

CABOT WATERWORKS

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 23, 2021 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 23, 2021

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

This section presents management's analysis of the financial condition and activities of the Cabot WaterWorks (the Utility) for the year ended December 31, 2020. 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 \$84,326,837 and exceeded liabilities and deferred inflows of resources in the amount of \$72,976,977, an increase of \$310,388 from 2019. Total assets at December 31, 2019 amounted to \$84,344,258 and exceeded liabilities in the amount of \$72,666,589, an increase of \$1,224,811 from 2018.
- Operating revenue for 2020 amounted to \$6,030,287. This was an increase of \$77,662, or 1.30% from 2019, for which the operating revenue of \$5,952,625 represented a decrease of \$63,719, or 1.07% from 2018.
- Operating expenses in 2020 were \$6,264,200, an increase of \$637,266 or 11.33% from 2019. For 2019, the operating expenses of \$5,626,934, a decrease of \$660,059, or 11.73% from 2018.
- Net operating income(loss) was \$(233,913) in 2020 and \$325,691 in 2019, representing net earnings decline in 2020 of \$559,604 from 2019. For 2019, net operating income increased by \$596,340 from 2018.

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, 2020

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, 2020

Other Selected Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Selected data for analysis:			
Customers at year end	10,753	10,632	10,501
Revenues:			
Utility Revenues	<u>\$ 6,030,287</u>	<u>\$ 5,952,625</u>	<u>\$ 6,016,344</u>
Total Revenues	<u>\$ 6,030,287</u>	<u>\$ 5,952,625</u>	<u>\$ 6,016,344</u>
Operating Expenses:			
Expenses excluding depreciation and amortization	\$ 3,632,496	\$ 3,148,114	\$ 3,664,598
Depreciation and Amortization	<u>2,631,704</u>	<u>2,478,820</u>	<u>2,622,395</u>
Total Expenses	<u>\$ 6,264,200</u>	<u>\$ 5,626,934</u>	<u>\$ 6,286,993</u>
Ratio of operating revenue to:			
Operating expenses, excluding depreciation	1.66	1.89	1.64
Operating expenses	0.96	1.06	0.96
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	0.15	0.16	0.18

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 10,632 active users to 10,753.

Financial Condition

The Utility's financial condition is sound. Total unrestricted net assets as of December 31, 2020 were \$4,748,683, and restricted assets amounted to \$2,299,668. Operating revenues for 2020 were \$6,030,287. Total unrestricted 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.

Results of Operations

Net Operating Income:

The net operating income(loss) was \$(233,913) in 2020 and \$325,691 in 2019.

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

Expenses:

The utility operating expenses in 2020 were \$6,264,200, and \$5,626,934 in 2019, or 96.3% and 105.7%, respectively of total operating revenue, and are summarized as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Salaries and Related Expenses	\$ 1,707,614	\$ 1,307,663	\$ 1,769,280
Public Safety	267,320	263,856	250,212
Chemical and Materials	175,230	154,262	207,607
Contract and Professional Services	116,568	98,537	113,778
Insurance and Medical Expenses	285,034	263,445	293,433
Utilities and Telephone	338,538	384,151	345,585
Depreciation and Amortization	2,631,704	2,478,820	2,622,395
Maintenance and Repairs	150,544	88,000	96,511
Other Operating	591,648	588,200	588,192
Total Operating Expense	<u>\$ 6,264,200</u>	<u>\$ 5,626,934</u>	<u>\$ 6,286,993</u>

Capital Assets and Long-Term Debt

The investment in plant and equipment increased by \$2,522,661 in capital acquisitions during 2020. Total debt to capital assets was 10.10% and 11.04% at the end of 2020 and 2019, respectively. This reflects the net changes in capital assets and indebtedness for 2018.

