
- Bond Interest Expense – Net bond interest expense for 2018 was \$2,032,000, compared to \$2,044,000 for 2017. Increased capitalized interest kept the 2018 interest expense close to the 2017 amount despite additional bond issuance costs in 2018.
- Capital Contribution from Grantors – There were no capital grants awarded in 2018 or 2017.
- Contributions-in-Aid of Construction – Contributions-in-aid of construction may be received as cash or equity in the form of infrastructure assets. Contributions-in-aid of construction were \$2,148,000 in 2016, increased in 2017 to \$2,442,000, and increased in 2018 to \$2,580,000. These fluctuating amounts show the variability of contributions from year to year as a result of new construction.
- There were no special items in 2018 or 2017.

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 2018 include the following:

Project Description	Total Cost
Completion of construction project to relocate 7,210 feet of 24-inch and 3-inch water pipe along East Maryland Ave. in Sherwood for pending road and drainage improvements	\$ 1,200,000
Completion of construction project to install 1,300 feet of 12-inch and 8-inch ductile iron pipe to replace asbestos-cement pipe along National Drive in Little Rock	\$ 230,000
Completion of installation of 8,725 feet of various pipe sizes for the Phase 1 pipe replacement project in Maumelle	\$ 1,111,200
Completion of installation of 3,358 feet of various pipe sizes for the Phase 2 pipe replacement project in Maumelle (16-inch pipe in Phase 2 to be installed 2019)	\$ 499,600

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

Project Description	Total Cost
Completion of installation of 28,573 feet of 30-inch transmission main to the Maumelle service area – connection to CAW water system	\$ 6,900,000
Completion of installation of 1,538 feet of 12-inch pipe to booster pump station No. 31, located on Manitou Drive in Maumelle	\$ 222,000
Completion of installation of 2,238 feet of 12-inch pipe along West Baseline Road in Little Rock	\$ 244,650
Completion of repair of 2,250 HP motor no. 4 at the Lake Maumelle raw water pumping station	\$ 117,300
Completion of purchase and installation of new pumping unit #8 in the Wilson water treatment plant (WTP) high-service pump station No. 1B	\$ 483,148

Major capital projects completed during 2017 include the following:

Project Description	Total Cost
Completion of construction project to relocate 551 feet of 8-inch water pipe along Geyer Springs Road in Little Rock for the pending construction of a railroad overpass	\$ 110,000
Completion of construction project to relocate 2,674 feet of 12-inch and 8-inch water pipe along the first phase of the pending Kanis Road improvements in Little Rock	\$ 483,000
Completion of construction project to relocate 2,861 feet of 8-inch water pipe along North Chicot Road and Mabelvale Pike in Little Rock for pending street and drainage improvements	\$ 239,000
Completion of the installation/replacement of 1,265 feet of 20-inch water transmission pipe on the new Broadway Bridge crossing of the Arkansas River	\$ 1,319,000
Completion of construction project to replace 3,682 feet of 2-inch galvanized water pipe in various locations within Little Rock, North Little Rock, and Pulaski County	\$ 231,000
Completion of construction project to replace 4,824 feet of 2-inch galvanized water pipe in various locations within Sherwood and Gravel Ridge	\$ 587,000

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
December 31, 2018 and 2017

Project Description	Total Cost
Completion of construction project to replace 7,104 feet of 2-inch galvanized water pipe in various locations within Little Rock, North Little Rock, and Pulaski County	\$ 667,000
Completion of construction project to replace 1,061 feet of 2-inch galvanized water pipe in the Heights area of Little Rock	\$ 287,000
Completion of an 18-month project to prepare preliminary engineering report (PER) for \$36,000,000 worth of recommended improvements to the Ozark Point WTP	\$ 427,000
Completion of a PER investigating the best alternative for the re-installation of the 24-inch water transmission main currently attached to the Interstate 30 Arkansas River Bridge	\$ 61,000

Major capital projects completed during 2016 include the following:

Project Description	Total Cost
Completion of construction project to replace 700 feet of 16-inch asbestos-cement water pipe with ductile iron in Little Rock along Rock Street from 4th St. to 6th St.	\$ 184,000
Completion of construction project to replace 800 feet of 16-inch steel water pipe with ductile iron across Cantrell Road in the Riverdale area of Little Rock	\$ 416,000
Completion of construction project to replace 3,700 feet of 12-inch asbestos-cement water pipe with ductile iron along East Roosevelt Road west of I-30	\$ 649,000
Completion of construction project to replace 6,300 feet of 2-inch galvanized water pipe with 2-inch PVC, 6-inch ductile iron, and 8-inch ductile iron in the Dixie Addition area of North Little Rock	\$ 594,000
Completion of project to construct a new booster pump station, No. 26B, near Batesville Pike north of the North Little Rock Airport	\$ 534,000
Completion of construction project to install 3,275 feet of 16-inch, 12-inch, and 6-inch ductile iron water pipe for the relocation of existing water facilities for a new railroad overpass at the intersection of East McCain Blvd. and Fairfax Road in North Little Rock	\$ 427,000

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
December 31, 2018 and 2017

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

Debt Administration

At the end of 2018, the Utility had total outstanding debt of \$108,811,000. Total debt increased by \$21,482,000, or 24.6%, in 2018, after decreasing \$5,814,000, or 9.2%, in 2017. The 2018 increase was attributed to the three new bond issues. The 2017 decrease was due to bond principal payments.

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 governments have been the area's major employers for many years, as evidenced by again being the top three employers in 2018. Medical facilities are also very important to the local economy as seen with the fourth, fifth, seventh and ninth largest employers in the area (see page 98 for the top ten area employers). Government and medical facilities employers have kept the local economy relatively stable as it has come out of the 2008 recession. Both the cities of Little Rock and North Little Rock have revitalized their respective downtown areas, which have in turn attracted major corporations in a variety of industries.

The local economy has slowly recovered from the 2008 recession and compares favorably to national figures in many categories. Unemployment in Pulaski County for 2018 was 3.4%, which is considerably less than the 4.1% experienced in 2007 prior to the 2008 recession. Unemployment remains favorable compared to the national rate of 3.9%.

Net accounts receivable write-offs remained constant at 0.6% of total operating revenue for both 2017 and 2018.

The Utility factored in a retail rate increase of 8.9% for 2018 and no consumption-based retail rate increase in 2019. Wholesale rates increased approximately 11.0% in 2018. The Utility also continues to factor in conservative consumption estimates, reduced levels of growth-related revenues, and a minimal return on financial investments in the 2019 Financial Plan.

The 2019 Financial Plan outlines the Utility's plans to continue to provide high-quality, cost-effective service to its customers. The 2019 Financial Plan includes \$55,655,000 in total capital costs, which will be funded with the following sources: \$327,000 from capital grants; \$650,000 from Maumelle surcharges; \$35,118,000 from bond issues; \$400,000 from capital improvement charges; \$2,500,000 from developer funds; \$4,640,000 from loan proceeds; and \$1,513,000 from watershed protection fees. The remaining \$10,507,000 is funded from rates and primarily consists of routine asset additions and replacements in the system.

Central Arkansas Water
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
December 31, 2018 and 2017

Request for Information

This financial report is designed to provide a general overview of the Utility's finances. Questions concerning any information in the report or requests for additional financial information should be addressed to:

Jeff Mascagni, Chief Financial Officer
Central Arkansas Water
221 East Capitol Avenue
Little Rock, Arkansas 72202

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BASIC FINANCIAL STATEMENTS

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Central Arkansas Water
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(Restated,</u> <u>Note 11)</u>
Assets		
Current Assets		
Unrestricted cash and cash equivalents	\$ 23,545,622	\$ 15,224,196
Unrestricted investments	8,499,035	17,118,859
Accounts receivable – consumers, net	14,112,353	12,912,845
Other receivables	550,103	551,146
Inventory	3,006,515	2,710,151
Other current assets	851,405	812,717
Total unrestricted current assets	<u>50,565,033</u>	<u>49,329,914</u>
Restricted cash and cash equivalents	<u>11,611,545</u>	<u>10,717,882</u>
Total restricted current assets	<u>11,611,545</u>	<u>10,717,882</u>
Total current assets	<u>62,176,578</u>	<u>60,047,796</u>
Noncurrent Assets		
Restricted cash and cash equivalents	19,898,247	1,105,958
Restricted investments	3,501,377	8,324,953
Restricted accrued interest receivable	74,254	22,229
Total restricted noncurrent assets	<u>23,473,878</u>	<u>9,453,140</u>
Capital assets, net of accumulated depreciation	<u>438,548,881</u>	<u>419,202,599</u>
Total noncurrent assets	<u>462,022,759</u>	<u>428,655,739</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	5,370,889	8,566,698
Deferred outflows related to OPEB	4,100,027	4,422,990
Deferred amounts from refunding bonds payable	529,136	590,480
Total deferred outflows of resources	<u>10,000,052</u>	<u>13,580,168</u>
Total assets and deferred outflows of resources	<u>\$ 534,199,389</u>	<u>\$ 502,283,703</u>

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF NET POSITION (Continued)
December 31, 2018 and 2017

	2018	2017 (Restated, Note 11)
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,889,973	\$ 2,694,822
Payroll and related liabilities	3,713,819	2,934,104
Long-term obligations – current portion	7,316	7,069
Due to other agencies	7,284,063	6,845,854
Total current liabilities payable from unrestricted assets	14,895,171	12,481,849
Consumer deposits	4,309,263	4,395,745
Long-term obligations – current portion	6,624,975	5,651,993
Accrued interest payable	677,307	670,144
Total current liabilities payable from restricted assets	11,611,545	10,717,882
Total current liabilities	26,506,716	23,199,731
Noncurrent Liabilities		
Unearned revenue	961,841	971,942
Long-term obligations, net	102,179,176	81,669,634
Net pension liability	22,682,488	26,485,412
Net OPEB liability	14,696,047	16,471,026
Total noncurrent liabilities	140,519,552	125,598,014
Total liabilities	167,026,268	148,797,745
Deferred Inflows of Resources		
Deferred Inflows related to pensions	2,219,485	528,796
Deferred Inflows related to OPEB	1,790,264	448,755
Deferred amounts from refunding bonds payable	132,133	155,799
Total deferred outflows of resources	4,141,882	1,133,350
Total liabilities and deferred inflows of resources	171,168,150	149,931,095
Net Position		
Net investment in capital assets	348,267,555	337,464,890
Restricted – expendable:		
Bond requirements	5,557,195	4,652,867
Future capital spending	4,960,507	4,440,976
Unrestricted	4,245,982	5,793,875
Total net position	363,031,239	352,352,608
Total liabilities, deferred inflows, and net position	\$ 534,199,389	\$ 502,283,703

See accompanying notes to financial statements.

Central Arkansas Water

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2018 and 2017

	2018	2017 (Restated, Note 11)
Operating Revenues		
Little Rock Water Sales	\$ 33,935,165	\$ 30,209,712
North Little Rock Water Sales	14,968,588	13,461,456
Maumelle Water Sales	3,601,153	3,770,704
Wholesale	4,759,177	4,206,302
Penalties	991,571	922,616
Turn-on charges	1,335,236	1,342,974
Ancillary charges	6,768,786	7,308,642
Other revenue	560,731	611,842
Total operating revenues	66,920,407	61,834,248
Operating Expenses		
Administrative	4,019,183	3,447,845
Distribution	14,980,984	14,256,900
Engineering	2,038,602	2,049,525
Finance	2,895,514	3,078,676
Customer service	3,298,739	3,151,815
Information services	3,302,483	3,328,787
Water production	9,120,982	9,341,319
Water quality	2,267,752	2,134,930
General	2,298,966	2,484,482
Depreciation	12,687,333	12,770,370
Total operating expenses	56,910,538	56,044,649
Operating Income	10,009,869	5,789,599

See accompanying notes to financial statements.

