

CABOT WATERWORKS

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended December 31, 2017 and 2016

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COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

650 S. Shackelford Road • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report

Cabot Water and Wastewater Commission
Cabot, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cabot WaterWorks as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Cabot Waterworks' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Cabot WaterWorks as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1, 11, and 12 to the financial statements, the beginning net position, as reported on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31, 2016, was restated due to the implementation of GASB Statement no. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement no. 27* and *GASB Statement no. 71, Pension Transition for Contributions made Subsequent to the Measurement Date, an amendment of GASB Statement no. 68*. Our opinion is not modified with respect to this matter.

Other-Matters

Required Supplementary Information

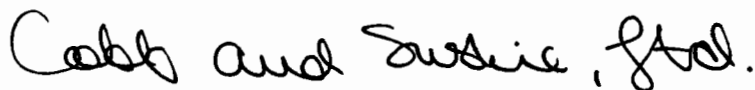
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cabot WaterWorks' basic financial statements. The accompanying supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2018 on our consideration of Cabot WaterWorks' 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 Cabot WaterWorks' internal control over financial reporting and compliance.



Certified Public Accountants
April 24, 2018

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

This section presents management's analysis of the financial condition and activities of the Cabot WaterWorks (the Utility) for the year ended December 31, 2017. Cabot WaterWorks operates under the direction of the Cabot Water and Wastewater Commission, which assumed operation of the Cabot Water and Wastewater Department from the City of Cabot effective January 1, 2006.

Financial Highlights

Management believes Cabot WaterWorks' financial condition is stable. The Utility is within its debt covenants and financial policies and guidelines set by the board. The following are key financial highlights:

- Total assets and deferred outflows of resources at year-end were \$84,400,840 and exceeded liabilities and deferred inflows of resources in the amount of \$70,777,233, an increase of \$3,169,709 from 2016. Total assets at December 31, 2016 amounted to \$81,894,528 and exceeded liabilities in the amount of \$67,607,524, an increase of \$2,432,434 from 2015.
- Operating revenue for 2017 amounted to \$5,862,711. This was a decrease of \$108,525, or 1.81% from 2016, for which the operating revenue of \$5,971,236 represented an increase of \$247,647, or 4.3% from 2015.
- Operating expenses in 2017 were \$6,440,596 and increase of \$564,025 or 9.60% from 2016. For 2016, the operating expenses of \$5,876,571, an increase of \$296,281 or 5.31% from 2015.
- Net operating income was \$(642,845) in 2017 and \$94,665 in 2016, representing a decrease in 2017 of \$737,510, or 779.07 % from 2016. For 2016, net operating income decreased by \$362,714, or 79.3% from 2015.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of Cabot WaterWorks' financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Utility's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the Utility on an accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of activities presents the results of the business activities over the course of the fiscal year, as well as information as to how the net assets changed during the year.

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The statement of cash flow presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, or when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses is provided.

The Utility adopted Government Accounting Standard Board (GASB) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27* during fiscal year ended December 31, 2015. GASB Statement 68 established accounting and financial reporting standards for employers, including reporting of the net pension asset or liability on the statement of net position, and deferred inflows and outflows associated with investment, economic and demographic gains and losses associated with pension plans. GASB Statement 68 also provides guidance related to the calculation of pension expense.

Summary of Organization and Business

The Utility provides retail water and wastewater collection and treatment service to customers within the corporate limits of Cabot, Arkansas.

The facilities of the Utility include water and sewage treatment plants acquired or contracted at a cost of \$94.5 million.

The Utility operates under the direction of the Cabot Water and Wastewater Commission, which assumed the operations of its predecessor, the Cabot Water and Wastewater Department in January 2006.

The operating and capital expenditures are incurred to repair, replace, or extend existing service facilities to meet customer service requirements, as well as to meet EPA requirements. The operating expenses are funded by customer revenue, and the acquisition and construction of capital assets are funded by water and sewer revenue bonds.

Financial Analysis

The financial statements from pages 8 through 12 and other selected information listed below serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Other Selected Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Selected data for analysis:			
Customers at year end	10,430	10,222	10,144
Revenues:			
Utility Revenues	<u>\$ 5,862,711</u>	<u>\$ 5,971,236</u>	<u>\$ 6,037,669</u>
Total Revenues	<u>\$ 5,862,711</u>	<u>\$ 5,971,236</u>	<u>\$ 6,037,669</u>
Operating Expenses:			
Expenses excluding depreciation and amortization	<u>\$ 3,831,133</u>	<u>\$ 3,377,021</u>	<u>\$ 3,166,923</u>
Depreciation and Amortization	<u>2,609,463</u>	<u>2,499,550</u>	<u>2,413,367</u>
Total Expenses	<u>\$ 6,440,596</u>	<u>\$ 5,876,571</u>	<u>\$ 5,580,290</u>
Ratio of operating revenue to:			
Operating expenses, excluding depreciation	1.53	1.77	1.91
Operating expenses	1.10	1.02	1.08
Total assets and deferred outflows of resources	0.07	0.07	0.08
Net position	0.08	0.09	0.09
Debt related ratios:			
Debt to net position	0.19	0.21	0.22

General Trends and Significant Events

The population of Cabot, Arkansas continued to grow in December 2017, and the number of customers serviced by the Utility increased during the year from 10,222 active users to 10,430.

Financial Condition

The Utility's financial condition is sound. Total unrestricted net assets as of December 31, 2017 were \$5,222,155, and restricted assets amounted to \$1,752,647. Operating revenues for 2017 were \$5,862,711. Total unrestricted assets as of December 31, 2016 were \$5,013,879, and restricted assets amounted to \$1,617,080. Operating revenues for 2016 were \$5,971,236.

Results of Operations

Net Operating Income:

The net operating income was \$(642,845) in 2017 and \$94,995 in 2016.

**CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Expenses:

The utility operating expenses in 2017 were \$6,440,596, and \$5,876,571 in 2016, or 109.85% and 98.4%, respectively of total operating revenue, and are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and Related Expenses	\$ 1,802,820	\$ 1,454,251	\$ 1,194,068
Public Safety	253,392	256,085	245,565
Chemical and Materials	179,871	189,915	184,026
Contract and Professional Services	132,467	143,245	147,462
Insurance and Medical Expenses	286,327	307,703	307,190
Utilities and Telephone	386,299	362,450	392,365
Depreciation and Amortization	2,609,463	2,499,550	2,413,367
Maintenance and Repairs	146,633	66,861	99,602
Other Operating	<u>643,324</u>	<u>596,511</u>	<u>596,645</u>
Total Operating Expense	<u>\$ 6,440,596</u>	<u>\$ 5,876,571</u>	<u>\$ 5,580,290</u>

Capital Assets and Long-Term Debt

The investment in plant and equipment increased by \$2,045,343 in capital acquisitions during 2017. Total debt to capital assets was 13% and 15% at the end of 2017 and 2016, respectively. This reflects the net changes in capital assets and indebtedness for 2017.