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, 2020 AND 2019

ASSETS

<u>CURRENT ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 6,592,226	\$ 4,241,237
Investments	-	3,141,193
Accounts Receivable Trade, Less Allowance for Uncollectible Accounts of \$19,915 and \$14,809	1,046,558	1,051,909
Interest Receivable	-	9,711
Inventory	286,520	315,870
Prepaid Expenses	409,925	392,612
Total Current Assets	<u>8,335,229</u>	<u>9,152,532</u>
 <u>RESTRICTED ASSETS</u>		
Cash and Cash Equivalents	<u>2,299,668</u>	<u>1,638,143</u>
 <u>CAPITAL ASSETS, NET</u>		
Utility Plant in Service	<u>73,161,317</u>	<u>73,271,314</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pensions	<u>530,623</u>	<u>282,269</u>

Total Assets \$ 84,326,837 \$ 84,344,258

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

LIABILITIES AND NET POSITION

<u>CURRENT LIABILITIES</u>	<u>2020</u>	<u>2019</u>
Accounts Payable	\$ 99,742	\$ 35,907
Sanitation Fees Payable	157,279	150,488
Sales Tax Payable	21,107	20,716
Compensated Absences Payable	143,741	134,687
Accrued Payroll	38,667	32,085
Payroll Taxes Payable	10,725	9,140
Payable - Insurance	28,729	37,188
Accrued Expense - Other	22,883	23,767
Meter Deposits	829,915	815,265
Accrued Sludge Removal	244,348	244,348
Accrued Interest Payable	38,603	50,112
Current Portion of Long-Term Debt	914,633	855,344
Total Current Liabilities	<u>2,550,372</u>	<u>2,409,047</u>
 <u>LONG TERM LIABILITIES, Less Current Maturities</u>		
Revenue Bonds Payable	6,318,058	7,232,966
Net Pension Liability	2,406,557	1,892,096
Total Long-Term Liabilities	<u>8,724,615</u>	<u>9,125,062</u>
 Total Liabilities	<u>11,274,987</u>	<u>11,534,109</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Pensions	<u>74,873</u>	<u>143,560</u>
 <u>NET POSITION</u>		
Investment in Capital Assets		
Net of Related Liability	65,928,626	65,183,004
Restricted for Debt Service		
and Construction Improvements	2,299,668	1,638,143
Unrestricted	4,748,683	5,845,442
Total Net Position	<u>72,976,977</u>	<u>72,666,589</u>
 Total Liabilities and Net Position	<u>\$ 84,326,837</u>	<u>\$ 84,344,258</u>

CABOT WATERWORKS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUE</u>		
Water Revenue	\$ 4,729,630	\$ 4,661,371
Wastewater Revenue	1,281,685	1,269,164
Other Revenue	18,972	22,090
Total Operating Revenue	<u>6,030,287</u>	<u>5,952,625</u>
<u>OPERATING EXPENSES</u>		
<u>Operating & Maintenance</u>		
Personnel Expenses	1,085,633	688,943
Professional & Contracted Services	60,736	41,276
Chemicals & Materials	175,230	154,262
Street Work	13,670	6,580
Utilities	299,766	346,380
Permits & Fees	10,824	6,320
Purchased Water	260,683	272,199
Public Safety	267,320	263,856
Equipment Rental	605	54
Fuel-Vehicle, Equipment, & Property	54,304	59,120
Insurance-Vehicle, Equipment, & Property	55,861	49,264
Insurance-Personnel	164,233	152,534
Repairs & Maintenance	143,673	82,004
Grinder Pump	22,483	17,560
Safety Supplies	6,608	5,742
Small Tools	22,650	25,434
	<u>2,644,279</u>	<u>2,171,528</u>
<u>General & Administrative</u>		
Bad Debt	24,292	22,359
Depreciation & Amortization	2,631,704	2,478,820
Administration Vehicle-Fuel & Insurance	4,791	5,885
Insurance & Medical Expenses	64,940	61,647
Personnel Expense	621,981	618,720
Repairs & Maintenance	6,871	5,996
Utilities	38,772	37,771
Dues, Licenses, Permits, & Subscriptions	28,029	34,634
Professional & Contracted Services	55,832	57,261
Uniforms	16,410	14,726
Education	1,194	716
Office Expense	24,948	20,092
Postage & Printing	50,961	46,677
Public Relations	7,890	3,066
Rent-Building	39,900	43,225
Travel	479	1,598
Taxes, Fines, and Other	58	319
Public Notification	869	1,894
	<u>3,619,921</u>	<u>3,455,406</u>
Total Operating Expenses	<u>6,264,200</u>	<u>5,626,934</u>

