

**CABOT WATERWORKS**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For the Years Ended December 31, 2019 and 2018**

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## 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, 2019 and 2018, 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, 2019 and 2018, 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.

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

***Other Information***

Our audit was conducted for the purpose of forming 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 June 25, 2020 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.

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
June 25, 2020

CABOT WATERWORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019

This section presents management's analysis of the financial condition and activities of the Cabot WaterWorks (the Utility) for the year ended December 31, 2019. 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 \$84,344,258 and exceeded liabilities and deferred inflows of resources in the amount of \$72,666,589, an increase of \$1,224,811 from 2018. Total assets at December 31, 2018 amounted to \$84,309,334 and exceeded liabilities in the amount of \$71,441,778, an increase of \$664,045 from 2017.
- Operating revenue for 2019 amounted to \$5,952,625. This was a decrease of \$63,719, or 1.07% from 2018, for which the operating revenue of \$6,016,344 represented an increase of \$153,633, or 2.62% from 2017.
- Operating expenses in 2019 were \$5,626,934, a decrease of \$660,059 or 11.73% from 2018. For 2018, the operating expenses of \$6,286,993, a decrease of \$153,603, or 2.38% from 2017.
- Net operating income(loss) was \$325,691 in 2019 and \$(270,649) in 2018, representing an improvement in 2019 of \$596,340, or from 2018. For 2018, net operating income increased by \$307,236 from 2017.

**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, 2019

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, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Selected data for analysis:			
Customers at year end	10,632	10,501	10,430
Revenues:			
Utility Revenues	<u>\$ 5,952,625</u>	<u>\$ 6,016,344</u>	<u>\$ 5,862,711</u>
Total Revenues	<u>\$ 5,952,625</u>	<u>\$ 6,016,344</u>	<u>\$ 5,862,711</u>
Operating Expenses:			
Expenses excluding depreciation and amortization	\$ 3,148,114	\$ 3,664,598	\$ 3,831,133
Depreciation and Amortization	<u>2,478,820</u>	<u>2,622,395</u>	<u>2,609,463</u>
Total Expenses	<u>\$ 5,626,934</u>	<u>\$ 6,286,993</u>	<u>\$ 6,440,596</u>
Ratio of operating revenue to:			
Operating expenses, excluding depreciation	1.89	1.64	1.53
Operating expenses	1.06	0.96	0.91
Total assets and deferred outflows of resources	0.07	0.07	0.07
Net position	0.08	0.08	0.08
Debt related ratios:			
Debt to net position	0.16	0.18	0.19

**General Trends and Significant Events**

The population of Cabot, Arkansas continued to grow in December 2019, and the number of customers serviced by the Utility increased during the year from 10,501 active users to 10,632.

**Financial Condition**

The Utility's financial condition is sound. Total unrestricted net assets as of December 31, 2019 were \$5,845,442, and restricted assets amounted to \$1,638,143. Operating revenues for 2019 were \$5,952,625. Total unrestricted assets as of December 31, 2018 were \$5,520,661, and restricted assets amounted to \$1,395,556. Operating revenues for 2018 were \$6,016,344.

**Results of Operations**

**Net Operating Income:**

The net operating income(loss) was \$325,691 in 2019 and \$(270,649) in 2018.

CABOT WATERWORKS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**Expenses:**

The utility operating expenses in 2019 were \$5,626,934, and \$6,286,993 in 2018, or 105.7% and 95.7%, respectively of total operating revenue, and are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries and Related Expenses	\$ 1,307,663	\$ 1,769,280	\$ 1,802,820
Public Safety	263,856	250,212	253,392
Chemical and Materials	154,262	207,607	179,871
Contract and Professional Services	98,537	113,778	132,467
Insurance and Medical Expenses	263,445	293,433	286,327
Utilities and Telephone	384,151	345,585	386,299
Depreciation and Amortization	2,478,820	2,622,395	2,609,463
Maintenance and Repairs	88,000	96,511	146,633
Other Operating	<u>588,200</u>	<u>588,192</u>	<u>643,324</u>
<b>Total Operating Expense</b>	<b><u>\$ 5,626,934</u></b>	<b><u>\$ 6,286,993</u></b>	<b><u>\$ 6,440,596</u></b>

**Capital Assets and Long-Term Debt**

The investment in plant and equipment increased by \$2,570,854 in capital acquisitions during 2019. Total debt to capital assets was 11.04% and 12.1% at the end of 2019 and 2018, respectively. This reflects the net changes in capital assets and indebtedness for 2019.