Final Comments

The Utility has maintained its mission of providing affordable, efficient, and reliable utility services.

Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, and granting agencies with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If there are questions about this report or need for additional financial information arises, contact the Cabot WaterWorks, P.O. Box 1287, Cabot, Arkansas, 72023.

CABOT WATERWORKS
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

<u>CURRENT ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 4,820,845	\$ 4,333,543
Investments	2,018,074	2,000,000
Accounts Receivable Trade, Less Allowance for Uncollectible Accounts of \$12,292 and \$21,004	1,039,924	1,038,446
Interest Receivable	11,928	7,545
Other Receivables	-	18,300
Inventory	184,435	167,733
Prepaid Expenses	365,257	371,707
Total Current Assets	8,440,463	7,937,274
 <u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	1,752,647	1,617,080
 <u>CAPITAL ASSETS, NET</u>		
Utility Plant in Service	73,525,691	71,480,348
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pensions	682,039	859,826
Total Assets	\$ 84,400,840	\$ 81,894,528

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

	<u>2017</u>	<u>2016</u>
Accounts Payable	\$ 56,729	\$ 83,308
Sanitation Fees Payable	176,879	148,009
Sales Tax Payable	20,989	22,423
Compensated Absences Payable	134,114	118,212
Accrued Payroll	32,809	34,647
Payroll Taxes Payable	7,000	6,307
Payable - Insurance	16,855	18,180
Accrued Expense - Other	26,502	22,827
Meter Deposits	780,544	758,752
Accrued Sludge Removal	244,348	244,348
Accrued Interest Payable	61,739	65,690
Current Portion of Long-Term Debt	805,378	781,508
Total Current Liabilities	<u>2,363,886</u>	<u>2,304,211</u>

LONG TERM LIABILITIES, Less Current Maturities

Revenue Bonds Payable	8,917,382	9,722,275
Net Pension Liability	2,295,956	2,188,270
Total Long-Term Liabilities	<u>11,213,338</u>	<u>11,910,545</u>

Total Liabilities 13,577,224 14,214,756

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>45,883</u>	<u>72,248</u>
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NET POSITION

Investment in Capital Assets		
Net of Related Liability	63,802,931	60,976,565
Restricted for Debt Service		
and Construction Improvements	1,752,647	1,617,080
Unrestricted	5,222,155	5,013,879
Total Net Position	<u>70,777,733</u>	<u>67,607,524</u>

Total Liabilities and Net Position \$ 84,400,840 \$ 81,894,528

CABOT WATERWORKS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUE</u>		
Water Revenue	\$ 4,596,061	\$ 4,705,424
Wastewater Revenue	1,247,557	1,248,739
Other Revenue	19,093	17,073
Total Operating Revenue	<u>5,862,711</u>	<u>5,971,236</u>
<u>OPERATING EXPENSES</u>		
<u>Operating & Maintenance</u>		
Personnel Expenses	1,149,231	889,749
Professional & Contracted Services	69,264	73,551
Chemicals & Materials	179,871	189,915
Street Work	82,322	51,297
Utilities	342,891	319,883
Permits & Fees	6,320	6,380
Purchased Water	234,023	212,376
Public Safety	253,392	256,085
Equipment Rental	3,700	54
Fuel-Vehicle, Equipment, & Property	55,653	46,747
Insurance-Vehicle, Equipment, & Property	48,453	57,124
Insurance-Personnel	170,096	184,466
Repairs & Maintenance	138,328	63,011
Grinder Pump	42,000	54,940
Safety Supplies	5,024	13,076
Small Tools	15,708	11,714
	<u>2,796,276</u>	<u>2,430,368</u>
<u>General & Administrative</u>		
Bad Debt	27,916	28,291
Depreciation & Amortization	2,609,463	2,499,550
Administration Vehicle-Fuel & Insurance	8,555	7,903
Insurance & Medical Expenses	67,778	66,113
Personnel Expense	653,589	564,502
Equipment Rental	319	407
Repairs & Maintenance	8,305	3,850
Utilities	43,408	42,567
Dues, Licenses, Permits, & Subscriptions	26,397	25,508
Professional & Contracted Services	63,203	69,694
Uniforms	14,054	17,203
Education	4,497	3,188
Office Expense	20,678	24,068
Postage & Printing	49,254	47,018
Public Relations	4,667	5,561
Rent-Building	39,900	39,900
Travel	2,020	68
Taxes, Fines, and Other	60	597
Public Notification	257	215
	<u>3,644,320</u>	<u>3,446,203</u>
Total Operating Expenses	<u>6,440,596</u>	<u>5,876,571</u>

CABOT WATERWORKS
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
NET OPERATING INCOME (LOSS)	\$ (577,885)	\$ 94,665
<u>OTHER REVENUE (EXPENSES)</u>		
Interest Income	96,822	48,179
Interest Expense	(297,781)	(320,694)
Other Income (Expense)	47,854	52,550
Sales Tax Discounts	11,579	11,703
Antenna Lease	59,084	56,870
Gain (Loss) on Sale of Assets	<u>17,482</u>	<u>75,682</u>
TOTAL OTHER REVENUE (EXPENSES)	<u>(64,960)</u>	<u>(75,710)</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTION	(642,845)	18,955
CAPITAL CONTRIBUTIONS	<u>3,813,054</u>	<u>2,413,479</u>
CHANGE IN NET POSITION	3,170,209	2,432,434
NET POSITION, BEGINNING	<u>67,607,524</u>	<u>65,175,090</u>
NET POSITION, ENDING	<u>\$ 70,777,733</u>	<u>\$ 67,607,524</u>

The accompanying notes are an integral part of these financial statements.

CABOT WATERWORKS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2017</u>	<u>2016</u>
Cash Received From Customers	\$ 5,859,960	\$ 5,910,536
Cash Payments to Suppliers for Goods and Services	(1,516,112)	(1,671,310)
Cash Payments for Utilities	(386,299)	(362,450)
Cash Payments for Contract and Professional Services	(132,467)	143,245
Cash Payments to Employees for Services	(1,528,955)	(1,498,889)
Other Operating Income	19,093	17,073
Net Cash Provided - Operating Activities	<u>2,315,220</u>	<u>2,538,205</u>
 <u>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Bond Principal Paid	(781,023)	(758,350)
Bond Interest Paid	(309,262)	(324,958)
Plant Acquisition Net	(843,764)	(2,750,120)
Proceeds from Disposal of Capital Assets	27,024	303,995
Net Cash Provided - Capital and Related Financing	<u>(1,907,025)</u>	<u>(3,529,433)</u>
 <u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Interest Received	<u>74,365</u>	<u>40,634</u>
Net Cash Provided - Investing Activities	<u>74,365</u>	<u>40,634</u>
 <u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits	21,792	15,598
Sales Tax Discounts	11,579	11,703
Antenna Lease	59,084	56,870
Other Income	47,854	52,550
Net Cash Provided - Other Activities	<u>140,309</u>	<u>136,721</u>
 Net Increase (Decrease) in Cash	 622,869	 (813,873)
 Cash, Beginning of Year	 <u>5,950,623</u>	 <u>6,764,496</u>
 Cash, End of Year	 <u>\$ 6,573,492</u>	 <u>\$ 5,950,623</u>

The accompanying notes are an integral part of these financial statements.