CABOT WATERWORKS
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
NET OPERATING INCOME (LOSS)	\$ (233,913)	\$ 325,691
<u>OTHER REVENUE (EXPENSES)</u>		
Interest Income	74,390	149,911
Interest Expense	(217,071)	(237,456)
Other Income (Expense)	71,708	97,533
Sales Tax Discounts	21,061	28,460
Antenna Lease	91,392	119,498
Gain (Loss) on Sale of Assets	<u>100,084</u>	<u>38,696</u>
TOTAL OTHER REVENUE (EXPENSES)	<u>141,564</u>	<u>196,642</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTION	(92,349)	522,333
CAPITAL CONTRIBUTIONS	<u>402,737</u>	<u>702,478</u>
CHANGE IN NET POSITION	310,388	1,224,811
NET POSITION, BEGINNING	<u>72,666,589</u>	<u>71,441,778</u>
NET POSITION, ENDING	<u>\$ 72,976,977</u>	<u>\$ 72,666,589</u>

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

CABOT WATERWORKS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2020</u>	<u>2019</u>
Cash Received From Customers	\$ 6,016,666	\$ 5,836,056
Cash Payments to Suppliers for Goods and Services	(1,205,664)	(1,548,455)
Cash Payments for Utilities	(299,766)	(346,380)
Cash Payments for Contract and Professional Services	(116,568)	(98,537)
Cash Payments to Employees for Services	(1,722,146)	(1,307,983)
Other Operating Income	18,972	22,090
Net Cash Provided - Operating Activities	<u>2,691,494</u>	<u>2,556,791</u>
 <u>CASH FLOWS - CAPITAL AND RELATED FINANCING</u> <u>ACTIVITIES</u>		
Bond Principal Paid	(855,619)	(829,975)
Bond Interest Paid	(228,580)	(249,083)
Plant Acquisition Net	(2,123,394)	(1,867,756)
Proceeds from Disposal of Capital Assets	104,508	184,528
Net Cash Provided - Capital and Related Financing	<u>(3,103,085)</u>	<u>(2,762,286)</u>
 <u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Interest Received	84,101	175,211
Sale (Purchase) of Investments	3,141,193	(94,479)
Net Cash Provided - Investing Activities	<u>3,225,294</u>	<u>80,732</u>
 <u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits	14,650	17,500
Sales Tax Discounts	21,061	28,460
Antenna Lease	91,392	119,498
Other Income	71,708	97,533
Net Cash Provided - Other Activities	<u>198,811</u>	<u>262,991</u>
 Net Increase (Decrease) in Cash	 3,012,514	 138,228
Cash, Beginning of Year	<u>5,879,380</u>	<u>5,741,152</u>
 Cash, End of Year	 <u>\$ 8,891,894</u>	 <u>\$ 5,879,380</u>

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

CABOT WATERWORKS
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

RECONCILIATION OF OPERATING INCOME TO NET
 CASH PROVIDED FROM OPERATING ACTIVITIES

	<u>2020</u>	<u>2019</u>
Operating Income (Loss)	\$ (233,913)	\$ 325,691
Depreciation Adjustments	2,631,704	2,478,820
Accounts Receivable (Increase) Decrease	5,351	(15,119)
Inventory (Increase) Decrease	29,350	(92,218)
Prepaid Expenses (Increase) Decrease	(17,313)	(32,255)
Accounts Payable Increase (Decrease)	70,626	(52,451)
Other Operating Liabilities Increase (Decrease)	<u>205,689</u>	<u>(55,677)</u>
Net Cash Provided From Operating Activities	<u>\$ 2,691,494</u>	<u>\$ 2,556,791</u>

