

**Central Arkansas Water  
Water Revenue Bonds  
Series 2007, 2010A, 2010B, 2010C, 2011A, 2011B, 2012A, and 2014**

**Annual Report  
Year Ended December 31, 2014**

*Customers.* As of December 31, 2014, the Central Arkansas Water System served a total of 125,534 customer accounts. Such customers were classified as follows:

<u>Customer Type</u>	<u>2014</u>
Residential	108,426
Commercial	11,411
Large Volume	53
Sprinkler	3,782
Private Fire Service	1,850
Wholesale	9
Raw Water	<u>3</u>
 Total	 <u>125,534</u>

*Addition or Deletion of Any Significant Group of Customers.* Paron-Owensville Water Authority began surplus raw water wholesale service in July 2014. Paron-Owensville Water Authority has agreed to purchase a minimum of 25,000 gallons not to exceed 500,000 gallons of nonpotable water per day. The initial term of the agreement is twenty (20) years with automatic renewals in ten (10) year increments.

Beginning in late 2015, Central Arkansas Water will begin providing water to the Frazier Pike Public Facilities Board. The Frazier Pike Public Facilities Board of Pulaski County is a newly formed (in 2012) water authority containing 9.5 square miles of service area located immediately south of the City of Little Rock, adjacent to and extending along the Arkansas River. They currently have a \$1.0 Million project (75% grant/25% loan) from ANRC to install approximately 6.5 miles of water main to serve approximately 65 customers with considerable growth potential in the service area. Currently the area wholly relies on shallow and deep wells to provide potable and non-potable water. Water quality from these wells is generally very poor with many users refusing to use the water for potable purposes. Many in the area use purchased bottled water and/or haul in water for potable use. The proposed water facilities will also improve fire service within the area. Completion of the project is expected in the third quarter of 2015.

The Water System's top ten customers, based upon revenues produced during the twelve months ended December 31, 2014, were as follows:

<u>Customer</u>	<u>2014 Revenues</u>	<u>Percentage of Total 2014 System Revenues</u>	<u>Customer Type</u>
Jacksonville Water Works	\$1,363,000	2.63%	Wholesale
Bryant Water and Sewer	890,000	1.72%	Wholesale
Salem Water Alliance	860,000	1.66%	Wholesale
North Pulaski Waterworks	329,000	.63%	Wholesale
University of Arkansas for Medical Sciences	227,000	.44%	Retail
Arkansas Department of Correction	166,000	.32%	Retail
Sage V Foods	162,000	.31%	Retail
Cabot Waterworks	161,000	.31%	Wholesale
Shannon Hills Water Department	147,000	.28%	Wholesale
Baptist Health System	129,000	.25%	Retail

*Usage.* The following table shows the Water System's water usage statistics for the year ended December 31, 2014:

<u>Year</u>	<u>Average Daily Use in Million Gallons</u>	<u>Maximum Day's Use in Million Gallons</u>
2014	55.5 MG	88.3 MG

*Water Rates.* Central Arkansas Water, by Resolution No. 2012-07 approved by the Commission on November 8, 2012, established new water rate schedules effective the first of March 2013 and the first of January 2014. The general purpose behind Resolution 2012-07 was to increase needed revenues to fund an increasing level of debt service. A summary of the rates in place effective January 1, 2014 follows:

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

Minimum Monthly Charge

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

METER SIZE (diameter)	MINIMUM MONTHLY CHARGE	
	EFFECTIVE JANUARY 1, 2014	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
5/8"	\$5.85	\$7.66
3/4"	7.56	9.89
1"	10.74	14.06
1 1/2"	18.16	23.75
2"	29.45	38.54
3"	54.45	71.27
4"	88.57	115.93
6"	175.19	229.29
8"	296.33	387.82
10"	426.63	558.37
12"	777.01	1,016.94

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Additional Monthly Charge

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

CUSTOMER CLASS	RATES			
	EFFECTIVE JANUARY 1, 2014			
	INSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)		OUTSIDE CITIES OF LR & NLR CHARGES (\$ PER 100 CF)	
	3 – 33	OVER 33	3 – 33	OVER 33
RESIDENTIAL	\$1.61	\$2.10	\$2.58	\$3.36
COMMERCIAL	1.51	1.51	2.41	2.41
LARGE VOLUME	1.23	1.23	1.96	1.96
SPRINKLER	1.61	2.10	2.58	3.36

Customer Classes

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

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

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

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

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

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Private Fire Service

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

	RATES	
	EFFECTIVE JANUARY 1, 2014	
	INSIDE CITIES OF LR & NLR	OUTSIDE CITIES OF LR & NLR
FIRE HYDRANTS	\$69.71	\$100.84
FIRE CONNECTION MINIMUM CHARGE	80.83	116.94
AUTOMATIC SPRINKLER SYSTEM MINIMUM CHARGE (1,000 HEADS)	80.83	116.94
ADDITIONAL HEADS, EACH	0.08	0.13
STANDPIPE 1 1/4" (OR SMALLER) DIAMETER, EACH	15.81	22.88
1 1/2" DIAMETER, EACH	24.61	35.59
2" DIAMETER, EACH	40.43	58.47
2 1/2" DIAMETER, EACH	80.83	116.94

Wholesale Customers

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

TIME WATER IS TAKEN	RATES
	EFFECTIVE JANUARY 1, 2014
	(\$ PER 100 CF)
ON PEAK Customers taking any water from: 4:01 a.m. to 8:59 a.m. and/or 5:01 p.m. to 9:59 p.m.	\$1.19
OFF PEAK Customers taking all water from: 10 p.m. to 4 a.m. and/or 9 a.m. to 5 p.m.	1.04

Raw Water Customers

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

	RATES
	EFFECTIVE JANUARY 1, 2014
	(\$ PER 100 CF)
Raw Water Customer	\$0.55

### Conservation Rate Discount

Inside City Residential accounts with a single house meter (no sprinkler meter) using 100, 200 or 300 cubic feet of monthly usage shall be given a Conservation Rate Discount of 15%. The discount shall not apply to zero consumption billings. Total discounts amounted to approximately \$225,000 in 2014.

### Watershed Protection Fee

The Watershed Protection Fee, in amounts as set forth in the table below (no change since 2009 implementation), is added to the monthly bills of all customers. This fee is accumulated in a fund to be used for small land purchases, to service the debt on larger land purchases, and/or fund the administration of the Watershed Protection Program. If debt is incurred for any of the aforementioned purposes and the fee is pledged as collateral or a source of repayment for the debt, then the fee will continue as necessary throughout the life of the debt to service debt repayment. The fee may be suspended should Central Arkansas Water deem it no longer necessary for the Watershed Protection Program. Fee charges totaled approximately \$1,012,000 in 2014.

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

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

*Rate Stabilization Account.* The Rate Stabilization Account was established to provide more stable retail water rates to customers and to assist Central Arkansas Water in its efforts to meet financial performance indicators and goals specified in bond covenants and monitored by various financial rating agencies. Deposits or withdrawals may be made up to and including the date ninety (90) days after the end of the fiscal year for which the deposit or withdrawal will be included in the net revenue calculation. A \$20,000,000 funding limit has been established on the account. At December 31, 2014, the account balance totaled approximately \$8,041,000.

*Billing Procedures, Penalties, Delinquency, and Uncollectible Accounts.* Central Arkansas Water's billing policy and procedures provide that bills for water services are rendered in the net amount due. Water bills, with the exception of private fire service, are due and payable monthly on or before the 20th day following the billing date stated on the water bill. Payments for private fire service are due in semi-annual installments in advance on the first (1st) day of January and July of each year. Any water bill not paid on or before the due date is considered delinquent and a penalty of 10% of the total current bill is assessed against the account. In the event that bills due for water service are not paid on or before the next billing date, a disconnect notice is sent with the following month's bill, stating that the previous balance must be paid by the due date of the accompanying bill to avoid service disruption. Should any delinquent bill remain unpaid, Central Arkansas Water issues a disconnect order 2-3 days following the due date of the second bill. The customer's deposit will be forfeited in an amount sufficient to cover the gross amount of the due bill. The forfeiture of the deposit will take place if the customer has not paid the

delinquent bill plus all applicable service charges within 7 days after disconnection. In such event, Central Arkansas Water may levy a reconnection charge to restore service.

The following table details account data for the Water System for the year ended December 31, 2014. An inactive account is written off after 90 days. When a customer with a written off balance returns to the Water System, any amount previously written off must be paid in full before service can be connected or reconnected. Outside collection services are used in attempts to collect from inactive customer accounts.

<u>Year</u>	<u>System Revenues</u>	<u>Bad Debt Expense</u>	<u>Percentage</u>
2014	\$51,860,000	\$311,000	.60%

*Projected Capital Expenditures.* The Issuer anticipates the cost of contemplated expansions and capital improvements to the Water System over the next five years to be as set forth in the following table. Said expansions and improvements are expected to be financed from a combination of sources, including (i) an additional bond issue structured as Parity Debt in 2017 in the estimated principal amount of \$16.5 million; (ii) proceeds of a U.S. Forrest Service grant; and (iii) cash funds generated by the Water System.

<u>Category of Improvement</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Totals</u>
Lake Maumelle Watershed Protection	\$3,740,000	\$3,715,000	\$ 4,750,000	\$1,460,000	\$2,260,000	\$15,925,000
Equipment and Services	2,940,000	3,515,000	2,346,000	2,098,000	2,593,000	13,492,000
Water Rights	4,640,000	-0-	-0-	-0-	-0-	4,640,000
Storage and Surge Tanks	-0-	-0-	900,000	705,000	700,000	2,305,000
Facilities Upgrades	1,010,000	930,000	5,425,000	7,155,000	4,916,000	19,436,000
Transmission Mains	1,390,000	1,910,000	2,570,000	1,170,000	3,370,000	10,410,000
Distribution Mains	<u>6,141,000</u>	<u>4,920,000</u>	<u>4,830,000</u>	<u>8,190,000</u>	<u>8,392,000</u>	<u>32,473,000</u>
Totals:	<u>\$19,861,000</u>	<u>\$ 14,990,000</u>	<u>\$20,821,000</u>	<u>\$20,778,000</u>	<u>\$22,231,000</u>	<u>\$ 98,681,000</u>

*Annual Audit of Central Arkansas Water for Year Ended December 31, 2014.* Attached is the annual audit of Central Arkansas Water for the years ended December 31, 2014 and 2013, as prepared by Thomas & Thomas, LLP, independent certified public accountants.



**Central Arkansas Water**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Years Ended  
December 31, 2014 and 2013**

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**Prepared by the Finance Department**

# Central Arkansas Water

## TABLE OF CONTENTS

### Introductory Section

Transmittal Letter .....	1
Organizational Chart .....	11
Board of Commissioners .....	13
Management Team .....	15
Certificate of Achievement for Excellence in Financial Reporting .....	17

### Financial Section

Independent Auditor's Report.....	19
Management's Discussion and Analysis.....	25
<b>Basic Financial Statements</b>	
Statements of Net Position .....	40
Statements of Revenues, Expenses and Changes in Net Position.....	42
Statements of Cash Flows .....	44
Statements of Fiduciary Net Position.....	46
Statements of Changes in Fiduciary Net Position .....	47
Notes to Financial Statements .....	49
<b>Required Supplementary Information</b>	
Other Postemployment Benefit Plan (OPEB) - Schedule of Funding Progress.....	74
Other Postemployment Benefit Plan (OPEB) - Schedule of Employer Contributions .....	75
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards.....	78



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# Central Arkansas Water

## TABLE OF CONTENTS *(Continued)*

### **Statistical Section (Unaudited)**

<b>Index</b> .....	81
<b>Financial Trends</b>	
Ten Year Summary of Revenues, Expenses and Rate Increases.....	84
Ten Year Summary of Net Position.....	86
Ten Year Summary of Write-Offs .....	88
<b>Revenue and Debt Capacity</b>	
Ten Year Summary of Revenues, Expenses and Debt Service Coverage.....	90
Ten Year Summary of Outstanding Debt to Customer Count .....	92
Ten Year Summary of Ten Largest Water Customers .....	94
<b>Demographic and Economic Information</b>	
Largest Employers within Pulaski County.....	96
Ten Year Summary of Demographic and Economic Statistics within Pulaski County .....	97
<b>Operating Information</b>	
Ten Year Summary of New Connections .....	100
Ten Year Summary of System Highlights.....	101
Ten Year Summary of Capital Assets .....	102
Ten Year Summary of Filled Positions by Department.....	104
Schedule of Water Rates .....	105

### **Other Schedules and Required Reports**

<b>Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	107
<b>Independent Auditor’s Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133</b> .....	109
<b>Schedule of Findings and Questioned Costs</b> .....	111
<b>Summary Schedule of Prior Audit Findings</b> .....	112

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## Introductory Section



March 27, 2015

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, 2014 and 2013.

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, 2014 and 2013. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utility.

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

#### **THE REPORTING ENTITY**

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

The Utility remains under public ownership. A 7 member Board of Commissioners governs the Utility and I, as Chief Executive Officer, oversee day-to-day operations and administration. The Utility's organizational structure includes 7 departments: Administration, Distribution, Engineering, Finance, Customer Relations & Public Affairs, Information Services, and Water Quality & Operations.

The Utility produces, stores, treats, and distributes water for a population of approximately 400,000 in Central Arkansas. The major components of the system are two raw water supplies, Lake Winona and Lake Maumelle; a regulating and storage facility, Jackson Reservoir; two treatment facilities, Jack H. Wilson Treatment Plant (the Wilson Plant) and Ozark Point Treatment Plant (the Ozark Point Plant); approximately 2,370 miles of public pipeline; 23 booster pumping stations; and 27 remote storage facilities. As of December 31, 2014, the Utility provides water service to approximately 515 square miles and approximately 125,000 active customer accounts.

The combined safe yield of the 2 water sources is approximately 120 million gallons per day (MGD). The maximum treatment capacity of the Wilson Plant is 133 MGD and the treatment capacity of the Ozark Point Plant is 24 MGD. The Utility has a combined 46 million gallons in remote storage capacity serving 19 pressure systems and another 25 million gallons in storage at the treatment plants.

## **MAJOR INITIATIVES AND ACCOMPLISHMENTS IN 2014**

### Administration

CAW continued a strong commitment to diversity and inclusion initiatives throughout the organization in 2014. One example is the distinction held by CAW, for the third year in a row, of being the largest participating organization in the 2014 Just Communities of Arkansas (JCA) Walk for commUNITY, with 76 CAW walkers participating.

Human Resources continued to focus on ensuring that the Utility's recruitment programs, policies, procedures, compensation, and employee benefits attract and retain competent, motivated and diverse employees. 2014 was a high volume year for recruitment, with 31 positions filled, including five senior level managerial positions which were successfully filled following key retirements at the Director and Officer level. All positions were filled, on average, within 6.7 weeks, which is below the Society of Human Resources Management standard of 7 weeks. While anticipated retirements of the baby boomer generation were reflected in an increase to our turnover rate, at 8.6% for 2014, CAW's annual turnover for 2014 remained approximately half the national average for state and local governments.

Professional certification, training and employee development continue to be key initiatives for CAW. The number of employees holding designated certifications exceeded the level of job certifications required by approximately 20% in 2014.

Adjustments made in the calculation methodology for cost of benefits in 2014 provided for continued tracking against the Bureau of Labor Statistic/Society of Human Resources Management cost of benefits benchmark, which calculates benefits as a percent of total compensation (wages + benefits), rather than wages only. CAW's 2014 cost of benefits of 27.61% was below the national average of 28.3%.

During 2014, the Environmental Health and Safety section emphasized personal safety through monthly safety meetings and other focused initiatives. As a result, only seven personal injuries claims were filed in 2014, tying a ten year low for number of claims filed.

In addition, Environmental Health and Safety modified the Defensive Driving Program to incorporate more realistic scenarios for field training exercises. Drivers conducted field training in the vehicle type they normally drive during performance of their duties. These and other safety efforts produced a decrease in at-fault accidents to three for the year, the lowest number of at-fault accidents in our thirteen year history. The ten year average for at-fault accidents is six and one half.

The Utility generated \$69,000 in private-sector revenue for the Help to Others Customer Assistance Fund (Help to Others). In addition, the Utility contributed \$7,500 to this special program that provides assistance to families, senior citizens and other individuals who are experiencing financial crisis and need assistance in paying utility bills. Help to Others, a substantively self-sustaining program, has been funded with over \$1,050,000 since its inception in November of 2004. Its primary revenue source is advertising

fees that local merchants and businesses pay to place coupon advertising in the monthly billing statements of CAW and its utility billing partners. The program is an essential component of our community outreach, as families and senior citizens weather difficult economic climates and other hardships.