Central Arkansas Water

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

Years Ended December 31, 2018 and 2017

	2018	2017 (Restated, Note 11)
Nonoperating Revenues (Expenses)		
Transfers to Cities of Little Rock and North Little Rock	\$ (709,068)	\$ (706,716)
Gain (loss) on disposal of capital assets	(17,965)	70,231
Investment income	846,878	413,111
Bond and other interest expense, net	(2,031,574)	(2,043,741)
Net nonoperating expenses	(1,911,729)	(2,267,115)
Income Before Contributions and Special Item	8,098,140	3,522,484
Contributions-in-aid of construction	2,580,491	2,442,052
Change in Net Position	10,678,631	5,964,536
Net position – as previously reported	352,352,608	358,763,813
Adjustment for adoption of GASB 75	-	(12,375,741)
Net position – beginning of year as restated	352,352,608	346,388,072
Net position – end of year	\$ 363,031,239	\$ 352,352,608

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017 (Restated, Note 11)
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 65,100,105	\$ 60,357,279
Cash payments to suppliers for goods and services	(13,998,180)	(15,197,440)
Cash payments to employees for services	(26,063,989)	(22,192,694)
Cash payments for employees pension benefits	(2,988,952)	(2,751,501)
Cash receipts from other sources	560,731	898,993
Net cash provided by operating activities	<u>22,609,715</u>	<u>21,114,637</u>
Cash Flows from Noncapital Financing Activities		
Transfers to Cities of Little Rock and North Little Rock	<u>(709,068)</u>	<u>(706,716)</u>
Net cash used in noncapital financing activities	<u>(709,068)</u>	<u>(706,716)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(19,634,070)	(19,063,398)
Proceeds from issuance of bonds	20,699,348	667,497
Principal paid on long-term obligations	(6,169,236)	(6,119,435)
Interest paid on long-term obligations	(3,077,075)	(3,101,853)
Proceeds from sale of capital assets	74,887	76,812
Net cash used in capital and related financing activities	<u>(8,106,146)</u>	<u>(27,540,377)</u>
Cash Flows from Investing Activities		
Proceeds from maturities of investment securities	25,748,903	14,451,016
Purchases of investment securities	(11,971,698)	(17,450,601)
Interest and dividends on investment securities	435,672	373,218
Net cash provided by (used in) investing activities	<u>14,212,877</u>	<u>(2,626,367)</u>
Net increase (decrease) in cash and cash equivalents	28,007,378	(9,758,823)
Cash and cash equivalents – beginning of year	<u>27,048,036</u>	<u>36,806,859</u>
Cash and cash equivalents – end of year	<u>\$ 55,055,414</u>	<u>\$ 27,048,036</u>
Reconciliation to Cash and Cash Equivalents – End of Year		
Current assets	\$ 23,545,622	\$ 15,224,196
Unrestricted cash and cash equivalents	<u>11,611,545</u>	<u>10,717,882</u>
Restricted cash and cash equivalents	35,157,167	25,942,078
Noncurrent assets		
Restricted cash and cash equivalents	<u>19,898,247</u>	<u>1,105,958</u>
Cash and cash equivalents – end of year	<u>\$ 55,055,414</u>	<u>\$ 27,048,036</u>

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017 (Restated, Note 11)
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 10,009,869	\$ 5,789,599
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	12,687,333	12,770,370
Change in operating assets and liabilities		
Accounts receivable – customers, net	(1,173,089)	(1,030,857)
Inventory	(296,364)	(140,221)
Other current assets	(38,688)	(352,572)
Accounts payable and accrued expenses	(683,855)	838,324
Payroll and related liabilities	779,715	113,461
Due to other agencies	438,209	565,474
Consumer deposits	(86,482)	165,730
Net OPEB liability	(1,774,979)	4,524,342
Deferred outflows of resources on OPEB liability	322,963	(4,321,700)
Deferred inflows of resources on OPEB liability	1,341,509	(81,592)
Net pension liability	(3,802,924)	3,664,282
Deferred outflows of resources on pension liability	3,195,809	(1,089,049)
Deferred inflows of resources on pension liability	1,690,689	(300,954)
Net cash provided by operating activities	\$ 22,609,715	\$ 21,114,637
Supplemental Disclosure of Noncash Transactions		
Gain (loss) on disposal of capital assets	\$ (17,965)	\$ 70,231
Contributions-in-aid of construction	2,580,491	2,442,052
Inventory capitalized	1,860,927	1,557,082
Capital asset acquisitions in accounts payable	1,868,905	45
Capital asset acquisitions financed with notes payable	7,342,559	-
Amortization	352,222	349,309
Increase in fair value of investments	-	1,275
Supplemental Disclosure of Cash Transactions		
Interest expense incurred	\$ 2,732,016	\$ 2,508,712
Interest capitalized	700,442	464,971

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF FIDUCIARY NET POSITION
December 31, 2018 and 2017

	2018		2017	
	OPEB Trust fund	Brushy Island	OPEB Trust fund	Brushy Island
Assets				
Cash and cash equivalents	\$ 299,653	\$ 105,744	\$ 2,655,047	\$ 93,977
Restricted cash and cash equivalents	-	8,944	-	8,136
U.S. Treasury obligations	2,198,391	-	253,696	-
Certificates of deposit	491,158	-	494,243	-
Exchange-traded funds	2,148,330	-	980,316	-
Accounts receivable	-	8,852	-	8,971
Accrued interest receivable	31,100	19	9,680	5
Capital assets, net	-	1,619,993	-	1,653,305
Total assets	<u>\$ 5,168,632</u>	<u>\$ 1,743,552</u>	<u>\$ 4,392,982</u>	<u>\$ 1,764,394</u>
Liabilities				
Accounts payable	\$ 5,630	\$ -	\$ 4,938	\$ -
Long-term obligations	-	425,729	-	493,902
Accrued interest payable	-	2,186	-	2,186
Consumer deposits	-	4,775	-	5,275
Total liabilities	<u>5,630</u>	<u>432,690</u>	<u>4,938</u>	<u>501,363</u>
Net Position				
Net position restricted for OPEB benefits	5,163,002	-	4,388,044	-
Held in receivership	-	1,310,862	-	1,263,031
Total net position	<u>5,163,002</u>	<u>1,310,862</u>	<u>4,388,044</u>	<u>1,263,031</u>
Total liabilities and net position	<u>\$ 5,168,632</u>	<u>\$ 1,743,552</u>	<u>\$ 4,392,982</u>	<u>\$ 1,764,394</u>

See accompanying notes to financial statements.

Central Arkansas Water
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended December 31, 2018 and 2017

	2018		2017	
	OPEB Trust fund	Brushy Island	OPEB Trust fund	Brushy Island
Additions				
Employer contributions	\$ 1,181,000	\$ -	\$ 927,000	\$ -
Water sales	-	108,827	-	98,957
Debt service fees	-	106,962	-	103,158
Net investment income	71,485	859	27,980	299
Total additions	<u>1,252,485</u>	<u>216,648</u>	<u>954,980</u>	<u>202,414</u>
Deductions				
Benefits paid	455,506	-	440,888	-
Transfers to Central Arkansas Water	-	108,327	-	98,656
Administrative expenses	22,021	945	19,497	2,808
Depreciation	-	33,312	-	33,312
Interest	-	26,233	-	29,747
Total deductions	<u>477,527</u>	<u>168,817</u>	<u>460,385</u>	<u>164,523</u>
Change in Fiduciary Net Position	774,958	47,831	494,595	37,891
Beginning of year	<u>4,388,044</u>	<u>1,263,031</u>	<u>3,893,449</u>	<u>1,225,140</u>
End of year	<u><u>\$ 5,163,002</u></u>	<u><u>\$ 1,310,862</u></u>	<u><u>\$ 4,388,044</u></u>	<u><u>\$ 1,263,031</u></u>

See accompanying notes to financial statements.

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Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

(a) Reporting Entity

Central Arkansas Water (the Utility) is an independent public entity established effective July 1, 2001, to own and operate a consolidated water system, as authorized under Act 982 of 2001 of the 83rd General Assembly of the State of Arkansas (the State). The Utility operates pursuant to a Consolidation Agreement, as amended, executed by and between the City of Little Rock, Arkansas; the City of North Little Rock, Arkansas; the Board of Commissioners of Little Rock Municipal Water Works; and the Board of Commissioners of the North Little Rock Water Department. Serving a retail and wholesale population of approximately 450,000 in 20 cities and communities located in Pulaski, Saline, Grant, Faulkner, Perry and Lonoke Counties, the Utility is the largest water supplier in the state of Arkansas. The Utility's mission is to enhance the quality of life for central Arkansas by delivering high-quality water and dependable service that exceed customer expectations; protecting and ensuring a long-term water supply for future generations; and serving as responsible stewards of public health, utility resources and the environment.

The governing board of the Utility is a Board of Commissioners, comprised of seven members who serve seven-year terms. Membership on the Board of Commissioners is subject to confirmation by the City of Little Rock Board of Directors and the North Little Rock City Council.

Rates may be established by the Board of Commissioners; however, before any rate changes may be implemented, the Board of Commissioners must give three months' notice to the City of Little Rock Board of Directors and the North Little Rock City Council and hold at least one public hearing on the proposed change(s) in rates. A change in rates may not be implemented if both the City of Little Rock Board of Directors and the North Little Rock City Council vote disapproval of the rate change. In the absence of such disapproval, the rate change will be implemented as proposed. The issuance of revenue bonds is subject to the same requirements.

Under the terms of the Consolidation Agreement, the Utility is required to pay a franchise fee to the Cities of Little Rock and North Little Rock based on water revenues billed within the respective cities. The rate, which cannot exceed 10.0%, was 10.0% for the City of Little Rock and 6.9% for the City of North Little Rock during 2018 and 2017. 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 \$3,658,426 and \$3,301,800 for the years ended December 31, 2018 and 2017, 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 \$709,000 and \$707,000 for the years ended December 31, 2018 and 2017, respectively.

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

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

(b) Basis of Accounting

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

(c) Basis of Presentation

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

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

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, 2018 and 2017

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

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

The *Brushy Island Public Water Authority Fund* (Brushy Island) is a private purpose trust fund used to report assets and liabilities held by the Utility as receiver, pursuant to the terms and conditions of a court order issued in August 2005 by the Third Division Circuit Court of Pulaski County, Arkansas. As receiver, the Utility is responsible for the day-to-day and long-term management and operation of Brushy Island as a water supplier for Brushy Island customers. The Utility is not responsible or liable for any debts or obligations of Brushy Island, except in its role as receiver. The agreement provides that until such time as the debt is retired, the terms of the order may not be changed without the consent of the Utility.

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

(d) Cash and Cash Equivalents

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

(e) Investments

Generally accepted accounting principles prescribed by GASB require that the Utility's investments be measured at fair value and non-negotiable CDs be measured at cost, fair value measurements are categorized according to a hierarchy that is based on valuation inputs used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. Detailed information about the Utility's investments and their respective fair value measurements is provided in *Note 2* to the financial statements.

Purchases and sales of investments are reported on a trade-date basis. Realized gains and losses resulting from investment sales, as well as unrealized gain and losses resulting from changes in the fair values of investments held are reported as investment income on the statements of revenues, expenses and changes in net position. Dividends and capital gain distributions are recorded as investment income on the ex-dividend date.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

(f) Accounts Receivable, Net

Accounts receivable include balances due from customers for services or water provided, net of an allowance for uncollectible amounts. Customer deposits may be required when credit is extended to customers. Accounts receivable are ordinarily due 20 days after the billing date. Payments are considered delinquent if not received on or before the due date, and a 10% late charge is assessed.

The allowance for uncollectible accounts receivable is estimated by management, taking into consideration the age of outstanding receivables, specific facts and circumstances pertaining to certain customers, customer payment histories and other historical collection statistics. Individual accounts receivable balances are written off for inactive customers at the point when all internal collection attempts have been exhausted. All balances previously written off must be repaid in order for a customer to restore service.

(g) Inventory

Inventory consists of materials and supplies used in the operation, maintenance and construction of or improvements to capital assets. Amounts in inventory are valued at cost, using the weighted-average method.

(h) Capital Assets, Net of Accumulated Depreciation

It is generally the Utility's policy that assets to be used in operations with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than one year are reported as capital assets. Capital assets are recorded at historical cost, including all direct salaries, materials and supplies related to construction and improvements completed by Utility personnel. Interest costs related to acquiring or constructing capital assets are also capitalized as part of the cost of the related asset. Contributed assets are recorded at the acquisition value on the date of contribution.

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

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

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

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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, 2018 and 2017.

(i) Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Utility's deferred outflows and inflows of resources consist of deferred outflows/inflows of resources related to the Utility's pension plan activities and OPEB plan activities, as further discussed in *Note 10*, and the deferred loss and gain, respectively, on debt refunding transactions. A deferred loss or gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt.

(j) Compensated Absences

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

(k) Long-Term Obligations

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

(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 \$322,000 and \$291,000 for the years ended December 31, 2018 and 2017, respectively, and net of allowance for uncollectible accounts totaling approximately \$387,000 and \$287,000 for the years ended December 31, 2018 and 2017, respectively.

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(n) Contributions and Special Items

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

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

(o) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System Plan (APERS Plan) and additions to/deductions from APERS Plan's fiduciary net position have been determined on the same basis as they are reported by the APERS Plan.

For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Utility's Retiree Health Care Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and certificates of deposits which are reported at cost.

(q) 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.

(r) Income Taxes

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

(s) Recently Adopted Accounting Standards

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits, or OPEB). It also improves information provided by state and local governmental employers about financial

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support for OPEB that is provided by other entities. The statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans and is explained in more detail in *Note 10* of these financial statements. This new guidance is effective for fiscal years beginning after June 15, 2017. The adoption of this statement required the Utility to restate its 2017 beginning net position.