**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, 2019 AND 2018

ASSETS

<u>CURRENT ASSETS</u>	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 4,241,237	\$ 4,345,596
Investments	3,141,193	3,046,714
Accounts Receivable Trade, Less Allowance for Uncollectible Accounts of \$14,809 and \$14,596	1,051,909	1,036,790
Interest Receivable	9,711	32,311
Inventory	315,870	223,652
Prepaid Expenses	392,612	360,357
Total Current Assets	<u>9,152,532</u>	<u>9,045,420</u>
<u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	<u>1,638,143</u>	<u>1,395,556</u>
<u>CAPITAL ASSETS, NET</u>		
Utility Plant in Service	<u>73,271,314</u>	<u>73,443,430</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pensions	<u>282,269</u>	<u>424,928</u>
Total Assets	<u>\$ 84,344,258</u>	<u>\$ 84,309,334</u>

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

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

	<u>2019</u>	<u>2018</u>
Accounts Payable	\$ 35,907	\$ 88,358
Sanitation Fees Payable	150,488	144,857
Sales Tax Payable	20,716	20,716
Compensated Absences Payable	134,687	133,813
Accrued Payroll	32,085	34,279
Payroll Taxes Payable	9,140	8,579
Payable - Insurance	37,188	28,103
Accrued Expense - Other	23,767	39,518
Meter Deposits	815,265	797,765
Accrued Sludge Removal	244,348	244,348
Accrued Interest Payable	50,112	61,739
Current Portion of Long-Term Debt	855,344	829,980
Total Current Liabilities	<u>2,409,047</u>	<u>2,432,055</u>

LONG TERM LIABILITIES, Less Current Maturities

Revenue Bonds Payable	7,232,966	8,087,889
Net Pension Liability	1,892,096	2,096,673
Total Long-Term Liabilities	<u>9,125,062</u>	<u>10,184,562</u>

Total Liabilities	<u>11,534,109</u>	<u>12,616,617</u>
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DEFERRED INFLOWS OF RESOURCES

Pensions	<u>143,560</u>	<u>250,939</u>
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NET POSITION

Investment in Capital Assets		
Net of Related Liability	65,183,004	64,525,561
Restricted for Debt Service and Construction Improvements	1,638,143	1,395,556
Unrestricted	5,845,442	5,520,661
Total Net Position	<u>72,666,589</u>	<u>71,441,778</u>

Total Liabilities and Net Position	<u>\$ 84,344,258</u>	<u>\$ 84,309,334</u>
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CABOT WATERWORKS  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>OPERATING REVENUE</u>		
Water Revenue	\$ 4,661,371	\$ 4,719,093
Wastewater Revenue	1,269,164	1,270,818
Other Revenue	22,090	26,433
Total Operating Revenue	<u>5,952,625</u>	<u>6,016,344</u>
<u>OPERATING EXPENSES</u>		
<u>Operating &amp; Maintenance</u>		
Personnel Expenses	688,943	1,214,130
Professional & Contracted Services	41,276	53,725
Chemicals & Materials	154,262	207,607
Street Work	6,580	17,875
Utilities	346,380	306,494
Permits & Fees	6,320	6,640
Purchased Water	272,199	259,196
Public Safety	263,856	250,212
Equipment Rental	54	517
Fuel-Vehicle, Equipment, & Property	59,120	66,910
Insurance-Vehicle, Equipment, & Property	49,264	57,846
Insurance-Personnel	152,534	170,994
Repairs & Maintenance	82,004	88,212
Grinder Pump	17,560	15,574
Safety Supplies	5,742	6,051
Small Tools	25,434	20,783
	<u>2,171,528</u>	<u>2,742,766</u>
<u>General &amp; Administrative</u>		
Bad Debt	22,359	23,115
Depreciation & Amortization	2,478,820	2,622,395
Administration Vehicle-Fuel & Insurance	5,885	6,747
Insurance & Medical Expenses	61,647	64,593
Personnel Expense	618,720	555,150
Repairs & Maintenance	5,996	8,299
Utilities	37,771	39,091
Dues, Licenses, Permits, & Subscriptions	34,634	25,410
Professional & Contracted Services	57,261	60,053
Uniforms	14,726	11,517
Education	716	5,371
Office Expense	20,092	23,321
Postage & Printing	46,677	48,537
Public Relations	3,066	4,701
Rent-Building	43,225	39,900
Travel	1,598	4,795
Taxes, Fines, and Other	319	963
Public Notification	1,894	269
	<u>3,455,406</u>	<u>3,544,227</u>
Total Operating Expenses	<u>5,626,934</u>	<u>6,286,993</u>