### Distribution

The Distribution Department completed over 21,000 work orders in 2014. There was additional system work done regarding monitoring, hydraulics and redundancy with returning the Pleasant Valley Tank into service and adding supervisory control and data acquisition (SCADA) components, a remote operating valve, pressure reducing valves, and pressure sustaining valves. For the first time in CAW's history, Distribution hydrant inspection personnel completed a hands on inspection of the 7,500 Little Rock fire hydrants. In the past, the Little Rock Fire Department completed this inspection twice each year. The new International Organization for Standardization requirement is for one inspection of fire hydrants each year. However, in a collaborated effort, CAW and the Little Rock Fire Department will now each perform an annual inspection, maintaining the two annual inspections. Distribution continues to be proactive regarding water infrastructure replacement and rehabilitation needs in the form of an aggressive 2-inch diameter galvanized pipe replacement program. A total of 12,000 linear feet of 2-inch diameter galvanized pipe was replaced in 2014 using the department's directional boring machine. Additional staff and equipment were approved for this effort in 2015 and this is expected to increase the annual replacement rate to 16,000 linear feet. Over 600,000 linear feet of 2-inch diameter galvanized pipe needs to be replaced system wide. Distribution also replaced 8,500 water meters through the change-out program, exceeding the Utility's goal of 5,000. The Distribution Department continued a valve inspection program which began in 2013. Approximately 14,000 of the 32,000 valves in the CAW system have been inspected and tested. Initial inspection of each valve in the system is expected to conclude in 2016.

### Engineering

The Engineering Department, through capital improvement projects and private developer construction, managed and oversaw the replacement of 12.4 miles of public water mains, installation of 16.9 miles of new public water mains, and installation of 3.7 miles of new private water mains in 2014. Also, 13.5 miles of public water mains and 1.0 miles of private water mains were retired in 2014.

In 2014, the Engineering Department managed and inspected to completion the U.S. Environmental Protection Agency Stage 2 Disinfectants/Disinfection By-Product Rule Water Treatment Plant Improvement project. The engineering design of this project commenced in 2011, construction started at the Wilson Plant and Ozark Point Plant in early 2013, and construction was completed by June 2014. Engineering and construction costs for the project totaled approximately \$15.1 Million.

Other major projects the Engineering Department managed and inspected to completion in 2014 include:

- a 30 million gallon per day pump and motor rebuild at the Lake Maumelle Pumping Station;
- rehabilitation of 1,300 feet of 16-inch diameter cast iron transmission main with cured-in-place pipe (CIPP) liner (the first in the state of Arkansas);
- relocation of 5,700 feet of 3-inch through 12-inch existing water main along Cantrell Road due to highway improvements implemented by the Arkansas State Highway and Transportation Department;

- relocation of 3,400 feet of 6-inch through 12-inch existing water main along Scott Hamilton Road due to street improvements implemented by the City of Little Rock; and
- replacement of 38,000 feet of high maintenance 2-inch galvanized water pipe with new 2-inch through 6-inch water pipe in various locations within the CAW service area.

Also in 2014, the Engineering Department completed engineering designs for several new projects scheduled for construction in 2015 and 2016, including water main relocations due to new street/highway viaduct construction over four railroad lines and replacement of troublesome galvanized and asbestos-cement water mains.

### Finance

For the fifth 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.

Purchasing personnel worked with Distribution maintenance to develop a plan to participate in Entergy's Solutions Arkansas Program to address sustainability objectives by improving interior and exterior lighting at the Wilson Plant. Research on LED (light emitting diode) lighting trends was performed to find the best options for CAW. Materials purchased for the project were bid separately from installation costs to realize a savings of over \$14,000. At project completion, CAW received a rebate check from Entergy in the amount of approximately \$82,000. Estimated annual energy savings amount to 512,000 kWh with an estimated demand reduction of 28.68 kW and approximately \$35,000 in 2014 costs.

In addition, Purchasing developed a comprehensive Fleet Management Plan which addresses these key areas: new requirement/replacement analysis, budgeting, acquisition, vehicle preparation, fleet operation, and overall fleet management.

Finance created CAW's first Capital Improvement Plan Supplement to the 2015 Financial Plan. This document was designed to be a highly visual document, improve capital planning and provide detail into all capital projects exceeding \$250,000 for the five year period of 2015 – 2019. The document will serve to improve planning for future year capital expenditures and rate analyses, while a project planner (Gantt chart) will aid in evaluation of project timelines.

Finance issued \$10.9 million in refunding water revenue bonds at a true interest cost of 2.04%. The proceeds were used to refund the remaining principal balance of the 2004 issue that carried a 4.11% interest rate. The reduction in debt service payments over a ten year period totals approximately \$3.1 million.



### Customer Relations and Public Affairs (CRPA)

The Customer Relations and Public Affairs (CRPA) Department formed in late 2013 and encompasses the Communications Section, the Customer Service Section, and the Public Policy Section of the Utility. The formation of this department 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 2014, the Communications Section continued customer communication through billing-based content, website, and social media while also expanding to a more robust email-based communication effort alongside our paperless billing enhancements. In addition, the section completed a Long-Range Communications Plan as well as a revised social media strategy, both of which emphasize and lay out processes to identify and adopt new and emerging communications tools. Throughout 2014, the Communications Section issued over 35 press releases and received approximately 85 media reports regarding the Utility and its activities.

The Utility continues to have strong stakeholder involvement and heightened consumer interest in public-policy initiatives and the development of strategies to address various issues and challenges the Utility is facing. In addition to embracing stakeholder input on various projects related to watershed protection, water conservation, and resources utilization, the Utility took a proactive approach to media-relations for a number of key activities in 2014 including: education programs, tours, special events of CAW and other organizations, television appearances, and public service involvement. Through these efforts, the Utility educated over 500,000 individuals throughout the Central Arkansas region regarding leak detection, wise water use for irrigation systems, freeze precaution efforts, and other core initiatives.

The Customer Service Section participated in the successful upgrade of the enQuesta billing system in late 2013 and took advantage of the enhanced features and functionality of the system in late 2014 with the launch of a marketing campaign aimed at increasing enrollment in paperless billing and usage of improved online account management features. The Customer Service section also continued to implement and evaluate the Advanced Metering Infrastructure (AMI) pilot project, planning the deployment of additional equipment to enhance the efficiency of data collection and project evaluation.

Finally, CAW public policy staff served as active participants in the Lake Maumelle Watershed Zoning Taskforce throughout 2014, ensuring that water quality protections in the adopted Zoning Code were maintained.

### Information Services

Information Services continues to work with vendor support to resolve issues resulting from the conversion to the EnQuesta 4 billing system. Some of the new customer features offered include paperless billing, auto pay, and online customer account access. Currently, 4,800 customers have signed up for paperless billing, 4,000 for auto pay, and 28,000 have initiated online customer accounts.

CAW uses a Wide Area Network (WAN) to support and communicate with satellite locations such as Capitol Avenue (JTH), Water Treatment, Lake Facilities, and Distribution. During 2014, communications were upgraded to host the network centrally by AT&T. Previously, the JTH location was the central hub linking the other locations. Moving to the AT&T configuration allows each site to operate independently and enables communication to take place in the event of one location being shut down due to power outages or other catastrophic events.

## Water Quality and Operations

### *Source and Treatment*

The Utility ensured the highest quality of water by conducting 138,000 water quality analyses, striving to maintain 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 remains one of the few utility laboratories in the State certified for coliform analyses under the Total Coliform Rule of the SDWA. CAW provided 20.3 billion gallons of treated high quality water for our consumers in 2014.

In anticipation of joining the "Partnership for Safe Drinking Water", a Comprehensive Performance Evaluation (CPE) was conducted by Arkansas Department of Health (ADH) staff in an effort to provide direction for CAW in its endeavors to meet criteria for the Partnership. Additionally, the Utility modified the filter control system at the Ozark Point Plant to provide more flexibility, robustness, and resilience at this part of the treatment process.

### *Watershed Management*

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

The Utility continued its efforts on various projects involving water quality protection, water conservation, and resource utilization.

In 2014 the first payment was received from Arkansas Game and Fish Commission (AGFC) for the Wildlife Management Area (WMA) and the second payment became due and was reported as a receivable at year end. The WMA is a joint effort between CAW and AGFC.

Watershed staff continued to evaluate multiple properties for possible purchase in 2014. A conservation easement to protect water quality on 295 acres of critical riparian habitat in the watershed was negotiated and will be finalized in 2015.

The Pulaski County Land Use Plan and Zoning Code were adopted for the Lake Maumelle Watershed in April of 2013. However, implementation of a number of elements of the code was delayed until April of 2014 in order to give a taskforce additional time to propose modifications to the code that would improve its broad-based support. The delayed implementation of certain parts of the zoning code expired on April 23, 2014, allowing the code, as adopted in 2013, to go into full effect. Slight modifications to the zoning code recommended by the taskforce were adopted in August, 2014.

A Forest Legacy grant application for the purchase of 388 acres in the Reece Creek drainage area was submitted to the U.S. Forest Service. This is the second of a phased request and additional acreage will be added if funding becomes available. The national ranking list of Forest Legacy projects will be released in early 2015.

### *Watershed Stewardship*

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

Two prescribed burns were conducted in April 2014. On April 9, 414 acres were burned over two days on the north shore of the lake. On April 30, 145 acres were burned on the west side of the lake. The use of prescribed burns reduces risk of catastrophic wildfire and improves water quality by reducing the amount of decaying woody debris and increasing the herbaceous understory.

On April 27, 2014 an EF4 tornado passed over Lake Maumelle damaging 122 acres of standing hardwood, pine saw timber and pulpwood on the south side of the lake, and 137 acres of standing pine, hardwood saw timber and pulpwood on the north side of the lake. A quick response was necessary in order to prevent insect infestation and to maintain value of the downed and damaged timber. Approximately 858 tons of pine pulpwood, 808 tons of hardwood pulpwood, 27 tons of oak saw timber, and 2,662 tons of pine saw timber were salvaged from the north side of Lake Maumelle. The damaged area on the north side of Lake Maumelle will be re-planted in early 2015 with a mix of native hardwood and shortleaf pine seedlings. Pine regeneration will occur naturally on the site as well. Natural regeneration will occur on the south side of the lake.

Work continued under the Memorandum of Agreement with the University of Arkansas and Louisiana State University to research and determine the optimal procedures for the Utility's forest restoration strategy at the former Winrock Grass Farm. Various combinations of herbicides were applied to test plots to determine the best method of eradicating zoysia grass to reduce competition for future tree seedlings. Work on this project began in late 2012 and will continue into 2015. Efforts to control several invasive species were continued in 2014. These species include sericea lespedeza, tree of heaven, and privet.

An agreement with Arkansas Tech University began baseline biological monitoring at various locations throughout the Lake Maumelle Watershed. The purpose of this research is to provide the utility with comprehensive baseline data used for determining the current "health" of the watershed.

The Utility partnered with Audubon to provide programs in area schools, conduct "bird walks" in the watershed and hold a "Fish, Float & Fly" outreach at Sleepy Hollow Park on the Maumelle River. In November the Utility held its 6th Annual Lake Sweep around Lake Maumelle, when approximately 50 volunteers participated in the removal of 385 cubic feet of trash from the watershed.

### *Water Quality*

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

The Water Quality Department negotiated an agreement with the U.S. Geological Survey (USGS) for the long term, ongoing water quality and flow monitoring of Lake Maumelle and its tributaries. As a part of the program, staff contributed \$13,500 of in-kind services for work associated with the 2014 monitoring plan, reducing costs associated with relying solely on USGS personnel.

In 2014, operation of the Wye Mountain system was taken on by the Utility. Water Quality staff monitors both the CAW and Wye Mountain systems for bacteria, trihalomethanes and other water quality parameters. Water Quality staff continue to consolidate and streamline the data review process and informational databases. An improved integrated data management system will allow historical, current, and future data to be presented in a more efficient manner.

### *Analytical Laboratory*

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

The laboratory operates seven days a week. On average, 380 daily analyses are conducted (11,500/month) for an estimate of 138,000 analyses in 2014.

The process of evaluating and replacing analytical laboratory equipment to update current capabilities has continued with the purchase of a trihalomethane-rapid response analyzer and a palin test kit for analysis of chlorite and chlorine dioxide. This equipment will allow the Utility to continue to optimize its operations for both chlorine dioxide addition and disinfection by-products reduction. In addition, the equipment allows staff to more efficiently and reliably assess water quality in the watersheds, lakes, treatment plants, and distribution systems.

### **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 general rule, the present value savings of a particular refunding should exceed 3%.

Bond market conditions in 2014 allowed the Utility to refund the Series 2004 Bonds. The present value of savings as a percent of the refunded principal and refunding principal amounted to 11.74% and 15.33%, respectively.

Revisions to the Paid Time Off (PTO) policy resulted in a significant reduction in expenses related to the PTO buyback program. Annual PTO accrual amounts were reduced; carryover for unused PTO was increased; and hours available for the annual PTO buyback were significantly reduced. These changes lowered the total buyback that employees requested and reduced related expenses by \$294,000 in 2014.

## OTHER INFORMATION

### Independent Audit

An independent audit by certified public accountants is important in determining the reliability of the Utility's financial statements. The importance of such verification has been recognized by the federal and state government, the Utility's bond holders, and the general public. The Utility contracted with the accounting firm of Thomas & Thomas LLP for this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The 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, 2013. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local governmental financial reports. A Certificate of Achievement was awarded because CAW published an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement is valid for a period of 1 year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgements

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

Respectfully submitted,



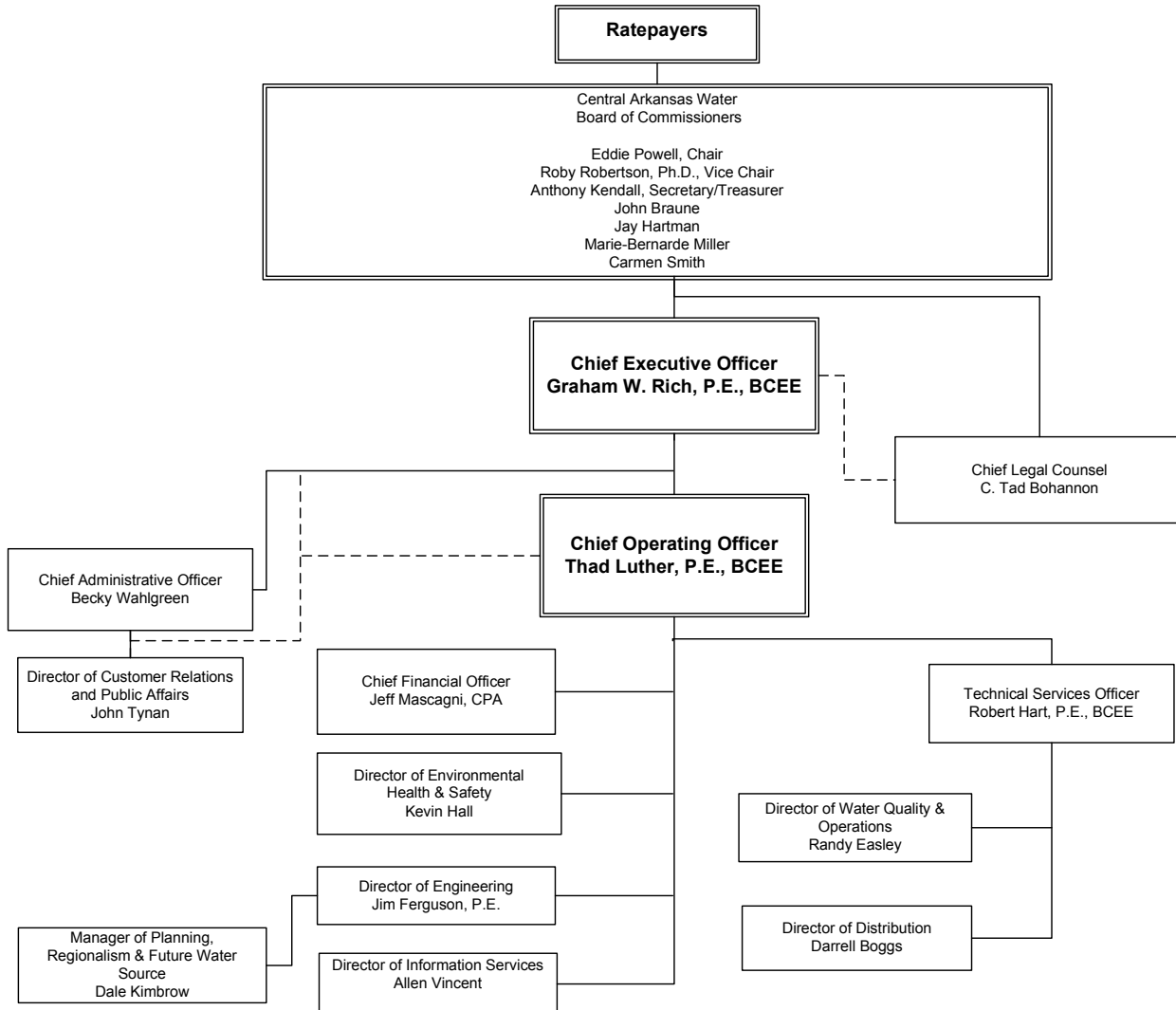
Graham W. Rich, P.E.  
Chief Executive Officer  
GWR/jbm