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

(t) Recently Issued Accounting Standards

GASB Statement No. 83, *Certain Asset Retirement Obligations*, establishes requirements to recognize a liability and corresponding deferred outflows by a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets.

The statement identifies the circumstances that trigger the recognition of these transactions. The statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

This standard becomes effective for the Utility in fiscal year 2019. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements or related disclosures.

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

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

This standard becomes effective for the Utility in fiscal year 2019. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements or related disclosures.

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

This standard becomes effective for the Utility in fiscal year 2020. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements or related disclosures.

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Note 2: DEPOSITS AND INVESTMENTS

Investments at December 31 for the Utility include the following:

The Utility

Type	2018				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Unrestricted:					
U.S. Treasury obligations	\$ 1,998,428	\$ 1,998,428	\$ -	\$ -	\$ -
U.S. agencies obligations	6,500,607	3,495,888	3,004,719	-	-
Money Market Mutual Funds	13,807,396	13,807,396	-	-	-
Restricted:					
U.S. Treasury obligations	1,748,625	1,748,625	-	-	-
U.S. agencies obligations	1,752,753	-	1,752,753	-	-
Money market mutual funds	29,259,891	29,259,891	-	-	-
	<u>\$ 55,067,700</u>	<u>\$ 50,310,228</u>	<u>\$ 4,757,472</u>	<u>\$ -</u>	<u>\$ -</u>

Type	2017				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
Unrestricted:					
U.S. agencies obligations	\$ 10,743,859	\$ 8,994,902	\$ 1,748,957	\$ -	\$ -
Certificate of deposit	6,375,000	6,375,000	-	-	-
Money market mutual funds	15,224,196	15,224,196	-	-	-
Restricted:					
U.S. Treasury obligations	2,925,847	2,925,847	-	-	-
U.S. agencies obligations	2,499,106	1,000,000	1,499,106	-	-
Certificates of deposit	2,900,000	2,900,000	-	-	-
Money market mutual funds	11,823,848	11,823,848	-	-	-
	<u>\$ 52,491,856</u>	<u>\$ 49,243,793</u>	<u>\$ 3,248,063</u>	<u>\$ -</u>	<u>\$ -</u>

The Utility's investment in U.S. agency obligations at December 31, 2018, consisted of investments in Federal National Mortgage Association bonds, which have a Standard and Poor's credit rating of AA+. In addition, the Utility invests in the Morgan Stanley Institutional Liquidity Fund, a publicly traded money market mutual fund comprised primarily of short-term U.S. Treasury securities. This investment is classified in cash and cash equivalents in the Utility's statements of net position due to its highly liquid nature. This fund maintains a stable net asset value of \$1 and has a Standard & Poor's credit rating of AAAM. At December 31, 2018 and 2017, the Utility's restricted investment in this fund totaled \$24,987,766 and \$8,155,515, respectively.

Investment Valuation

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

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There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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

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

The following tables present the fair value measurement of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

Type	2018			
	Fair Value	Level 1	Level 2	Level 3
Classified as Investments				
Unrestricted:				
U.S. Treasury obligations	\$ 1,998,428	\$ -	\$ 1,998,428	\$ -
U.S. agency obligations	6,500,607	-	6,500,607	-
Restricted:				
U.S. Treasury obligations	1,748,625	-	1,748,625	-
U.S. agency obligations	1,752,753	-	1,752,753	-
	<u>\$12,000,413</u>	<u>\$ -</u>	<u>\$12,000,413</u>	<u>\$ -</u>

Type	2017			
	Fair Value	Level 1	Level 2	Level 3
Classified as Investments				
Unrestricted:				
U.S. agency obligations	\$10,743,859	\$ -	\$10,743,859	\$ -
Certificates of deposit	6,375,000	6,375,000	-	-
Restricted:				
U.S. Treasury obligations	2,925,847	-	2,925,847	-
U.S. agency obligations	2,499,106	-	2,499,106	-
Certificates of deposit	2,900,000	-	2,900,000	-
	<u>\$25,443,812</u>	<u>\$ 6,375,000</u>	<u>\$19,068,812</u>	<u>\$ -</u>

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Utility manages its exposure to declines in fair values by limiting investments to securities with a maturity of not more than five years from the date of purchase.

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(b) Credit Risk

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligations. To minimize exposure to credit risk, the Utility's investment policy specifies the types of securities in which the Utility may invest. In general, the following investments are considered permissible investments:

- Direct obligations of the United States government
- Open-end, government obligation money market mutual funds
- Obligations that are fully guaranteed, secured or insured by United States government agencies, instrumentalities and government-sponsored entities
- Repurchase agreements that are fully collateralized by direct obligations of the United States government and general obligations of any state of the United States or political subdivision thereof
- General obligations of the states of the United States and of the political subdivisions, municipalities, commonwealths, territories or insular possessions thereof
- Pre-funded municipal bonds, the principal and interest of which are fully secured by the principal and interest of a direct obligation of the United States government
- Revenue bond issues of any state of the United States or any municipality or any political subdivision thereof

(c) Custodial Credit Risk

For a deposit or investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of the deposits, investments or collateral securities that are in the possession of an outside party. State statutes require the Utility to maintain cash balances on deposit with financial institutions located within the state and that account balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) be collateralized by the financial institution in accordance with state statutes. All of the Utility's deposit account balances are fully insured by the FDIC or secured by collateral. All investments are held in the name of the Utility by the Utility's agent.

(d) Concentration of Credit Risk

With the exception of securities that are direct obligations of the U.S. government, deposit accounts that are fully insured by the FDIC or fully collateralized, and money market mutual funds with an underlying investment portfolio that is limited principally to U.S. government obligations, the Utility's policy states that no more than 20% of the total balance may be invested in any single investment or in securities of a single obligor.

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Investments at December 31 for the OPEB Trust, which were all Level 1 investments, include the following:

OPEB Trust

Type	2018				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Classified as Investments					
Restricted:					
U.S. Treasury obligations	\$ 2,198,391	\$ 2,198,391	\$ -	\$ -	\$ -
Certificate of deposit	2,639,488	2,148,330	491,158	-	-
Money market fund	299,653	299,653	-	-	-
	<u>\$ 5,137,532</u>	<u>\$ 4,646,374</u>	<u>\$ 491,158</u>	<u>\$ -</u>	<u>\$ -</u>
Type	2017				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Classified as Investments					
Restricted:					
U.S. Treasury obligations	\$ 253,696	\$ 253,696	\$ -	\$ -	\$ -
Certificate of deposit	1,474,559	980,316	494,243	-	-
Money market fund	2,655,047	2,655,047	-	-	-
	<u>\$ 4,383,302</u>	<u>\$ 3,889,059</u>	<u>\$ 494,243</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2018 and 2017, the OPEB Trust invested in the Federated Treasury Obligation Fund, a publicly traded money market mutual fund comprised primarily of short-term U.S. Treasury securities. This investment is classified in cash and cash equivalents in the Utility's statements of net position due to its highly liquid nature. This fund maintains a stable net asset value of \$1 and has a Standard & Poor's credit rating of AAAM. At December 31, 2018 and 2017, the Utility's restricted investment in this fund totaled \$299,653 and \$2,665,047, respectively.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Utility manages its exposure to declines in fair values by limiting investments to securities with a maturity of not more than five years from the date of purchase.

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(b) Credit Risk

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligations. To minimize exposure to credit risk, the Utility's investment policy specifies the types of securities in which the Utility may invest. In general, the following investments are considered permissible investments:

- Direct obligations of the United States government
- Open-end, government obligation money market mutual funds
- Obligations that are fully guaranteed, secured or insured by United States government agencies, instrumentalities and government-sponsored entities
- Repurchase agreements that are fully collateralized by direct obligations of the United States government and general obligations of any state of the United States or political subdivision thereof
- General obligations of the states of the United States and of the political subdivisions, municipalities, commonwealths, territories or insular possessions thereof
- Pre-funded municipal bonds, the principal and interest of which are fully secured by the principal and interest of a direct obligation of the United States government
- Revenue bond issues of any state of the United States or any municipality or any political subdivision thereof

(c) Custodial Credit Risk

For a deposit or investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of the deposits, investments or collateral securities that are in the possession of an outside party. State statutes require the Utility to maintain cash balances on deposit with financial institutions located within the state and that account balances in excess of amounts insured by the FDIC be collateralized by the financial institution in accordance with state statutes. All of the Utility's deposit account balances are fully insured by the FDIC or secured by collateral. All investments are held in the name of the Utility by the Utility's agent.

(d) Concentration of Credit Risk

With the exception of securities that are direct obligations of the U.S. government, deposit accounts that are fully insured by the FDIC or fully collateralized, and money market mutual funds with an underlying investment portfolio that is limited principally to U.S. government obligations, the Utility's policy states that no more than 20% of the total balance may be invested in any single investment or in securities of a single obligor.

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Note 3: RESTRICTED ASSETS

Assets restricted to meet the requirements of each of the Utility’s bond ordinances include the following accounts and their related accrued interest receivable:

- Bond accounts are maintained to segregate funds that will be used to make debt service payments on each of the Utility’s outstanding bond issues.
- Debt service reserve accounts are maintained for each of the Utility’s bond issues and include amounts as stipulated by the underlying bond agreements to ensure the Utility’s ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service reserve accounts is typically based on a percentage of the maximum annual debt service requirements (see *Note 7*).

Assets restricted for future capital costs include the following accounts and their related accrued interest receivable:

- Construction accounts include unspent bond proceeds and are maintained for the first three years of each of the Utility’s bond issues to pay construction invoices associated with the capital project funded by the related debt.
- The system development charges account serves to recover the cost of capital improvements or facility expansions attributable to new development. New customers are charged a one-time fee for system development based on meter size.
- The capital investment charges account funds the cost of capital improvements or facility expansions associated with treated water transmission and distribution, pumping or storage facilities.
- Funds in the depreciation account are used to recover cost associated with the replacement of capital assets. Three percent (3%) of water consumption-based revenues (including wholesale revenues) and private fire service revenues are transferred to the account each month.

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

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

	2018	2017
Bond requirements	\$ 7,796,628	\$ 6,909,437
Future capital costs	22,842,361	8,903,745
Consumer deposits	4,446,434	4,357,840
Total Restricted Assets	\$ 35,085,423	\$ 20,171,022

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Note 4: ACCOUNTS RECEIVABLE – CONSUMERS, NET

Accounts receivable – consumers, net includes amounts due from Utility customers for water sales and other related services provided, net of an allowance for uncollectible amounts, as well as amounts due from customers of other entities for which the Utility serves as billing agent. These amounts are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Water sales and services	\$ 6,295,218	\$ 5,450,607
Billed for other agencies	8,049,615	7,651,630
Less allowance for doubtful accounts	<u>(232,480)</u>	<u>(189,392)</u>
Total Accounts Receivable – Consumers, Net	<u>\$ 14,112,353</u>	<u>\$ 12,912,845</u>

Note 5: BOARD-DESIGNATED ASSETS

Board-designated assets include resources set aside by the Board of Commissioners for specified purposes, as follows:

(a) Rate Stabilization Trust

The rate stabilization trust was established by Resolution 2010-03 for the purpose of minimizing or leveling rate increases and providing additional cash for operations during revenue shortfall years. Deposits into this account may be made at the discretion of the Board of Commissioners; however, the balance may not exceed \$20 million. Funds may be withdrawn and used for any lawful purpose.

(b) Watershed Protection Trust

The Watershed Protection Trust was established by Resolution 2008-05 to fund the Watershed Management Program, which includes land purchases, water quality monitoring and other measures deemed necessary to protect the water supply in the Lake Maumelle Watershed area from potential sources of pollution. The Utility’s customers are charged a flat monthly rate for Watershed protection based on meter size.