CABOT WATERWORKS  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET OPERATING INCOME (LOSS)	\$ 325,691	\$ (270,649)
<u>OTHER REVENUE (EXPENSES)</u>		
Interest Income	149,911	128,143
Interest Expense	(237,456)	(276,197)
Other Income (Expense)	97,533	64,557
Sales Tax Discounts	28,460	11,856
Antenna Lease	119,498	62,714
Gain (Loss) on Sale of Assets	<u>38,696</u>	<u>53,864</u>
TOTAL OTHER REVENUE (EXPENSES)	<u>196,642</u>	<u>44,937</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTION	522,333	(225,712)
CAPITAL CONTRIBUTIONS	<u>702,478</u>	<u>889,757</u>
CHANGE IN NET POSITION	1,224,811	664,045
NET POSITION, BEGINNING	<u>71,441,778</u>	<u>70,777,733</u>
NET POSITION, ENDING	<u>\$ 72,666,589</u>	<u>\$ 71,441,778</u>

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

CABOT WATERWORKS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2019</u>	<u>2018</u>
Cash Received From Customers	\$ 5,836,056	\$ 5,993,045
Cash Payments to Suppliers for Goods and Services	(1,548,455)	(1,450,610)
Cash Payments for Utilities	(346,380)	(345,585)
Cash Payments for Contract and Professional Services	(98,537)	(113,778)
Cash Payments to Employees for Services	(1,307,983)	(1,505,227)
Other Operating Income	22,090	26,433
Net Cash Provided - Operating Activities	<u>2,556,791</u>	<u>2,604,278</u>
 <u>CASH FLOWS - CAPITAL AND RELATED FINANCING</u>		
<u>ACTIVITIES</u>		
Bond Principal Paid	(829,975)	(804,892)
Bond Interest Paid	(249,083)	(276,197)
Plant Acquisition Net	(1,867,756)	(1,646,347)
Proceeds from Disposal of Capital Assets	184,528	55,350
Net Cash Provided - Capital and Related Financing	<u>(2,762,286)</u>	<u>(2,672,086)</u>
 <u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Interest Received	175,211	107,760
Investment Transfer	(94,479)	(1,028,640)
Net Cash Provided - Investing Activities	<u>80,732</u>	<u>(920,880)</u>
 <u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits	17,500	17,221
Sales Tax Discounts	28,460	11,856
Antenna Lease	119,498	62,714
Other Income	97,533	64,557
Net Cash Provided - Other Activities	<u>262,991</u>	<u>156,348</u>
 Net Increase (Decrease) in Cash	 138,228	 (832,340)
 Cash, Beginning of Year	 <u>5,741,152</u>	 <u>6,573,492</u>
 Cash, End of Year	 <u>\$ 5,879,380</u>	 <u>\$ 5,741,152</u>

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

CABOT WATERWORKS  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

RECONCILIATION OF OPERATING INCOME TO NET  
 CASH PROVIDED FROM OPERATING ACTIVITIES

	<u>2019</u>	<u>2018</u>
Operating Income	\$ 325,691	\$ (270,649)
Depreciation Adjustments	2,478,820	2,622,395
Accounts Receivable (Increase) Decrease	(15,119)	3,134
Inventory (Increase) Decrease	(92,218)	(39,217)
Prepaid Expenses (Increase) Decrease	(32,255)	4,900
Accounts Payable Increase (Decrease)	(52,451)	31,629
Other Operating Liabilities Increase (Decrease)	<u>(55,677)</u>	<u>252,086</u>
Net Cash Provided From Operating Activities	<u>\$ 2,556,791</u>	<u>\$ 2,604,278</u>

During the years ended December 31, 2019 and 2018, the Utility received \$702,478 and \$889,757, 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, 2019 AND 2018

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, 2019 AND 2018

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, 2019 and 2018 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, 2019 AND 2018

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, 2019, and December 31, 2018.
- (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, 2019 AND 2018

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, 2015: 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 Note 10.

CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018 are as follows:

	<u>2019</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 4,345,596	\$ 1,395,556	\$ 5,741,152
Net Increase (Decrease)	<u>(104,359)</u>	<u>242,587</u>	<u>138,228</u>
Total Cash at End of Year	<u>\$ 4,241,237</u>	<u>\$ 1,638,143</u>	<u>\$ 5,879,380</u>

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 4,820,845	\$ 1,752,647	\$ 6,573,492
Net Increase (Decrease)	<u>(475,249)</u>	<u>(357,091)</u>	<u>(832,340)</u>
Total Cash at End of Year	<u>\$ 4,345,596</u>	<u>\$ 1,395,556</u>	<u>\$ 5,741,152</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 \$5,879,380 and \$5,741,152 at December 31, 2019 and 2018, respectively, are deposits with financial institutions of \$5,698,651 at December 31, 2019 and \$5,833,101 at December 31, 2018. 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 \$3,141,193 at December 31, 2019 and \$3,046,714 at December 31, 2018. This investment earned 1.5% for the years ended December 31, 2019 and 2018. 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, 2019 AND 2018

NOTE 4: ACCOUNTS RECEIVABLE, TRADE

Accounts receivable at December 31, 2019 and 2018 consisted of the following:

Trade Receivables

	<u>2019</u>	<u>2018</u>
Trade Receivables, Current	\$ 1,028,405	\$ 1,011,535
Trade Receivables, Past Due	<u>38,313</u>	<u>39,851</u>
Total	<u>1,066,718</u>	<u>1,051,386</u>
Allowance for Uncollectibles, Beginning of Year	(14,596)	(12,292)
Bad Debt Recoveries	4,627	20,811
Provision of Bad Debt Expense	<u>(4,840)</u>	<u>(23,115)</u>
Allowance for Uncollectibles, End of Year	<u>(14,809)</u>	<u>(14,596)</u>
Accounts Receivable, Net of Allowance for Uncollectibles	<u>\$ 1,051,909</u>	<u>\$ 1,036,790</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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Bond Funds	\$ 1,976	\$ 1,976
System Improvements Account	1,458,014	1,215,250
Cash with Fiscal Agent	<u>178,153</u>	<u>178,330</u>
Total Restricted Assets	<u>\$ 1,638,143</u>	<u>\$ 1,395,556</u>

CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 6: CAPITAL ASSETS

Capital assets as of December 31, 2019 and 2018 consisted of the following components of utility plant in service:

	<u>2019</u>			
	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,573,501	\$ -	\$ -	\$ 1,573,501
Construction in Progress	<u>523,170</u>	<u>2,142,412</u>	<u>1,875,197</u>	<u>790,385</u>
Total Capital Assets Not Being Depreciated	<u>2,096,671</u>	<u>2,142,412</u>	<u>1,875,197</u>	<u>2,363,886</u>
Capital Assets Being Depreciated:				
Water System	50,982,148	1,110,788	129,752	51,963,184
Wastewater System	44,988,801	922,262	1,789	45,909,274
Equipment	1,528,883	12,570	9,190	1,532,263
Vehicles	2,224,270	256,084	169,655	2,310,699
Office Furniture and Equipment	246,549	1,935	14,230	234,254
Buildings	<u>110,310</u>	<u>-</u>	<u>-</u>	<u>110,310</u>
Total Capital Assets Being Depreciated	<u>100,080,961</u>	<u>2,303,639</u>	<u>324,616</u>	<u>102,059,984</u>
Less Accumulated Depreciation for:				
Water System	14,570,036	1,239,285	29,910	15,779,411
Wastewater System	11,159,860	995,170	1,679	12,153,351
Equipment	1,287,324	51,583	9,190	1,329,717
Vehicles	1,438,637	298,516	123,775	1,613,378
Office Furniture and Equipment	220,915	8,768	14,230	215,453
Buildings	<u>57,430</u>	<u>3,816</u>	<u>-</u>	<u>61,246</u>
Total Accumulated Depreciation	<u>28,734,202</u>	<u>2,597,138</u>	<u>178,784</u>	<u>31,152,556</u>
Capital Assets, Net	<u>\$ 73,443,430</u>	<u>\$ 1,848,913</u>	<u>\$ 2,021,029</u>	<u>\$ 73,271,314</u>

CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 6: CAPITAL ASSETS (CONTINUED)

	<u>2018</u>			
	<u>Beginning</u>		<u>Retirements</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>		<u>Balance</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 1,573,501	\$ -	\$ -	\$ 1,573,501
Construction in Progress	<u>274,681</u>	<u>867,963</u>	<u>619,474</u>	<u>523,170</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>1,848,182</u>	<u>867,963</u>	<u>619,474</u>	<u>2,096,671</u>
<b>Capital Assets Being Depreciated:</b>				
Water System	50,342,098	640,050	-	50,982,148
Wastewater System	43,856,446	1,132,355	-	44,988,801
Equipment	1,477,028	147,299	95,444	1,528,883
Vehicles	2,026,380	352,015	154,125	2,224,270
Office Furniture and Equipment	232,653	13,896	-	246,549
Buildings	<u>110,310</u>	<u>-</u>	<u>-</u>	<u>110,310</u>
<b>Total Capital Assets Being Depreciated</b>	<u>98,044,915</u>	<u>2,285,615</u>	<u>249,569</u>	<u>100,080,961</u>
<b>Less Accumulated Depreciation for:</b>				
Water System	13,351,891	1,218,145	-	14,570,036
Wastewater System	10,193,398	966,462	-	11,159,860
Equipment	1,294,508	88,260	95,444	1,287,324
Vehicles	1,262,311	328,965	152,639	1,438,637
Office Furniture and Equipment	211,685	9,230	-	220,915
Buildings	<u>53,613</u>	<u>3,817</u>	<u>-</u>	<u>57,430</u>
<b>Total Accumulated Depreciation</b>	<u>26,367,406</u>	<u>2,614,879</u>	<u>248,083</u>	<u>28,734,202</u>
<b>Capital Assets, Net</b>	<u>\$ 73,525,691</u>	<u>\$ 538,699</u>	<u>\$ (620,960)</u>	<u>\$ 73,443,430</u>

Depreciation expense for the years ended December 31, 2019 and 2018 amounted to \$2,471,404 and \$2,614,879, respectively.



CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, balances of \$150,488 and \$144,857, 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, 2019 AND 2018

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, 2019 are as follows:

	<u>Balance</u> <u>12/31/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2019</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.	\$ 136,355	\$ -	\$ 12,327	\$ 124,028	\$ 12,888
\$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.	3,827,038	-	426,170	3,400,868	440,134
\$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>4,954,892</u>	<u>-</u>	<u>391,478</u>	<u>4,563,414</u>	<u>402,322</u>
Total Indebtedness	8,918,285	-	829,975	8,088,310	855,344
Less Unamortized Discount	<u>417</u>	<u>-</u>	<u>417</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,917,868</u>	<u>\$ -</u>	<u>\$ 829,558</u>	<u>\$ 8,088,310</u>	<u>\$ 855,344</u>

CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8: INDEBTEDNESS (CONTINUED)

Net changes in total indebtedness for the year ended December 31, 2018 are as follows:

	<u>2017</u>				Amount Due
	<u>Balance</u>			<u>Balance</u>	<u>Within One</u>
	<u>12/31/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2018</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.	\$ 148,146	\$ -	\$ 11,791	\$ 136,355	\$ 12,327
\$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.	4,239,689	-	412,651	3,827,038	426,171
\$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>5,335,823</u>	<u>-</u>	<u>380,931</u>	<u>4,954,892</u>	<u>391,482</u>
Total Indebtedness	9,723,658	-	805,373	8,918,285	829,980
Less Unamortized Discount	<u>898</u>	<u>-</u>	<u>481</u>	<u>417</u>	<u>417</u>

CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8: INDEBTEDNESS (CONTINUED)

Total debt service payments on all indebtedness subsequent to December 31, 2019 are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
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	936,233	135,111	19,165	1,090,509
2024	964,880	111,352	14,277	1,090,509
2025-2029	3,538,323	298,709	13,246	3,850,278
2030-2034	3,593	-	-	3,593
	<u>\$ 8,088,310</u>	<u>\$ 1,086,123</u>	<u>\$ 131,983</u>	<u>\$ 9,306,416</u>

No construction period interest expense was incurred during the years ended December 31, 2019 and in 2018.