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# CENTRAL ARKANSAS WATER

## Organizational Chart

Effective August 1, 2014



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# Central Arkansas Water

## BOARD OF COMMISSIONERS



**Eddie Powell**  
Chair



**Roby Robertson, Ph.D.**  
Vice Chair



**Anthony Kendall**  
Commissioner



**Jay Hartman**  
Commissioner



**Marie-Bernarde Miller**  
Commissioner



**Carmen Smith**  
Commissioner



**John Braune**  
Commissioner

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# Central Arkansas Water

## MANAGEMENT TEAM

<b>Graham W. Rich, P.E., BCEE</b>	Chief Executive Officer
<b>Thad Luther, P.E., BCEE</b>	Chief Operating Officer
<b>C. Tad Bohannon</b>	Chief Legal Counsel
<b>Robert Hart, P.E., BCEE</b>	Technical Services Officer
<b>Becky Wahlgreen</b>	Chief Administrative Officer
<b>Jeff Mascagni, CPA</b>	Chief Financial Officer
<b>John Tynan</b>	Director of Customer Relations and Public Affairs
<b>Darrell Boggs</b>	Director of Distribution
<b>Jim Ferguson, P.E.</b>	Director of Engineering
<b>Kevin Hall</b>	Director of Environmental Health and Safety
<b>Allen Vincent</b>	Director of Information Services
<b>Randy Easley</b>	Director of Water Quality and Operations

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**Central Arkansas Water**

CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Central Arkansas Water**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

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## Financial Section

## 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 **Central Arkansas Water (the Utility)** and its fiduciary funds as of and for the years ended December 31, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Utility and its fiduciary funds as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 25 through 38 be presented to supplement the basic financial statements. Also required are a schedule of funding progress and schedule of employer contributions related to the other postemployment benefits (OPEB) trust, a fiduciary fund of the Utility, which are included on pages 74 and 75, respectively. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, as it is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The introductory section on pages 1 through 17 and statistical section on pages 81 through 105 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

*Other Information (Continued)*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

*Thomas & Thomas LLP*

Certified Public Accountants

March 27, 2015  
Little Rock, Arkansas

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## **Management's Discussion and Analysis**

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# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014 and 2013

This section of the CAFR presents management's analysis of the Utility's financial performance during the fiscal years ended December 31, 2014 and 2013. 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 \$3,620,000 in 2014, as compared to a \$5,154,000 increase in 2013. A large part of these increases, \$2,254,000 in 2014 and \$913,000 in 2013, is attributable to funds or equity contributed by customers, developers, and other entities or grantors for improvements and extensions of Utility assets.
- Operating revenues decreased \$2,447,000, or 5%, in 2014 after decreasing \$2,226,000, or 4%, in 2013. The 2014 decrease and 2013 decrease were primarily attributable to a reduction in customer water consumption. Operating expenses increased by \$269,000 from 2013 to 2014 and increased by \$517,000 from 2012 to 2013. The current year increase is primarily due to personnel costs while the increase in 2013 is due to additional Distribution personnel and equipment costs.
- The Utility's total noncurrent liabilities decreased during 2014 by \$3,632,000 and decreased during 2013 by \$7,349,000. The decrease in 2014 is primarily attributable to normal scheduled debt service payments and the current refunding of the series 2004 bonds. The decrease in 2013 is attributable to the Utility using a \$4,000,000 grant through the U.S. Forest Service to pay down debt in addition to normal scheduled debt service.

### **Overview of the Financial Statements**

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

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

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*) December 31, 2014 and 2013

### **Overview of the Financial Statements (*Continued*)**

The statements of net position include two new classifications distinct from assets and liabilities - deferred outflows of resources and deferred inflows of resources. 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 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. 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 this statement for some items that will result in cash flows in future periods (e.g., water revenues for water service provided in the current reporting period that will not be collected until the next reporting period or expenses associated with goods or services received by the Utility in the current reporting period that will be paid for in the next reporting period).

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

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

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

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

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Financial Analysis *(Continued)*

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Total current assets	\$ 52,528,000	\$ 52,089,000	\$ 52,470,000
Restricted noncurrent assets	3,890,000	7,258,000	18,854,000
Net capital assets	393,268,000	391,753,000	381,024,000
Total Assets	<u>\$ 449,686,000</u>	<u>\$ 451,100,000</u>	<u>\$ 452,348,000</u>
<b>Deferred Outflows of Resources</b>			
Deferred loss on refunding of bonds payable	<u>\$ 560,000</u>	<u>\$ 632,000</u>	<u>\$ 705,000</u>
<b>Liabilities</b>			
Total current liabilities	\$ 15,579,000	\$ 17,279,000	\$ 16,405,000
Total noncurrent liabilities	79,281,000	82,913,000	90,262,000
Total Liabilities	<u>\$ 94,860,000</u>	<u>\$ 100,192,000</u>	<u>\$ 106,667,000</u>
<b>Deferred Inflows of Resources</b>			
Deferred gain on refunding of bonds payable	<u>\$ 227,000</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 312,636,000	\$ 309,457,000	\$ 302,316,000
Restricted – expendable	6,059,000	7,121,000	7,988,000
Unrestricted	36,464,000	34,961,000	36,081,000
Total Net Position	<u>\$ 355,159,000</u>	<u>\$ 351,539,000</u>	<u>\$ 346,385,000</u>
<b>Operating Revenues</b>			
Little Rock			
Residential	\$ 11,442,000	\$ 11,191,000	\$ 11,492,000
Commercial	7,378,000	7,120,000	7,025,000
Large volume	1,663,000	1,802,000	2,005,000
Private fire service	598,000	554,000	531,000
Sprinkler	7,346,000	8,502,000	10,860,000
Other	47,000	36,000	62,000
North Little Rock			
Residential	7,402,000	7,441,000	7,765,000
Commercial	3,140,000	3,045,000	2,985,000
Large volume	499,000	474,000	547,000
Private fire service	148,000	136,000	145,000
Sprinkler	1,549,000	1,890,000	2,371,000
Wholesale	3,858,000	3,807,000	3,661,000
Penalties	917,000	860,000	891,000
Turn-on charges	1,010,000	1,101,000	1,196,000
Ancillary charges	3,930,000	4,096,000	4,018,000
Other revenue	671,000	1,990,000	717,000
Total Operating Revenues	<u>51,598,000</u>	<u>54,045,000</u>	<u>56,271,000</u>



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Financial Analysis *(Continued)*

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Expenses</b>			
Administration	\$ 2,471,000	\$ 2,365,000	\$ 2,252,000
Distribution	10,659,000	10,495,000	9,818,000
Engineering	1,821,000	1,773,000	1,769,000
Finance	2,548,000	2,586,000	2,606,000
Customer relations and public affairs	4,459,000	4,178,000	4,056,000
Information services	3,134,000	2,902,000	3,013,000
Source and treatment	7,717,000	7,889,000	9,424,000
Watershed protection	-	-	1,062,000
Water quality	1,911,000	1,936,000	-
General	1,971,000	2,017,000	2,345,000
Depreciation	10,787,000	11,068,000	10,347,000
Total Operating Expenses	<u>47,478,000</u>	<u>47,209,000</u>	<u>46,692,000</u>
<b>Operating Income</b>	<u>4,120,000</u>	<u>6,836,000</u>	<u>9,579,000</u>
<b>Nonoperating Revenues (Expenses)</b>			
Transfers to Cities of LR and NLR	(659,000)	(608,000)	(603,000)
Gain (loss) on disposal of capital assets	26,000	250,000	204,000
Investment income	199,000	111,000	77,000
Bond interest expense, net	(2,301,000)	(2,334,000)	(1,558,000)
Other interest expense	(19,000)	(14,000)	(22,000)
Total Nonoperating Expenses	<u>(2,754,000)</u>	<u>(2,595,000)</u>	<u>(1,902,000)</u>
<b>Income Before Contributions</b>	1,366,000	4,241,000	7,677,000
<b>Contributions</b>			
Capital contributions from grantors	-	48,000	172,000
Contributions-in-aid of construction	2,254,000	865,000	2,826,000
Total Contributions	2,254,000	913,000	2,998,000
<b>Change in Net Position</b>	3,620,000	5,154,000	10,675,000
<b>Net Position – Beginning of Year</b>	<u>351,539,000</u>	<u>346,385,000</u>	<u>335,710,000</u>
<b>Net Position – End of Year</b>	<u>\$ 355,159,000</u>	<u>\$ 351,539,000</u>	<u>\$ 346,385,000</u>

### 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 2014 and 2013, the Utility's assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$355,159,000 and \$351,539,000, respectively.

The largest portion of net position, 88% in 2014 and 2013, reflects the Utility's investment in capital assets, less related outstanding debt incurred to acquire those assets. The Utility uses these capital assets to provide services to customers of the Utility and consequently, these assets are not available for future spending. Although the Utility's investment in capital assets is reported net of related outstanding debt, it

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2014 and 2013

### Financial Analysis (Continued)

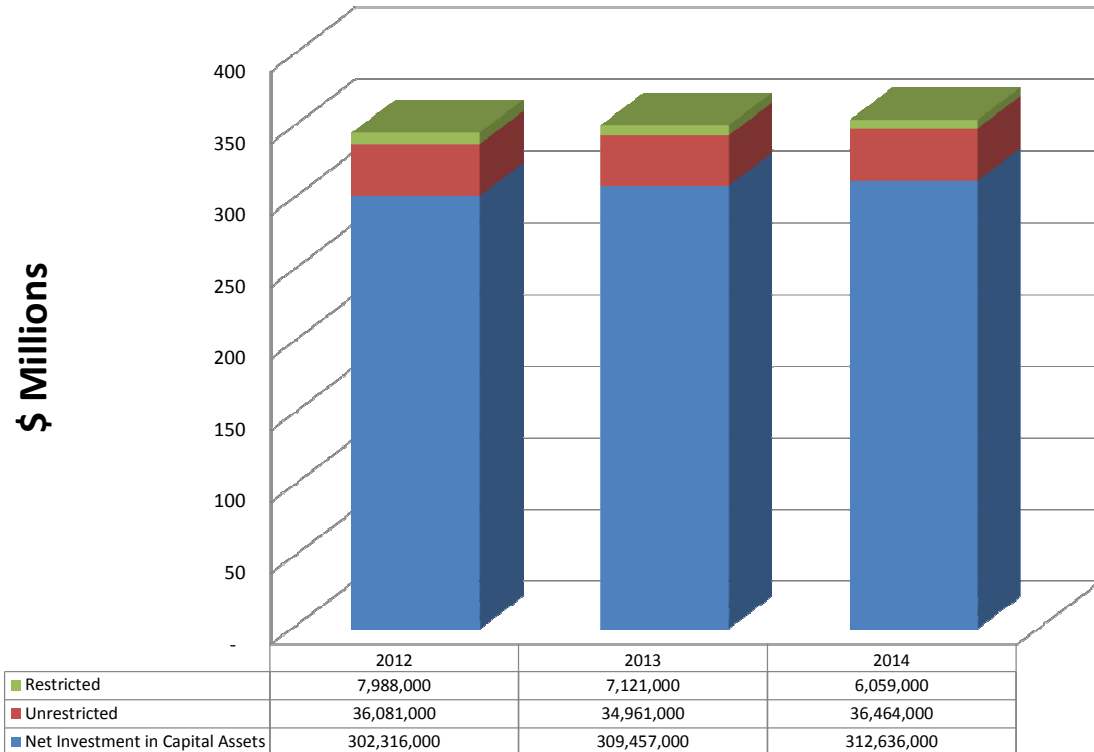
#### Statements of Net Position (Continued)

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 is recorded on all capital assets using the straight-line method. During the year, no changes were made in the method of recording capital assets, nor were there any changes made to any of the standard service lives of those assets. There were no significant changes in the condition of infrastructure assets. Funds that were budgeted for infrastructure maintenance were adequate for needs that arose during the year.

An additional portion of the Utility's net position, 2% in 2014 and 2013, is comprised of resources that are subject to external restrictions on how they may be used. In 2014, restricted net position decreased \$1,062,000, and there was a decrease of \$867,000 during 2013. 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, \$36,464,000 in 2014 and \$34,961,000 in 2013, is unrestricted and may be used to meet the Utility's ongoing obligations to customers and creditors. Unrestricted net position increased \$1,503,000 in 2014 and decreased \$1,120,000 in 2013. The 2014 increase is attributable to a rate increase, while the 2013 decrease is primarily attributable to a decline in sprinkler consumption

**Components of Net Position**



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Financial Analysis *(Continued)*

#### Statements of Net Position *(Continued)*

Financial ratios are used to analyze relationships between different pieces of financial information. Ratio analyses can present information about an entity's operating performance and financial position. Short-term liquidity can be demonstrated using the current ratio and quick ratio. The current ratio is calculated by dividing current assets by current liabilities. The quick ratio is similar to the current ratio but excludes inventory because inventory is normally the least liquid current asset. A number greater than 1 indicates current assets in excess of current needs that can be applied to future periods. The current ratios as of December 31, 2014 and 2013 are 3.4 and 3.0, respectively. This ratio means for every \$1.00 in current liabilities as of December 31, 2014, the Utility has \$3.40 in current assets. For the periods ending December 31, 2014 and 2013, the quick ratios for each year are 3.2 and 2.9, respectively.

Efficiency can be demonstrated by calculating the average collection period of billed revenue. Other agencies are included in the monthly bills issued to customers (i.e., Little Rock Wastewater Utility, North Little Rock Waste Water Utility, Little Rock Solid Waste Services Division, Pulaski County Sanitation Division, and others); however, these balances are subtracted from accounts receivable so that a comparison can be made between water receivables and water revenues. Turnover is calculated by dividing total operating revenue by total water accounts receivable; then 365 days is divided by the Receivables Turnover to arrive at an Average Collection Period of 18 days and 21 days as of December 31, 2014 and 2013, respectively.

The Utility continues to strive to improve cash flow and customer service by offering a variety of payment options. In addition to accepting payments at the Capitol Avenue office in Little Rock, the Utility offers flexibility in bill payment options by allowing customers to pay their bills by automatic bank draft, on-line at the Utility website, by mail, by telephone through a third-party service provider, on-line through third-party payment providers, or at third-party payment locations throughout the service area. During 2014, the Utility rolled out paperless billing and an online account portal for customers where they can view account history, usage history and print out their invoices among other options.

Another important ratio is the debt utilization ratio. The debt utilization ratio is calculated by dividing total liabilities by total assets and is 21% and 22% for 2014 and 2013, respectively. According to American Water Works Association's 2013 benchmarks, the median ratio is 32%.

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

#### Statements of Revenues, Expenses and Changes in Net Position

##### Operating Revenues

A cost of services study completed during 2012 resulted in the Board of Commissioners passing a rate resolution for the years 2013, 2014, and 2015. On January 1, 2013 and January 1, 2014, rate revenues increased by 3.8% and 3.7% respectively. There are no scheduled rate adjustments in 2015.