Balances in these accounts are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Rate stabilization	\$ 8,286,990	\$ 8,168,433
Watershed protection	<u>555,289</u>	<u>1,064,001</u>
Total Board-Designated Assets	<u>\$ 8,842,279</u>	<u>\$ 9,232,434</u>

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The board-designated assets were reported on the statements of net position in the following classifications at December 31:

	2018	2017
Cash and cash equivalents	\$ 5,843,056	\$ 2,108,626
Investments	2,999,223	7,123,808
Total Board-Designated Assets	\$ 8,842,279	\$ 9,232,434

Note 6: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the years ended December 31, 2018 and 2017, follows:

	Balance 12/31/2017	Additions	Disposals	Transfers, net	Balance 12/31/2018
Capital Assets,					
Nondepreciable					
Land and land use rights	\$ 48,977,583	\$ 9,442,964	\$ (87,941)	\$ 471,996	\$ 58,804,602
Construction in progress	21,632,039	21,291,335	-	(23,903,764)	19,019,610
Total capital assets, nondepreciable	70,609,622	30,734,299	(87,941)	(23,431,768)	77,824,212
Capital Assets, Depreciable					
Building and improvements	62,767,364	-	-	527,009	63,294,373
Land improvements	2,831,335	-	-	64,572	2,895,907
Water source	33,419,723	-	-	-	33,419,723
Purification	45,527,264	-	-	144,460	45,671,724
Pumping	27,257,926	25,510	-	988,762	28,272,198
Distribution	368,412,055	8,067	(213,815)	20,545,662	388,751,969
Other equipment	31,715,183	1,361,637	(453,344)	1,161,303	33,784,779
Total capital assets, depreciable	571,930,850	1,395,214	(667,159)	23,431,768	596,090,673
Less Accumulated					
Depreciation					
Building and improvements	28,483,881	1,585,828	-	-	30,069,709
Land improvements	867,124	143,479	-	-	1,010,603
Water source	15,290,371	547,162	-	-	15,837,533
Purification	23,844,586	1,795,340	-	-	25,639,926
Pumping	17,558,165	761,168	-	-	18,319,333
Distribution	109,755,650	6,482,206	(213,815)	-	116,024,041
Other equipment	27,538,096	1,372,150	(445,387)	-	28,464,859
Total accumulated depreciation	223,337,873	12,687,333	(659,202)	-	235,366,004
Total Capital Assets, Net	\$ 419,202,599	\$ 19,442,180	\$ (95,898)	\$ -	\$ 438,548,881

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

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
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Note 7: LONG-TERM DEBT

The Utility's long-term debt includes the following:

(a) Revenue Bonds

2010A Water Revenue Bonds

The Series 2010A Bonds were issued to replace the then outstanding Series 2009 Bond. The Series 2010A Bonds were issued to change terms, particularly the requirement for security for the outstanding debt. The bonds were 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 bonds. The Series 2010A Bonds are a special obligation of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 15 and October 15, with the final payment scheduled in 2032.

2010C Water Revenue Bonds

The Series 2010C Bonds were issued to refinance a portion of the cost of acquisition of approximately 915 acres of real property within the Lake Maumelle watershed, to establish a debt service reserve for the Series 2010C Bonds and to pay the costs of issuing the Series 2010C Bonds. The Series 2010C Bonds are special obligations of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1, with the final payment date due in 2023. Interest payments are due semiannually on April 1 and October 1.

2011A Water Revenue Bonds

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

2012A Water Revenue Bonds

The Series 2012A Bonds were issued to finance the cost of certain capital improvements to the water system, to pay the then outstanding balance on a capital lease obligation, to establish a debt service reserve for the Series 2012A Bonds and to pay the cost of issuing the Series 2012A Bonds.

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NOTES TO FINANCIAL STATEMENTS
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The Series 2012A Bonds are special obligations of the Utility, payable solely from stabilized revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1, with the final payment scheduled in 2032. Interest payments are due semiannually on April 1 and October 1.

2014 Refunding Water Revenue Bonds

The Series 2014 Bonds were issued to refund the then outstanding Series 2004 Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$236,657 is reported as a deferred inflow of resources in the statements of net position and is being amortized through the year 2024 using the straight-line method. The Series 2014 Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 1 and October 1, with the final payment scheduled in 2024.

2015 Refunding Water Revenue Bonds

The Series 2015 Bonds were issued to refund the then outstanding Series 2010B Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$30,177 is reported as a deferred outflow of resources in the statements of net position and is being amortized through the year 2030 using the straight-line method. The Series 2015 Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 1 and October 1 beginning in 2015, with the final payment scheduled in 2030.

2016 Refunding Water Revenue Bonds

On July 7, 2016, the Utility issued \$17,860,000 of revenue refunding bonds to refund the then outstanding Series 2007 and 2011B Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$652,654 is reported as a deferred outflow of resources in the statements of net position and is being amortized through the year 2027 using the straight-line method. The Series 2016 Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1 beginning in 2016, with the final payment scheduled in 2027. Interest payments are due semiannually on April 1 and October 1, beginning in 2016. The current refunding reduced total debt service payments over the next 15 years by approximately \$3,317,000. This result is an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1,916,000.

2016 Construction and Acquisition Water Revenue Bonds

The \$22,750,000 Series 2016 Bonds were issued in March 2016 to finance the cost of certain capital improvements to the Maumelle water system, to establish a debt service reserve for the Series 2016 Bonds and to pay the costs of issuing the Series 2016 Bonds.

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NOTES TO FINANCIAL STATEMENTS
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The Series 2016 Bonds are special obligations of the Utility, payable solely from the net revenues of the Maumelle water system. Principal payments are due annually on April 1 beginning in 2016, with the final payment scheduled in 2046. Interest payments are due semiannually on April 1 and October 1.

Frazier Pike/ANRC Bond Payable

During 2015, the Utility began providing water to an unincorporated area along Frazier Pike in Pulaski County, Arkansas, that had previously relied upon well water. The Frazier Pike community was the recipient of funding provided by the ANRC including a Water Development Bond that the Utility assumed totaling \$257,500. Principal and interest payments are due annually on December 1 beginning in 2017, and are to be paid through a debt service charge assessed the Frazier Pike customers. The bond is secured solely by a lien on and pledge of the Frazier Pike water surcharge, as defined in the related bond agreements. In conjunction with providing water service to Frazier Pike customers, the Utility acquired capital assets totaling approximately \$850,000.

2017A Water Revenue Bonds

The Series 2017A Bonds were issued through the ANRC and ADFA from monies in the Revolving Loan Fund to finance the cost of planning, design, construction, and/or rehabilitation of the treatment facilities of the water system, paying cost incidental thereto, and paying approved expenses incurred in connection with the issuance of the bonds. The Series 2017A Bonds are a special obligation of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 15 and October 15 beginning in 2021, with the final payment scheduled in 2041.

2018 ANRC Water Revenue Bonds

The Series 2018 Bonds were issued through the ANRC and ADFA from monies in the Revolving Loan Fund to finance the cost of planning, design, construction, and/or rehabilitation of the treatment facilities of the water system, paying cost incidental thereto, and paying approved expenses incurred in connection with the issuance of the bonds. The Series 2018 Bonds are a special obligation of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 15 and October 15 beginning in 2021, with the final payment scheduled in 2023.

2018A Water Revenue Bonds

The Series 2018A Bond was issued to finance the cost of a land purchase. The Series 2018A 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. Interest is due annually on September 3, with the final payment of principal and interest scheduled in 2023.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
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2018B Water Revenue Bonds

The Series 2018B Bonds were issued 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 bonds. The Series 2018B Bonds are a special obligation of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semiannually on April 1 and October 1, with the final payment scheduled in 2038.

(b) Mid-Arkansas Water Alliance Water Storage Allocation Purchase Agreement

The Utility is party to an agreement with Mid-Arkansas Water Alliance (MAWA), along with nine other municipal water providers, to purchase a portion of the water storage rights at Greers Ferry Lake allocated to MAWA by the U.S. government. The Utility and each of the nine other parties to the agreement have been allocated a portion of the debt incurred by MAWA to acquire the storage rights, based on each party's respective share of the total storage area. The initial amount of the debt allocated to the Utility totaled \$284,623, and annual payments of \$17,155 are required, including interest at a variable rate determined by the Secretary of the Treasury (4.125% at December 31, 2018 and 2017). The amortization period of the debt depends upon actual repayments of all parties to the agreement and may vary; however, at December 31, 2018, there were 15 payments remaining, resulting in a final payment due in 2033.

Changes in long-term debt for the years ended December 31, 2018 and 2017, are as follows:

	Balance December 31, 2017			Balance December 31, 2018		
	Increases	Decreases	Increases	Decreases	Amounts Due Within One Year	Amounts Due Greater than One Year
Bonds Payable						
Bonds payable	\$ 83,633,663	\$ 24,672,821	\$ (6,161,993)	\$ 102,144,491	\$ 6,624,975	\$ 95,519,516
Add issuance premiums	3,466,511	699,348	(389,901)	3,775,958	-	3,775,958
Bonds Payable, Net	87,100,174	25,372,169	(6,551,894)	105,920,449	6,624,975	99,295,474
Other Long-term obligations	228,522	2,669,738	(7,242)	2,891,018	7,316	2,883,702
Consumer deposits	4,395,745	1,092,543	(1,179,025)	4,309,263	4,309,263	-
Total Long-Term Debt	\$ 91,724,441	\$ 29,134,450	\$ (7,738,161)	\$ 113,120,730	\$ 10,941,554	\$ 102,179,176

	Balance December 31, 2016			Balance December 31, 2017		
	Increases	Decreases	Increases	Decreases	Amounts Due Within One Year	Amount Due Greater than One Year
Bonds Payable						
Bonds payable	\$ 89,085,603	\$ 667,497	\$ (6,119,437)	\$ 83,633,663	\$ 5,651,993	\$ 77,981,670
Add issuance premiums	3,853,498	-	(386,987)	3,466,511	-	3,466,511
Bonds Payable, Net	92,939,101	667,497	(6,506,424)	87,100,174	5,651,993	81,448,181
Other long-term obligations	447,774	30,147	(249,399)	228,522	7,069	221,453
Consumer deposits	4,230,015	1,820,355	(1,654,625)	4,395,745	4,395,745	-
Total Long-Term Debt	\$ 97,616,890	\$ 2,517,999	\$ (8,410,448)	\$ 91,724,441	\$ 10,054,807	\$ 81,669,634

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
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Bonds payable at December 31, 2018, include the outstanding principal balance of the following revenue bond issues:

	Interest Rates	Final Maturity	Original Issue	Total Outstanding
2010A Water Revenue Bond	1.00% ⁽¹⁾	2032	\$ 13,400,000	\$ 9,923,657
2010C Water Revenue Bonds	2.0% – 4.0%	2023	8,830,000	1,875,000
2011A Water Revenue Bond	2.25% ⁽¹⁾	2034	4,000,000	3,310,363
2012A Water Revenue Bond	2.0% – 4.0%	2032	17,515,000	13,170,000
2014 Refunding Water Revenue Bonds	2.0% – 5.0%	2024	10,850,000	7,155,000
2015 Refunding Water Revenue Bonds	2.0% – 3.0%	2030	7,445,000	6,135,000
2016 Refunding Water Revenue Bonds	2.0% – 5.0%	2027	17,860,000	14,415,000
2016 Construction and Acquisition Water Revenue Bonds	2.0% – 3.5%	2046	22,750,000	20,585,000
Frazier Pike/ANRC Bond	3.90%	2033	257,500	235,153
2017A Water Revenue Bond	1.50% ⁽¹⁾	2041	5,000,000	3,006,468
2018 ANRC Water Revenue Bond	2.50% ⁽¹⁾	2023	2,500,000	1,508,396
2018A Water Revenue Bonds	2.63%	2023	3,495,192	825,454
2018B Water Revenue Bond	3.25% – 5.0%	2038	20,000,000	20,000,000
			<u>\$ 133,902,692</u>	<u>\$ 102,144,491</u>

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

The following schedule shows the annual debt service of the bonds payable outstanding at December 31, 2018:

Fiscal Year	Principal	Interest	Total
2019	\$ 6,624,975	\$ 3,102,289	\$ 9,727,264
2020	6,723,398	3,030,579	9,753,977
2021	7,488,776	2,911,144	10,399,920
2022	7,902,616	2,608,100	10,510,716
2023	7,759,480	2,327,736	10,087,216
2024–2028	26,940,540	8,258,921	35,199,461
2029–2033	19,675,950	4,871,208	24,547,158
2034–2038	11,539,923	2,426,425	13,966,348
2039–2043	4,303,833	735,820	5,039,653
2044–2048	<u>3,185,000</u>	<u>167,737</u>	<u>3,352,737</u>
	<u>\$ 102,144,491</u>	<u>\$ 30,439,959</u>	<u>\$ 132,584,450</u>

Payment of principal and interest on all bonds except the Frazier Pike/ANRC Bond is secured by a pledge of Utility revenues.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
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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

The Utility is also required to maintain working capital in an amount sufficient to ensure efficient operation and maintenance of the water system, and such reserve must not be less than an amount reasonably estimated to pay the operations and maintenance costs of the water system for the next three calendar months. The Utility was in compliance with all debt covenants for the years ended December 31, 2018 and 2017.

(c) *Unearned Revenue*

The Utility entered into a long-term lease agreement with the Arkansas State Game and Fish Commission in 2013. Payments received are reported as unearned revenue and are recognized as operating revenue over the term of the 99-year agreement.