CABOT WATERWORKS
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

RECONCILIATION OF OPERATING INCOME TO NET
 CASH PROVIDED FROM OPERATING ACTIVITIES

	<u>2017</u>	<u>2016</u>
Operating Income	\$ (577,885)	\$ 94,665
Depreciation Adjustments	2,609,463	2,499,550
Accounts Receivable (Increase) Decrease	16,822	(43,627)
Inventory (Increase) Decrease	(16,702)	(7,878)
Prepaid Expenses (Increase) Decrease	6,450	13,651
Accounts Payable Increase (Decrease)	(26,579)	(8,811)
Other Operating Liabilities Increase (Decrease)	<u>303,651</u>	<u>(9,345)</u>
Net Cash Provided From Operating Activities	<u>\$ 2,315,220</u>	<u>\$ 2,538,205</u>

During the years ended December 31, 2017 and 2016, the Utility received \$3,813,054 and \$2,413,479, respectively, in donated capital assets.

The accompanying notes are an integral part of these financial statements.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) General Information
Cabot WaterWorks (the Utility) provides water and/or sewer services to residential, farming, and commercial operations in the City of Cabot (the City) and outlying areas. The Utility is operated by the Cabot Water and Wastewater Commission, which took over the operations of the City of Cabot Water and Wastewater from the City of Cabot effective January 1, 2006. Accordingly, beginning balances for Cabot WaterWorks consist of assets and liabilities transferred in from the City of Cabot Water and Wastewater Department. Under the direction of the Cabot Water and Wastewater Commission, the Utility operates autonomously from the City of Cabot (the City); however, it remains a component of the City. As a municipality, Cabot WaterWorks is not subject to income tax. The accompanying financial statements have been prepared only for the reporting entity of the Cabot WaterWorks, which operates as an enterprise fund of the City of Cabot. The accompanying financial statements do not purport to disclose other activities of the City of Cabot; and, accordingly, any other funds have been excluded from the reporting entity.
- (b) Basis of Accounting – The financial statements of the Utility are prepared in accordance with generally accepted accounting principles (GAAP), as established for the Governmental Accounting Standards Board (GASB). Accordingly, the Utility uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.
- (c) Cash and Cash Equivalents
For purpose of the statement of cash flows, the Utility considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.
- (d) Investments
Investments are stated at fair value and consist of certificates of deposit with original maturities in excess of three months when acquired.

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (e) Accounts Receivable
 Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2017 and 2016 are more fully explained in Note 3.
- (f) Inventory
 Inventory consists of parts and supplies and is valued at lower of cost or market using the first-in, first-out (FIFO) method.
- (g) Restricted Assets
 Restricted assets consist of cash and cash equivalents which are restricted by ordinance of the City of Cabot and bond requirements. Restricted assets are further described in Note 5.
- (h) Capital Assets
 Purchased property, plant and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:
- | | |
|--|-------------|
| Water Treatment, Storage, and
Distribution Facilities | 40-50 years |
| Wastewater Treatment Plant | 25 years |
| Wastewater Collection Lines | 50 years |
| Buildings | 25-50 years |
| Furniture, Equipment, and Vehicles | 3-10 years |
- (i) Contributed Assets
 Contributed assets are recorded at estimated fair value at the time of receipt or based on cost of construction. Contributions generally include water and wastewater transmission lines constructed by developers or other customers who receive approval to connect to the Utility's water supply, treatment, and wastewater collection and distribution systems.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (j) Unamortized Bond Issuance Costs
Costs associated with the issuance of bonds are reported as current period expenses.
- (k) Capitalization of Interest
Interest has been capitalized on major construction projects based on the applicable rate of borrowed funds for that project. If funds were required in excess of specifically borrowed funds, an average rate for all borrowed funds was used to capitalize interest.
- (l) Compensated Absences
It is the Utility's policy to permit employees to accumulate earned, but unused vacation and sick pay benefits. A liability for vacation and sick pay is accrued as it is earned by Utility employees.
- (m) Accrued Sludge Removal
The Utility accrues on a current basis expenses that will be incurred for sustaining a sludge removal program on an ongoing basis. No provision to this accrual was required for the years ended December 31, 2017, and December 31, 2016.
- (n) Deferred Outflows of Resources
Deferred outflows of resources represent a decrease of net position that applies to future periods. Therefore, these items will not be recognized as an expense or expenditure until a future period.
- (o) Deferred Inflows of Resources
Deferred inflows of resources represent an increase of net position that applies to future periods. Therefore, these items will not be recognized as revenue until a future period.
- (p) Pensions
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the respective Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenue Recognition

Operating revenues include revenues derived from the sale of water, from providing sewer service, and from other activities closely related to providing water and sewer service.

Revenues for water and sewer charges are recorded when billed to customers; billings are based on monthly meter readings. The Utility accrues revenue for services rendered but not billed at the end of the year; accounts receivable as reported on the Statement of Net Position includes an estimate of charges for services provided but unbilled at year end.

(r) Basis for Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(s) Government Accounting Standards Board (GASB) Statement no. 68

The GASB issued the following three statements which became effective for the fiscal year ended December 31, 2016: Statement no. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement no. 27*, Statement no. 69, *Government Combinations and Disposals of Government Operations*, and Statement no. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement no. 68*. Management has determined that Statement no. 69 does not affect the Utility. Statements no. 68 and no. 71 established standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions. Details of the effect of these statements are further discussed in Footnote 11.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the statements of net position as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 4,333,543	\$ 1,617,080	\$ 5,950,623
Net Increase (Decrease)	<u>487,302</u>	<u>135,567</u>	<u>622,869</u>
Total Cash at End of Year	<u>\$ 4,820,845</u>	<u>\$ 1,752,647</u>	<u>\$ 6,573,492</u>

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 5,274,897	\$ 1,489,599	\$ 6,764,496
Net Increase (Decrease)	<u>(941,354)</u>	<u>127,481</u>	<u>(813,873)</u>
Total Cash at End of Year	<u>\$ 4,333,543</u>	<u>\$ 1,617,080</u>	<u>\$ 5,950,623</u>

Custodial Credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Utility's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all municipal deposits by federal depository insurance (FDIC) and qualified pledged securities consisting of obligations of the U.S. Treasury and U.S. agencies.