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2014 and 2013

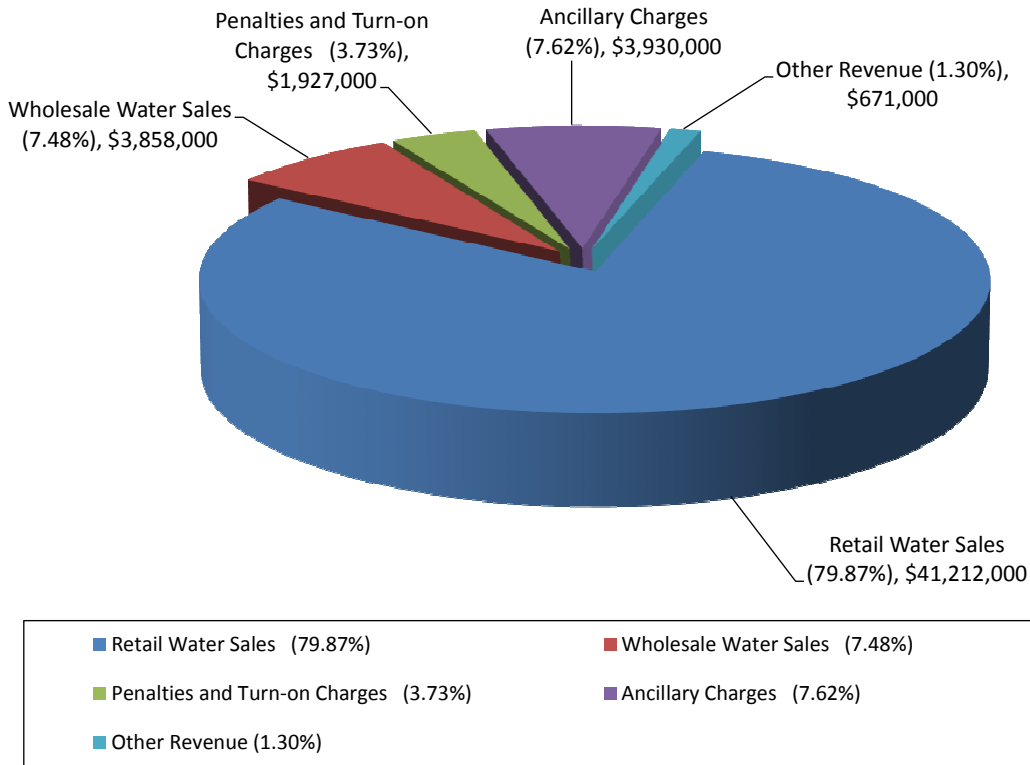
### Financial Analysis (Continued)

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

#### Operating Revenues (Continued)

Operating revenue for 2014 decreased \$2,447,000 over 2013 levels and decreased \$2,226,000 in 2013 over 2012 levels. Water consumption totaled 17.0, 18.2 and 20.3 billion gallons in 2014, 2013, and 2012, respectively. The operating revenue decrease in 2014 and decrease in 2013 are primarily due to these consumption fluctuations as a result of weather conditions. Higher than normal rainfall in the spring and summer months can have a significant impact on sprinkler consumption.

The following graph illustrates sources of revenue during the year ended December 31, 2014.



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Financial Analysis *(Continued)*

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

##### Operating Expenses

- Administration – Administration costs include management, human resources, environmental health and safety expenses. During 2014, expenses for total management costs increased \$101,000, human resources increased by \$33,000, safety decreased by \$22,000, and commissioner expenses decreased by \$6,000 to account for the total increase of \$106,000 in 2014. Management cost increases are the result of additional payroll costs associated with hiring in-house legal staff in 2014. Communications was transferred to a new department formed in 2014, Customer Relations and Public Affairs. During 2013, expenses for total management costs increased \$125,000, human resources decreased by \$8,000, and safety decreased by \$4,000 to account for the total increase of \$113,000 over 2012. The management cost increases during 2013 were the result of increased legal fees.
- Distribution – The Distribution Department includes expenses for maintaining water mains, booster pumping stations, water storage tanks, vehicles, treatment plants, and other facilities. 2014 costs increased \$164,000 over 2013. Administration increased \$34,000 which was attributable to increased payroll costs. Plant maintenance increased by \$116,000 for materials and maintenance costs at the Ozark Point Plant and the Wilson Plant. Capitalized labor decreased by \$14,000 which resulted in an increase in operation and maintenance costs in distribution system maintenance. Distribution system maintenance increased by \$30,000 in materials and job costs. Capitalized labor in 2014 totaled \$1,287,000 compared to \$1,301,000 in 2013. 2013 Distribution Department costs increased \$677,000 over 2012. Contract inspections of an additional \$52,000, plant maintenance increases of \$46,000, fleet operations and maintenance increases of \$205,000, and distribution maintenance costs all contributed to the increased costs. Additional water distribution specialist positions were filled in 2013 that generated additional payroll and benefit costs.
- Engineering – The Engineering Department includes expenses for the planning, design, and inspection of construction improvements within the water system. Engineering is comprised of divisions for administrative staff, new service, cross connection, and regionalism. 2014 engineering costs increased \$48,000. Increases in payroll and benefit costs were the primary contributors to the increase. Capitalized labor decreased by \$51,000 over 2013 causing O&M costs to increase. 2013 engineering costs increased by \$4,000 over 2012.
- Finance – The Finance Department includes costs related to finance and budgeting, purchasing, and billing. Expenses for the department decreased by \$38,000 in 2014. The decrease can be attributed to employee retirements and associated decreases in payroll costs. 2013 total department costs declined \$20,000 from 2012 expenditures. This decrease was a result of a reduction in banking and payment processing fees after banking services were fully converted to First Security Bank.

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Financial Analysis *(Continued)*

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

#### Operating Expenses *(Continued)*

- Customer Relations and Public Affairs – Customer Relations and Public Affairs includes costs related to customer service-office and field operations, communications, and public affairs. Expenses increased \$281,000 over 2013 levels. One factor in the increase was the addition of a director level position to the department in February of 2014 when Customer Relations and Finance were restructured into separate departments. In addition, meter reading costs increased by \$84,000 when comparing the two years. A Wye Mountain employee was added to the Utility staff in late 2013 and an additional production meter reader was added to create the increase in payroll and benefits.
- Information Services – The Information Services Department expenses are related to maintaining information systems, computer operations, and telecommunications of the Utility. Information Services is divided into Information Services (IS) administration and Geographic Information Services (GIS). Department costs increased by \$232,000 from 2013 to 2014. The IS section increased by \$183,000 and the GIS section increased by \$49,000 during the period. In IS, the largest cost factors were telephone \$46,000, interactive voice response maintenance \$12,000, and network and computer hardware \$60,000. In GIS, the largest cost factors were \$7,000 in software and equipment, and \$32,000 in payroll and benefit costs. Department costs decreased by \$111,000 from 2012 to 2013. Network and PC hardware cost savings contributed \$102,000 to the costs savings in IS and GIS saw reductions in software and equipment costs of \$11,000 for this period.
- Source and Treatment – Expenses for Source and Treatment include treatment and maintenance of the lakes. During 2014, total department costs decreased by \$172,000. Chemical costs were reduced by \$150,000 and electricity costs decreased by \$127,000 due to lower water usage in 2014. Wastewater utility treatment costs increased by \$76,000 in the same period. From 2012 to 2013, Source and Treatment decreased by \$1,535,000 as a result of moving laboratory, water quality personnel, and associated expenses to Water Quality. Of the expense decreases, chemicals accounted for \$195,000 and power decreased by \$307,000.
- Water Quality (Formerly consisting of watershed activities) – Water Quality expenditures decreased by \$25,000 compared to 2013. There were no large variations between expenditures for the two years. Previously, a restructuring and realignment of personnel took place incorporating the Department into Water Quality in 2013 to more accurately reflect the departmental goals and initiatives. The department contained a department director, a watershed protection manager, a watershed administrator, a stewardship coordinator, a water quality specialist, a laboratory manager, three laboratory technicians, and two field technicians. Due to departmental expansion, Water Quality has taken on additional personnel costs and responsibilities as it has broadened its scope of operations. Originally, the Watershed section was added in 2008 to oversee watershed protection for the Utility. Related expenses include monitoring water-quality and watershed land-use activities, building support for watershed protection and providing the Board of Commissioners with water quality recommendations.

# Central Arkansas Water

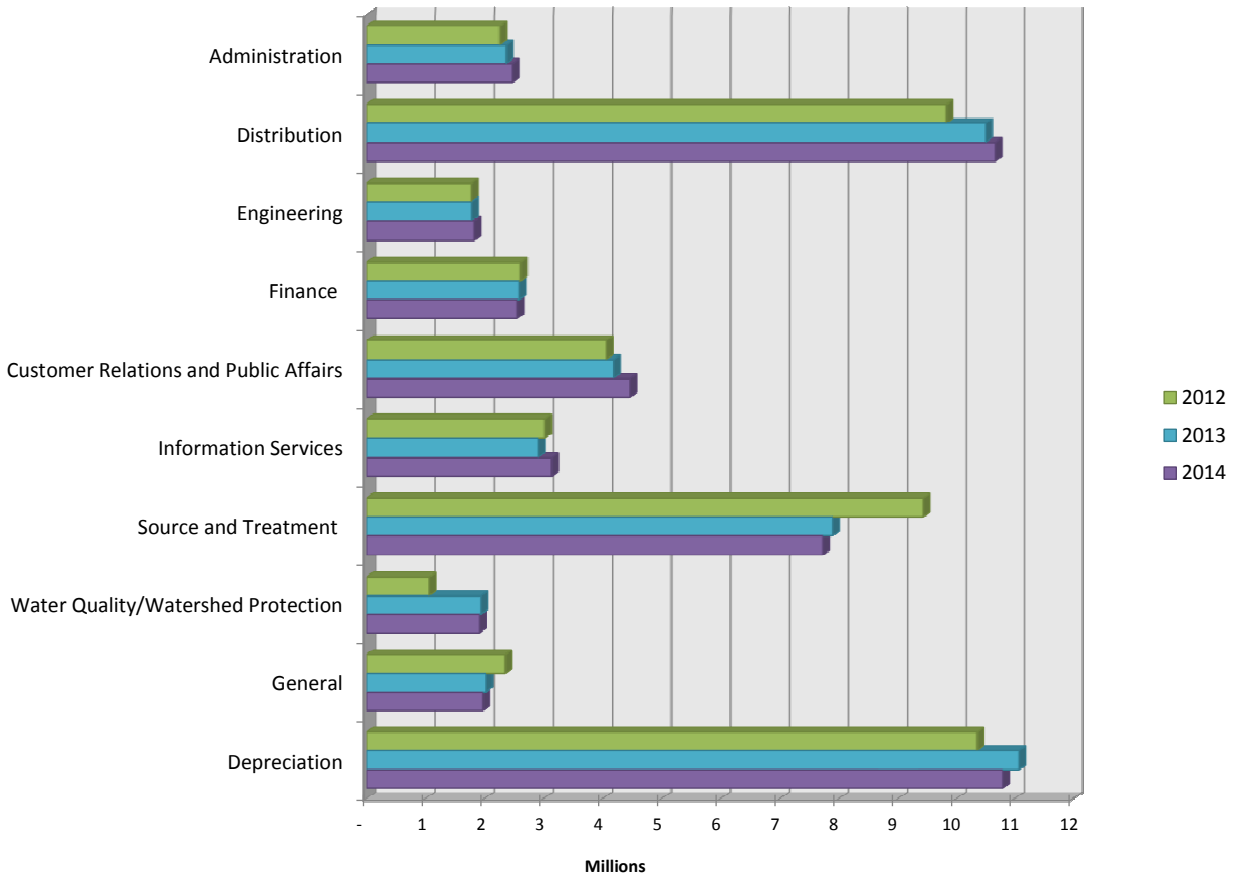
## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2014 and 2013

### Financial Analysis (Continued)

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

#### Operating Expenses (Continued)

- General – General expenditures decreased by \$46,000 from 2013. General expenditures include expenditures for insurance and building maintenance at the James T. Harvey Administration Building, along with other costs. The largest expenditure items include group, retiree and workers compensation insurance and bad debt expense. General expenditures decreased \$328,000 from 2012 to 2013. Bond issue costs, which are recorded as a period expense in the year incurred, amounted to \$271,000 in 2012 and zero in 2013. Combined insurance costs for group insurance, retiree insurance, workers compensation, and business insurance decreased by \$37,000.



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) December 31, 2014 and 2013

### Financial Analysis (Continued)

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

##### Nonoperating Revenues (Expenses)

- Investment Income – 2014 investment income increased by \$88,000 from 2013, and 2013 increased \$34,000 from 2012. While the 2013 increase was primarily attributed to changing banks, enabling 0.25% yield on money market funds versus the previous 0.00%, the increase in 2014 is due to greater investment in certificates of deposit.
- Bond Interest Expense – Net bond interest expense for 2014 is \$2,301,000, compared to \$2,334,000 for 2013. Capitalized interest, which offsets interest expense, totaled \$515,000 in 2014 and \$574,000 in 2013.
- Capital Contribution from Grantors – There were no capital grants awarded during 2014. During 2013, the Utility was awarded a capital grant through the Department of Homeland Security and Arkansas Department of Emergency Management in the amount of \$48,000.
- Contributions-In-Aid of Construction – Contributions-in-aid of construction may be received as cash or equity. In 2014, contributed equity totaled \$2,062,000 and contributed cash totaled \$192,000. In 2013, contributed equity totaled \$830,000 and contributed cash totaled \$35,000. These two years show the variability of contributions from year to year as a result of new construction. Contributed equity is an asset of the Utility and is maintained as part of the system.

### Capital Assets and Debt Administration

The significant components of the Utility's capital asset balances, as well as the outstanding balances of debt issued to acquire, improve or construct capital assets are detailed below:

#### Capital Assets

Major capital projects completed during 2014 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Installation of 6,220 linear feet of 2-inch PVC water main along and around Washington Street in North Little Rock to replace old, high maintenance galvanized pipe.	\$ 260,000
Completion of the construction phase for the water treatment plant improvements necessary for the Utility to meet the 2014 USEPA Stage 2 D/DBP Rule.	\$ 15,100,000



# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Capital Assets and Debt Administration *(Continued)*

#### Capital Assets *(Continued)*

<u>Project Description</u>	<u>Total Cost</u>
Broadway Bridge South Water Main Connection project consisting of new 12-inch and 20-inch water pipe installation, meter vault construction, and bore and encasement under Ark. State Hwy. 10, work in preparation for the demolition of the existing Broadway Bridge and new bridge construction over the Arkansas River.	\$ 354,000
Lining of 1,350 linear feet of 50-year old 16-inch cast iron pipe with a cured-in-place pipe liner to rehabilitate the original pipe that was prone to spontaneous leakage and breaks. The rehabilitated pipe runs along North University Ave from Cantrell Rd to South Country Club Blvd.	\$ 643,000
Installation of 5,150 linear feet of 3-inch and 6-inch water main in various locations within Little Rock and North Little Rock to replace old, high maintenance galvanized pipe.	\$ 458,000
Relocation of 450 linear feet of 6-inch water main and 400 linear feet of 24-inch transmission main due to the reconstruction of a road bridge along Remount Road in North Little Rock.	\$ 187,000
Relocation of 4,422 linear feet of 12-inch, 142 linear feet of 8-inch, and 456 linear feet of 6-inch water mains along Cantrell Road (Ark State Hwy No. 10) in Little Rock due to widening and reconstruction of the highway by the Arkansas State Highway Department.	\$ 775,000
Installation of 3,487 linear feet of 12-inch, 2,450 linear feet of 8-inch, and 330 linear feet of 6-inch water main to replace old, high maintenance asbestos-cement and cast iron pipe in three different locations within Little Rock.	\$ 686,000
Relocation of 3,100 linear feet of 12-inch water main due to street and drainage improvement construction by the City of Little Rock along Scott Hamilton Road, north of Baseline Road.	\$ 494,000
Acquisition of approximately 41 acres of property within the Lake Maumelle Watershed.	\$ 402,000
Upgrade of the customer information and billing software.	\$ 762,000

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### Capital Assets and Debt Administration *(Continued)*

#### Capital Assets *(Continued)*

Major capital projects completed during 2013 include the following:

<u>Project Description</u>	<u>Total Cost</u>
Improvements of Maumelle River stream bank.	\$ 136,000
Construct Maumelle raw water transmission main surge suppression facility.	\$ 3,585,000
Rebuild motor and replace pump at Maumelle Pump Station Pump No. 2.	\$ 349,000
Construct 2,500,000 Gallon Water Storage Tank No. 16B and 400,000 Gallon Water Storage Tank No. 17B.	\$ 2,227,000
Installation of new water main to Tank No. 16B and Tank No. 17B consisting of 4,386 feet of 16-inch pipe and 1,920 feet of 12-inch pipe.	\$ 603,000
Replacement of cast iron water mains along W. 2 <sup>nd</sup> Street and Spring Street in downtown Little Rock consisting of 379 feet of 12-inch pipe and 628 feet of 8-inch pipe.	\$ 369,000
Replacement of cast iron and asbestos-cement water mains along Baseline Road (State Hwy 338), Dreher Lane, and Loetscher Lane consisting of 1,097 feet of 16-inch pipe, 926 feet of 12-inch pipe, 40 feet of 8-inch pipe, and 623 feet of 3-inch pipe.	\$ 417,000
Replacement of galvanized water mains in three sites inside Little Rock and three sites inside North Little Rock consisting of 1,380 feet of 8-inch pipe, 1,530 feet of 6-inch pipe, 7,200 feet of 3-inch pipe, and 900 feet of 2-inch pipe.	\$ 691,000
Acquisition of approximately 151 acres of property within the Lake Maumelle Watershed.	\$ 605,000

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

#### Debt Administration

At the end of 2014, The Utility had total outstanding debt of \$80,966,000. Total debt decreased by \$4,477,000, or 5%, in 2014, after decreasing \$7,064,000, or 8%, in 2013. The 2014 decrease is primarily attributable to normal recurring debt service payments and the current refunding of the Series 2004 bonds. The 2013 decrease is primarily attributable to a \$4,000,000 grant used to pay off debt in addition to normal

# Central Arkansas Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)* December 31, 2014 and 2013

### **Capital Assets and Debt Administration *(Continued)***

#### **Debt Administration *(Continued)***

recurring debt service payments. Total 2011A draws completed through December 31, 2014 amount to \$4,000,000. Remaining 2011A construction projects were completed during 2014. Total 2010A draws completed through December 31, 2013 amount to \$13,400,000. Remaining 2010A construction projects were completed during 2013.