During the years ended December 31, 2020 and 2019, the Utility received \$402,737 and \$702,478, 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, 2020 AND 2019

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, 2020 AND 2019

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, 2020 and 2019 are more fully explained in Note 4.
- (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, 2020 AND 2019

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, 2020, and December 31, 2019.
- (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, 2020 AND 2019

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, 2020 AND 2019

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, 2020 and 2019 are as follows:

	<u>2020</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 4,241,237	\$ 1,638,143	\$ 5,879,380
Net Increase (Decrease)	<u>2,350,989</u>	<u>661,525</u>	<u>3,012,514</u>
Total Cash at End of Year	<u>\$ 6,592,226</u>	<u>\$ 2,299,668</u>	<u>\$ 8,891,894</u>

	<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>

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 \$8,891,894 and \$5,879,380 at December 31, 2020 and 2019, respectively, are deposits with financial institutions of \$8,765,395 at December 31, 2020 and \$5,698,651 at December 31, 2019. 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. This investment earned 1.5% for the year ended 2019. 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, 2020 AND 2019

NOTE 4: ACCOUNTS RECEIVABLE, TRADE

Accounts receivable at December 31, 2020 and 2019 consisted of the following:

Trade Receivables

	<u>2020</u>	<u>2019</u>
Trade Receivables, Current	\$ 1,016,417	\$ 1,028,405
Trade Receivables, Past Due	<u>50,056</u>	<u>38,313</u>
Total	<u>1,066,473</u>	<u>1,066,718</u>
Allowance for Uncollectibles, Beginning of Year	(14,809)	(14,596)
Bad Debt Recoveries	19,186	4,627
Provision of Bad Debt Expense	<u>(24,292)</u>	<u>(4,840)</u>
Allowance for Uncollectibles, End of Year	<u>(19,915)</u>	<u>(14,809)</u>
Accounts Receivable, Net of Allowance for Uncollectibles	<u>\$ 1,046,558</u>	<u>\$ 1,051,909</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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Bond Funds	\$ 1,976	\$ 1,976
System Improvements Account	2,136,070	1,458,014
Cash with Fiscal Agent	<u>161,622</u>	<u>178,153</u>
Total Restricted Assets	<u>\$ 2,299,668</u>	<u>\$ 1,638,143</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 6: CAPITAL ASSETS

Capital assets as of December 31, 2020 and 2019 consisted of the following components of utility plant in service:

	<u>2020</u>			
	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
	<u>Balance</u>			<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,573,501	\$ 3,470	\$ -	\$ 1,576,971
Construction in Progress	790,385	684,459	1,080,281	394,563
Total Capital Assets Not Being Depreciated	<u>2,363,886</u>	<u>687,929</u>	<u>1,080,281</u>	<u>1,971,534</u>
Capital Assets Being Depreciated:				
Water System	51,963,184	1,108,984	-	53,072,168
Wastewater System	45,909,274	1,335,715	-	47,244,989
Equipment	1,532,263	39,828	73,426	1,498,665
Vehicles	2,310,699	433,956	217,848	2,526,807
Office Furniture and Equipment	234,254	-	32,047	202,207
Buildings	110,310	-	-	110,310
Total Capital Assets Being Depreciated	<u>102,059,984</u>	<u>2,918,483</u>	<u>323,321</u>	<u>104,655,146</u>
Less Accumulated Depreciation for:				
Water System	15,779,411	1,285,525	-	17,064,936
Wastewater System	12,153,351	1,028,997	-	13,182,348
Equipment	1,329,717	42,728	73,426	1,299,019
Vehicles	1,613,378	263,104	213,424	1,663,058
Office Furniture and Equipment	215,453	7,533	32,047	190,939
Buildings	61,246	3,817	-	65,063
Total Accumulated Depreciation	<u>31,152,556</u>	<u>2,631,704</u>	<u>318,897</u>	<u>33,465,363</u>
Capital Assets, Net	<u>\$ 73,271,314</u>	<u>\$ 974,708</u>	<u>\$ 1,084,705</u>	<u>\$ 73,161,317</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 6: CAPITAL ASSETS (CONTINUED)