Included in the Utility's total cash balances of \$6,573,492 and \$5,950,623 at December 31, 2017 and 2016, respectively, are deposits with financial institutions of \$6,646,321 at December 31, 2017 and \$8,169,046 at December 31, 2016. These deposits were fully covered by either FDIC insurance or appropriate collateralization at these respective dates.

NOTE 3: INVESTMENTS

The Utility invested in two 12-month certificates of deposits for a balance of \$2,018,074 at December 31, 2017 and \$2,000,000 at December 31, 2016. This investment earned 1.41% and 0.90% respectively for the years ended December 31, 2017 and 2016. The financial institution where they are held has pledged assets above 1% limit which fully collateralizes the deposit.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 4: ACCOUNTS RECEIVABLE, TRADE

Accounts receivable at December 31, 2017 and 2016 consisted of the following:

Trade Receivables

	<u>2017</u>	<u>2016</u>
Trade Receivables, Current	\$ 1,010,873	\$ 1,008,643
Trade Receivables, Past Due	<u>41,343</u>	<u>50,807</u>
Total	<u>1,052,216</u>	<u>1,059,450</u>
Allowance for Uncollectibles, Beginning of Year	(21,004)	(18,257)
Bad Debt Recoveries	36,628	25,544
Provision of Bad Debt Expense	<u>(27,916)</u>	<u>(28,291)</u>
Allowance for Uncollectibles, End of Year	<u>(12,292)</u>	<u>(21,004)</u>
Accounts Receivable, Net of Allowance for Uncollectibles	<u>\$ 1,039,924</u>	<u>\$ 1,038,446</u>

NOTE 5: RESTRICTED ASSETS

Restricted assets include cash and cash equivalent accounts maintained as required under the terms of an ordinance for system improvements and debt service funds maintained as required under the terms of revenue bonds ordinances and cash held in escrow by fiscal agent.

Restricted assets at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Bond Funds	\$ 1,976	\$ 1,976
System Improvements Account	1,571,964	1,436,136
Cash with Fiscal Agent	<u>178,707</u>	<u>178,968</u>
Total Restricted Assets	<u>\$ 1,752,647</u>	<u>\$ 1,617,080</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 6: CAPITAL ASSETS

Capital assets as of December 31, 2017 and 2016 consisted of the following components of utility plant in service:

	<u>2017</u>			
	<u>Beginning</u>		<u>Retirements</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>		<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,235,947	\$ 337,554	\$ -	\$ 1,573,501
Construction in Progress	<u>1,468,646</u>	<u>253,912</u>	<u>1,447,877</u>	<u>274,681</u>
Total Capital Assets Not Being Depreciated	<u>2,704,593</u>	<u>591,466</u>	<u>1,447,877</u>	<u>1,848,182</u>
Capital Assets Being Depreciated:				
Water System	49,969,673	386,849	14,424	50,342,098
Wastewater System	38,867,186	4,989,260	-	43,856,446
Equipment	1,430,395	55,073	8,440	1,477,028
Vehicles	1,996,935	71,771	42,326	2,026,380
Office Furniture and Equipment	222,377	10,276	-	232,653
Buildings	<u>110,310</u>	<u>-</u>	<u>-</u>	<u>110,310</u>
Total Capital Assets Being Depreciated	<u>92,596,876</u>	<u>5,513,229</u>	<u>65,190</u>	<u>98,044,915</u>
Less Accumulated Depreciation for:				
Water System	12,151,688	1,205,086	4,883	13,351,891
Wastewater System	9,225,519	967,879	-	10,193,398
Equipment	1,191,362	111,586	8,440	1,294,508
Vehicles	998,166	306,470	42,325	1,262,311
Office Furniture and Equipment	204,590	7,095	-	211,685
Buildings	<u>49,796</u>	<u>3,817</u>	<u>-</u>	<u>53,613</u>
Total Accumulated Depreciation	<u>23,821,121</u>	<u>2,601,933</u>	<u>55,648</u>	<u>26,367,406</u>
Capital Assets, Net	<u>\$ 71,480,348</u>	<u>\$ 3,502,762</u>	<u>\$ 1,457,419</u>	<u>\$ 73,525,691</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 6: CAPITAL ASSETS (CONTINUED)

	<u>2016</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,235,947	\$ -	\$ -	\$ 1,235,947
Construction in Progress	893,154	803,805	228,313	1,468,646
Total Capital Assets Not Being Depreciated	<u>2,129,101</u>	<u>803,805</u>	<u>228,313</u>	<u>2,704,593</u>
Capital Assets Being Depreciated:				
Water System	49,787,761	181,912	-	49,969,673
Wastewater System	36,930,346	1,936,840	-	38,867,186
Equipment	1,467,109	4,334	41,048	1,430,395
Vehicles	1,933,176	273,329	209,570	1,996,935
Office Furniture and Equipment	218,139	10,376	6,138	222,377
Buildings	110,310	-	-	110,310
Total Capital Assets Being Depreciated	<u>90,446,841</u>	<u>2,406,791</u>	<u>256,756</u>	<u>92,596,876</u>
Less Accumulated Depreciation for:				
Water System	10,949,410	1,202,278	-	12,151,688
Wastewater System	8,359,048	866,471	-	9,225,519
Equipment	1,112,875	119,536	41,049	1,191,362
Vehicles	916,710	291,026	209,570	998,166
Office Furniture and Equipment	202,328	8,400	6,138	204,590
Buildings	45,979	3,817	-	49,796
Total Accumulated Depreciation	<u>21,586,350</u>	<u>2,491,528</u>	<u>256,757</u>	<u>23,821,121</u>
Capital Assets, Net	<u>\$ 70,989,592</u>	<u>\$ 719,068</u>	<u>\$ 228,312</u>	<u>\$ 71,480,348</u>

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$
and \$2,491,528, respectively.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 7: SANITATION BILLINGS

The Utility bills and collects for trash collection services provided by the City of Cabot. The Utility submits payments directly to the City of Cabot.

Since the Utility functions only in an agency capacity, such collections and remittances are not reflected in the statement of activities of the Utility. At December 31, 2017 and 2016, balances of \$176,879 and \$148,009, respectively, were due to the City of Cabot.

NOTE 8: INDEBTEDNESS

The Utility is obligated for the debt service of \$278,454 of City of Cabot, Arkansas Water and Sewer Revenue Bonds which were issued on April 25, 2001 to finance certain improvements to the wastewater system. These bonds are obligations of the City payable solely from wastewater revenues and secured by a mortgage lien on utility plant in service.

