City Corporation
2002 Annual Report

Administration Building at 205 West Third Place

Hours: Monday – Friday 8:00 a.m. till 4:30 p.m.

CITY CORPORATION is pleased to present to you it's 2002 Annual Report. This report is designed to inform you about the quality water and services we deliver to you every day and give you other information about the water and wastewater systems. Our constant goal is to provide you with a safe and dependable supply of drinking water and to collect the wastewater, both at a reasonable cost to you. City Corporation is committed to Service and Product Excellence.

Several years ago we recognized that 2003 and 2004 would be years of change. The proposed 2003/04 Water and Sewer Systems Budget reflect a significant change from previous budgets because the 1¢ sales tax was discontinued on December 31, 2002, interest rates are down considerably, there is no growth in revenue and no customer growth. In an effort to offset the impact these trends will have on the overall financial condition of both systems, we have, by attrition, reduced our work force from 65 employees to 54, budgeted wage increases of a little less than 3% for cost of living and continue to search for ways to improve the overall efficiency. Several efficiency measures that have been implemented will be discussed later in the report. The funds generated from the 1¢ sales tax for the capital program for both systems have been set aside until both systems can be completely evaluated, modeled and the plans reviewed. This process of planning will result in a revision of the present master plans that will be used to guide decisions about the capital programs for several years. Decisions about funding will be made in future years as the plans evolve. All major capital projects were deferred and funds reserved until the master plans are completed, which will occur after July 1, 2003. City Corporation staff will review all projects that have been identified to be included in the planning process and prioritize them according to the needs of the systems. The funds available for capital use that were generated by the tax is about $13 million while the 2003/2004 capital budget lists projects that total $14,316,200. It is important to consider how the funds can be used most effectively because the systems will not generate enough revenue, based on existing rates, to provide funds for capital projects in the magnitude of cost discussed in the proposed budget. Therefore, some projects will have to be deferred.

The internally generated funds after operation and maintenance for both systems will total $2,488,967 while the systems depreciation will total $2,082,840.

The proposed water system operation and maintenance budget reflects a total projected revenue from all operations for the 2003/04 budget year of $4,209,674, which is a 2.6% decrease over the pro forma for 2002/03 budget year. The proposed operation and maintenance budget, less depreciation, totals $1,988,207, which is a 3.2% ($60,833) increase over the pro forma for 2002/03. $2,221,467 is available for capital expenditures. The proposed water capital budget totals $6,277,520, a $3,332,280 increase when compared to the 2002/03 approved capital budget.

Estimates show that all maintenance, operations and capital requirements for the 2003/04 budget year can be funded from internally generated funds and by using funds from tax collections for capital projects. Internally generated funds barely yield enough after Operations and Maintenance to fund depreciation. Although, the water system has a $400,000 reserve available in the event budget and projections do not track as planned, the long range plan to fund several projects associated with improving the system has been deferred until all plans have been reviewed to determine overall needs. The master plans will be completed in July of this year. The process of reviewing to identify facilities that need rehabilitation or replacing has been started and will develop into a long-range plan.

Careful consideration must be given to the use of all funds because present rates will not generate adequate funds to replace capital funds.

The proposed sewer system operation and maintenance budget reflects a total projected revenue from all operations for the 2003/04 budget year of $1,895,895, which is a 2.6% decrease over the pro forma for the 2002/03 budget year. The proposed operation and maintenance budget less depreciation totals $1,628,395, which is a 6.7% increase over the pro forma for 2002/03. This leaves $267,500 available for capital expenditures. The proposed capital budget for the sewer system is $8,038,680 ($7,771,180 more than the internally generated funds available for capital), which will be funded from sales tax collections and internally generated funds and reflects projects identified in the master plan. Prudence must be exercised in using all funds to improve both systems because depreciation, to a large extent, is a measure of deterioration in the system and if replacement does not keep pace with or exceed the rate of depreciation, service to our customers will suffer.

City Corporation rates have been compared to other systems in the State and, generally, are among the midrange to lower primarily due to the fact that rates for volume for either system have not been increased since 1990. At that time, rates for the sewer system were increased about 20%.

Since City Corporation was formed to operate both systems, the sewer system has operated at a loss

and continues to be subsidized by the water system. The Board of Directors is reviewing this issue to determine appropriate action needed to resolve it.

The 2003/2004 budget cycle will be a time to carefully and periodically review the financial activities of both systems to be sure they remain healthy financially and debt free. This cycle will allow the luxury of time in all decisions that must be made.