NOTE 9: 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, 2019, 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, 2019 and 2018, 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, 2019 AND 2018

NOTE 10: 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 the fiscal year ended December 31, 2015. 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  
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NOTE 10: 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 15.32% of compensation for the fiscal year ended June 30, 2019. In some cases, and additional 2.5% of member and employer contributions are required for elected officials. Cabot WaterWorks contributed 15.32 and 14.76% of compensation for fiscal years ended December 31, 2019 and 2018, respectively.

Utility contributions for the years ending December 31, 2019 and 2018 were \$236,386 and \$232,821 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  
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NOTE 10: 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, 2019 Cabot WaterWorks reported a liability of \$1,892,096 for its proportionate share of the net pension liability. The collective Net Pension Liability was measured as of June 30, 2019, 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 0.078428% and 0.095047% for June 30, 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, Cabot WaterWorks recognized a pension expense of \$67,089 and \$495,705 respectively. At December 31, 2019 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	\$ 51,495	\$ (2,811)
Changes of Assumptions	102,698	(72,735)
Net difference between projected and Actual Investment Earnings on Pension Plan Investments	-	(14,372)
Change in Proportion and Differences between Employer Contributions and Share of Contributions	9,883	(53,642)
Utility Contributions Made subsequent to the measurement date	118,193	-
Total	<u>\$ 282,269</u>	<u>\$ (143,560)</u>

CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

\$20,516 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, 2019.

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:

2020	\$	78,489
2021	\$	(70,511)
2022	\$	(12,431)
2023	\$	24,975
2024	\$	-
Thereafter	\$	-



CABOT WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	4-year smoothed market; 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.5% price inflation
Salary Increases	3.25% - 9.85% including 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	41431

CABOT WATERWORKS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 10: 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, 2019 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%	6.20%
International Equity	24%	6.33%
Real Estate	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	18%	1.54%
Total	<u>100%</u>	
Total Real Rate of Return		4.80%
Plus: Price Inflation-Actually Assumption		<u>2.50%</u>
Net Expected Return		7.30%

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 7.15%. 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, 2019 AND 2018

NOTE 10: 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% Lower (6.15%)	Discount Rate (7.15%)	1% Higher (8.15%)
\$ 3,032,557	\$ 1,892,096	\$ 951,162

NOTE 11: 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 12: SUBSEQUENT EVENTS

Cabot WaterWorks did not have any recognized or nonrecognized subsequent events occur after December 31, 2019, the date of the statement of the financial statements. Subsequent events and transactions have been evaluated for potential recognition or disclosure through June 25, 2020, the date the financial statements were available to be issued.