On January 13, 2005, the City entered into a Bond Purchase Agreement with the Arkansas Soil and Water Conservation Commission (the Commission) and the Arkansas Development Finance Authority (the Authority) for the sale of its \$8,000,000 City of Cabot, Arkansas 2.25% Water and Sewer Revenue Bond (the Bond). The Bond was issued for the primary purpose of financing the planning, design, construction, and rehabilitation of the water system. The Bond is secured by a pledge of water revenues and a mortgage lien on utility plant in service, subordinate to the lien on the Bond described in the preceding paragraph. Proceeds from the Bond were disbursed to, and recorded by, the Utility on a draw basis as costs were incurred during the construction period of the project, with the final disbursement occurring June 28, 2008. Interest plus a 1% servicing fee are due semiannually during the disbursement period, with semiannual repayment of principal, interest and servicing fee beginning April 15, 2008.

On August 8, 2008, the City entered into a Bond Purchase Agreement with the Arkansas Soil and Water Conservation Commission (the Commission) and the Arkansas Development Finance Authority (the Authority) for the sale of its \$13,000,000 City of Cabot, Arkansas 2.75% Water and Sewer Revenue Bond (the Bond). The Bond was issued for the primary purpose of financing the planning, design, construction, and rehabilitation of the water system.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 8: INDEBTEDNESS (CONTINUED)

The Bond is secured by a pledge of water revenues and a mortgage lien on utility plant in service, subordinate to the lien on the Bond described in the preceding paragraph. Proceeds from the bond were disbursed to, and recorded by, the Utility on a draw basis as costs were incurred during the construction period of the project. Interest plus 1% servicing fee have been due semiannually during the disbursement period, with semiannual repayment of principal, interest and servicing fee beginning October 15, 2010.

In the year ended December 31, 2013 the Utility, having drawn approximately 8.3 million of the original \$13,000,000, requested a revision of the original debt service schedule, and in December 2012, the bond issue was revised to \$7,091,943, with interest at 2.75% and semiannual payments of \$262,534.

Net changes in total indebtedness for the year ended December 31, 2017 are as follows:

	<u>Balance</u> <u>12/31/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Within One</u> <u>Year</u>
<u>Revenue Bonds Payable</u>					
\$278,454 2001 City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$9,163, including interest of 4.5% through June 2028.	\$ 159,423	\$ -	\$ 11,277	\$ 148,146	\$ 11,791
\$8,000,000 2005 City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$273,558, beginning April 2007, including interest of 2.25%, plus a servicing fee of 1% through October 2026.	4,639,248	-	399,559	4,239,689	412,652
\$13,000,000 2007 City of Cabot Water and Sewer Revenue Bonds; semiannual installments of \$262,534, including interest of 2.75% until April 2030.	<u>5,706,490</u>	<u>-</u>	<u>370,667</u>	<u>5,335,823</u>	<u>380,935</u>
Total Indebtedness	10,505,161	-	781,503	9,723,658	805,378
Less Unamortized Discount	<u>1,378</u>	<u>-</u>	<u>480</u>	<u>898</u>	<u>481</u>
	<u>\$ 10,503,783</u>	<u>\$ -</u>	<u>\$ 781,023</u>	<u>\$ 9,722,760</u>	<u>\$ 804,897</u>

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 8: INDEBTEDNESS (CONTINUED)

Net changes in total indebtedness for the year ended December 31, 2016 are as follows:

	<u>2016</u>				Amount Due
	<u>Balance</u>			<u>Balance</u>	Within One
	<u>12/31/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2016</u>	<u>Year</u>
<u>Revenue Bonds Payable</u>					
\$278,454 2001 City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$9,163, including interest of 4.5% through June 2028.	\$ 170,209	\$ -	\$ 10,786	\$ 159,423	\$ 11,277
\$8,000,000 2005 City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$273,558, beginning April 2007, including interest of 2.25%, plus a servicing fee of 1% through October 2026.	5,026,132	-	386,884	4,639,248	399,560
\$13,000,000 2007 City of Cabot Water and Sewer Revenue Bonds; semiannual installments of \$262,534, including interest of 2.75% until April 2030.	<u>6,067,170</u>	<u>-</u>	<u>360,680</u>	<u>5,706,490</u>	<u>370,671</u>
Total Indebtedness	11,263,511	-	758,350	10,505,161	781,508
Less Unamortized Discount	<u>1,858</u>	<u>-</u>	<u>480</u>	<u>1,378</u>	<u>481</u>
	<u>\$ 11,261,653</u>	<u>\$ -</u>	<u>\$ 757,870</u>	<u>\$ 10,503,783</u>	<u>\$ 781,027</u>

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 8: INDEBTEDNESS (CONTINUED)

Total debt service payments on all indebtedness subsequent to December 31, 2017 are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2018	\$ 805,378	\$ 243,758	\$ 41,373	\$ 1,090,509
2019	829,980	223,315	37,213	1,090,508
2020	855,344	202,248	32,917	1,090,509
2021	881,491	180,538	28,480	1,090,509
2022	908,446	158,165	23,898	1,090,509
2023-2027	4,425,069	433,676	46,688	4,905,433
2028-2032	<u>1,017,950</u>	<u>35,195</u>	<u>-</u>	<u>1,053,145</u>
	<u>\$ 9,723,658</u>	<u>\$ 1,476,895</u>	<u>\$ 210,569</u>	<u>\$ 11,411,122</u>

No construction period interest expense was incurred during the years ended December 31, 2017 and in 2016.

NOTE 9: CAPITAL CONTRIBUTIONS

On April 9, 2013, the City of Cabot held a special election in which voters approved the issuance of capitalized improvement bonds in the aggregate principal amount of \$42,625,000 designated as "City of Cabot, Arkansas Sales and Use Tax Refunding and Improvement Bonds, Series 2013." The bond series includes bonds in the maximum principal amount of \$9,395,000 for the purpose of financing all or a portion of the costs of constructing wastewater collection system improvements. The bonds are reduced by the levy and pledge of a 1% local sales and use tax within the City of Cabot.

During the years ended December 31, 2017 and 2016, the Utility received \$3,668,572 and \$1,463,596, respectively, from the City of Cabot for reimbursements of project cost authorized by the bond issues. Total capital contributions for the year ended December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
City of Cabot	\$ 3,668,572	\$ 1,463,596
Other Entities	<u>144,482</u>	<u>949,883</u>
Total	<u>\$ 3,813,054</u>	<u>\$ 2,413,479</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 10: CONTRACT WITH CENTRAL ARKANSAS WATER

In order to provide a sustainable solution for meeting future demand for water, the Cabot WaterWorks signed a contract with Central Arkansas Water (CAW) to secure a long-term source of water. Pursuant to the terms of this contract, the Utility committed to install a new two-million-gallon storage tank at the current facility (Phase I), to improve the existing distribution system (Phase II), and to construct a transmission line to connect the Utility's water facilities with CAW (Phase III). At December 31, 2017, Phase I, II, and III were complete and had been placed in service, and work on Phase III was completed in 2011. Total costs of approximately \$25,568,379 are included in capital assets as of December 31, 2017 and 2016, respectively.