(d) *Brushy Island Public Water Authority (the Authority) Revenue Bonds*

2005B Water Revenue Bonds

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

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NOTES TO FINANCIAL STATEMENTS
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Changes in long-term debt for the years ended December 31, 2018 and 2017, are as follows:

	Balance December 31, 2017	Increases	Decreases	Balance December 31, 2018	Amounts Due Within One Year	Amounts Due Greater than One Year
Bonds Payable						
Bonds payable	\$ 493,902	\$ -	\$ (68,173)	\$ 425,729	\$ 40,815	\$ 384,914

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

Bonds payable at December 31, 2018, include the outstanding principal balance of the following revenue bond issue:

	Interest Rate	Final Maturity	Original Issue	Total Outstanding
2005B Water Revenue Bonds	5.00%	2028	\$ 793,100	\$ 425,729

The following schedule shows the annual debt service of the bonds payable outstanding at December 31, 2018:

Fiscal Year	Principal	Interest	Total
2019	\$ 40,815	\$ 22,825	\$ 63,640
2020	44,394	19,246	63,640
2021	46,614	17,026	63,640
2022	48,945	14,695	63,640
2023	51,392	12,248	63,640
2024–2028	193,569	21,978	215,547
	<u>\$ 425,729</u>	<u>\$ 108,018</u>	<u>\$ 533,747</u>

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
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Note 8: RISK MANAGEMENT

The Utility has commercial insurance to cover various potential risk areas including automobile liability, theft or destruction of business assets, directors' and officers' liability, employment practices liability, and crime. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Under state law, the Utility is protected by tort immunity.

The Utility is self-insured for a portion of its exposure to risk of loss from work-related employee injuries and illnesses (workers' compensation) up to \$500,000 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 has commitments totaling approximately \$7,582,517 and \$8,448,940 at December 31, 2018 and 2017, respectively, for construction contracts. Certain contracts related to these commitments include a provision for the retainage of a portion of the fees on the work completed to date. Retainage payable related to these contracts included in the statements of net position totaled approximately \$268,000 and \$525,000 at December 31, 2018 and 2017, respectively. These amounts will be paid upon completion and inspection of the facilities.

(b) Other

Support funded by government grants is recognized as the Utility performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. In the opinion of the Utility's management, such adjustments, if any, will not be significant to the Utility's financial statements.

Note 10: PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

(a) Arkansas Public Employees Retirement System

Plan Description. The Utility contributes to the Arkansas Public Employees Retirement System Plan (APERS Plan), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. The APERS Plan provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by state statute. Benefits of the APERS members are calculated on the basis of age, final average salary, years of service and a benefit factor. Authority to establish and amend benefits is provided by state statute.

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Contributions. Plan members hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and the Utility is required to contribute a percent of covered salary at an actuarially determined rate. The contributions are deducted from the employee’s wages or salary and remitted by the Utility to the APERS Plan on a semi-monthly basis. The employer contribution rates applicable were 14.50% (July 1, 2016 to June 30, 2017), 14.75% (July 1, 2017 to June 30, 2018), and 15.32% (July 1, 2018 to December 31, 2018). The contribution requirements of plan members and the Utility are established and may be amended by the APERS Board of Trustees. The Utility’s contributions for the years ended December 31, 2018 and 2017, were \$2,988,952 and \$2,751,581, respectively, which were equal to the required contributions for each year.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. At December 31, 2018 and 2017, the Utility reported a liability of \$22,682,488 and \$26,485,412, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Utility’s proportion of the net pension liability was based on a projection of the Utility’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2018 and 2017, the Utility’s proportion was 1.02824824% and 1.02492152%, respectively.

Contributions payable to APERS at December 31, 2018 and 2017, totaled approximately \$124,000 and \$74,000, respectively, and are included in payroll and related liabilities in the statements of net position.

For the years ended December 31, 2018 and 2017, the Utility recognized the actuarially determined pension expense of approximately \$4,057,000 and \$5,025,000, respectively. At December 31, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 2,580,797	\$ 1,402,736
Changes in proportion and differences between employer contributions and proportionate share of contributions	901,994	4,667
Differences between expected and actual experience	360,734	238,110
Net difference between projected and actual investment earnings on pension plan investments	-	573,972
Utility contributions subsequent to the measurement date	<u>1,527,364</u>	<u>-</u>
Total	<u>\$ 5,370,889</u>	<u>\$ 2,219,485</u>

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

Deferred outflows of resources resulting from the Utility's contributions subsequent to the measurement date totaling approximately \$1,527,000 and \$1,395,000 at December 31, 2018 and 2017, respectively, relate to contributions made subsequent to the measurement date. The Utility will recognize these amounts as a reduction in the net pension liability in the years ended December 31, 2018 and 2017. The other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2019	\$ 2,062,447
2020	1,068,788
2021	(1,008,104)
2022	(499,091)
2023	-
Thereafter	<u>-</u>
Total	<u>\$ 1,624,040</u>

Actuarial Assumptions. The total pension liability in the June 30, 2018, actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation, 2.50% price inflation
Salary increases	3.25% – 9.85% including inflation
Investment rate of return	7.5%

Mortality rates were based on the RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set forward two years for males and one year for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return

Central Arkansas Water
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by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the APERS Plan's target asset allocation as of June 30, 2018, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.07%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	18%	0.83%
Total	<u>100%</u>	

The target allocation for the June 30, 2017, measurement date was as follows:

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

Discount Rate. The discount rate used to measure the total pension liability at June 30, 2018 and 2017, was 7.15%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Utility's proportionate share of the net pension liability as of the June 30, 2018, measurement date, calculated using the discount rate of 7.15%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	Discount Rate	Utility's Proportionate Share of Net Pension
1% decrease	6.15%	\$ 37,084,734
Current discount rate	7.15%	\$ 22,682,488
1% increase	8.15%	\$ 10,801,788

Plan Fiduciary Net Position. Detailed information about the APERS Plan's fiduciary net position is available in the separately issued APERS Plan financial report, which may be obtained by making a written request at 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501.682.7800 or 800.682.7377, or online at www.apers.org/publications.

(b) IRS Section 401(a)

An Employee Savings Plan under IRS Code 401(a) established by Little Rock Municipal Water Works was transferred to the Utility on July 1, 2001. Employee participation in this plan is mandatory. At December 31, 2018, there were 283 plan members. Plan members are required to contribute 1% of covered salary. Plan provisions and contribution requirements, including any matching contributions by the Utility, are established and may be amended by the Utility's Board of Commissioners. Total plan member contributions and the Utility's matching contributions were approximately \$201,000 and \$191,000 for the years ended December 31, 2018 and 2017, respectively.

(c) Other Postemployment Benefits

Retiree Health Care Plan

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

- The retiree must have been hired by the Utility on or before December 31, 2009.
- The retiree must have 20 years or more of continuous service with the Utility.
- The retiree must be receiving retirement benefits from APERS.
- The retiree must not obtain full-time employment elsewhere.

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

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

Plan membership as of December 31, 2018 and 2017, is as follows:

Membership	2018	2017
Active members	166	172
Inactive members receiving benefits	<u>82</u>	<u>91</u>
Total members	<u><u>248</u></u>	<u><u>263</u></u>

Contributions, Benefits and Funding Policy

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

For fiscal year 2018, the Utility contributed a total of \$1,181,000 to the plan for current premiums. Of the \$1,181,000, \$725,500 was contributed to the OPEB Trust and approximately \$455,500 was for health insurance premium activity. For fiscal year 2017, the Utility contributed a total of \$927,000 to the plan for current premiums. Of the \$927,000, \$486,000 was contributed to the OPEB Trust and approximately \$441,000 was for health insurance premium activity.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 health care benefits under the same group health plan provided to active employees until he or she is eligible for Medicare benefits. The Utility may pay up to 100% of the single coverage premiums for those eligible for early retiree health care benefits until the sooner of the date the employee reaches age 65 or the period of three to five years based on the years of continuous service at retirement.

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

Net OPEB Liability

The net OPEB liability is measured as the total OPEB liability, less the amount of the plan's fiduciary net position. The net OPEB liability at December 31, 2018, is based on the valuation performed at December 31, 2017, with update procedures used to roll forward the total OPEB liability to the measurement date of December 31, 2018. The net OPEB liability at December 31, 2017, was based on a valuation date and measurement date of December 31, 2017. A single discount rate of 3.64% and 3.16% was used to measure the total OPEB liability as of December 31, 2018 and 2017, respectively. The long-term rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates rate of return. The target allocation is 100% in cash with a long-term expected rate of return of 0.64% and 0.16% for December 31, 2018 and 2017, respectively. The long-term rate of return also included an expected 3.00% inflation for both 2018 and 2017. This single discount rate was based on an expected rate of return on OPEB plan investments of 3.64% and 3.16% at December 31, 2018 and 2017, respectively.

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

The significant assumptions used to actuarially determine the OPEB plan's total OPEB liability at December 31, 2018 and 2017, were as follows:

Actuarial cost method:	Entry Age Normal
Inflation:	3.0 percent per year
Health care cost trend rates:	8 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent
Single discount rate:	3.78 percent at 12/31/2016; 3.16 percent at 12/31/2017; 3.64 percent at 12/31/2018
Mortality:	RP-2014 Mortality Table

Changes in Net OPEB Liability

	<u>Increases (Decreases)</u>		
	Total OPEB Liability	Plan	
		Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2017	<u>\$ 20,859,071</u>	<u>\$ 4,388,044</u>	<u>\$ 16,471,027</u>
Changes for the year:			
Service cost	319,030	-	319,030
Interest	656,990	-	656,990
Contributions – employer	-	1,181,000	(1,181,000)
Changes in assumptions	(1,520,535)	-	(1,520,535)
Net investment income	-	49,464	(49,464)
Benefit payments	<u>(455,506)</u>	<u>(455,506)</u>	<u>-</u>
Net changes	<u>(1,000,021)</u>	<u>774,958</u>	<u>(1,774,979)</u>
Balance at December 31, 2018	<u>\$ 19,859,050</u>	<u>\$ 5,163,002</u>	<u>\$ 14,696,048</u>

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

	Increases (Decreases)		
	Total OPEB Liability (a)	Plan	
		Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at December 31, 2016	\$ 15,840,132	\$ 3,893,449	\$ 11,946,683
Changes for the year:			
Service cost	266,786	-	266,786
Interest	595,466	-	595,466
Differences between expected and actual experience	2,662,481	-	2,662,481
Contributions – employer	-	927,000	(927,000)
Changes in assumptions	1,935,094	-	1,935,094
Net investment income	-	8,483	(8,483)
Benefit payments	(440,888)	(440,888)	-
Net changes	<u>5,018,939</u>	<u>494,595</u>	<u>4,524,344</u>
Balance at December 31, 2017	<u>\$ 20,859,071</u>	<u>\$ 4,388,044</u>	<u>\$ 16,471,027</u>

Below is a table providing the sensitivity of the net OPEB liability to changes in the discount rate as of December 31, 2018 and 2017. In particular, the table presents the plan's net OPEB liability if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the assumed rate:

Net OPEB Liability at December 31,	Discount Rate	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
2018	3.64%	\$ 18,057,573	\$ 14,696,047	\$ 11,993,727
2017	3.16%	\$ 20,212,927	\$ 16,471,026	\$ 13,472,782

Below is a table providing the sensitivity of the net OPEB liability to changes in the Health care trend rate as of December 31, 2018 and 2017. In particular, the table presents the plan's net OPEB liability if it were calculated using a single Health Care Cost Trend Rate that is one-percentage-point lower or one-percentage-point higher than the assumed rate:

Net OPEB Liability at December 31,	Health Care Cost Trend Rates		
	1% Decrease (7% decreasing to 4%)	(8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
2018	\$ 11,087,609	\$ 14,696,047	\$ 18,584,306
2017	\$ 12,520,458	\$ 16,471,026	\$ 20,814,090

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The Utility recognized OPEB expense of \$1,070,493 and \$1,068,588 for the years ended December 31, 2018 and 2017, respectively. Below are tables providing the deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of December 31, 2018 and 2017:

December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,252,869	\$ -
Changes of assumptions	1,637,388	1,790,264
Net difference between projected and actual earnings on OPEB plan investments	<u>209,770</u>	<u>-</u>
Total	<u>\$ 4,100,027</u>	<u>\$ 1,790,264</u>

December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,457,675	\$ -
Changes of assumptions	1,786,241	448,755
Net difference between projected and actual earnings on OPEB plan investments	<u>179,074</u>	<u>-</u>
Total	<u>\$ 4,422,990</u>	<u>\$ 448,755</u>

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31,		
2019	\$	244,598
2020		244,598
2021		224,340
2022		194,766
2023		174,633
Thereafter		<u>1,226,828</u>
Total	\$	<u>2,309,763</u>

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

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

December 31, 2018	
Investment	Fair Value
Federated Treasury Obligations FD 68	\$ 1,945,579
Insured Certificate of Deposit – Goldman Sachs Bank	247,639
Synchrony Bank Death PUT FDIC Certificate	243,592
Insured Certificate of Deposit – Inland Northwest Bank	243,520
December 31, 2017	
Investment	Fair Value
Federated Treasury Obligations FD 68	\$ 2,655,047
BMO Harris Bank NA Death PUT FDIC Certificate	245,025
Sallie Mae Bank of Salt Lake Death PUT FDIC Certificate	245,017
Merrick Bank Death PUT FDIC Certificate	244,498
Insured Certificate of Deposit – Goldman Sachs Bank	248,427
Synchrony Bank Death PUT FDIC Certificate	245,777
Insured Certificate of Deposit – Inland Northwest Bank	245,816

Central Arkansas Water
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 11: Restatement of Prior Financial Statements

During 2018, the Utility changed its method of accounting for net OPEB liability by adopting GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The financial statements for 2017 have been retroactively restated for the change, which resulted in a decrease in change in net position and a decrease beginning net position for 2017 of \$121,050 and \$12,375,741, respectively.