**CABOT WATERWORKS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance</u>
<b><u>OPERATING REVENUE</u></b>			
Water Revenue	\$ 4,661,371	\$ 4,845,650	\$ (184,279)
Wastewater Revenue	1,269,164	1,304,105	(34,941)
Other Revenue	22,090	-	22,090
Total Operating Revenue	<u>5,952,625</u>	<u>6,149,755</u>	<u>(197,130)</u>
<b><u>OPERATING EXPENSES</u></b>			
<b><u>Operating &amp; Maintenance</u></b>			
Personnel Expenses	688,943	1,106,798	417,855
Professional & Contracted Services	41,276	84,530	43,254
Chemicals & Materials	154,262	268,303	114,041
Street Work	6,580	45,875	39,295
Equipment Rental	54	7,234	7,180
Utilities	346,380	360,207	13,827
Permits & Fees	6,320	6,920	600
Purchased Water	272,199	272,000	(199)
Public Safety	263,856	252,442	(11,414)
Fuel-Vehicle & Equipment	59,120	73,553	14,433
Insurance-Vehicle, Equipment, & Property	49,264	61,719	12,455
Insurance-Personnel	152,534	214,693	62,159
Repairs & Maintenance	82,004	119,944	37,940
Grinder Pump	17,560	33,000	15,440
Safety Supplies	5,742	12,126	6,384
Small Tools	25,434	27,100	1,666
	<u>2,171,528</u>	<u>2,946,444</u>	<u>774,916</u>
<b><u>General and Administrative</u></b>			
Bad Debt	22,359	26,100	3,741
Depreciation & Amortization	2,478,820	2,606,930	128,110
Administration Vehicle-Fuel & Insurance	5,885	8,560	2,675
Insurance & Medical Expenses	61,647	76,900	15,253
Personnel Expenses	618,720	629,645	10,925
Repairs & Maintenance	5,996	10,943	4,947
Utilities	37,771	44,718	6,947
Dues, Licenses, Permits, & Subscriptions	34,634	44,431	9,797
Professional & Contracted Services	57,261	76,250	18,989
Uniforms	14,726	22,250	7,524
Education	716	9,020	8,304
Office Expense	20,092	30,246	10,154
Postage & Printing	46,677	56,012	9,335
Public Relations	3,066	8,000	4,934
Rent-Building	43,225	39,900	(3,325)
Travel	1,598	5,028	3,430
Taxes, Fines, and Other	319	1,000	681
Public Notification	1,894	4,000	2,106
	<u>3,455,406</u>	<u>3,699,933</u>	<u>244,527</u>
Total Operating Expenses	<u>5,626,934</u>	<u>6,646,377</u>	<u>1,019,443</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>\$ 325,691</u>	<u>\$ (496,622)</u>	<u>\$ 822,313</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, 2019**

	<u>Water</u>	<u>Wastewater</u>	<u>General and Administrative</u>	<u>Total</u>
<b><u>OPERATING REVENUE</u></b>				
Water Revenue	\$ 4,661,371	\$ -	\$ -	\$ 4,661,371
Wastewater Revenue	-	1,269,164	-	1,269,164
Other Revenue	10,690	11,400	-	22,090
Total Operating Revenue	<u>4,672,061</u>	<u>1,280,564</u>	<u>-</u>	<u>5,952,625</u>
<b><u>OPERATING EXPENSES</u></b>				
<b><u>Operating and Maintenance</u></b>				
Personnel Expenses	554,311	134,632	-	688,943
Professional & Contracted Services	11,342	29,934	-	41,276
Chemicals & Materials	92,252	62,010	-	154,262
Street Work	5,380	1,200	-	6,580
Equipment Rental	54	-	-	54
Utilities	142,253	204,127	-	346,380
Permits & Fees	400	5,920	-	6,320
Purchased Water	272,199	-	-	272,199
Public Safety	263,856	-	-	263,856
Fuel-Vehicle & Equipment	40,809	18,311	-	59,120
Insurance - Vehicle, Equipment & Property	25,353	23,911	-	49,264
Insurance - Personnel	124,968	27,566	-	152,534
Repairs & Maintenance	47,299	34,705	-	82,004
Grinder Pump	-	17,560	-	17,560
Safety Supplies	4,327	1,415	-	5,742
Small Tools	15,791	9,643	-	25,434
	<u>1,600,594</u>	<u>570,934</u>	<u>-</u>	<u>2,171,528</u>
<b><u>General and Administrative</u></b>				
Bad Debt	17,816	4,543	-	22,359
Depreciation & Amortization	1,455,225	1,023,595	-	2,478,820
Administration Vehicle - Fuel & Insurance	-	-	5,885	5,885
Insurance & Medical Expenses	-	-	61,647	61,647
Personnel Expenses	952	709	617,059	618,720
Repairs & Maintenance	1,312	561	4,123	5,996
Utilities	22,682	10,980	4,109	37,771
Dues, Licenses, Permits, & Subscriptions	18,791	458	15,385	34,634
Professional & Contracted Services	1,500	-	55,761	57,261
Uniforms	9,214	5,022	490	14,726
Education	486	-	230	716
Office Expense	4,946	338	14,808	20,092
Postage & Printing	45,329	-	1,348	46,677
Public Relations	1,104	1,962	-	3,066
Rent - Building	24,212	-	19,013	43,225
Travel	594	441	563	1,598
Taxes, Fines, & Other	(2)	-	321	319
Public Notification	13	126	1,755	1,894
	<u>1,604,174</u>	<u>1,048,735</u>	<u>802,497</u>	<u>3,455,406</u>
Total Operating Expenses	<u>3,204,768</u>	<u>1,619,669</u>	<u>802,497</u>	<u>5,626,934</u>
NET OPERATING INCOME (LOSS)	<u>\$ 1,467,293</u>	<u>\$ (339,105)</u>	<u>\$ (802,497)</u>	<u>\$ 325,691</u>

See independent auditors' report on supplementary schedules.