In addition to the above improvements required of the Utility, the terms of the contract specify that CAW must make certain improvements to allow the Utility access to its water supply, including expansion of CAW's existing distribution system and construction of a new meter station. Once the Utility and CAW have satisfactorily completed the improvements specified in the contract, the Utility is committed to purchase a minimum of 300,000 (up to a maximum of 9,000,000) gallons from CAW each day for a period of twenty years, with options to renew for ten years.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN

GASB Statement no. 68 established new standards of accounting and financial reporting for measuring and recognizing pension liabilities, deferred inflows and outflows of resources, and expenses, effective for fiscal years beginning after June 15, 2018. Details of the effect of these statements are discussed in detail below:

Arkansas Public Employees Retirement System (APERS) Plan Description

The Utility participates in a cost-sharing multiple-employer pension plan, administered by the Arkansas Public Employees Retirement System (APERS). APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the system is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3 – year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributing on or after 7/1/2007	2.00%
Non – Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- (a) At age 65 with 5 years of service,
- (b) At any age with 28 years actual service,
- (c) At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- (d) At age 55 with 35 years of credited service for elected or public safety officials

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service. Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost – of – living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employees are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(C)(3)). Employers contributed 14.76% of compensation for the fiscal year ended June 30, 2016. In some cases, an additional 2.5% of member and employer contributions are required for elected officials. Cabot WaterWorks contributed 14.76% of compensation for fiscal years ended December 31, 2017 and 2016.

Utility contributions for the years ending December 31, 2017 and 2016 were \$228,124 and \$240,432 and are equal to the required contribution for the year. On February 19, 2002, the City of Cabot approved Ordinance No. 10 to establish a deferred compensation plan and authorize the Executive Committee of the Arkansas Municipal League to serve as the Trustee of the plan. Employees of the utility may elect to defer their compensation subject to annual limits. The City remits the employee contribution to the Trustee monthly.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At December 31, 2017 Cabot WaterWorks reported a liability of \$2,295,956 for its proportionate share of the net pension liability. The collective Net Pension Liability was measured as of June 30, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. Cabot WaterWorks' proportion was 0.088848% and 0.091507% for June 30, 2017 and 2016 respectively.

For the years ended December 31, 2017 and 2016, Cabot WaterWorks recognized a pension expense of \$487,233 and \$268,530 respectively. At December 31, 2017 Cabot WaterWorks reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 44,508	\$ (45,157)
Changes of Assumptions	369,416	-
Net difference between projected and Actual Investment Earnings on Pension Plan Investments	96,207	-
Change in Proportion and Differences between Employer Contributions and Share of Utility Contributions Made subsequent to the measurement date	60,918	(726)
	<u>110,990</u>	<u>-</u>
Total	<u>\$ 682,039</u>	<u>\$ (45,883)</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)

\$110,990 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

2018	\$	150,382
2019	\$	242,944
2020	\$	150,126
2021	\$	(18,286)
2022	\$	-
Thereafter	\$	-

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	4-year smoothed market; 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.15%
Salary Increases	3.25% wage inflation, 2.50% price inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Average Service Life of All Members	4.3774

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates are arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017 are summarized in the table below:

<u>ASSET CLASS</u>	<u>TARGET ALLOCATION</u>	<u>LONG-TERM EXPECTED REAL RATE OF RETURN</u>
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Estate	16%	4.59%
Absolute Return	5%	3.25%
Domestic Fixed	18%	0.83%
Total	<u>100%</u>	
Total Real Rate of Return		4.82%
Plus: Price Inflation-Actually Assumption		<u>2.50%</u>
Net Expected Return		7.32%

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Cabot WaterWorks' proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
\$ 3,496,438	\$ 2,295,956	\$ 1,299,132

NOTE 12: RISK MANAGEMENT

The Utility has purchased insurance policies from the Arkansas Municipal League for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Payments and premiums for these policies are recorded as expenses of the Utility. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant changes in coverage compared to the prior year.

NOTE 13: SUBSEQUENT EVENTS

Cabot WaterWorks did not have any recognized or nonrecognized subsequent events occur after December 31, 2017, the date of the statement of the financial statements. Subsequent events and transactions have been evaluated for potential recognition or disclosure through April 24, 2018, the date the financial statements were available to be issued.

**CABOT WATERWORKS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance</u>
<u>OPERATING REVENUE</u>			
Water Revenue	\$ 4,596,061	\$ 4,755,961	\$ (159,900)
Wastewater Revenue	1,247,557	1,120,307	127,250
Other Revenue	<u>19,093</u>	<u>-</u>	<u>19,093</u>
Total Operating Revenue	<u>5,862,711</u>	<u>5,876,268</u>	<u>(13,557)</u>
<u>OPERATING EXPENSES</u>			
<u>Operating & Maintenance</u>			
Personnel Expenses	1,149,231	994,424	(154,807)
Professional & Contracted Services	69,264	102,900	33,636
Chemicals & Materials	179,871	208,816	28,945
Street Work	82,322	80,000	(2,322)
Equipment Rental	3,700	2,000	(1,700)
Utilities	342,891	353,600	10,709
Permits & Fees	6,320	6,720	400
Purchased Water	234,023	220,000	(14,023)
Public Safety	253,392	259,000	5,608
Fuel-Vehicle & Equipment	55,653	64,000	8,347
Insurance-Vehicle, Equipment, & Property	48,453	53,898	5,445
Insurance-Personnel	170,096	202,472	32,376
Repairs & Maintenance	138,328	135,673	(2,655)
Grinder Pump	42,000	60,000	18,000
Safety Supplies	5,024	12,350	7,326
Small Tools	<u>15,708</u>	<u>31,400</u>	<u>15,692</u>
	<u>2,796,276</u>	<u>2,787,253</u>	<u>(9,023)</u>
<u>General and Administrative</u>			
Bad Debt	27,916	20,000	(7,916)
Depreciation & Amortization	2,609,463	2,502,615	(106,848)
Administration Vehicle-Fuel & Insurance	8,555	9,387	832
Insurance & Medical Expenses	67,778	76,910	9,132
Personnel Expenses	653,589	565,269	(88,320)
Equipment Rental	319	-	(319)
Repairs & Maintenance	8,305	10,553	2,248
Utilities	43,408	46,926	3,518
Dues, Licenses, Permits, & Subscriptions	26,397	30,010	3,613
Professional & Contracted Services	63,203	88,855	25,652
Uniforms	14,054	14,083	29
Education	4,497	9,922	5,425
Office Expense	20,678	30,866	10,188
Postage & Printing	49,254	54,700	5,446
Public Relations	4,667	7,250	2,583
Rent-Building	39,900	39,900	-
Travel	2,020	4,100	2,080
Taxes, Fines, and Other	60	1,000	940
Public Notification	<u>257</u>	<u>4,000</u>	<u>3,743</u>
	<u>3,644,320</u>	<u>3,516,346</u>	<u>(127,974)</u>
Total Operating Expenses	<u>6,440,596</u>	<u>6,303,599</u>	<u>(136,997)</u>
NET OPERATING INCOME (LOSS)	<u>\$ (577,885)</u>	<u>\$ (427,331)</u>	<u>\$ (150,554)</u>

See independent auditors' report on required supplementary information.