Long-term debt is discussed further in Note 7 to the financial statements.

### **Economic Factors and Next Year's Financial Plan and Rates**

Local, state, and federal government have been the area's major employers for many years. Medical facilities, banks, and other service industries are also very important to the local economy. Government and medical facilities employers in particular have kept the local economy relatively stable during the recent economic downturn. Both the cities of Little Rock and North Little Rock have revitalized their respective downtown areas, which have in turn attracted major corporations in a variety of industries.

The local economy has slowly recovered from the 2008 recession and compares favorably to national figures in many categories. Unemployment in Pulaski County is currently 5.1%, which is a significant increase from the 4.1% experienced in 2007, but favorable compared to the 5.7% national rate.

Net accounts receivable write-offs increase slightly to 0.8% of total operating revenue, as do the number of customers requesting payment assistance.

As a result of the current economic situation, the Utility factored in no rate increases in 2015. 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 2015 Financial Plan.

The 2015 Financial Plan outlines the Utility's plans to continue to provide high quality, cost-effective service to its customers. The 2015 Financial Plan includes \$19,861,000 in total capital expenditures which will be funded \$2,921,000 from excess working capital, \$2,115,000 from capital grants, and \$1,685,000 from watershed protection fees. Budgeted capital expenditures also include the purchase of water rights for 100 million gallons per day from DeGray Lake with a loan in the amount of \$4,640,000 from Department of U.S. Army. The remaining capital expenditures budgeted will be funded from rates and primarily consists of routine asset additions and replacements in the system.

### **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.

## **Basic Financial Statements**

# Central Arkansas Water

## STATEMENTS OF NET POSITION December 31, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents		
Unrestricted	\$ 12,358,580	\$ 14,117,488
Board designated	3,837,564	7,423,202
Investments		
Unrestricted	10,021,681	6,993,757
Board designated	6,500,000	2,001,348
Accounts receivable – consumers, net	9,977,269	11,101,310
Other receivables	607,308	276,113
Inventory	2,325,906	2,441,827
Other current assets	415,893	360,198
<b>Total Unrestricted Current Assets</b>	46,044,201	44,715,243
Restricted cash and cash equivalents	5,720,813	6,863,839
Restricted investments	762,875	509,673
<b>Total Restricted Current Assets</b>	6,483,688	7,373,512
<b>Total Current Assets</b>	52,527,889	52,088,755
<b>Noncurrent Assets</b>		
Restricted investments	3,887,124	7,234,960
Restricted accrued interest receivable	2,417	22,712
<b>Total Restricted Noncurrent Assets</b>	3,889,541	7,257,672
Capital assets, net of accumulated depreciation	393,268,447	391,752,526
<b>Total Noncurrent Assets</b>	397,157,988	399,010,198
<b>Total Assets</b>	449,685,877	451,098,953
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding of bonds payable	560,057	632,322
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 450,245,934	\$ 451,731,275

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF NET POSITION (Continued)

December 31, 2014 and 2013

	2014	2013
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,194,198	\$ 1,652,948
Payroll and related liabilities	2,424,101	2,256,775
Long-term obligations - current portion	154,621	151,432
Due to other agencies	5,322,463	5,844,470
<b>Total Current Liabilities Payable from Unrestricted Assets</b>	9,095,383	9,905,625
Consumer deposits - current portion	903,306	876,869
Long-term obligations - current portion	4,875,400	4,953,805
Accrued interest payable	704,982	701,328
Accounts payable and accrued expenses	-	841,510
<b>Total Current Liabilities Payable from Restricted Assets</b>	6,483,688	7,373,512
<b>Total Current Liabilities</b>	15,579,071	17,279,137
<b>Noncurrent Liabilities</b>		
Unearned revenue	662,966	-
Consumer deposits	2,681,755	2,575,216
Long-term obligations, net	75,936,250	80,337,569
<b>Total Noncurrent Liabilities</b>	79,280,971	82,912,785
<b>Total Liabilities</b>	94,860,042	100,191,922
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on refunding of bonds payable	226,796	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	95,086,838	100,191,922
<b>Net Position</b>		
Net investment in capital assets	312,635,439	309,457,263
Restricted - expendable:		
Bond requirements	4,519,265	5,993,545
Future capital expenditures	1,540,059	1,127,495
Unrestricted	36,464,333	34,961,050
<b>Total Net Position</b>	355,159,096	351,539,353
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 450,245,934	\$ 451,731,275

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended December 31, 2014 and 2013

	2014	2013
<b>OPERATING REVENUES</b>		
Little Rock		
Residential	\$ 11,442,094	\$ 11,191,258
Commercial	7,377,685	7,119,916
Large volume	1,663,384	1,802,110
Private fire service	597,615	554,079
Sprinkler	7,345,858	8,502,223
Other	47,096	36,192
North Little Rock		
Residential	7,401,920	7,440,918
Commercial	3,140,391	3,045,464
Large volume	498,694	473,616
Private fire service	148,451	135,559
Sprinkler	1,548,929	1,889,935
Wholesale	3,858,475	3,807,271
Penalties	916,613	859,938
Turn-on charges	1,010,229	1,101,038
Ancillary charges	3,929,969	4,096,139
Other revenue	670,741	1,990,277
<b>Total Operating Revenues</b>	51,598,144	54,045,933
<b>OPERATING EXPENSES</b>		
Administration	2,471,360	2,364,744
Distribution	10,659,085	10,495,249
Engineering	1,821,276	1,773,172
Finance	2,548,209	2,585,870
Customer relations and public affairs	4,458,680	4,176,286
Information services	3,133,821	2,902,303
Source and treatment	7,717,004	7,889,209
Water quality	1,911,167	1,936,431
General	1,971,006	2,017,004
Depreciation	10,786,930	11,068,273
<b>Total Operating Expenses</b>	47,478,538	47,208,541
<b>Operating Income</b>	4,119,606	6,837,392

*(Continued)*

See accompanying notes to financial statements.

# Central Arkansas Water

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

Years Ended December 31, 2014 and 2013

	2014	2013
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Transfers to Cities of Little Rock and North Little Rock	\$ (658,776)	\$ (608,436)
Gain on disposal of capital assets	26,456	249,854
Investment income	199,334	111,482
Bond interest expense, net	(2,300,968)	(2,334,445)
Other interest expense	(19,459)	(13,707)
<b>Total Nonoperating Expenses</b>	<b>(2,753,413)</b>	<b>(2,595,252)</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	1,366,193	4,242,140
<b>CONTRIBUTIONS</b>		
Contributions-in-aid of construction	2,253,550	864,644
Capital contributions from grantors	-	47,903
<b>Total Contributions</b>	<b>2,253,550</b>	<b>912,547</b>
<b>CHANGE IN NET POSITION</b>	3,619,743	5,154,687
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>351,539,353</b>	<b>346,384,666</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 355,159,096</b>	<b>\$ 351,539,353</b>

See accompanying notes to financial statements.



# Central Arkansas Water

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 51,660,851	\$ 51,793,096
Cash payments to suppliers for goods and services	(15,417,535)	(15,410,547)
Cash payments to employees for services	(22,685,346)	(22,214,866)
Cash receipts from other sources	670,741	1,990,277
<b>Net Cash Provided by Operating Activities</b>	14,228,711	16,157,960
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to Cities of Little Rock and North Little Rock	(658,776)	(608,436)
<b>Net Cash Used by Noncapital Financing Activities</b>	(658,776)	(608,436)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(9,423,312)	(20,054,917)
Proceeds from sale of capital assets	62,548	1,259,097
Proceeds from issuance of bonds	14,520,118	1,809,221
Principal paid on long-term obligations	(18,237,362)	(8,748,329)
Interest paid on long-term obligations	(3,292,108)	(3,059,160)
Payments received from lessee	333,333	-
Contributions-in-aid of construction	191,589	34,738
Capital contributions from grantors	-	67,903
<b>Net Cash Used by Capital and Related Financing Activities</b>	(15,845,194)	(28,691,447)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investment securities	13,139,584	7,621,476
Purchases of investment securities	(17,449,996)	(3,029,563)
Interest and dividends	98,099	181,205
<b>Net Cash (Used) Provided by Investing Activities</b>	(4,212,313)	4,773,118
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(6,487,572)	(8,368,805)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	28,404,529	36,773,334
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 21,916,957	\$ 28,404,529

*(Continued)*

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF CASH FLOWS *(Continued)* Years Ended December 31, 2014 and 2013

	2014	2013
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 4,119,606	\$ 6,837,392
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	10,786,930	11,068,273
Bad debt expense	311,000	278,307
Change in operating assets and liabilities		
Accounts receivable - consumers, net	813,041	(1,209,778)
Other receivables	(1,562)	32,004
Inventory	(1,287,026)	(1,511,475)
Other current assets	(55,695)	(28,521)
Accounts payable and accrued expenses	(235,878)	(93,908)
Payroll and related liabilities	167,326	148,759
Due to other agencies	(522,007)	561,100
Consumer deposits	132,976	75,807
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 14,228,711</b>	<b>\$ 16,157,960</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION</b>		
<b>Current Assets - Cash and Cash Equivalents</b>		
Unrestricted	\$ 12,358,580	\$ 14,117,488
Board designated	3,837,564	7,423,202
Restricted	5,720,813	6,863,839
<b>Total Cash and Cash Equivalents</b>	<b>\$ 21,916,957</b>	<b>\$ 28,404,529</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS</b>		
Gain on disposal of capital assets	\$ 26,456	\$ 249,854
Contributions-in-aid of construction	2,061,961	829,906
Inventory capitalized	1,402,947	1,366,569
Capital asset acquisitions in accounts payable	222,872	540,620
Increase (decrease) in fair value of investments	121,530	(67,791)
Donated usage of equipment	-	233,000
<b>SUPPLEMENTAL DISCLOSURE OF CASH TRANSACTIONS</b>		
Interest expense incurred	2,835,532	2,922,556
Interest capitalized	515,105	574,404

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF FIDUCIARY NET POSITION December 31, 2014 and 2013

	2014		2013	
	OPEB Trust	Brushy Island	OPEB Trust	Brushy Island
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,039,316	\$ 135,166	\$ 1,036,164	\$ 109,359
Restricted cash and cash equivalents	-	105,422	-	105,412
U.S. Treasury obligations	603,905	-	601,054	-
Certificates of deposit	1,388,975	-	997,938	-
Accounts receivable	-	8,316	-	8,157
Accrued interest receivable	11,460	5	7,537	4
Capital assets, net	-	1,753,240	-	1,786,552
<b>TOTAL ASSETS</b>	<b><u>\$ 3,043,656</u></b>	<b><u>\$ 2,002,149</u></b>	<b><u>\$ 2,642,693</u></b>	<b><u>\$ 2,009,484</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,398	\$ -	\$ 2,874	\$ 79
Long-term obligations	-	861,964	-	927,606
Accrued interest payable	-	281	-	549
Consumer deposits	-	5,975	-	6,075
<b>Total Liabilities</b>	<b><u>3,398</u></b>	<b><u>868,220</u></b>	<b><u>2,874</u></b>	<b><u>934,309</u></b>
<b>NET POSITION</b>				
Held in trust	<u>3,040,258</u>	<u>1,133,929</u>	<u>2,639,819</u>	<u>1,075,175</u>
<b>Total Net Position</b>	<b><u>3,040,258</u></b>	<b><u>1,133,929</u></b>	<b><u>2,639,819</u></b>	<b><u>1,075,175</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 3,043,656</u></b>	<b><u>\$ 2,002,149</u></b>	<b><u>\$ 2,642,693</u></b>	<b><u>\$ 2,009,484</u></b>

See accompanying notes to financial statements.

# Central Arkansas Water

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION Years Ended December 31, 2014 and 2013

	2014		2013	
	OPEB Trust	Brushy Island	OPEB Trust	Brushy Island
<b>ADDITIONS</b>				
Employer contributions	\$ 697,607	\$ -	\$ 678,354	\$ -
Water sales	-	92,961	-	93,108
Debt service fees	-	99,077	-	98,659
Investment income	21,057	61	2,873	44
<b>Total Additions</b>	<u>718,664</u>	<u>192,099</u>	<u>681,227</u>	<u>191,811</u>
<b>DEDUCTIONS</b>				
Premiums paid	305,626	-	258,194	-
Transfers to Central Arkansas Water	-	92,861	-	91,682
Administrative expenses	12,599	849	11,181	665
Depreciation	-	33,312	-	33,312
Interest	-	6,323	-	9,401
<b>Total Deductions</b>	<u>318,225</u>	<u>133,345</u>	<u>269,375</u>	<u>135,060</u>
<b>CHANGE IN NET POSITION</b>	400,439	58,754	411,852	56,751
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,639,819</u>	<u>1,075,175</u>	<u>2,227,967</u>	<u>1,018,424</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 3,040,258</u>	<u>\$ 1,133,929</u>	<u>\$ 2,639,819</u>	<u>\$ 1,075,175</u>

See accompanying notes to financial statements.

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# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### **(a) Reporting Entity**

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

The governing board of the Utility is a Board of Commissioners, comprised of 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 2014 and 2013. 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 \$3,100,000 and \$3,200,000 for the years ended December 31, 2014 and 2013, 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 \$659,000 and \$608,000 for the years ended December 31, 2014 and 2013, respectively.

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### **(b) Basis of Accounting**

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

#### **(c) Basis of Presentation**

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

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

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### **(c) Basis of Presentation (Continued)**

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

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

The *Brushy Island Public Water Authority Fund* (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 for 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 with original maturities of 3 months or less at the date of purchase.

#### **(e) Investments**

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

#### **(f) Accounts Receivable, Net**

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

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



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### **(g) Inventory**

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

#### **(h) Capital Assets, Net of Accumulated Depreciation**

It is generally the Utility's policy that assets to be used in operations with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than 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 estimated fair value on the date of contribution.

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

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

<u>Asset Type</u>	<u>Years</u>
Water source and mains	75
Buildings and improvements	15 – 40
Land improvements	10 – 20
Purification, pumping and distribution equipment	6 – 20
Other equipment	5 – 20

Management evaluates events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Such events or changes may include physical damage, obsolescence, changes in or new laws or regulations, construction stoppage or environmental factors. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded. There were no impairment losses recorded for the years ended December 31, 2014 and 2013.

#### **(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 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.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### **(j) Compensated Absences**

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

#### **(k) Long-Term Obligations**

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

#### **(l) Due to Other Agencies**

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

#### **(m) Revenue Recognition**

Revenues for water supply, treatment and distribution services are recognized in the period during which the related services are provided. Revenues include an estimate of charges for services provided but unbilled at year end. Revenues are reported net of conservation rate discounts totaling approximately \$225,000 and \$213,000 for the years ended December 31, 2014 and 2013, respectively.

#### **(n) Contributions-in-Aid of Construction**

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

#### **(o) Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **(p) Reclassifications**

Certain reclassifications have been made to the 2013 balances in order to conform to presentation in the Utility's 2014 financial statements.

#### **(q) Income Taxes**

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### **(r) Recently Adopted Accounting Standards**

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

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, became effective for the Utility on January 1, 2014. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The adoption of this statement did not have a material impact on the Utility's financial statements or related disclosures.

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

#### **(s) Recently Issued Accounting Standards**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, issued June 2012, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, issued November 2013, will be effective for the Utility on January 1, 2015. This statement establishes accounting and financial reporting requirements for pensions that are provided to employees of state and local governmental employers through pension plans that are administered through certain trust agreements, as well as for nonemployer governments that have a legal obligation to contribute to those plans. In addition, this statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and related expense. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements, however it is expected that the impact will be material.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

#### (s) Recently Issued Accounting Standards (Continued)

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for the Utility on January 1, 2016. This statement establishes accounting and financial reporting requirements related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. 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.