Several individual department reports are included to give you information about system improvements. If you need additional information we invite you to visit our web site at www.citycorporation.com.

Network Operations Center

City Corporation is delighted to announce the formation of our new Network Operations Center (NOC). NOC's responsibilities include monitoring daily activities, as well as to produce accurate and timely reports to management, supervisory personnel and our Board members. NOC is also responsible for future implementation of the SCADA system, an acronym for Supervisory Control and Data Acquisition. This system will provide us with the ability to gather valuable information such as tank levels and alarms. SCADA systems have been used for many years in monitoring conditions ranging from small operations to incredibly complex nuclear power plants.

The NOC center has proven to be a very valuable tool as far as improving employee productivity, as well as reducing our backlog of work. Another benefit has been our ability to reduce our equipment expenses and place the proper personnel in the most effective jobs. Dispatching continues to improve, thus saving time and money by eliminating second trips for the same activity. We believe this department will be a great benefit to our customers and our community in the years to come.

Mapping

City Corporation is currently using GPS receivers in conjunction with data loggers enabling us to acquire highly accurate x,y coordinates with associated information of various facilities.

This information can be used to do mapping in traditional paper maps as well as newer technologies such as GIS, a facilities management type software that helps in analyzing collected information for maintenance and records

This will allow us to provide digital access to maps and map information data to all of our departments as well as outside individuals such as contractors with real time updates of the system.

It also allows City Corporation to maintain records of the locations of these facilities in order to help workers in the field to "track-back" to assets that may have been lost or obscured by things such as construction of roads and driveways or something as simple as overgrowth of brush. More information about GPS can be found at www.colorado.edu/geography/gcraft/notes/gps/gps_f.html.

Accounting

In an effort to reduce cost and make information more readily available to our work force, we purchased MetaFile software. MetaFile, an imaging and cold storage solution, captures, organizes, full-text indexes and delivers information as needed. This eliminates microfilm and dramatically reduces the paper and printing costs. This software is used both in customer database information, accounts payable information and also in the general ledger and banking reports.

An automated dialing system was implemented in our past due invoice collection process to reduce our paper and printing cost and labor involved in this process. This phone notification system routinely makes an average of 300 to 400 phone calls each week and produces a report of the results of these calls. This report tells us whether the phone was answered or not and even if the person hangs up during the message. It also reports if the call reaches an answering machine or a busy signal and how many attempts were made to reach the customer. The results are then posted to the customer's account so the clerks have this information available for their use when discussing accounts and records with customers

Our computer network had relied on an expensive and slow phone system for communication between plants and work sites. This process was evaluated and after considering an even more expensive T1 phone line system, we decided to move the network to a radio frequency system. This was a one-time dollar investment that eliminated the expensive monthly phone bills for a considerable savings to the system. The radio frequency system also gives us a much faster response time.

Our payroll and timekeeping system was automated by a computer card swipe system. Each employee is issued a barcoded identification card and then uses this card to log in and out at their work site. This information is captured and feeds into our payroll system. This has greatly reduced the amount of time that is needed in payroll preparation and is also a much more accurate record of time worked than the old paper records.

Customer Service

We are installing radio frequency automatic meter reading units. These units are being installed for efficiency and safety for our meter readers. They are easily accessed with a drive-by unit, which allows a more efficient time on the meter routes. The initial phase is to install 2,500 units and at this time this project is half way completed.

The expected efficient life of a meter is about 15 years. Recently City Corporation has noticed a drop in our residential sales, which we feel was caused from the inefficient meters. We are currently working to change out meters that are fifteen years or older. The results are being seen in a slight increase in the revenue. We will continue to observe the revenue to see if there is a trend of increased revenue. A meter test program will also be implemented to test meters 10 years and older to see if there is a decrease in efficiency.

Plans are in the development for a new meter maintenance shop. This facility will allow us to work on meters at the Main Office location. It will house a meter test bench and several work areas for meter maintenance. We hope to have this building completed by June 2004.

A web page has been developed for City Corporation. At this time, the web page is complete and online but has not been published on any search engines, which will be done in the near future. The web page features all aspects of City Corporation.

Water Treatment Plant

A 1000 KVA standby generator has been installed at the Water Treatment Plant. The cost of the project was around $516,000. The generator will allow the Water Treatment Plant to continue to operate during power outages. In the past, our storage capacity would be used in about two hours during outages. The standby generator automatically comes online to supply power until commercial power is restored, which gives us the ability to continue to supply water to our customers during power outages.