	<u>2019</u>			
	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
	<u>Balance</u>			<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,573,501	\$ -	\$ -	\$ 1,573,501
Construction in Progress	523,170	2,142,412	1,875,197	790,385
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	110,310	-	-	110,310
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	57,430	3,816	-	61,246
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>

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$2,631,704 and \$2,471,404, respectively.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, balances of \$157,279 and \$150,488, respectively, were due to the City of Cabot.

NOTE 8: INDEBTEDNESS

The Utility is obligated for the original 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 December 1, 2020 the outstanding balance of \$110,864 was refinanced as described in the accompanying detail of net change in indebtedness.

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. On December 1, 2020 the outstanding balance of \$2,960,730 was refinanced as described in the accompanying detail of net change in indebtedness.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 8: INDEBTEDNESS (CONTINUED)

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.

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. 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. On December 1, 2020 the outstanding balance of \$4,161,097 was refinanced as described in the accompanying detail of net change in indebtedness.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 8: INDEBTEDNESS (CONTINUED)

Net changes in total indebtedness for the year ended December 31, 2020 are as follows:

	<u>2020</u>				
	<u>Balance</u> <u>12/31/2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2020</u>	<u>Amount Due</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 2020 and semiannual installments of \$8,27 including interest of 2.1% thereafter through June 2028	\$ 124,028	\$ -	\$ 13,164	\$ 110,864	\$ 13,726
\$2,960,730 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 2020 and semiannual payments of 254,821, including a servicing fee of 1% thereafter through October 2026	3,400,868	-	440,138	2,960,730	481,233
\$4,161,097 2007 City of Cabot Water and Sewer Revenue Bonds; semiannual installments of \$262,534, including interest of 2.75% until April 2020 and semiannual installments of \$230,199 including a servicing fee of 1% through October 2026	<u>4,563,414</u>	<u>-</u>	<u>402,317</u>	<u>4,161,097</u>	<u>419,674</u>
Total Indebtedness	<u>8,088,310</u>	<u>-</u>	<u>855,619</u>	<u>7,232,691</u>	<u>914,633</u>
Less Unamortized Discount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,088,310</u>	<u>\$ -</u>	<u>\$ 855,619</u>	<u>\$ 7,232,691</u>	<u>\$ 914,633</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>2018</u>				Amount Due
	<u>Balance</u>			<u>Balance</u>	Within One
	<u>12/31/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2019</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	<u>8,918,285</u>	<u>-</u>	<u>829,975</u>	<u>8,088,310</u>	<u>855,344</u>
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, 2020 AND 2019

NOTE 8: INDEBTEDNESS (CONTINUED)

Total debt service payments on all indebtedness subsequent to December 31, 2020 are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2021	\$ 914,633	\$ 2,328	\$ 68,972	\$ 985,933
2022	923,872	2,112	59,940	985,924
2023	933,294	1,821	50,818	985,933
2024	942,806	1,523	41,604	985,933
2025	952,414	1,220	32,298	985,932
2026-2030	<u>2,565,672</u>	<u>1,680</u>	<u>54,639</u>	<u>2,621,991</u>
	<u>\$ 7,232,691</u>	<u>\$ 10,684</u>	<u>\$ 308,271</u>	<u>\$ 7,551,646</u>

No construction period interest expense was incurred during the years ended December 31, 2020 and in 2019.