### NOTE 2: DEPOSITS AND INVESTMENTS

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

#### The Utility

Type	2014				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
<b>Classified as Investments</b>					
Unrestricted:					
U.S. Treasury obligations	\$ 2,009,465	\$ 1,001,574	\$ 1,007,891	\$ -	\$ -
U.S. agency obligations	2,012,215	1,000,415	1,011,800	-	-
Certificates of deposit	12,500,000	8,500,000	4,000,000	-	-
Restricted:					
Certificates of deposit	4,650,000	2,650,000	2,000,000	-	-
<b>Total</b>	<b>\$ 21,171,680</b>	<b>\$ 13,151,989</b>	<b>\$ 8,019,691</b>	<b>\$ -</b>	<b>\$ -</b>
Type	2013				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
<b>Classified as Investments</b>					
Unrestricted:					
U.S. Treasury obligations	\$ 3,013,125	\$ 1,003,242	\$ 2,009,883	\$ -	\$ -
U.S. agency obligations	5,981,979	965,323	5,016,656	-	-
Restricted:					
U.S. Treasury obligations	2,006,484	2,006,484	-	-	-
U.S. agency obligations	5,738,150	4,938,104	800,046	-	-
<b>Total</b>	<b>\$ 16,739,738</b>	<b>\$ 8,913,153</b>	<b>\$ 7,826,585</b>	<b>\$ -</b>	<b>\$ -</b>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

#### OPEB Trust

Type	2014				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
<b>Classified as Investments</b>					
Restricted:					
U.S. Treasury obligations	\$ 603,905	\$ 355,897	\$ 248,008	\$ -	\$ -
Certificates of deposit	1,388,975	647,837	741,138	-	-
Total	<u>\$ 1,992,880</u>	<u>\$ 1,003,734</u>	<u>\$ 989,146</u>	<u>\$ -</u>	<u>\$ -</u>
Type	2013				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
<b>Classified as Investments</b>					
Restricted:					
U.S. Treasury obligations	\$ 601,054	\$ 253,994	\$ 347,060	\$ -	\$ -
Certificates of deposit	997,938	695,934	302,004	-	-
Total	<u>\$ 1,598,992</u>	<u>\$ 949,928</u>	<u>\$ 649,064</u>	<u>\$ -</u>	<u>\$ -</u>

The Utility's investment in U.S. agency obligations at December 31, 2014 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 Federated Treasury Obligation Fund, a publicly traded money market mutual fund comprised primarily of short-term U.S. Treasury securities. This investment is classified with cash and cash equivalents in the Utility's statements of net position due to its highly liquid nature. This fund maintains a stable net asset value of \$1 and has a Standard & Poor's credit rating of AAAM. At December 31, 2014 and 2013, the Utility's restricted investment in this fund totaled \$5,224,248 and \$5,098,817, 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.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### **NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

#### **(b) Credit Risk**

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

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

#### **(c) Custodial Credit Risk**

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

#### **(d) Concentration of Credit Risk**

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

### NOTE 3: RESTRICTED ASSETS

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

Bond accounts are maintained to segregate funds that will be used to make debt service payments on each of the Utility's outstanding bond issues.

Debt service reserve accounts are maintained for each of the Utility's bond issues and include amounts as stipulated by the underlying bond agreements to ensure the Utility's ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service reserve accounts is typically based on a percentage of the maximum annual debt service requirements (see Note 7).

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

Construction accounts include unspent bond proceeds and are maintained for the first 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. A flat percentage of operating revenues are transferred to the account each month.

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

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

	<u>2014</u>	<u>2013</u>
Bond requirements	\$ 5,224,280	\$ 6,694,873
Future capital expenditures	1,538,134	4,525,431
Consumer deposits	<u>3,610,815</u>	<u>3,410,880</u>
Total Restricted Assets	<u>\$ 10,373,229</u>	<u>\$ 14,631,184</u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### **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:

	<b>2014</b>	<b>2013</b>
Water sales and services	\$ 4,389,028	\$ 4,755,670
Billed for other agencies	5,774,558	6,590,666
Less allowance for doubtful accounts	(186,317)	(245,026)
Total Accounts Receivable - Consumers, Net	<u>\$ 9,977,269</u>	<u>\$ 11,101,310</u>

### **NOTE 5: BOARD DESIGNATED ASSETS**

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

#### **(a) Rate Stabilization Trust**

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

#### **(b) Watershed Protection Trust**

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

Balances in these accounts are as follows at December 31:

	<b>2014</b>	<b>2013</b>
Rate stabilization	\$ 8,040,881	\$ 8,014,761
Watershed protection	2,296,683	1,409,789
Total Board Designated Assets	<u>\$ 10,337,564</u>	<u>\$ 9,424,550</u>



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

### NOTE 6: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the years ended December 31, 2014 and 2013 follows:

	<u>Balance 12/31/2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers, Net</u>	<u>Balance 12/31/2014</u>
<b>Capital Assets,</b>					
<b>Non-depreciable</b>					
Land and land use rights	\$ 46,032,162	\$ 160,713	\$ -	\$ 40	\$ 46,192,915
Construction in progress	21,527,876	10,640,264	-	(30,018,086)	2,150,054
Total capital assets, Non-depreciable	<u>67,560,038</u>	<u>10,800,977</u>	<u>-</u>	<u>(30,018,046)</u>	<u>48,342,969</u>
<b>Capital Assets, Depreciable</b>					
Buildings and improvements	49,154,620	161,500	-	11,489,963	60,806,083
Land improvements	1,478,894	-	-	774,565	2,253,459
Water source Purification	32,927,318	284,623	-	-	33,211,941
	37,518,831	45,677	-	4,615,616	42,180,124
Pumping	25,796,891	42,767	-	394,138	26,233,796
Distribution	323,590,447	(11,310)	(477,306)	11,976,769	335,078,600
Other equipment	27,139,956	1,014,074	(347,280)	766,995	28,573,745
Total capital assets, depreciable	<u>497,606,957</u>	<u>1,537,331</u>	<u>(824,586)</u>	<u>30,018,046</u>	<u>528,337,748</u>
<b>Less Accumulated Depreciation</b>					
Buildings and improvements	22,186,612	1,358,675	-	-	23,545,287
Land improvements	103,991	83,754	-	-	187,745
Water source Purification	13,025,096	547,234	-	-	13,572,330
	15,609,363	1,474,793	-	-	17,084,156
Pumping	14,130,994	741,268	-	-	14,872,262
Distribution	84,791,800	5,486,895	(453,200)	-	89,825,495
Other equipment	23,566,613	1,094,311	(335,929)	-	24,324,995
Total accumulated depreciation	<u>173,414,469</u>	<u>10,786,930</u>	<u>(789,129)</u>	<u>-</u>	<u>183,412,270</u>
<b>Total Capital Assets, Net</b>	<u>\$ 391,752,526</u>	<u>\$ 1,551,378</u>	<u>\$ (35,457)</u>	<u>\$ -</u>	<u>\$ 393,268,447</u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### NOTE 6: CAPITAL ASSETS (Continued)

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

### NOTE 7: NONCURRENT LIABILITIES

The Utility's noncurrent liabilities include the following:

#### (a) Revenue Bonds

##### 2007 Water Revenue Bonds

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

### **NOTE 7: NONCURRENT LIABILITIES (Continued)**

#### **(a) Revenue Bonds (Continued)**

##### 2010A Water Revenue Bond

The Series 2010A Bond was issued in July 2010 to replace the then outstanding Series 2009 Bond. The new bond was issued to change terms, particularly the requirement for security for the outstanding debt. The bond was issued through the Arkansas Natural Resources Commission (ANRC) and the Arkansas Development Finance Authority (ADFA) from monies in the Drinking Water State Revolving Fund Account (Revolving Loan Fund), created by Arkansas Code Annotated Section 15-22-1102 to finance the cost of planning, design, construction, and/or rehabilitation of the treatment facilities of the water system, paying cost incidental thereto and paying approved expenses incurred in connection with the issuance of the bond. The Series 2010A Bond is a special obligation of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semi-annually on April 15 and October 15 beginning in 2013, with the final payment scheduled in 2032.

##### 2010B Water Revenue Bonds

The Series 2010B Bonds were issued to finance the cost of certain capital improvements to the water system, to establish a debt service reserve for the Series 2010B Bonds and to pay the costs of issuing the Series 2010B Bonds. The Series 2010B Bonds are special obligations of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1 beginning in 2011 with the final payment scheduled in 2030. Interest payments are due semiannually on April 1 and October 1.

##### 2010C Water Revenue Bonds

The Series 2010C Bonds were issued to refinance a portion of the cost of acquisition of approximately 915 acres of real property within the Lake Maumelle watershed, to establish a debt service reserve for the Series 2010C Bonds and to pay the costs of issuing the Series 2010C Bonds. The Series 2010C Bonds are special obligations of the Utility, payable solely from stabilized net revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1 beginning in 2011. Interest payments are due semiannually on April 1 and October 1. The Utility redeemed \$4,000,000 of the Series 2010C Bonds on February 1, 2013, which reduced the final payment date from 2030 to 2023.

##### 2011A Water Revenue Bond

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

### **NOTE 7: NONCURRENT LIABILITIES (Continued)**

#### **(a) Revenue Bonds (Continued)**

##### 2011B Refunding Water Revenue Bonds

On October 1, 2011, the Utility issued \$13,500,000 of revenue refunding bonds to refund the then outstanding Series 2002 Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$794,919 is reported as a deferred outflow of resources in the statements of net position and is being charged to operations through the year 2022 using the straight-line method. The Series 2011B Bonds are special obligations of the Utility, payable solely from the stabilized net revenues of the water system, as defined in the related bond agreements. Principal and interest payments are due semi-annually on April 15 and October 15 beginning in 2012, with the final payment scheduled in 2022.

##### 2012A Water Revenue Bonds

The Series 2012A Bonds were issued to finance the cost of certain capital improvements to the water system, to pay the outstanding balance on the capital lease obligation described in Note 7 (b) below, to establish a debt service reserve for the Series 2012A Bonds and to pay the cost of issuing the Series 2012A Bonds. The Series 2012A Bonds are special obligations of the Utility, payable solely from stabilized revenues of the water system, as defined in the related bond agreements. Principal payments are due annually on October 1 beginning in 2013, with the final payment scheduled in 2032. Interest payments are due semiannually on April 1 and October 1.

##### 2014 Refunding Water Revenue Bonds

On July 1, 2014, the Utility issued \$10,850,000 of revenue refunding bonds 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 semi-annually on April 1 and October 11 beginning in 2015, with the final payment scheduled in 2024.

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

The Utility is party to an agreement with Mid-Arkansas Water Alliance (MAWA), along with 9 other municipal water providers, to purchase a portion of the water storage rights at Greers Ferry Lake allocated to MAWA by the U.S. government. The Utility and each of the 9 other parties to the agreement have been allocated a portion of the debt incurred by MAWA to acquire the storage rights, based on each party's respective share of the total storage area. The initial amount of the debt allocated to the Utility totaled \$284,623, and annual payments of \$17,155 are required, including interest at a variable rate determined by the Secretary of the Treasury (4.125% at December 31, 2014 and 2013). The amortization period of the debt depends upon actual repayments of all parties to the agreement and may vary; however, at December 31, 2014, there were 19 payments remaining, resulting in a final payment due in 2033.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### NOTE 7: NONCURRENT LIABILITIES (Continued)

#### (c) Note Payable

The Utility borrowed \$287,500 from a financial institution in order to purchase additional land in the Lake Maumelle Watershed at a rate of 4.0%. The outstanding balance at December 31, 2014 of \$143,750 is due in August 2015.

Changes in noncurrent liabilities for the years ended December 31, 2014 and 2013, are as follows:

	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amounts Due Within One Year	Amounts Due Greater Than One Year
<b>Bonds Payable</b>						
Revenue bonds	\$ 83,482,529	\$12,586,519	\$ (18,088,804)	\$ 77,980,244	\$ 4,875,400	\$ 73,104,844
Add issuance premiums	1,443,119	1,696,942	(522,632)	2,617,429	-	2,617,429
<b>Bonds Payable, Net</b>	84,925,648	14,283,461	(18,611,436)	80,597,673	4,875,400	75,722,273
<b>Other Long-term Obligations</b>	517,158	-	(148,560)	368,598	154,621	213,977
<b>Consumer Deposits</b>	3,452,085	1,066,885	(933,909)	3,585,061	903,306	2,681,755
<b>Total Noncurrent Liabilities</b>	<u>\$ 88,894,891</u>	<u>\$15,350,346</u>	<u>\$ (19,693,905)</u>	<u>\$ 84,551,332</u>	<u>\$ 5,933,327</u>	<u>\$ 78,618,005</u>
	Balance December 31, 2012	Increases	Decreases	Balance December 31, 2013	Amounts Due Within One Year	Amounts Due Greater Than One Year
<b>Bonds payable</b>						
Revenue bonds	\$ 90,701,760	\$ 1,521,721	\$ (8,740,952)	83,482,529	\$ 4,953,805	\$ 78,528,724
Add issuance premiums	1,567,596	-	(124,477)	1,443,119	-	1,443,119
<b>Bonds Payable, Net</b>	92,269,356	1,521,721	(8,865,429)	84,925,648	4,953,805	79,971,843
<b>Other Long-term Obligations</b>	237,035	287,500	(7,377)	517,158	151,432	365,726
<b>Consumer Deposits</b>	3,376,278	953,073	(877,266)	3,452,085	876,869	2,575,216
<b>Total Noncurrent Liabilities</b>	<u>\$ 95,882,669</u>	<u>\$ 2,762,294</u>	<u>\$ (9,750,072)</u>	<u>\$ 88,894,891</u>	<u>\$ 5,982,106</u>	<u>\$ 82,912,785</u>

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### NOTE 7: NONCURRENT LIABILITIES (Continued)

Bonds payable at December 31, 2014, include the outstanding principal balance of the following revenue bond issues:

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Original Issue</u>	<u>Total Outstanding</u>
2007 Water revenue bonds	4.75%	2027	\$ 17,625,000	\$ 13,330,000
2010A Water revenue bond	1.00% <sup>(1)</sup>	2032	13,400,000	12,287,022
2010B Water revenue bonds	2.0% - 4.0%	2030	9,230,000	7,745,000
2010C Water revenue bonds	2.0% - 4.0%	2023	8,830,000	3,410,000
2011A Water revenue bond	2.25% <sup>(1)</sup>	2034	4,000,000	3,928,222
2011B Refunding water revenue bonds	2.5% - 4.0%	2022	13,500,000	10,310,000
2012A Water revenue bonds	2.0% - 4.0%	2032	17,515,000	16,120,000
2014 Refunding water revenue bonds	2.0% - 5.0%	2024	10,850,000	10,850,000
			<u>\$ 94,950,000</u>	<u>\$ 77,980,244</u>

<sup>(1)</sup> 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 revenue bonds outstanding at December 31, 2014:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,875,399	\$ 2,767,445	\$ 7,642,844
2016	5,171,739	2,473,455	7,645,194
2017	5,353,474	2,337,094	7,690,568
2018	5,520,606	2,111,957	7,632,563
2019	5,693,145	1,925,948	7,619,093
2020-2024	27,723,911	6,669,084	34,392,995
2025-2029	16,155,150	2,526,105	18,681,255
2030-2034	7,486,820	427,113	7,913,933
	<u>\$ 77,980,244</u>	<u>\$ 21,238,201</u>	<u>\$ 99,218,445</u>

Payment of principal and interest on all bonds is secured by a pledge of Utility revenues. The 2010A, 2010B, 2010C, 2011A, 2011B, 2012A and 2014 Water Revenue Bonds are subordinate to the 2007 Water Revenue Bonds.

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### **NOTE 7: NONCURRENT LIABILITIES (Continued)**

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 3 calendar months.

The Utility was in compliance with all debt covenants for the years ended December 31, 2014 and 2013.

#### **(d) Unearned Revenue**

The Utility entered into a long term lease agreement with the Arkansas State Game and Fish Commission in 2013. Payments received, which are due in installments through 2015, are reported as unearned revenue and will be recognized as operating revenue over the term of the 99 year agreement. The payment due in 2014 has been reported as other receivable at December 31, 2014.

### **NOTE 8: RISK MANAGEMENT**

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

The Utility is self-insured for a portion of its exposure to risk of loss from work-related employee injuries and illnesses (workers' compensation) up to \$400,000 per occurrence for employees with a maximum liability coverage of \$1,000,000. All full-time employees are covered by the plan.

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

### **NOTE 9: COMMITMENTS AND CONTINGENCIES**

#### **(a) Construction Contracts**

The Utility had commitments totaling approximately \$432,000 and \$2,600,000 at December 31, 2014 and 2013, 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 \$10,000 and \$631,000 at December 31, 2014 and 2013, 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 POST-EMPLOYMENT BENEFITS**

#### **(a) Arkansas Public Employees Retirement System**

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching 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. The APERS issues a stand-alone financial report which may be obtained by making a written request at 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Plan members hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and the Utility is required to contribute a percent of covered salary at an actuarially determined rate. The contribution rates applicable were 14.24% (July 1, 2012 to June 30, 2013); 14.88% (July 1, 2013 to June 30, 2014); and 14.75% (July 1, 2014 to December 31, 2014). The contribution requirements of plan members and the Utility are established and may be amended by the APERS Board of Trustees. The Utility's contributions for the years ending December 31, 2014, 2013 and 2012 were \$2,466,274, \$2,386,830 and \$2,150,389, respectively, which were equal to the required contributions for each year.



# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

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

#### **(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, 2014, there were 279 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. Plan member contributions and the Utility's matching contribution for the years ending December 31, 2014 and 2013, were \$168,832 and \$166,514, respectively.

#### **(c) Other Post-Employment Benefits**

##### General

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

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

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

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

At December 31, 2014, there were 70 retirees receiving health care benefits under the plan.

##### Contributions, Benefits and Funding Policy

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

**(c) Other Post-Employment Benefits (Continued)**

Contributions, Benefits and Funding Policy (Continued)

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

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

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

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

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

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

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

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

#### **(c) Other Post-Employment Benefits (Continued)**

##### Contributions, Benefits and Funding Policy (Continued)

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

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

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

##### Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2014, 2013 and 2012, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

	2014	2013	2012
Annual required contribution	\$ 697,607	\$ 678,354	\$ 666,413
Interest on net OPEB obligation	-	-	-
Adjustment to actuarial required contribution	-	-	-
	697,607	678,354	666,413
Annual OPEB cost	697,607	678,354	666,413
Contributions made	697,607	678,354	666,413
Net OPEB obligation – beginning of year	-	-	-
Net OPEB obligation – end of year	\$ -	\$ -	\$ -

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

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

#### **(c) Other Post-Employment Benefits (Continued)**

##### Annual OPEB Cost and Net OPEB Obligation (Continued)

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2014	\$ 697,607	\$ 697,607	100%	\$ -
12/31/2013	\$ 678,354	\$ 678,354	100%	\$ -
12/31/2012	\$ 666,413	\$ 666,413	100%	\$ -

##### Funded Status and Funding Progress

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

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of employer contributions, also presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by the Utility in comparison to the annual required contribution (ARC).

##### Actuarial Methods and Assumptions

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

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

# Central Arkansas Water

## NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

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

#### **(c) Other Post-Employment Benefits (Continued)**

##### Actuarial Methods and Assumptions (Continued)

In the December 31, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 5.5%. The actuarial value of plan assets was equal to the market value of those assets. Monthly premiums for those retirees under the current plan was assumed to be \$353.40, with health care costs expected to increase 10.0% the next year, 9.0% in the second year, 8.0% in the third year, and decreasing 0.5% each year thereafter until the rate reached 5.0% in the ninth year. The discount rate and the health care cost trend rate incorporate an assumed annual inflation rate of 3.5%. Life expectancies were projected using the 1994 Uninsured Pensioners Mortality Table. Prior to January 1, 2010, the UAAL was being amortized using the level dollar method over a 30 year period on an open basis. As the plan was closed to new participants on January 1, 2010, the UAAL is now being amortized using the level dollar method, with 25 years remaining at December 31, 2014. The assumed discount rate was lowered from 6% to 5.5% as of December 31, 2011. The net impact of this change and other changes in assumptions was to increase the UAAL by almost \$580,000.

## **Required Supplementary Information**

# Central Arkansas Water

## REQUIRED SUPPLEMENTARY INFORMATION

### *Other Postemployment Benefit Plan (OPEB) - Schedule of Funding Progress* December 31, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2009	\$ 910,113	\$ 7,800,935	\$ 6,890,822	11.7%	\$ 15,646,127	44.0%
12/31/2011	\$ 1,798,851	\$ 8,878,907	\$ 7,080,056	20.3%	\$ 15,111,845	46.9%
12/31/2013	\$ 2,639,819	\$ 9,561,054	\$ 6,921,235	27.6%	\$ 15,981,665	43.3%

See independent auditor's report.

# Central Arkansas Water

## REQUIRED SUPPLEMENTARY INFORMATION

### *Other Postemployment Benefit Plan (OPEB) - Schedule of Employer Contributions* December 31, 2014

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

See independent auditor's report.



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## **Supplementary Information**

# Central Arkansas Water

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended December 31, 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>
<b>Environmental Protection Agency</b>		
Capitalization Grants for Drinking Water State Revolving Funds Passed through the Arkansas Natural Resources Commission - State Revolving Fund Program:		
Water Revenue Bonds (Series 2011A)	66.468	\$ 4,000,000

### **NOTE 1: GENERAL**

The schedule of expenditures of federal awards (the Schedule) presents the federal award activity of the Utility under programs of the federal government for the year ended December 31, 2014. Because the Schedule presents only a selected portion of the operations of the Utility, it is not intended to and does not present the financial position, changes in net position or cash flows of the Utility. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

### **NOTE 2: BASIS OF ACCOUNTING**

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

### **NOTE 3: PURPOSE OF AWARD**

Awards received under the State Revolving Fund Program must be used for construction and/or rehabilitation of the Utility's water treatment, storage and distribution facilities.

See independent auditor's report.

# Central Arkansas Water

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended December 31, 2014

Bonds Payable December 31, 2013	Cash Received 2014	Principal Repayments in 2014	Bonds Payable December 31, 2014	Total Expenditures in 2014
\$ 2,263,481	\$ 1,736,519	\$ 71,779	\$ 3,928,221	\$ 1,736,519

**NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS**

Proceeds received in 2014 are included in the statements of cash flows. Bonds payable are included in the statements of net position. Total expenditures in 2014 are included in capital asset purchases in the statements of cash flows and are included in capital assets, net of accumulated depreciation, in the statements of net position.

See independent auditor's report.

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**Statistical Section (Unaudited)**



# Central Arkansas Water

## STATISTICAL SECTION INDEX

This section of the Utility’s comprehensive annual financial report presents detailed information to provide a context for understanding what the information in the financial statements, notes to financial statements and required supplementary information says about the Utility’s overall financial health.

**Financial Trends ..... 83**

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 ..... 89**

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 ..... 95**

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

# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Operating Revenues</b>				
Water sales	\$ 32,682,358	\$ 35,608,990	\$ 37,442,971	\$ 37,547,537
Penalties	616,952	635,521	714,390	742,402
Turn-on charges	980,295	995,720	1,020,307	1,132,302
Ancillary charges	3,294,146	3,259,665	3,238,139	3,044,787
Watershed protection fees	-	-	-	-
Other revenue	574,859	732,109	1,118,918	839,430
<b>Total Operating Revenues</b>	<u>38,148,610</u>	<u>41,232,005</u>	<u>43,534,725</u>	<u>43,306,458</u>
<b>Operating Expenses</b>				
Administration	2,478,384	2,698,346	2,946,927	3,107,367
Distribution	8,425,774	9,423,267	9,200,010	9,536,879
Engineering	1,317,025	1,387,524	1,551,157	1,637,505
Finance and customer service	5,309,342	5,482,798	5,679,973	5,751,256
Finance	-	-	-	-
Customer relations and public affairs	-	-	-	-
Information services	2,506,892	2,857,553	2,805,933	2,834,869
Source and treatment	5,895,826	6,562,594	7,054,139	7,555,875
Watershed protection	-	-	-	849,428
Water quality	-	-	-	-
General	1,623,138	1,971,479	1,955,895	2,355,892
Depreciation and amortization	7,510,750	8,396,197	8,287,340	8,642,459
<b>Total Operating Expenses</b>	<u>35,067,131</u>	<u>38,779,758</u>	<u>39,481,374</u>	<u>42,271,530</u>
<b>Nonoperating Revenues (Expenses)</b>				
Transfers to Cities of LR and NLR	(374,421)	(401,275)	(412,656)	(462,528)
Gain (loss) on disposal of capital assets	97,162	138,154	75,004	184,625
Investment income	1,249,752	1,415,298	1,530,756	738,133
Bond interest expense, net	(835,632)	(883,116)	(1,256,639)	(1,315,979)
Other interest expense	-	-	-	-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>136,861</u>	<u>269,061</u>	<u>(63,535)</u>	<u>(855,749)</u>
<b>Contributions</b>				
Contributions-in-aid of construction	3,445,874	6,417,351	6,930,433	10,232,358
Capital contributions from grantors	-	-	-	-
<b>Total Contributions</b>	<u>3,445,874</u>	<u>6,417,351</u>	<u>6,930,433</u>	<u>10,232,358</u>
<b>Change in Net Position</b>	<u>\$ 6,664,214</u>	<u>\$ 9,138,659</u>	<u>\$ 10,920,249</u>	<u>\$ 10,411,537</u>
<b>% Water Rate Increase <sup>(1)</sup></b>	<u>7.2%</u>	<u>9.4%</u>	<u>9.8%</u>	<u>9.6%</u>

**Source:** Central Arkansas Water Finance Section – Finance Department

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

# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND RATE INCREASES *(Continued)* 2005 – 2014 (Unaudited)

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 37,706,526	\$ 44,734,656	\$ 47,899,601	\$ 49,448,601	\$ 45,998,541	\$ 45,070,592
754,955	888,654	915,430	891,014	859,938	916,613
1,110,714	1,057,057	1,019,839	1,195,622	1,101,038	1,010,229
2,797,505	2,631,082	2,841,724	3,014,509	3,083,148	2,917,964
651,652	982,812	999,083	1,003,492	1,012,991	1,012,005
524,358	636,345	596,503	716,994	1,990,277	670,741
<u>43,545,710</u>	<u>50,930,606</u>	<u>54,272,180</u>	<u>56,270,232</u>	<u>54,045,933</u>	<u>51,598,144</u>
2,945,649	2,766,339	2,842,433	2,252,142	2,364,744	2,471,360
9,832,889	9,915,785	9,994,051	9,817,795	10,495,249	10,659,085
1,700,254	1,758,261	1,779,691	1,768,725	1,773,172	1,821,276
5,980,026	5,992,816	6,186,750	-	-	-
-	-	-	2,605,926	2,585,870	2,548,209
-	-	-	4,055,518	4,176,286	4,458,680
2,752,820	2,818,444	3,005,343	3,013,314	2,902,303	3,133,821
7,882,414	8,181,092	8,556,749	9,423,762	7,889,209	7,717,004
965,800	1,032,201	1,158,939	1,062,484	-	-
-	-	-	-	1,936,431	1,911,167
2,033,790	2,549,123	2,048,645	2,345,009	2,017,004	1,971,006
8,640,467	9,138,823	9,589,451	10,346,997	11,068,273	10,786,930
<u>42,734,109</u>	<u>44,152,884</u>	<u>45,162,052</u>	<u>46,691,672</u>	<u>47,208,541</u>	<u>47,478,538</u>
(537,936)	(551,290)	(584,388)	(602,832)	(608,436)	(658,776)
157,520	118,562	(476,219)	204,043	249,854	26,456
163,318	56,820	118,372	76,650	111,482	199,334
(1,042,072)	(788,310)	(848,244)	(1,557,922)	(2,334,445)	(2,300,968)
-	(261,680)	(52,224)	(21,801)	(13,707)	(19,459)
<u>(1,259,170)</u>	<u>(1,425,898)</u>	<u>(1,842,703)</u>	<u>(1,901,862)</u>	<u>(2,595,252)</u>	<u>(2,753,413)</u>
5,253,734	8,552,085	9,573,703	2,826,327	864,644	2,253,550
4,000,000	-	4,000,000	171,514	47,903	-
<u>9,253,734</u>	<u>8,552,085</u>	<u>13,573,703</u>	<u>2,997,841</u>	<u>912,547</u>	<u>2,253,550</u>
<u>\$ 8,806,165</u>	<u>\$ 13,903,909</u>	<u>\$ 20,841,128</u>	<u>\$ 10,674,539</u>	<u>\$ 5,154,687</u>	<u>\$ 3,619,743</u>
<u>3.4%</u>	<u>5.9%</u>	<u>5.3%</u>	<u>0.0%</u>	<u>3.8%</u>	<u>3.7%</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF NET POSITION 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Net Position</b>				
Net investment in capital assets	\$ 237,418,736	\$ 250,633,560	\$ 258,483,966	\$ 268,480,427
Restricted – expendable	11,824,799	5,689,550	7,942,708	8,841,017
Unrestricted	<u>12,968,458</u>	<u>15,027,542</u>	<u>15,844,227</u>	<u>15,360,994</u>
<b>Total Net Position</b>	<u>\$ 262,211,993</u>	<u>\$ 271,350,652</u>	<u>\$ 282,270,901</u>	<u>\$ 292,682,438</u>

Source: Central Arkansas Water Finance Section – Finance Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF NET POSITION (*Continued*) 2005 – 2014 (Unaudited)

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 280,199,889	\$ 284,393,022	\$ 299,621,462	\$ 302,315,617	\$ 309,457,263	\$ 312,635,439
7,127,200	9,038,701	6,466,360	7,988,462	7,121,040	6,059,324
<u>14,161,514</u>	<u>21,437,276</u>	<u>29,622,305</u>	<u>36,080,587</u>	<u>34,961,050</u>	<u>36,464,333</u>
<u>\$ 301,488,603</u>	<u>\$ 314,868,999</u>	<u>\$ 335,710,127</u>	<u>\$ 346,384,666</u>	<u>\$ 351,539,353</u>	<u>\$ 355,159,096</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF WRITE-OFFS 2005 – 2014 (Unaudited)

<u>Year</u>	<u>Water Sales</u>	<u>Write-Offs</u>	<u>Write-Offs / Water Sales</u>
2005	\$ 32,682,358	\$ 142,488	0.44%
2006	35,608,990	144,898	0.41%
2007	37,442,971	225,043	0.60%
2008	37,547,537	205,420	0.55%
2009	37,706,526	193,601	0.51%
2010	44,734,656	249,268	0.56%
2011	47,899,601	290,008	0.61%
2012	49,448,601	257,771	0.52%
2013	45,998,541	239,301	0.52%
2014	45,070,592	369,709	0.82%

**Source:** Central Arkansas Water Finance Section – Finance Department

## **Revenue and Debt Capacity**

# Central Arkansas Water

## TEN YEAR SUMMARY OF REVENUES, EXPENSES AND DEBT SERVICE COVERAGE 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Revenues</b>				
Water sales	\$ 32,682,358	\$ 35,608,990	\$ 37,442,971	\$ 37,547,537
Penalties	616,952	635,521	714,390	742,402
Turn-on charges	980,295	995,720	1,020,307	1,132,302
Ancillary charges	3,294,146	3,259,665	3,238,139	3,044,787
Watershed protection fees	-	-	-	-
Proceeds from sale of capital assets	102,869	887,107	852,053	1,036,972
Investment income	1,249,752	1,415,298	1,530,756	738,133
Other revenue	574,859	732,109	1,118,918	839,430
<b>Total Revenues</b>	<u>39,501,231</u>	<u>43,534,410</u>	<u>45,917,534</u>	<u>45,081,563</u>
<b>Expenses</b>				
Administration	2,478,384	2,698,346	2,946,927	3,107,367
Distribution	8,425,774	9,423,267	9,200,010	9,536,879
Engineering	1,317,025	1,387,524	1,551,157	1,637,505
Finance and customer service	5,309,342	5,482,798	5,679,973	5,751,256
Finance	-	-	-	-
Customer relations and public affairs	-	-	-	-
Information services	2,506,892	2,857,553	2,805,933	2,834,869
Source and treatment	5,895,826	6,562,594	7,054,139	7,555,875
Watershed protection	-	-	-	849,428
Water quality	-	-	-	-
General	1,623,138	1,971,479	1,955,895	2,355,892
Transfers to Cities of LR and NLR	374,421	401,275	412,656	462,528
<b>Total Expenses</b>	<u>27,930,802</u>	<u>30,784,836</u>	<u>31,606,690</u>	<u>34,091,599</u>
<b>Transfers to rate stabilization account<sup>(2)</sup></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Revenues</b>	<u>\$ 11,570,429</u>	<u>\$ 12,749,574</u>	<u>\$ 14,310,844</u>	<u>\$ 10,989,964</u>
<b>Maximum Annual Debt Service on Revenue Bonds</b>	<u>\$ 3,323,528</u>	<u>\$ 3,323,528</u>	<u>\$ 4,720,529</u>	<u>\$ 4,720,529</u>
<b>Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Bonds<sup>(1)</sup></b>	<u>3.48</u>	<u>3.84</u>	<u>3.03</u>	<u>2.33</u>

**Source:** Central Arkansas Water Finance Section – Finance Department

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

<sup>(1)</sup> Bond Requirement is 1.2.