Wastewater Treatment Plant

A new Ashbrook sludge press was installed at the treatment plant. It is capable of dewatering sludge at the rate of 200 gallons per minute. The sludge press replaced 28 sludge drying beds that were used daily, which was very labor intensive because 3 to 4 employees were necessary while the sludge press only requires one employee and the weather has no effects on the operation of the machine unlike the drying beds that needed fair weather to operate properly and efficiency. This project resulted in a considerable manpower savings.

Lab and Safety

Our laboratory analysts take samples from thirty sites throughout the distribution system and one raw water sample from the Huckleberry outtake structure to check for bacteriological contamination, once a month.

City Corporation is conducting a Vulnerability Assessment to evaluate susceptibility to potential threats and identify corrective actions that can reduce or mitigate the risk of serious consequences from adversarial actions (e.g., vandalism, sabotage, terrorist attack, etc.). The assessment will take into account the vulnerability of the water supply, transmission, treatment and distribution system and will serve as a guide for developing prioritized risk reduction options and associated costs. On June 12, 2002, President Bush signed the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 into Law. The Bioterrorism Act amends the Safe Drinking Water Act by adding Section 1433 that requires all community water systems serving a population of 3,300 or more to conduct a Vulnerability Assessment, certify to EPA that the Vulnerability Assessment was conducted and submit a copy of the assessment to EPA. City Corporation is required to submit an assessment to EPA no later than June 30, 2004, but plans to complete the assessment by June 2003.

Water Quality

The remainder of the report is technical in nature and is intended to satisfy the requirements of the Consumer Confidence Report.

The sources of drinking water (both tap water and bottled water) include rivers, lakes, streams, ponds, reservoirs, springs and wells. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, can pick up substances resulting from the presence of animals or from human activity. Our source is surface water from Huckleberry Creek Reservoir.

Contaminants that may be present in source water include: Microbial contaminants such as viruses and bacteria, which may come from sewage treatment plants, septic systems, agricultural livestock operations and wildlife; Inorganic contaminants such as salts and metals, which can be naturally occurring or result from urban stormwater runoff, industrial or domestic wastewater discharges, oil and gas production, mining or farming; Pesticides and herbicides which may come from a variety of sources such as agriculture, urban stormwater runoff and residential uses; Organic chemical contaminants including synthetic and volatile organic chemicals, which are by-products of industrial processes and petroleum production, and can also come from gas stations, urban stormwater runoff and septic systems; Radioactive contaminants which can be naturally occurring or be the result of oil and gas production and mining activities.
The Arkansas Department of Health has completed a Source Water Vulnerability Assessment for each public water system in the state. This assessment summarizes the potential for contamination of our source of drinking water and can be used as a basis for developing a source water protection plan. A report explaining the assessment process and results can be obtained from the City Corporation office or accessed through the Arkansas Department of Health's website at www.healthyarkansas.com/eng/pwslist0.htm.

All drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that the water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the Environmental Protection Agency's Safe Drinking Water Hotline at 1-800-426-4791.

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC guidelines on appropriate means to lessen the risk of infection by cryptosporidium and other microbiological contaminants are available from the Safe Drinking Water Hotline (1-800-426-4791).

If you have any questions about this report or concerning your water utility, please contact Judi Moore, Administrative Assistant at 479-968-2105. We want our valued customers to be informed about their water utility. If you want to learn more, please attend any of our regularly scheduled meetings. They are held on the third Tuesday of each month at 5:00 p.m. at the main office.

City Corporation routinely monitors for constituents in your drinking water according to Federal and State laws. This table shows the results of our monitoring for the period of January 1st to December 31st, 2002. In this table you will find many terms and abbreviations you might not be familiar with. To help you better these terms we've provided the following definitions:

Parts per million (ppm) or Milligrams per liter (mg/l) - One part per million corresponds to one minute in two years or a single penny in $10,000.

Parts per billion (ppb) or Micrograms per liter - One part per billion corresponds to one minute in 2,000 years, or a single penny in $10,000,000.

Action Level - The concentration of a contaminant, which, if exceeded, triggers treatment or other requirements, which a water system must follow.

Maximum Contaminant Level - The "Maximum Allowed" (MCL) is the highest level of a contaminant that is allowed in drinking water. MCLs are set as close to MCLGs as feasible using the best available treatment technology.

Maximum Contaminant Level Goal - The "Goal" (MCLG) is the level of a contaminant in drinking water, which there is no known or expected risk to health. MCLGs allow for a margin of safety.