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, 2020, 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, 2020 and 2019, 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, 2020 AND 2019

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
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020. In some cases, an additional 2.5% of member and employer contributions are required for elected officials. Cabot WaterWorks contributed 15.32% of compensation for fiscal years ended December 31, 2020 and 2019, respectively.

Utility contributions for the years ending December 31, 2020 and 2019 were \$190,608 and \$236,386 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, 2020 AND 2019

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, 2020 Cabot WaterWorks reported a liability of \$2,406,557 for its proportionate share of the net pension liability. The collective Net Pension Liability was measured as of June 30, 2020, 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 .08404% and 0.078428% for June 30, 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, Cabot WaterWorks recognized a pension expense of \$388,028 and \$67,089 respectively. At December 31, 2020 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	\$ 31,948	\$ (1,594)
Changes of Assumptions	30,152	(41,233)
Net difference between projected and Actual Investment Earnings on Pension Plan Investments	254,644	-
Change in Proportion and Differences between Employer Contributions and Share of Contributions	118,575	(32,046)
Utility Contributions Made subsequent to the measurement date	95,304	-
Total	<u>\$ 530,623</u>	<u>\$ (74,873)</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020.

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:

2021	\$	40,324
2022	\$	101,764
2023	\$	141,088
2024	\$	77,270
2025	\$	-
Thereafter	\$	-

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2020 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	26 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
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	4.0486

CABOT WATERWORKS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 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%	6.22%
International Equity	24%	6.69%
Real Estate	16%	4.81%
Absolute Return	5%	3.85%
Domestic Fixed	18%	0.57%
Total	100%	
Total Real Rate of Return		4.93%
Plus: Price Inflation-Actually Assumption		2.50%
Net Expected Return		7.43%

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, 2020 AND 2019

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%)
\$ 3,665,365	\$ 2,406,557	\$ 1,367,756

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 5: RISKS AND UNCERTAINTIES

In February 2020, the COVID-19 virus began spreading in the United States, including areas in which the Utility operates. Business continuity and social activities have been severely impacted as government and citizens take significant and unprecedented measures to mitigate the consequences of the epidemic. Management has carefully monitored the situation and evaluated its options during this time. Although the effect of the outbreak is expected to be temporary, there is considerable uncertainty about its outcome, and the impact and duration cannot be reasonable estimated at this time.

NOTE 12: SUBSEQUENT EVENTS

Cabot WaterWorks did not have any recognized or nonrecognized subsequent events occur after December 31, 2020, the date of the statement of the financial statements. Subsequent events and transactions have been evaluated for potential recognition or disclosure through June 23, 2021, the date the financial statements were available to be issued.