CABOT WATERWORKS
SCHEDULE OF NET OPERATING REVENUE AND EXPENSES BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Water</u>	<u>Wastewater</u>	<u>General and Administrative</u>	<u>Total</u>
<u>OPERATING REVENUE</u>				
Water Revenue	\$ 4,596,061	\$ -	\$ -	\$ 4,596,061
Wastewater Revenue	-	1,247,557	-	1,247,557
Other Revenue	12,493	6,600	-	19,093
Total Operating Revenue	<u>4,608,554</u>	<u>1,254,157</u>	<u>-</u>	<u>5,862,711</u>
<u>OPERATING EXPENSES</u>				
<u>Operating and Maintenance</u>				
Personnel Expenses	894,698	254,533	-	1,149,231
Professional & Contracted Services	21,821	47,443	-	69,264
Chemicals & Materials	126,389	53,482	-	179,871
Street Work	78,600	3,722	-	82,322
Equipment Rental	2,746	954	-	3,700
Utilities	163,303	179,588	-	342,891
Permits & Fees	400	5,920	-	6,320
Purchased Water	234,023	-	-	234,023
Public Safety	253,392	-	-	253,392
Fuel-Vehicle & Equipment	39,230	16,423	-	55,653
Insurance - Vehicle, Equipment & Property	25,258	23,195	-	48,453
Insurance - Personnel	126,192	43,904	-	170,096
Repairs & Maintenance	96,750	41,578	-	138,328
Grinder Pump	-	42,000	-	42,000
Safety Supplies	3,422	1,602	-	5,024
Small Tools	12,538	3,170	-	15,708
	<u>2,078,762</u>	<u>717,514</u>	<u>-</u>	<u>2,796,276</u>
<u>General and Administrative</u>				
Bad Debt	22,160	5,756	-	27,916
Depreciation & Amortization	1,498,176	1,111,287	-	2,609,463
Administration Vehicle - Fuel & Insurance	-	-	8,555	8,555
Insurance & Medical Expenses	-	-	67,778	67,778
Personnel Expenses	576	167	652,846	653,589
Equipment Rental	319	-	-	319
Repairs & Maintenance	1,423	294	6,588	8,305
Utilities	24,859	13,304	5,245	43,408
Dues, Licenses, Permits, & Subscriptions	13,468	877	12,052	26,397
Professional & Contracted Services	6,200	-	57,003	63,203
Uniforms	7,130	6,002	922	14,054
Education	1,054	610	2,833	4,497
Office Expense	5,892	1,235	13,551	20,678
Postage & Printing	46,637	-	2,617	49,254
Public Relations	2,430	1,638	599	4,667
Rent - Building	22,350	-	17,550	39,900
Travel	421	222	1,377	2,020
Taxes, Fines, & Other	10	-	50	60
Public Notification	69	73	115	257
	<u>1,653,174</u>	<u>1,141,465</u>	<u>849,681</u>	<u>3,644,320</u>
Total Operating Expenses	<u>3,731,936</u>	<u>1,858,979</u>	<u>849,681</u>	<u>6,440,596</u>
NET OPERATING INCOME (LOSS)	<u>\$ 876,618</u>	<u>\$ (604,822)</u>	<u>\$ (849,681)</u>	<u>\$ (577,885)</u>

See independent auditors' report on supplementary schedules.

CABOT WATERWORKS
 SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2001 BOND ISSUE
 DECEMBER 31, 2017

4.50%
 \$258,556.00

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirement</u>
June 1, 2018	\$ 5,830	\$ 3,333	
December 1, 2018	5,961	3,202	\$ 18,326
June 1, 2019	6,095	3,068	
December 1, 2019	6,232	2,931	18,326
June 1, 2020	6,372	2,791	
December 1, 2020	6,516	2,647	18,326
June 1, 2021	6,662	2,501	
December 1, 2021	6,812	2,351	18,326
June 1, 2022	6,966	2,197	
December 1, 2022	7,122	2,041	18,326
June 1, 2023	7,282	1,881	
December 1, 2023	7,446	1,717	18,326
June 1, 2024	7,614	1,549	
December 1, 2024	7,785	1,378	18,326
June 1, 2025	7,960	1,203	
December 1, 2025	8,139	1,024	18,326
June 1, 2026	8,323	840	
December 1, 2026	8,510	653	18,326
June 1, 2027	8,701	462	
December 1, 2027	8,897	266	18,326
June 1, 2028	2,921	66	2,987
	<u>\$ 148,146</u>	<u>\$ 38,101</u>	<u>\$ 186,247</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2005 BOND ISSUE
DECEMBER 31, 2017

<u>Due Date</u>	2.25% \$8,000,000			<u>Service Fee</u>	<u>Total Annual Requirement</u>
<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total Annual Requirement</u>	
April 15, 2018	\$ 204,664	\$ 47,696	\$ 21,198		
October 15, 2018	207,989	45,394	20,175	\$	547,116
April 15, 2019	211,368	43,054	19,135		
October 15, 2019	214,803	40,676	18,078		547,114
April 15, 2020	218,293	38,260	17,004		
October 15, 2020	221,841	35,804	15,913		547,115
April 15, 2021	225,446	33,308	14,804		
October 15, 2021	229,109	30,772	13,676		547,115
April 15, 2022	232,832	28,194	12,531		
October 15, 2022	236,616	25,575	11,367		547,115
April 15, 2023	240,461	22,913	10,184		
October 15, 2023	244,368	20,208	8,981		547,115
April 15, 2024	248,339	17,459	7,759		
October 15, 2024	252,375	14,665	6,518		547,115
April 15, 2025	256,476	11,826	5,256		
October 15, 2025	260,644	8,940	3,974		547,116
April 15, 2026	264,879	6,008	2,670		
October 15, 2026	269,186	3,028	1,346		547,117
	<u>\$ 4,239,689</u>	<u>\$ 473,780</u>	<u>\$ 210,569</u>	<u>\$</u>	<u>4,924,038</u>

See auditors' report on supplementary schedules

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2007 BOND ISSUE
AS REVISED DECEMBER 10, 2012
DECEMBER 31, 2017