Note 12: Subsequent Events

On April 2, 2019, the Utility entered into agreement with the Department of the Army, represented by the District Engineer for rights to use the DeGray Reservoir on the Caddo River as water storage for municipal and industrial water supply. Under this agreement, the Utility has rights to withdraw up to 100 MGD. The cost to the Utility will be \$4,598,638 to be paid over four annual payments of \$1,196,720.

Subsequent events have been evaluated through April 15, 2019, the date at which the financial statements were available to issued.



**REQUIRED
SUPPLEMENTARY
STATEMENTS**

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
TEN YEAR SUMMARY OF UTILITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
2009 – 2018 (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability	1.03%	1.02%	0.95%	0.94%
Utility's proportionate share of the net pension liability	\$ 22,682,488	\$ 26,485,412	\$ 22,821,130	\$ 17,301,107
Utility's covered payroll	\$ 19,769,522	\$ 18,472,503	\$ 17,290,639	\$ 16,700,073
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	114.73%	143.38%	131.99%	103.60%
Plan fiduciary net position as a percentage of the total pension liability	79.59%	75.65%	75.50%	80.39%

Pension schedules included in the required supplementary information section are intended to show information for ten years. GASB Statement No. 68 was implemented in 2015; therefore, only four years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
TEN YEAR SUMMARY OF UTILITY'S CONTRIBUTIONS TO ARKANSAS PUBLIC EMPLOYEES
RETIREMENT SYSTEM
2009 – 2018 (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,840,869	\$ 2,751,581	\$ 2,521,470	\$ 2,479,699
Contributions in relation to the contractually required contribution	<u>2,840,869</u>	<u>2,751,581</u>	<u>2,521,470</u>	<u>2,479,699</u>
Utility's proportionate share of the net pension	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered payroll	\$ 19,249,638	\$ 18,812,453	\$ 18,791,818	\$ 16,881,194
Contributions as a percentage of covered payroll	14.76%	14.63%	13.42%	14.69%

Pension schedules included in the required supplementary information section are intended to show information for ten years. GASB Statement No. 68 was implemented in 2015; therefore, only four years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB) – TEN YEAR SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

December 31, 2018

	2018	2017	2016
Total OPEB liability			
Service cost	\$ 319,030	\$ 266,786	\$ 284,194
Interest	656,990	595,466	566,116
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	2,662,481	-
Changes of assumptions	(1,520,535)	1,935,094	(530,347)
Benefit payments	<u>(455,506)</u>	<u>(440,889)</u>	<u>(390,661)</u>
Net change in total OPEB liability	(1,000,021)	5,018,938	(70,698)
Total OPEB liability – beginning	<u>20,859,070</u>	<u>15,840,132</u>	<u>15,910,830</u>
Total OPEB liability – ending (a)	<u><u>\$ 19,859,049</u></u>	<u><u>\$ 20,859,070</u></u>	<u><u>\$ 15,840,132</u></u>
Plan fiduciary net position			
Contributions – employer	\$ 1,181,000	\$ 927,000	\$ 844,935
Net investment income	49,464	8,485	28,577
Benefit payments	<u>(455,506)</u>	<u>(440,889)</u>	<u>(390,661)</u>
Net change in fiduciary net position	774,958	494,596	482,851
Plan fiduciary net position – beginning	<u>4,388,044</u>	<u>3,893,448</u>	<u>3,410,597</u>
Plan fiduciary net position – ending (b)	<u><u>\$ 5,163,002</u></u>	<u><u>\$ 4,388,044</u></u>	<u><u>\$ 3,893,448</u></u>
Utility's net OPEB liability – ending (a)–(b)	\$ 14,696,047	\$ 16,471,026	\$ 11,946,684
Plan fiduciary net position as a percentage of the total OPEB liability	26.00%	21.04%	24.58%
Covered-employee payroll	\$ 19,131,804	\$ 18,221,916	\$ 17,104,744
Utility's net OPEB liability as a percentage of covered-employee payroll	76.81%	90.39%	69.84%

Notes to the Schedule

Changes of assumptions. In 2018, the assumed single discount rate was increased from 3.16% to 3.64% to more closely reflect the expected rate of return on investments. In 2017, the assumed single discount rate was reduced from 3.78% to 3.16% to more closely reflect the expected rate of return on investments.

OPEB schedules under GASB Statement 75 included in the required supplementary information are intended to show information for ten years. GASB Statement 75 was implemented in 2018; therefore, only three years of information are shown, and additional years' information will be added as it becomes available.

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB) – SCHEDULE OF THE UTILITY’S CONTRIBUTIONS
December 31, 2018

Plan Year Ending December 31:	2018	2017	2016
Actuarially determined contribution	\$ 1,181,365	\$ 1,068,588	\$ 699,905
Contributions in relation to the actuarially determined contribution	1,181,000	927,000	844,935
Contribution deficiency (excess)	365	141,588	(145,030)
Covered employee payroll	19,131,804	18,221,916	17,104,744
Contributions as a percentage of covered employee payroll	6.17%	5.09%	4.94%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age Normal
Amortization method: Level Dollar over 30 years from January 1, 2017
Remaining amortization period: 28 years
Asset valuation method: Market value
Inflation: 3.0 percent per year
Health care cost trend rates: 8 percent initial, decreasing 0.5 percent per year to an ultimate
Single discount rate: 3.78 percent at 12/31/2016; 3.16 percent at 12/31/2017; 3.64 percent at 12/31/2018
Retirement age: Expected retirement ages of general employees are based on information provided by Arkansas Public Employees
Mortality: RP-2014 Mortality Table

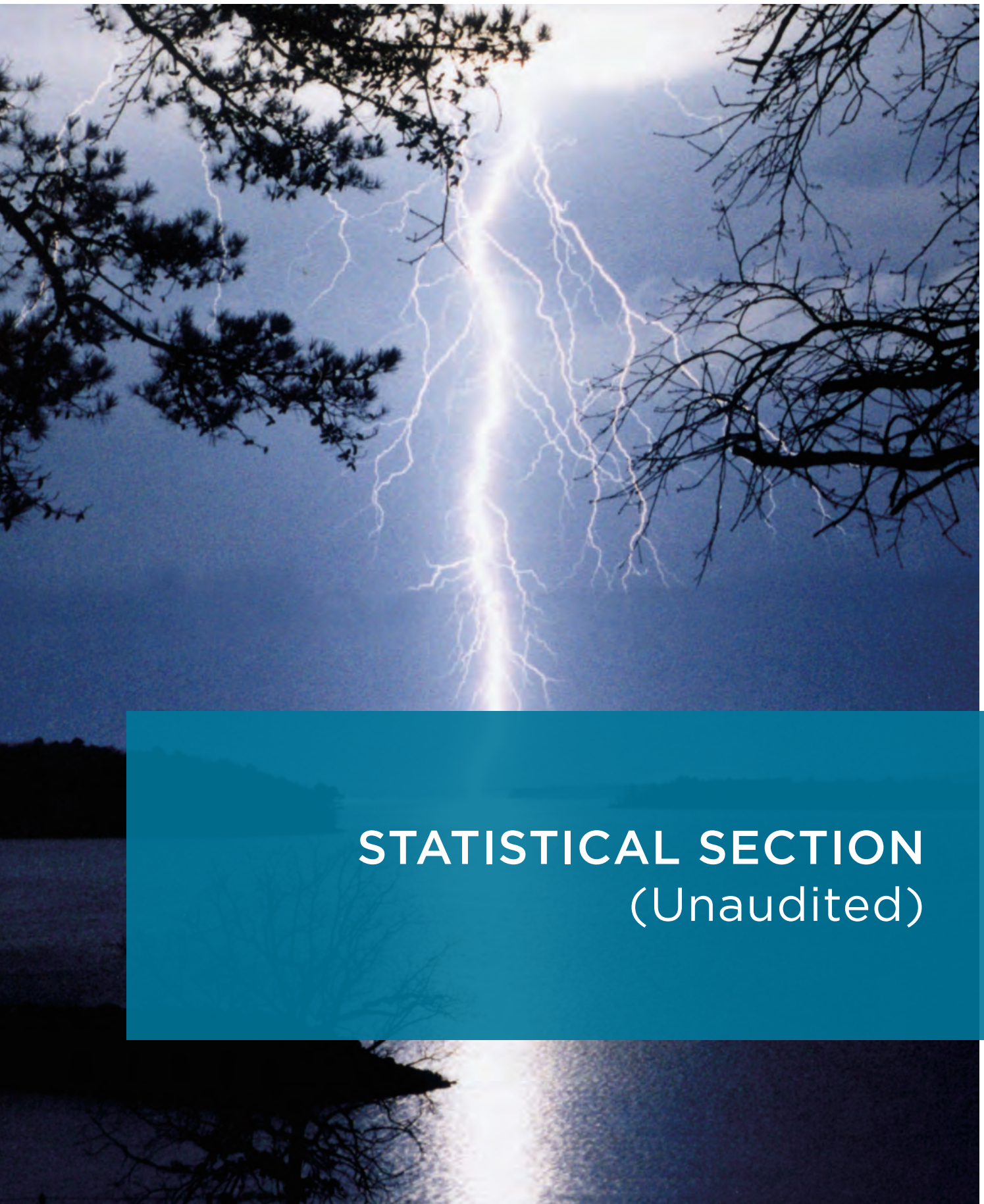
OPEB schedules under GASB Statement 75 included in the required supplementary information are intended to show information for ten years. GASB Statement 75 was implemented in 2018; therefore, only three years of information are shown, and additional years’ information will be added as it

Central Arkansas Water
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB) – TEN YEAR SCHEDULE OF INVESTMENT RETURNS
December 31, 2018

	2018	2017	2016
Annual money-weighted rate of return, net of investment expense	1.0%	0.2%	0.8%

OPEB schedules under GASB Statement 75 included in the required supplementary information are intended to show information for ten years. GASB Statement 75 was implemented in 2018; therefore, only three years of information are shown, and additional years' information will be added as it becomes available.