CABOT WATERWORKS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance</u>
<u>OPERATING REVENUE</u>			
Water Revenue	\$ 4,729,630	\$ 4,823,400	\$ (93,770)
Wastewater Revenue	1,281,685	1,298,500	(16,815)
Other Revenue	18,972	27,700	(8,728)
Total Operating Revenue	<u>6,030,287</u>	<u>6,149,600</u>	<u>(119,313)</u>
<u>OPERATING EXPENSES</u>			
<u>Operating & Maintenance</u>			
Personnel Expenses	1,085,633	1,176,800	91,167
Professional & Contracted Services	60,736	84,500	23,764
Chemicals & Materials	175,230	192,300	17,070
Street Work	13,670	45,900	32,230
Equipment Rental	605	7,200	6,595
Utilities	299,766	398,800	99,034
Permits & Fees	10,824	7,000	(3,824)
Purchased Water	260,683	288,000	27,317
Public Safety	267,320	253,000	(14,320)
Fuel-Vehicle & Equipment	54,304	73,600	19,296
Insurance-Vehicle, Equipment, & Property	55,861	61,800	5,939
Insurance-Personnel	164,233	220,433	56,200
Repairs & Maintenance	143,673	116,000	(27,673)
Grinder Pump	22,483	33,000	10,517
Safety Supplies	6,608	12,400	5,792
Small Tools	22,650	27,100	4,450
	<u>2,644,279</u>	<u>2,997,833</u>	<u>353,554</u>
<u>General and Administrative</u>			
Bad Debt	24,292	26,100	1,808
Depreciation & Amortization	2,631,704	2,616,665	(15,039)
Administration Vehicle-Fuel & Insurance	4,791	8,600	3,809
Insurance & Medical Expenses	64,940	69,182	4,242
Personnel Expenses	621,981	660,600	38,619
Repairs & Maintenance	6,871	11,000	4,129
Utilities	38,772	48,400	9,628
Dues, Licenses, Permits, & Subscriptions	28,029	51,900	23,871
Professional & Contracted Services	55,832	77,600	21,768
Uniforms	16,410	14,000	(2,410)
Education	1,194	9,000	7,806
Office Expense	24,948	30,300	5,352
Postage & Printing	50,961	61,000	10,039
Public Relations	7,890	8,000	110
Rent-Building	39,900	40,000	100
Travel	479	5,000	4,521
Taxes, Fines, and Other	58	1,100	1,042
Public Notification	869	2,000	1,131
	<u>3,619,921</u>	<u>3,740,447</u>	<u>120,526</u>
Total Operating Expenses	<u>6,264,200</u>	<u>6,738,280</u>	<u>474,080</u>
NET OPERATING INCOME (LOSS)	<u>\$ (233,913)</u>	<u>\$ (588,680)</u>	<u>\$ 354,767</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, 2020

	<u>Water</u>	<u>Wastewater</u>	<u>General and Administrative</u>	<u>Total</u>
<u>OPERATING REVENUE</u>				
Water Revenue	\$ 4,729,630	\$ -	\$ -	\$ 4,729,630
Wastewater Revenue	-	1,281,685	-	1,281,685
Other Revenue	11,772	7,200	-	18,972
Total Operating Revenue	<u>4,741,402</u>	<u>1,288,885</u>	<u>-</u>	<u>6,030,287</u>
<u>OPERATING EXPENSES</u>				
<u>Operating and Maintenance</u>				
Personnel Expenses	907,473	178,160	-	1,085,633
Professional & Contracted Services	22,003	38,733	-	60,736
Chemicals & Materials	105,180	70,050	-	175,230
Street Work	10,990	2,680	-	13,670
Equipment Rental	107	498	-	605
Utilities	137,832	161,934	-	299,766
Permits & Fees	1,024	9,800	-	10,824
Purchased Water	260,683	-	-	260,683
Public Safety	267,320	-	-	267,320
Fuel-Vehicle & Equipment	38,473	15,831	-	54,304
Insurance - Vehicle, Equipment & Property	29,103	26,758	-	55,861
Insurance - Personnel	114,074	50,159	-	164,233
Repairs & Maintenance	67,662	76,011	-	143,673
Grinder Pump	-	22,483	-	22,483
Safety Supplies	4,421	2,187	-	6,608
Small Tools	10,592	12,058	-	22,650
	<u>1,976,937</u>	<u>667,342</u>	<u>-</u>	<u>2,644,279</u>
<u>General and Administrative</u>				
Bad Debt	19,434	4,858	-	24,292
Depreciation & Amortization	1,552,615	1,079,089	-	2,631,704
Administration Vehicle - Fuel & Insurance	-	-	4,791	4,791
Insurance & Medical Expenses	-	-	64,940	64,940
Personnel Expenses	263	956	620,762	621,981
Repairs & Maintenance	1,334	558	4,979	6,871
Utilities	21,959	11,659	5,154	38,772
Dues, Licenses, Permits, & Subscriptions	15,246	(6)	12,789	28,029
Professional & Contracted Services	6,200	-	49,632	55,832
Uniforms	7,202	9,021	187	16,410
Education	50	-	1,144	1,194
Office Expense	5,478	258	19,212	24,948
Postage & Printing	49,178	124	1,659	50,961
Public Relations	7,246	644	-	7,890
Rent - Building	22,350	-	17,550	39,900
Travel	428	-	51	479
Taxes, Fines, & Other	-	-	58	58
Public Notification	-	-	869	869
	<u>1,708,983</u>	<u>1,107,161</u>	<u>803,777</u>	<u>3,619,921</u>
Total Operating Expenses	<u>3,685,920</u>	<u>1,774,503</u>	<u>803,777</u>	<u>6,264,200</u>
NET OPERATING INCOME (LOSS)	<u>\$ 1,055,482</u>	<u>\$ (485,618)</u>	<u>\$ (803,777)</u>	<u>\$ (233,913)</u>