CABOT WATERWORKS  
 SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2001 BOND ISSUE  
 DECEMBER 31, 2019

4.50%  
 \$258,556.00

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirement</u>
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>\$ 124,028</u>	<u>\$ 25,567</u>	<u>\$ 149,595</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS  
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2005 BOND ISSUE  
DECEMBER 31, 2019

Due Date	2.25% \$8,000,000			Service Fee	Total Annual Requirement
	Principal	Interest			
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	269,189	3,028	1,346		547,120
	\$ 3,400,868	\$ 296,960	\$ 131,983	\$	3,829,811

See auditors' report on supplementary schedules

CABOT WATERWORKS  
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2007 BOND ISSUE  
AS REVISED DECEMBER 10, 2012  
DECEMBER 31, 2019

<u>Due Date</u>	<u>2.75%</u> <u>\$7,091,943</u>		<u>Total Annual Requirement</u>
	<u>Principal</u>	<u>Interest</u>	
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	3,589	-	3,589
	<u>\$ 4,563,414</u>	<u>\$ 687,295</u>	<u>\$ 5,250,709</u>

See auditors' report on supplementary schedules.



CABOT WATERWORKS  
 SCHEDULE OF INFORMATION REQUIRED BY  
 ARKANSAS NATURAL RESOURCES COMMISSION  
 FOR THE YEAR ENDED DECEMBER 31, 2019

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 10,501. 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 669,700.

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, 2019

<u>Company</u>	<u>Coverage</u>	<u>Date of Policy</u>	<u>Amount</u>
Arkansas Municipal League	Property	11/07/19 – 11/06/20	\$ 21,858,548
Arkansas Municipal League	Vehicle	01/01/19 – 12/31/19	\$ 2,493,908

See auditors' report on supplementary schedules.

CABOT WATERWORKS  
SCHEDULES OF RESTRICTED ASSETS  
DECEMBER 31, 2019 AND 2018

RESTRICTED CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
Bond Fund	\$ 1,976	\$ 1,976
System Improvements Account	1,458,014	1,215,251
Cash with Fiscal Agent (ANRC)	<u>178,153</u>	<u>178,329</u>
 Total Restricted Cash and Cash Equivalents	 <u>\$ 1,638,143</u>	 <u>\$ 1,395,556</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS  
SCHEDULE OF GOVERNMENTAL ASSISTANCE  
FOR THE YEAR ENDED DECEMBER 31, 2019

<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>\$ 21,000,000</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 12/31/2018</u>	<u>Cash Received In 2019</u>	<u>Principal Repayments In 2019</u>	<u>Bonds Payable 12/31/2019</u>	<u>Governmental Expenditures In 2019</u>
\$ -	\$ -	\$ -	\$ -	\$ -
3,827,038	-	426,170	3,400,868	-
<u>4,954,892</u>	<u>-</u>	<u>391,478</u>	<u>4,563,414</u>	<u>-</u>
<u>\$ 8,781,930</u>	<u>\$ -</u>	<u>\$ 817,648</u>	<u>\$ 7,964,282</u>	<u>\$ -</u>

CABOT WATERWORKS  
NOTES TO SCHEDULE OF GOVERNMENTAL ASSISTANCE  
FOR THE YEAR ENDED DECEMBER 31, 2019

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 \$7,964,282 at December 31, 2019 are included in Note 8 to Cabot WaterWorks' financial statements.

# COBB AND SUSKIE, LTD.

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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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Cabot WaterWorks' basic financial statements, and have issued our report there on dated June 25, 2020.

### 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.

*Cobb and Suskie, Ltd.*

Certified Public Accountants  
June 25, 2020