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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 Trends 87

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 92

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 99

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**

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Central Arkansas Water

TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES 2009–2018 (Unaudited)

	2009	2010	2011	2012
Operating Revenues				
Water sales	\$ 37,706,526	\$ 44,734,656	\$ 47,899,601	\$ 49,448,601
Penalties	754,955	888,654	915,430	891,014
Turn-on charges	1,110,714	1,057,057	1,019,839	1,195,622
Ancillary charges	2,797,505	2,631,082	2,841,724	3,014,509
Watershed protection fees	651,652	982,812	999,083	1,003,492
Other Revenue	524,358	636,345	596,503	716,994
Total Operating Revenues	43,545,710	50,930,606	54,272,180	56,270,232
Operating Expenses				
Administration	2,945,649	2,766,339	2,842,433	2,252,142
Distribution	9,832,889	9,915,785	9,994,051	9,817,795
Engineering	1,700,254	1,758,261	1,779,691	1,768,725
Finance and customer service	5,980,026	5,992,816	6,186,750	-
Finance	-	-	-	2,605,926
Customer service	-	-	-	4,055,518
Information services	2,752,820	2,818,444	3,005,343	3,013,314
Water production	7,882,414	8,181,092	8,556,749	9,423,762
Watershed protection	965,800	1,032,201	1,158,939	1,062,484
Water quality	-	-	-	-
General	2,033,790	2,549,123	2,048,645	2,345,009
Depreciation and amortization	8,640,467	9,138,823	9,589,451	10,346,997
Total Operating Expenses	42,734,109	44,152,884	45,162,052	46,691,672
Nonoperating Revenues (Expenses)				
Transfers to Cities of LR and NLR	(537,936)	(551,290)	(584,388)	(602,832)
Gain (loss) on disposal of capital assets	157,520	118,562	(476,219)	204,043
Investment income	163,318	56,820	118,372	76,650
Bond and other interest expense, net	(1,042,072)	(1,049,990)	(900,468)	(1,579,723)
Total Nonoperating Revenues (Expenses)	(1,259,170)	(1,425,898)	(1,842,703)	(1,901,862)
Contributions				
Contributions-in-aid of construction	5,253,734	8,552,085	9,573,703	2,826,327
Capital contributions from grantors	4,000,000	-	4,000,000	171,514
Special item – transfer of assets from Maumelle	-	-	-	-
Total Contributions	9,253,734	8,552,085	13,573,703	2,997,841
Change in Net Position	\$ 8,806,165	\$ 13,903,909	\$ 20,841,128	\$ 10,674,539
% Water Rate Increase ⁽¹⁾	3.4%	5.9%	5.3%	0.0%

Source: Central Arkansas Water Finance and Customer Service Department

⁽¹⁾ Little Rock inside-city residential typical bill % increase (typical bill based on 650 cubic feet consumption)

Central Arkansas Water

TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES (Continued) 2009–2018 (Unaudited)

2013	2014	2015	2016	2017	2018
\$ 45,998,541	\$ 45,070,592	\$ 47,459,563	\$ 51,325,094	\$ 51,648,173	\$ 57,264,083
859,938	916,613	878,500	885,551	922,616	991,571
1,101,038	1,010,229	989,227	1,091,867	1,342,974	1,335,236
3,083,148	2,917,964	3,005,354	5,549,781	6,188,546	5,667,721
1,012,991	1,012,005	1,017,055	1,025,064	1,120,097	1,101,065
1,990,277	670,741	731,607	818,766	611,842	560,731
<u>54,045,933</u>	<u>51,598,144</u>	<u>54,081,306</u>	<u>60,696,123</u>	<u>61,834,248</u>	<u>66,920,407</u>
2,364,744	2,471,360	2,598,576	2,668,488	3,447,845	4,019,183
10,495,249	10,659,085	10,256,858	13,313,139	14,256,900	14,980,984
1,773,172	1,821,276	1,694,457	1,803,704	2,049,525	2,038,602
-	-	-	-	-	-
2,585,870	2,548,209	2,582,474	3,103,823	3,078,676	2,895,514
4,176,286	4,458,680	4,436,408	4,954,842	3,151,815	3,298,739
2,902,303	3,133,821	3,050,213	3,186,317	3,328,787	3,302,483
7,889,209	7,717,004	8,011,935	8,239,835	9,341,319	9,120,982
-	-	-	-	-	-
1,936,431	1,911,167	2,024,136	2,050,733	2,134,930	2,267,752
2,017,004	1,971,006	2,112,725	3,057,387	2,484,482	2,298,966
11,068,273	10,786,930	11,246,626	12,149,744	12,770,370	12,687,333
<u>47,208,541</u>	<u>47,478,538</u>	<u>48,014,408</u>	<u>54,528,012</u>	<u>56,044,649</u>	<u>56,910,538</u>
(608,436)	(658,776)	(659,088)	(676,408)	(706,716)	(709,068)
249,854	26,456	76,092	76,664	70,231	(17,965)
111,482	199,334	194,795	237,700	413,111	846,878
(2,348,152)	(2,320,427)	(2,408,154)	(3,284,945)	(2,043,741)	(2,031,574)
<u>(2,595,252)</u>	<u>(2,753,413)</u>	<u>(2,796,355)</u>	<u>(3,646,989)</u>	<u>(2,267,115)</u>	<u>(1,911,729)</u>
864,644	2,253,550	3,021,520	2,148,229	2,442,052	2,580,491
47,903	-	127,396	26,112	-	-
-	-	-	7,745,408	-	-
<u>912,547</u>	<u>2,253,550</u>	<u>3,148,916</u>	<u>9,919,749</u>	<u>2,442,052</u>	<u>2,580,491</u>
<u>\$ 5,154,687</u>	<u>\$ 3,619,743</u>	<u>\$ 6,419,459</u>	<u>\$ 12,440,871</u>	<u>\$ 5,964,536</u>	<u>\$ 10,678,631</u>
<u>3.8%</u>	<u>3.7%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>8.9%</u>	<u>8.9%</u>

Central Arkansas Water
TEN YEAR SUMMARY OF NET POSITION
2009–2018 (Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net Position				
Net investment in capital assets	\$ 280,199,889	\$ 284,393,022	\$ 299,621,462	\$ 302,315,617
Restricted – expendable	7,127,200	9,038,701	6,466,360	7,988,462
Unrestricted	<u>14,161,514</u>	<u>21,437,276</u>	<u>29,622,305</u>	<u>36,080,587</u>
Total Net Position	<u>\$ 301,488,603</u>	<u>\$ 314,868,999</u>	<u>\$ 335,710,127</u>	<u>\$ 346,384,666</u>

Source: Central Arkansas Water Finance and Customer Department

⁽¹⁾ Beginning net position was restated by the Utility during the year ended December 31, 2015, as a result of implementation of GASB Statement No. 68.

⁽²⁾ Beginning net position was restated by the Utility during the year ended December 31, 2017, as a result of implementation of GASB Statement No. 75.

Central Arkansas Water
TEN YEAR SUMMARY OF NET POSITION (Continued)
2009–2018 (Unaudited)

2013	2014	2015 ⁽¹⁾	2016	2017 ⁽²⁾	2018
\$ 309,457,263	\$ 312,635,439	\$ 320,025,891	\$ 329,906,226	\$ 337,464,888	\$ 348,267,555
7,121,040	6,059,324	7,188,147	7,683,719	9,093,839	10,517,702
<u>34,961,050</u>	<u>36,464,333</u>	<u>19,108,904</u>	<u>21,173,868</u>	<u>5,793,875</u>	<u>4,245,982</u>
<u>\$ 351,539,353</u>	<u>\$ 355,159,096</u>	<u>\$ 346,322,942</u>	<u>\$ 358,763,813</u>	<u>\$ 352,352,602</u>	<u>\$ 363,031,239</u>

Central Arkansas Water
TEN YEAR SUMMARY OF WRITE-OFFS
2009–2018 (Unaudited)

Year	Water Sales	Write-Offs	Write-Offs/ Water Sales
2009	\$ 37,706,526	\$ 193,601	0.51%
2010	44,734,656	249,268	0.56%
2011	47,899,601	290,008	0.61%
2012	49,448,601	257,771	0.52%
2013	45,998,541	239,301	0.52%
2014	45,070,592	369,709	0.82%
2015	47,459,563	316,441	0.67%
2016	51,325,094	237,356	0.46%
2017	51,648,173	287,151	0.56%
2018	57,267,083	344,203	0.60%

Source: Central Arkansas Water Finance and Customer Service Department



REVENUE & DEBT CAPACITY



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Central Arkansas Water

TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE 2009–2018 (Unaudited)

	2009	2010	2011	2012
Revenues				
Water Sales	\$ 37,706,526	\$ 44,734,656	\$ 47,899,601	\$ 49,448,601
Penalties	754,955	888,654	915,430	891,014
Turn-on charges	1,110,714	1,057,057	1,019,839	1,195,622
Ancillary charges	2,797,505	2,631,082	2,841,724	3,014,509
Watershed protection fees	651,652	982,812	999,083	1,003,492
Proceeds from sale of capital assets	972,888	1,154,252	1,378,313	1,270,452
Investment income	163,318	56,820	118,372	76,650
Other Revenue	524,358	636,345	596,503	716,994
Total Revenues	<u>44,681,916</u>	<u>52,141,678</u>	<u>55,768,865</u>	<u>57,617,334</u>
Expenses				
Administration	2,945,649	2,766,339	2,842,433	2,252,142
Distribution	9,832,889	9,915,785	9,994,051	9,817,795
Engineering	1,700,254	1,758,261	1,779,691	1,768,725
Finance and customer service	5,980,026	5,992,816	6,186,750	-
Finance	-	-	-	2,605,926
Customer service	-	-	-	-
Customer relations and public affairs	-	-	-	4,055,518
Information services	2,752,820	2,818,444	3,005,343	3,013,314
Water production	7,882,414	8,181,092	8,556,749	9,423,762
Watershed protection	965,800	1,032,201	1,158,939	1,062,484
Water quality	-	-	-	-
General	2,033,790	2,549,123	2,048,645	2,345,009
Transfers to Cities of LR and NLR	537,936	551,290	584,388	602,832
Total Expenses	<u>34,631,578</u>	<u>35,565,351</u>	<u>36,156,989</u>	<u>36,947,507</u>
Transfers to rate stabilization account ⁽²⁾	<u>-</u>	<u>(2,100,000)</u>	<u>(2,600,000)</u>	<u>(3,300,000)</u>
Net Revenues	<u>\$ 10,050,338</u>	<u>\$ 14,476,327</u>	<u>\$ 17,011,876</u>	<u>\$ 17,369,827</u>
Maximum Annual Debt Service on Revenue Bonds	<u>\$ 5,536,739</u>	<u>\$ 6,799,714</u>	<u>\$ 6,884,537</u>	<u>\$ 8,061,331</u>
Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Bonds ⁽¹⁾	<u>1.82</u>	<u>2.13</u>	<u>2.47</u>	<u>2.15</u>

Source: Central Arkansas Water Finance and Customer Service Department

Note: Revenues and expenses included in statements of revenues, expenses and changes in net position but excluded above consist of the following: depreciation and amortization, loss of disposal of capital assets, interest expense, contributions-in-aid of construction, and capital contributions from grantors.

⁽¹⁾ Bond Requirement is 1.2.

⁽²⁾ Per Resolution 2010-03, transfers to the rate stabilization account within 90 days after year-end are excluded from net revenues, and transfers from the rate stabilization account within 90 days after year-end are included in net revenues.

Central Arkansas Water

TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE *(Continued)* 2009–2018 (Unaudited)

	2013	2014	2015	2016	2017	2018
\$	45,998,541	\$ 45,070,592	\$ 47,459,563	\$ 51,325,094	\$ 51,648,173	\$ 57,264,083
	859,938	916,613	878,500	885,551	922,616	991,571
	1,101,038	1,010,229	989,227	1,091,867	1,342,974	1,335,236
	3,083,148	2,917,964	3,005,354	5,549,781	6,188,546	5,667,721
	1,012,991	1,012,005	1,017,055	1,025,064	1,120,097	1,101,065
	1,259,097	62,548	93,675	87,285	70,231	74,887
	111,482	199,334	194,795	237,700	413,111	846,878
	1,990,277	670,741	731,607	818,766	898,993	560,731
	<u>55,416,512</u>	<u>51,860,026</u>	<u>54,369,776</u>	<u>61,021,108</u>	<u>62,604,741</u>	<u>67,842,172</u>
	2,364,744	2,471,360	2,598,576	2,668,488	3,447,845	4,019,183
	10,495,249	10,659,085	10,256,858	13,313,139	14,256,900	14,980,984
	1,773,172	1,821,276	1,694,457	1,803,704	2,049,525	2,038,602
	-	-	-	-	-	-
	2,585,870	2,548,209	2,582,474	3,103,823	3,078,676	2,895,514
	-	-	-	-	3,151,815	3,298,739
	4,176,286	4,458,680	4,436,408	4,954,842	-	-
	2,902,303	3,133,821	3,050,213	3,186,317	3,328,787	3,302,483
	7,889,209	7,717,004	8,011,935	8,239,835	9,341,319	9,120,982
	-	-	-	-	-	-
	1,936,431	1,911,167	2,024,136	2,050,733	2,134,930	2,267,752
	2,017,004	1,971,006	2,112,725	3,057,387	2,650,583	2,298,966
	608,436	658,776	659,088	676,408	706,716	709,068
	<u>36,748,704</u>	<u>37,350,384</u>	<u>37,426,870</u>	<u>43,054,676</u>	<u>44,147,096</u>	<u>44,932,273</u>
	-	-	-	-	-	-
\$	<u>18,667,808</u>	<u>14,509,642</u>	<u>16,942,906</u>	<u>17,966,432</u>	<u>18,457,645</u>	<u>22,909,899</u>
\$	<u>7,909,925</u>	<u>7,645,191</u>	<u>7,600,019</u>	<u>7,125,431</u>	<u>7,113,368</u>	<u>7,113,368</u>
	<u>2.36</u>	<u>1.90</u>	<u>2.23</u>	<u>2.52</u>	<u>2.59</u>	<u>3.22</u>

Central Arkansas Water
TEN YEAR SUMMARY OF OUTSTANDING DEBT-TO-CUSTOMER COUNT
2009–2018 (Unaudited)

Year	Residential	Commercial	Large Volume	Wholesale
2009	106,371	11,041	64	7
2010	106,235	11,041	63	8
2011	106,556	11,160	63	9
2012	106,961	11,243	64	9
2013	108,116	11,297	57	9
2014	108,426	11,411	56	9
2015	109,007	11,419	50	9
2016	116,601	11,592	48	9
2017	117,015	11,824	52	9
2018	117,637	12,145	45	9

Source: Central Arkansas Water Finance and Customer Service Department

* Total outstanding debt is net of the 2016 Construction and Acquisition Water Revenue bonds. A debt surcharge levied on the Maumelle service area customers is pledged to repay this debt.