Nephelometric Turbidity Unit (NTU) - Nephelometric turbidity unit is a measure of the clarity of water. Turbidity in excess of 5 NTU is just noticeable to the average person.

Treatment Technique (TT) - A treatment technique is required process intended to reduce the level of a contaminant in drinking water.

Maximum Residual Disinfectant Level (MRDL) - The highest level of a disinfectant allowed in drinking water. There is convincing evidence that addition of a disinfectant is necessary for control of microbial contaminants.

Maximum Residual Disinfectant Level Goal (MRDLG) - The level of a drinking water disinfectant below which there is no known or expected risk to health. MRDLGs do not reflect the benefits of the use of disinfectants to control microbial contaminants.

TEST RESULTS

MICROBIOLOGICAL CONTAMINANTS

Contaminant	Violation Y/N	Level Detected	Unit of Measurement	MCLG	MCL	Likely Source of Contamination
Total Coliform Bacteria	N	1	Present	0	>1 positive monthly sample	Naturally present in the environment
Fecal coliform and Escherichia coli	N	1	Present	0	a routine sample and repeat sample are total coliform positive and one is also fecal coliform or E. coli positive	Human and animal fecal waste
Turbidity	N	Higest Yearly Sample Result: 0.64	NTU	NA	>.5NTU in >5% of samples or any 1 sample > 5 NTU	Soil runoff
		Lowest monthly % of samples meeting the turbidity limit: 98%				
Turbidity is a measure of the cloudiness of the water. We monitor it because it is a good indicator of the effectiveness of our filtration system						

INORGANIC CONTAMINANTS

Contaminant	Violation Y/N	Level Detected	Unit of Measurement	MCLG	MCL	Likely Source of Contamination
Fluoride	N	Average: 0.87	ppm	4	4	Erosion of natural deposits; water additive which promotes strong teeth; discharge from fertilizer and aluminum factories
		Range: 0.75 to 1.00	ppm			
Nitrate (as Nitrogen)	N	0.23	ppm	10	10	Runoff from fertilizer use; leaching from septic tanks, sewage; erosion of natural deposits

VOLATILE ORGANIC CONTAMINANTS						
Contaminant	**Violation Y/N**	**Level Detected**	**Unit of Measurement**	**MCLG**	**MCL**	**Likely Source of Contamination**
TTHM (Total trihalomethanes)	N	50.33	Highest Running Annual Average in ppb	NA	80	By-product of drinking water disinfection
		22.0 - 92.4	Range in ppb			
HAA5 (Haloacetic Acids)	N	53.06	Highest Running Annual Average in ppb	0	60	
		39.6 – 74.5	Range in ppb			

DISINFECTION BY-PRODUCT PRECURSORS					
Contaminant Violat	**ion Y/N**	**Lowest % of TOC Removal**	**Unit of Measurement**	**Required Percentage of TOC Removal**	**Likely Source of Contamination**
Total Organic Carbons (TOC)	N	37%	ppm	N/A	Naturally occurring

* The Total Organic Carbon (TOC) was measured each month and because the source water TOC Level was low, there is no requirement for TOC removal.

LEAD AND COPPER MONITORING						
Contaminant	**Number of Sites over action level**	**90% percentile result**	**95% percentile result**	**Unit of Measurement**	**Action Level**	**SOURCE**
LEAD	0	0.004	0.006	ppm	0.015	Corrosion from household plumbing systems; erosion of natural deposits.
COPPER	0	0.26	0.3	ppm	1.3	Corrosion from household plumbing systems; erosion of natural deposits. Leaching from wood perservatives.

City Corporation is on a reduced monitoring schedule and required to sample once every three years for lead and copper at the customer's taps. Our last monitoring period was in the year 2002. Our next required monitoring period is the year 2005.

UNREGULATED CONTAMINANTS			
Contaminant	**Level Detected**	**Unit of Measurement**	**Likely Source of Contamination**
Chloroform	Average: 21.05 Range: 17.5 - 24.6	ppb	By-product of drinking water disinfection
Bromodichloromethane	Average: 4.22 Range: 3.7 - 4.73	ppb	By-product of drinking water disinfection.
Dibromochloromethane	Average: 0.43 Range: 0.38 - 0.48		

* Unregulated contaminants are those for which EPA has not established drinking water standards. The purpose of unregulated contaminant monitoring is to assist EPA in determining the occurrence of unregulated contaminants in drinking water and whether future regulation is warranted. MCLs (Maximum Contaminant Levels) and MCLGs (Maximum Level Goals) have not been established for unregulated contaminants.