<sup>(2)</sup> 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)* 2005 – 2014 (Unaudited)

2009	2010	2011	2012	2013	2014
\$ 37,706,526	\$ 44,734,656	\$ 47,899,601	\$ 49,448,601	\$ 45,998,541	\$ 45,070,592
754,955	888,654	915,430	891,014	859,938	916,613
1,110,714	1,057,057	1,019,839	1,195,622	1,101,038	1,010,229
2,797,505	2,631,082	2,841,724	3,014,509	3,083,148	2,917,964
651,652	982,812	999,083	1,003,492	1,012,991	1,012,005
972,888	1,154,252	1,378,313	1,270,452	1,259,097	62,548
163,318	56,820	118,372	76,650	111,482	199,334
524,358	636,345	596,503	716,994	1,990,277	670,741
<u>44,681,916</u>	<u>52,141,678</u>	<u>55,768,865</u>	<u>57,617,334</u>	<u>55,416,512</u>	<u>51,860,026</u>
2,945,649	2,766,339	2,842,433	2,252,142	2,364,744	2,471,360
9,832,889	9,915,785	9,994,051	9,817,795	10,495,249	10,659,085
1,700,254	1,758,261	1,779,691	1,768,725	1,773,172	1,821,276
5,980,026	5,992,816	6,186,750	-	-	-
-	-	-	2,605,926	2,585,870	2,548,209
-	-	-	4,055,518	4,176,286	4,458,680
2,752,820	2,818,444	3,005,343	3,013,314	2,902,303	3,133,821
7,882,414	8,181,092	8,556,749	9,423,762	7,889,209	7,717,004
965,800	1,032,201	1,158,939	1,062,484	-	-
-	-	-	-	1,936,431	1,911,167
2,033,790	2,549,123	2,048,645	2,345,009	2,017,004	1,971,006
537,936	551,290	584,388	602,832	608,436	658,776
<u>34,631,578</u>	<u>35,565,351</u>	<u>36,156,989</u>	<u>36,947,507</u>	<u>36,748,704</u>	<u>37,350,384</u>
<u>-</u>	<u>(2,100,000)</u>	<u>(2,600,000)</u>	<u>(3,300,000)</u>	<u>-</u>	<u>-</u>
<u>\$ 10,050,338</u>	<u>\$ 14,476,327</u>	<u>\$ 17,011,876</u>	<u>\$ 17,369,827</u>	<u>\$ 18,667,808</u>	<u>\$ 14,509,642</u>
<u>\$ 5,536,739</u>	<u>\$ 6,799,714</u>	<u>\$ 6,884,537</u>	<u>\$ 8,061,331</u>	<u>\$ 7,909,925</u>	<u>\$ 7,645,191</u>
<u>1.82</u>	<u>2.13</u>	<u>2.47</u>	<u>2.15</u>	<u>2.36</u>	<u>1.90</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT 2005 – 2014 (Unaudited)

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Large Volume</u>	<u>Wholesale</u>
2005	102,822	10,925	64	7
2006	103,492	10,881	60	7
2007	105,419	11,003	62	7
2008	105,905	11,064	57	7
2009	106,371	11,041	64	7
2010	106,235	11,041	63	8
2011	106,556	11,160	63	9
2012	106,961	11,243	64	9
2013	108,116	11,297	57	9
2014	108,426	11,411	56	9

**Source:** Central Arkansas Water Finance Section – Finance Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF OUTSTANDING DEBT TO CUSTOMER COUNT *(Continued)* 2005 – 2014 (Unaudited)

<u>Sprinkler</u>	<u>Private Fire Services</u>	<u>Total Customers</u>	<u>Total Outstanding Debt</u>	<u>Total Outstanding Debt to Customer Count</u>
3,507	1,445	118,770	\$ 40,949,911	\$ 345
4,091	1,445	119,976	\$ 39,175,000	\$ 327
3,358	1,552	121,401	\$ 55,135,000	\$ 454
3,357	1,593	121,983	\$ 53,025,000	\$ 435
3,568	1,661	122,712	\$ 59,520,017	\$ 485
3,758	1,686	122,791	\$ 72,891,876	\$ 594
3,497	1,723	123,008	\$ 75,463,932	\$ 613
3,554	1,772	123,603	\$ 92,506,391	\$ 748
3,748	1,821	125,048	\$ 85,442,806	\$ 683
3,782	1,850	125,534	\$ 80,966,000	\$ 645

# Central Arkansas Water

## TEN YEAR SUMMARY OF TEN LARGEST WATER CUSTOMERS 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Jacksonville Water Works	1	1	1	1	1	1	1	1	1	1
Bryant Water and Sewer	2	2	2	2	2	3	2	2	2	2
Salem Water Alliance	-	-	6	8	8	4	4	3	3	3
North Pulaski Waterworks	3	3	3	3	3	2	3	4	4	4
University of Arkansas for Medical Sciences	10	9	8	5	4	5	6	5	5	5
Arkansas Department of Corrections	-	-	-	-	10	10	9	10	9	6
Sage V Foods	-	-	-	-	-	-	-	-	-	7
Cabot WaterWorks	-	-	-	-	-	-	-	9	10	8
Shannon Hills Water Department	-	-	-	-	-	-	-	-	-	9
Baptist Health System	9	7	9	7	7	8	7	7	7	10
Chicopee/Polymer Group	4	10	10	-	-	-	-	-	-	-
Veterans Administration Hospitals	-	8	7	6	5	7	-	8	8	-
3-M Company	5	5	4	4	6	6	8	-	-	-
U.S. Army Reserve Center	7	-	-	-	-	-	-	-	-	-
Odom Sausage Company	8	-	-	-	-	-	-	-	-	-
Arkansas Electric Cooperative	-	4	5	-	-	9	5	6	6	-
North Little Rock Burns Park	6	6	-	-	-	-	-	-	-	-
St. Vincent Doctors Hospital	-	-	-	9	-	-	-	-	-	-
Arkansas Military Department	-	-	-	10	-	-	10	-	-	-
Little Rock Parks Department	-	-	-	-	9	-	-	-	-	-

**Source:** Central Arkansas Water Finance Section – Finance Department

## **Demographic and Economic Information**

# Central Arkansas Water

## LARGEST EMPLOYERS WITHIN PULASKI COUNTY 2014 vs. 2005 (Unaudited)

Employer	Type of Business	2014			2005	
		Rank	Employees	Percentage of Total Employment	Rank	Employees
State of Arkansas	Government	1	32,200	19%	1	28,100
Local Government	Government	2	28,800	17%		
Federal Government	Government	3	9,200	5%	2	9,400
University of Arkansas for Medical Sciences	Medical Services	4	8,500	5%	3	8,500
Baptist Health	Medical Services	5	7,000	4%	5	7,571
Little Rock Air Force Base	Government	6	4,500	3%	6	4,500
Axiom	Data Processing	7	4,388	3%	7	4,388
Little Rock School District	Education	8	3,511	2%		
Central Arkansas Veterans Health Care Systems	Medical Services	9	3,500	2%	10	2,785
Entergy Arkansas	Utility (Electric)	10	2,738	2%	9	2,881
Pulaski County Public School District	Education	-	3,900	-	4	7,868
St. Vincent Infirmary Medical Center	Medical Services	-	2,600	-	8	3,500
<b>Total</b>			<u>110,837</u>	<u>64%</u>		<u>79,493</u>
<b>Total Employment</b>			<u>172,350</u>			<u>177,500</u>

Source: Central Arkansas Water Finance Section – Finance Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF DEMOGRAPHIC AND ECONOMIC STATISTICS WITHIN PULASKI COUNTY 2005 – 2014 (Unaudited)

Year	Population	Households	Median Household Income	Per Capita Personal Income	Total Personal Income (000's)	Unemployment Rate
2005	369,221	170,505	40,629	38,515	14,183,969	4.7%
2006	372,157	173,102	43,338	41,006	15,239,922	4.8%
2007	374,011	174,414	44,909	44,292	16,538,757	4.5%
2008	376,797	175,963	45,215	45,019	16,952,779	4.4%
2009	381,904	177,521	42,107	42,209	16,041,795	6.0%
2010	382,748	175,555	44,482	42,438	16,278,265	6.9%
2011	386,299	176,324	45,897	43,938	16,973,344	6.4%
2012	388,953	178,704	44,819	45,875	17,843,080	6.3%
2013	391,284	(1)	46,526	47,854	18,724,616	6.9%
2014	(1)	(1)	(1)	(1)	(1)	5.7%

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

<sup>(1)</sup> Information is not available.

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## **Operating Information**

# Central Arkansas Water

## TEN YEAR SUMMARY OF NEW CONNECTIONS 2005 – 2014 (Unaudited)

<u>Year</u>	<u>Meters</u>	<u>Fire Hydrants</u>	<u>New Pipe (in Miles)</u>
2005	3,222	84	31.00
2006	2,507	316	29.00
2007	2,598	376	65.20
2008	1,753	336	37.30
2009	1,686	321	35.50
2010	1,144	160	19.70
2011	1,187	86	11.90
2012	1,442	61	28.50
2013	2,158	137	15.30
2014	1,205	150	16.90

**Source:** Central Arkansas Water Engineering Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF SYSTEM HIGHLIGHTS 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Miles of public water distribution pipe	2,114	2,145	2,198	2,229	2,255	2,276	2,280	2,295	2,358	2,473
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Maximum treatment capacity (MGD)	124.0	124.0	124.0	157.0	157.0	157.0	157.0	157.0	157.0	157.0
Maximum day consumption (MG)	108.6	120.3	119.6	109.4	103.3	108.4	119.4	126.0	106.0	88.3
Percentage of maximum capacity utilized	88%	97%	96%	70%	66%	69%	76%	80%	68%	56%

**Source:** Central Arkansas Water Engineering and Source and Treatment Departments

MGD = Millions of Gallons per Day

MG = Million Gallons

# Central Arkansas Water

## TEN YEAR SUMMARY OF CAPITAL ASSETS 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Land and land use rights	\$ 17,634,844	\$ 20,934,589	\$ 24,817,358	\$ 28,147,590
Building and grounds	36,693,337	37,004,974	37,493,939	39,037,397
Land improvements	-	-	-	-
Water source	32,153,585	32,309,610	32,549,548	32,621,672
Purification	21,174,776	24,575,320	24,824,032	25,176,369
Pumping	12,748,685	12,756,729	15,959,091	15,956,236
Distribution	210,126,690	226,235,752	236,865,670	249,181,501
Other equipment	20,096,385	23,109,970	24,256,523	25,762,336
Construction in progress	22,120,177	20,934,029	27,706,013	30,887,428
	<u>372,748,479</u>	<u>397,860,973</u>	<u>424,472,174</u>	<u>446,770,529</u>
Less accumulated depreciation	<u>107,681,372</u>	<u>114,372,648</u>	<u>120,973,768</u>	<u>129,122,942</u>
<b>Net Capital Assets</b>	<u><u>\$ 265,067,107</u></u>	<u><u>\$ 283,488,325</u></u>	<u><u>\$ 303,498,406</u></u>	<u><u>\$ 317,647,587</u></u>

**Source:** Central Arkansas Water Finance Section – Finance Department

# Central Arkansas Water

## TEN YEAR SUMMARY OF CAPITAL ASSETS *(Continued)* 2005 – 2014 (Unaudited)

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 40,550,430	\$ 40,544,764	\$ 43,779,013	\$ 45,521,648	\$ 46,032,162	\$ 46,192,915
39,719,805	40,917,775	41,954,807	42,749,907	49,154,620	60,806,083
-	-	-	1,400,361	1,478,894	2,253,459
32,621,672	32,778,582	32,778,582	32,920,887	32,927,318	33,211,941
25,176,369	29,512,295	36,299,049	37,261,755	37,518,831	42,180,124
15,956,236	22,254,975	22,323,783	25,740,465	25,796,891	26,233,796
257,532,685	272,131,704	279,106,680	318,974,140	323,590,447	335,078,600
25,933,787	26,463,728	27,374,484	27,885,674	27,139,956	28,574,379
36,626,465	34,450,027	42,175,471	11,868,158	21,527,876	2,150,054
<u>474,117,449</u>	<u>499,053,850</u>	<u>525,791,869</u>	<u>544,322,995</u>	<u>565,166,995</u>	<u>576,681,351</u>
<u>136,877,016</u>	<u>145,172,084</u>	<u>153,522,735</u>	<u>163,299,356</u>	<u>173,414,469</u>	<u>183,412,904</u>
<u>\$ 337,240,433</u>	<u>\$ 353,881,766</u>	<u>\$ 372,269,134</u>	<u>\$ 381,023,639</u>	<u>\$ 391,752,526</u>	<u>\$ 393,268,447</u>

# Central Arkansas Water

## TEN YEAR SUMMARY OF FILLED POSITIONS BY DEPARTMENT 2005 – 2014 (Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Administration	14	14	14	15	17	14	14	11	11	12
Distribution	126	115	125	114	111	102	104	106	109	108
Engineering	21	21	21	22	22	23	22	23	23	22
Finance and customer service	71	78	78	77	75	78	75	79	79	-
Finance	-	-	-	-	-	-	-	-	-	17
Customer relations and public affairs	-	-	-	-	-	-	-	-	-	61
Information services	17	18	18	16	17	17	17	17	17	17
Source and treatment	34	37	37	37	39	37	40	32	31	-
Water quality	-	-	-	-	-	-	-	10	9	-
Water quality and operations	-	-	-	-	-	-	-	-	-	40
<b>Total</b>	<u><u>283</u></u>	<u><u>283</u></u>	<u><u>293</u></u>	<u><u>281</u></u>	<u><u>281</u></u>	<u><u>271</u></u>	<u><u>272</u></u>	<u><u>278</u></u>	<u><u>279</u></u>	<u><u>277</u></u>

Source: Central Arkansas Water Administration Department

# Central Arkansas Water

## SCHEDULE OF WATER RATES 2014 (Unaudited)

**Minimum Monthly Charge (all customers):**

Meter Size	Charge	
	Inside City	Outside City
5/8"	\$ 5.85	\$ 7.66
3/4"	\$ 7.56	\$ 9.89
1"	\$ 10.74	\$ 14.06
1 1/2"	\$ 18.16	\$ 23.75
2"	\$ 29.45	\$ 38.54
3"	\$ 54.45	\$ 71.27
4"	\$ 88.57	\$ 115.93
6"	\$ 175.19	\$ 229.29
8"	\$ 296.33	\$ 387.82
10"	\$ 426.63	\$ 558.37
12"	\$ 777.01	\$ 1,016.94

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

Customer Class	Charge			
	Inside City	Outside City	On Peak	Off Peak
Residential	\$ 1.61	\$ 2.58	n/a	n/a
Commercial	\$ 1.51	\$ 2.41	n/a	n/a
Large Volume	\$ 1.23	\$ 1.96	n/a	n/a
Sprinkler	\$ 1.61	\$ 2.58	n/a	n/a
Wholesale	n/a	n/a	\$ 1.19	\$ 1.04
Raw Water	\$ 0.55	n/a	n/a	n/a

**Watershed Protection Fee (all customers):**

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

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

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## Other Schedules and Required Reports

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

Board of Commissioners  
Central Arkansas Water  
Little Rock, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Central Arkansas Water (the Utility) and its fiduciary funds, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated March 27, 2015.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Thomas & Thomas LLP*

Certified Public Accountants

Little Rock, Arkansas  
March 27, 2015

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

Board of Commissioners  
Central Arkansas Water  
Little Rock, Arkansas

***Report on Compliance for the Major Federal Program***

We have audited Central Arkansas Water's (the Utility) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Utility's major federal program for the year ended December 31, 2014. The Utility's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on the Major Federal Program***

In our opinion, the Utility complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

### **Report on Internal Control over Compliance**

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

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

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

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

*Thomas & Thomas LLP*  
Certified Public Accountants

Little Rock, Arkansas  
March 27, 2015

# Central Arkansas Water

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2014

### Summary of Auditors' Results

1. The opinion expressed in the independent accountants' report was:  
 Unmodified     Qualified     Adverse     Disclaimed
  
2. The independent auditors' report on internal control over financial reporting described:  
 Significant deficiency(ies) noted considered material weakness(es)?                       Yes     No  
 Significant deficiency(ies) noted that are not considered to be a material weakness?                       Yes     No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?                       Yes     No
  
4. The independent auditors' report on internal control over compliance with requirements applicable to major federal awards programs described:  
 Significant deficiency(ies) noted considered material weakness(es)?                       Yes     No  
 Significant deficiency(ies) noted that are not considered to be a material weakness?                       Yes     No
  
5. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major federal awards was:  
 Unmodified     Qualified     Adverse     Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?                       Yes     No
  
7. The Utility's major program was:

Cluster/Program	CFDA Number
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
  
9. The Utility qualified as a low-risk auditee as that term is defined in OMB Circular A-133?                       Yes     No

### Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

### Findings Required to be Reported by OMB Circular A-133

No matters are reportable.

# Central Arkansas Water

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year Ended December 31, 2013

### Findings Required to be Reported by *Government Auditing Standards*

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