Central Arkansas Water

TEN YEAR SUMMARY OF OUTSTANDING DEBT-TO-CUSTOMER COUNT *(Continued)* 2009–2018 (Unaudited)

Sprinkler	Private Fire Service	Total Customers	Total Outstanding Debt	Total Outstanding Debt-to- Customer Count
3,568	1,661	122,712	\$ 59,520,017	\$ 485
3,758	1,686	122,791	\$ 72,891,876	\$ 594
3,497	1,723	123,008	\$ 75,463,932	\$ 613
3,554	1,772	123,603	\$ 92,506,391	\$ 748
3,748	1,821	125,048	\$ 85,442,806	\$ 683
3,782	1,850	125,534	\$ 80,966,271	\$ 645
3,955	1,880	126,320	\$ 76,734,499	\$ 607
4,083	2,104	134,437	\$ 71,076,875 *	\$ 529
4,082	2,145	135,127	\$ 65,799,015 *	\$ 487
4,037	2,194	136,067	\$ 88,337,149 *	\$ 649

Central Arkansas Water
TEN YEAR SUMMARY OF TEN LARGEST WATER CUSTOMERS
2009–2018 (Unaudited)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Jacksonville Water Works	1	1	1	1	1	1	1	1	1	2
Bryant Water and Sewer	2	3	2	2	2	2	2	3	2	3
Salem Water Alliance	8	4	4	3	3	3	3	2	3	1
Mid-Arkansas Utilities	3	2	3	4	4	4	5	-	-	-
University of Arkansas for Medical Sciences	4	5	6	5	5	5	6	5	4	7
Arkansas Department of Corrections	10	10	9	10	9	6	7	6	6	8
Sage V Foods	-	-	-	-	-	7	10	-	8	-
Cabot WaterWorks	-	-	-	9	10	8	8	7	5	6
Shannon Hills Water Department	-	-	-	-	-	9	4	9	-	9
Baptist Health System	7	8	7	7	7	10	9	10	10	10
Veterans Administration Hospitals	5	7	-	8	8	-	-	-	-	-
3-M Company	6	6	8	-	-	-	-	4	9	-
Arkansas Electric Cooperative	-	9	5	6	6	-	-	-	-	4
North Little Rock Burns Park	-	-	-	-	-	-	-	8	-	-
Arkansas Military Department	-	-	10	-	-	-	-	-	-	-
Little Rock Parks Department	9	-	-	-	-	-	-	-	-	-
Kimberly-Clark	-	-	-	-	-	-	-	-	7	5

Source: Central Arkansas Water Finance and Customer Service Department



DEMOGRAPHIC & ECONOMIC INFORMATION

Central Arkansas Water
LARGEST EMPLOYERS WITHIN PULASKI COUNTY
2018 vs. 2009 (Unaudited)

Employer	Type of Business	Rank	2018		2009	
			Employees	Percentage of Total Employment	Rank	Employees
State of Arkansas	Government	1	35,800	32%	1	32,200
Local Government	Government	2	26,200	24%	2	28,800
Federal Government	Government	3	9,900	9%	3	9,200
University of Arkansas for Medical Sciences	Medical Services	4	9,702	9%	4	8,500
Baptist Health	Medical Services	5	7,336	7%	6	7,000
Little Rock Air Force Base	Government	6	4,500	4%	7	4,500
Arkansas Children's Hospital	Medical Services	7	4,372	4%	-	-
Little Rock School District	Education	8	3,968	4%	-	-
Central Arkansas Veterans Health Care Systems	Medical Services	9	2,800	3%	9	3,500
Entergy Arkansas	Utility (Electric)	10	2,700	2%	5	7,411
Pulaski County Public School District	Education	-	2,582	2%	10	2,378
Axiom	Data Processing	-	300	0%	8	3,000
Total			<u>110,160</u>	<u>100%</u>		<u>106,489</u>
Total Employment			183,883			

Source: Central Arkansas Water Finance and Customer Service Department

Central Arkansas Water
TEN YEAR SUMMARY OF
DEMOGRAPHIC AND ECONOMIC STATISTICS WITHIN PULASKI COUNTY
2009–2018 (Unaudited)

Year	Population	Households	Median Household Income	Per Capita Personal Income	Total Personal Income (000s)	Unemployment Rate
2009	381,904	177,521	\$ 42,107	\$ 42,209	\$ 16,041,795	6.0%
2010	382,748	175,555	44,482	42,438	16,278,265	6.9%
2011	386,299	176,324	45,897	43,938	16,973,344	6.4%
2012	388,953	178,704	44,819	45,875	17,843,080	6.3%
2013	391,284	179,470	46,526	47,854	18,724,616	6.9%
2014	392,490	180,023	45,698	46,349	18,201,484	5.6%
2015	392,664	180,103	46,673	45,862	18,008,251	4.0%
2016	393,250	155,440	46,070	47,834	18,810,571	3.2%
2017	393,956	155,435	48,850	48,838	18,712,183	3.4%
2018	(1)	(1)	(1)	(1)	(1)	3.4%

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

⁽¹⁾ Information is not available.



OPERATING INFORMATION

Central Arkansas Water
TEN YEAR SUMMARY OF NEW CONNECTIONS
2009–2018 (Unaudited)

Year	Meters	Fire Hydrants	New Pipe (in Miles)
2009	1,686	321	35.50
2010	1,144	160	19.70
2011	1,187	86	11.90
2012	1,442	61	28.50
2013	2,158	137	15.30
2014	1,205	150	16.90
2015	1,233	165	11.80
2016	1,277	168	17.00
2017	1,450	166	16.30
2018	1,301	202	17.61

Source: Central Arkansas Water Engineering Department

Central Arkansas Water
TEN YEAR SUMMARY OF SYSTEM HIGHLIGHTS
2009–2018 (Unaudited)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Miles of public water distribution pipe	2,255	2,276	2,280	2,295	2,358	2,366	2,372	2,497	2,506	2,518
Number of treatment plants	2	2	2	2	2	2	2	3	3	2
Maximum treatment capacity (MGD)	157.0	157.0	157.0	157.0	157.0	157.0	157.0	163.7	163.7	157.0
Maximum day consumption (MG)	103.3	108.4	119.4	126.0	106.0	88.3	98.9	98.1	92.0	101.0
Percentage of maximum capacity utilized	66%	69%	76%	80%	68%	56%	63%	60%	56%	64%

Source: Central Arkansas Water Engineering and Water Production Departments

MGD = Millions of Gallons per Day

MG = Million Gallons

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Central Arkansas Water
TEN YEAR SUMMARY OF CAPITAL ASSETS
2009–2018 (Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Land and land use rights	\$ 40,550,430	\$ 40,544,764	\$ 43,779,013	\$ 45,521,648
Building and grounds	39,719,805	40,917,775	41,954,807	44,160,573
Land improvements	-	-	-	-
Water source	32,621,672	32,778,582	32,778,582	32,920,887
Purification	25,176,369	29,512,295	36,299,049	37,261,755
Pumping	15,956,236	22,254,975	22,323,783	25,740,465
Distribution	257,532,685	272,131,704	279,106,680	318,974,140
Other equipment	25,933,787	26,463,728	27,362,197	27,875,369
Construction in progress	36,626,465	34,450,027	42,187,758	11,868,158
	<u>474,117,449</u>	<u>499,053,850</u>	<u>525,791,869</u>	<u>544,322,995</u>
Less accumulated depreciation	<u>136,877,016</u>	<u>145,172,084</u>	<u>153,522,735</u>	<u>163,299,356</u>
Net Capital Assets	<u>\$ 337,240,433</u>	<u>\$ 353,881,766</u>	<u>\$ 372,269,134</u>	<u>\$ 381,023,639</u>

Source: Central Arkansas Water Finance and Customer Service Department

Central Arkansas Water
TEN YEAR SUMMARY OF CAPITAL ASSETS (CONTINUED)
2009–2018 (Unaudited)

	2013	2014	2015	2016	2017	2018
\$	46,032,162	\$ 46,192,915	\$ 47,488,299	\$ 47,892,367	\$ 48,977,583	\$ 58,804,602
	49,154,620	60,806,083	60,916,771	62,556,517	62,767,365	63,294,373
	1,478,894	2,253,459	2,259,083	2,702,932	2,831,335	2,895,907
	32,927,318	33,211,941	33,211,941	33,419,723	33,419,723	33,419,723
	37,518,831	42,180,124	42,449,597	45,268,031	45,527,263	45,671,724
	25,796,891	26,233,796	26,410,016	27,159,362	27,257,925	28,272,196
	323,590,447	335,078,600	339,621,061	363,365,749	368,386,584	388,726,499
	27,139,956	28,573,745	29,123,839	31,027,067	31,740,663	33,810,257
	21,527,876	2,150,054	8,880,044	8,044,217	21,632,031	19,019,605
	<u>565,166,995</u>	<u>576,680,717</u>	<u>590,360,651</u>	<u>621,435,965</u>	<u>642,540,472</u>	<u>673,914,886</u>
	<u>173,414,469</u>	<u>183,412,270</u>	<u>193,915,770</u>	<u>211,426,836</u>	<u>223,337,873</u>	<u>235,366,005</u>
\$	<u>391,752,526</u>	<u>\$ 393,268,447</u>	<u>\$ 396,444,881</u>	<u>\$ 410,009,129</u>	<u>\$ 419,202,599</u>	<u>\$ 438,548,881</u>

Central Arkansas Water
TEN YEAR SUMMARY OF FILLED POSITIONS BY DEPARTMENT
2009–2018 (Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Administration	17	14	14	11	11	12	11	14	15	24
Customer relations and public affairs	-	-	-	-	-	61	63	-	-	-
Customer service	-	-	-	-	-	-	-	-	-	45
Distribution	111	102	104	106	109	108	110	135	141	139
Engineering	22	23	22	23	23	22	21	22	24	24
Finance and customer service	75	78	75	79	79	-	-	69	64	-
Finance	-	-	-	-	-	17	20	-	-	21
Information services	16	17	17	17	17	17	17	16	16	14
Source and treatment	39	37	40	32	31	-	-	-	-	-
Water quality	-	-	-	10	9	-	-	13	12	14
Water quality and operations	-	-	-	-	-	40	41	-	-	-
Source and treatment/ Water production	-	-	-	-	-	-	-	31	35	38
Total	<u>280</u>	<u>271</u>	<u>272</u>	<u>278</u>	<u>279</u>	<u>277</u>	<u>283</u>	<u>300</u>	<u>307</u>	<u>319</u>

Source: Central Arkansas Water Administration Department

Central Arkansas Water
SCHEDULE OF WATER RATES FOR CAW
2018 (Unaudited)

Minimum Monthly Charge (CAW):

Meter Size	Central Arkansas Water	
	Charge	
	Inside City	Outside City
5/8"	\$ 7.85	\$ 10.28
3/4"	\$ 10.14	\$ 13.28
1"	\$ 14.41	\$ 18.87
1 1/2"	\$ 24.37	\$ 31.90
2"	\$ 39.52	\$ 51.73
3"	\$ 73.07	\$ 95.64
4"	\$ 118.85	\$ 155.58
6"	\$ 235.08	\$ 307.72
8"	\$ 397.64	\$ 520.51
10"	\$ 572.49	\$ 749.38
12"	\$ 1,042.65	\$ 1,364.83

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

Customer Class	Charge			
	Inside City – LR & NLR		Outside City – LR & NLR	
	3-33 CCFs	Over 33 CCFs	3-33 CCFs	Over 33 CCFs
Residential	\$ 1.71	\$ 2.22	\$ 2.73	\$ 3.50
Commercial	\$ 1.60	\$ 1.60	\$ 2.56	\$ 2.56
Large Volume	\$ 1.30	\$ 1.30	\$ 2.09	\$ 2.09
Sprinkler	\$ 1.71	\$ 2.22	\$ 2.73	\$ 3.57

Customer Class	Charge	
	On Peak	Off Peak
Wholesale	\$ 1.57	\$ 1.45
Raw Water	\$ 0.62	\$ 0.62

Watershed Protection Fee (all CAW customers):

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

⁽¹⁾ Inside City Residential accounts with a single house meter (no sprinkler meter) using 100, 200, or 300 cubic feet of monthly usage shall be given a Conservation Rate Discount of 15%. The discount shall not apply to zero consumption billings.

Source: Central Arkansas Water Finance and Customer Service Department