2.75%
\$7,091,943

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirement</u>
April 15, 2018	\$ 189,167	\$ 73,367	
October 15, 2018	191,768	70,766	\$ 525,068
April 15, 2019	194,405	68,129	
October 15, 2019	197,077	65,457	525,068
April 15, 2020	199,788	62,747	
October 15, 2020	202,534	59,999	525,068
April 15, 2021	205,319	57,215	
October 15, 2021	208,143	54,391	525,068
April 15, 2022	211,004	51,530	
October 15, 2022	213,906	48,628	525,068
April 15, 2023	216,847	45,687	
October 15, 2023	219,829	42,705	525,068
April 15, 2024	222,851	39,683	
October 15, 2024	225,916	36,619	525,069
April 15, 2025	229,022	33,512	
October 15, 2025	232,171	30,363	525,068
April 15, 2026	235,363	27,171	
October 15, 2026	238,600	23,935	525,069
April 15, 2027	241,880	20,654	
October 15, 2027	245,206	17,328	525,068
April 15, 2028	248,577	13,957	
October 15, 2028	251,996	10,538	525,068
April 15, 2029	255,461	7,073	
October 15, 2029	255,412	3,560	521,506
April 15, 2030	3,581	-	3,581
	<u>\$ 5,335,823</u>	<u>\$ 965,014</u>	<u>\$ 6,300,837</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
 SCHEDULE OF INFORMATION REQUIRED BY
 ARKANSAS NATURAL RESOURCES COMMISSION
 FOR THE YEAR ENDED DECEMBER 31, 2017

DISCLOSURES REQUIRED BY ARKANSAS NATURAL RESOURCES COMMISSION

The following information submitted in compliance with Arkansas Natural Resources Commission requirements:

a. The number of users of the system was 10,430. The rate structure is as follows:

(1) Water:

Debt Service Flat Charge

Residential-Inside City	\$13.50
Residential-Outside City	\$16.50
Sprinkler	\$16.50
Commercial	\$16.50

OM+R Volume based charged (per 1000 gallons)

Residential-Inside City	0-5,000 gal. \$3.20 over 5,000 gal. \$4.20
Residential-Outside City	0-5,000 gal. \$4.20 over 5,000 gal. \$5.20
Sprinkler	0-5,000 gal. \$4.20 over 5,000 gal. \$5.20
Commercial	0-5,000 gal. \$4.20 over 5,000 gal. \$5.20

(2) Sewer:

All customers (excluding Briarwood/Bear Creek Extension Area, Phase II)

0-2,000 gal. \$5.10* over 2,000 gal. \$1.57 per 1,000 gal.

Briarwood/Bear Creek Extension Area, Phase II

0-2,000 gal. \$27.05* over 2,000 gal. \$1.98 per 1,000 gal.

Mark Lynn, Dina, Bradley Extension Area

0-2,000 gal. \$26.43* over 2,000 gal. \$1.57 per 1,000 gal.

*=minimum monthly charge

b. Total annual billable gallons of water for users were 693,737,300.

c. Deposit funds are in financial institutions insured by the federal government and have been adequately collateralized.

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF INSURANCE COVERAGE
DECEMBER 31, 2017

<u>Company</u>	<u>Coverage</u>	<u>Date of Policy</u>	<u>Amount</u>
Arkansas Municipal League	Property	11/7/16 - 11/6/17	\$21,701,798
Arkansas Municipal League	Vehicle	1/01/16 - 12/31/17	\$ 2,617,849

See auditors' report on supplementary schedules.

CABOT WATERWORKS
 SCHEDULES OF RESTRICTED ASSETS
 DECEMBER 31, 2017 AND 2016

RESTRICTED CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
Bond Fund	\$ 1,976	\$ 1,976
System Improvements Account	1,571,964	1,436,136
Cash with Fiscal Agent (ANRC)	<u>178,707</u>	<u>178,968</u>
 Total Restricted Cash and Cash Equivalents	 <u>\$ 1,752,647</u>	 <u>\$ 1,617,080</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
 SCHEDULE OF GOVERNMENTAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Amount</u>
<u>Environmental Protection Agency</u>			
Clean Water Act State Revolving Fund	66.802	00F 95601	\$ -
Passed Through the Arkansas Natural Resources Commission- State Revolving Fund Program:			
Funding Source:			
Capitalization Grants for Clean Water State Revolving Fund	66.458		
2005 City of Cabot, Arkansas Water and Wastewater Revenue Bonds		00300-DWSRFL #1	8,000,000
2007 City of Cabot, Arkansas Water and Sewer Revenue Bonds		00338-DWSRFL #2	<u>13,000,000</u>
 Total			 <u>\$ 2,000</u>

* In the year ended December 31, 2012 the Utility, having drawn approximately 8.3 million of the original \$13,000,000, requested a revision of the original debt service schedule, and in December 2012, the bond issue was revised to \$7,091,943.

See auditors' report on supplementary schedules and accompanying notes to Schedule of Governmental Assistance.

<u>Bonds Payable 12/31/2017</u>	<u>Cash Received In 2017</u>	<u>Principal Repayments In 2017</u>	<u>Bonds Payable 12/31/2017</u>	<u>Governmental Expenditures In 2017</u>
\$ -	\$ -	\$ -	\$ -	\$ -
4,639,248	-	399,559	4,239,689	-
<u>5,706,490</u>	<u>-</u>	<u>370,667</u>	<u>5,335,823</u>	<u>-</u>
<u>\$ 10,345,738</u>	<u>\$ -</u>	<u>\$ 770,226</u>	<u>\$ 9,575,512</u>	<u>\$ -</u>

CABOT WATERWORKS
NOTES TO SCHEDULE OF GOVERNMENTAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1: GENERAL

The accompanying schedule of governmental assistance presents the activity of the federal financial assistance program of the Cabot WaterWorks.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of governmental assistance is presented using the basis of accounting described in Note 1 to Cabot WaterWorks' financial statements.

NOTE 3: PURPOSE OF FUNDS RECEIVED

Funds received under Cabot WaterWorks' participation in the State Revolving Fund Program are used in construction related activities involving publicly-owned treatment works and/or developing a nonpoint source pollution control program.

NOTE 4: RELATIONSHIP TO FINANCIAL STATEMENTS

Proceeds from issuance of debt are included in the statements of cash flows in Cabot WaterWorks' financial statements. Bonds payable of \$9,575,512 at December 31, 2017 are included in Note 8 to Cabot WaterWorks' financial statements.

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

650 S. Shackelford Road • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

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*

Cabot WaterWorks Commission
Cabot, 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 the business-type activities of Cabot WaterWorks, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Cabot WaterWorks' basic financial statements, and have issued our report there on dated April 24, 2018.

Internal Control Over Financial Reporting

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

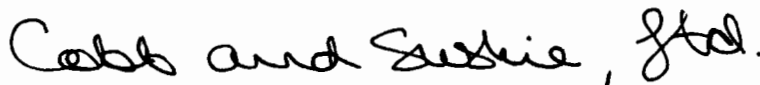
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Cabot WaterWorks' financial statements are free of 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 test 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 of the effectiveness of the entity'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.



Certified Public Accountants
April 24, 2018