See independent auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2020A BOND ISSUE
DECEMBER 31, 2020

Due Date	2.10% \$110,864		Total Annual Requirement
	Principal	Interest	
June 1, 2021	\$ 6,863	\$ 1,164	
December 1, 2021	6,863	1,164	\$ 16,054
June 1, 2022	6,935	1,092	
December 1, 2022	7,007	1,020	16,054
June 1, 2023	7,080	947	
December 1, 2023	7,153	874	16,054
June 1, 2024	7,228	799	
December 1, 2024	7,303	724	16,054
June 1, 2025	7,379	648	
December 1, 2025	7,455	572	16,054
June 1, 2026	7,533	494	
December 1, 2026	7,611	416	16,054
June 1, 2027	7,690	337	
December 1, 2027	7,770	257	16,054
June 1, 2028	8,994	176	9,170
	\$ 110,864	\$ 10,684	\$ 121,548

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2020B BOND ISSUE
DECEMBER 31, 2020

Due Date	Principal	Service Fee	Total Annual Requirement
		1.00%	
		\$2,960,730	
April 15, 2021	\$ 240,017	\$ 14,804	
October 15, 2021	241,217	13,604	\$ 509,642
April 15, 2022	242,413	12,398	
October 15, 2022	243,635	11,185	509,631
April 15, 2023	244,853	9,967	
October 15, 2023	246,077	8,743	509,640
April 15, 2024	247,308	7,513	
October 15, 2024	248,544	6,276	509,641
April 15, 2025	249,787	5,033	
October 15, 2025	251,036	3,784	509,640
April 15, 2026	252,291	2,529	
October 15, 2026	253,552	1,268	509,640
	\$ 2,960,730	\$ 97,104	\$ 3,057,834

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2020C BOND ISSUE
DECEMBER 31, 2020

<u>Due Date</u>	<u>Principal</u>	<u>Service Fee</u>	<u>Total Annual Requirement</u>
		1.00%	
		\$4,161,097	
April 15, 2021	\$ 209,314	\$ 20,805	
October 15, 2021	210,360	19,759	\$ 460,238
April 15, 2022	211,412	18,707	
October 15, 2022	212,469	17,650	460,238
April 15, 2023	213,531	16,588	
October 15, 2023	214,599	15,520	460,238
April 15, 2024	215,672	14,447	
October 15, 2024	216,751	13,369	460,239
April 15, 2025	217,834	12,285	
October 15, 2025	218,923	11,196	460,238
April 15, 2026	220,018	10,101	
October 15, 2026	221,118	9,001	460,238
April 15, 2027	222,224	7,895	
October 15, 2027	223,335	6,784	460,238
April 15, 2028	224,452	5,668	
October 15, 2028	225,574	4,545	460,239
April 15, 2029	226,702	3,418	
October 15, 2029	227,835	2,284	460,239
April 15, 2030	228,974	1,145	230,119
	<u>\$ 4,161,097</u>	<u>\$ 211,167</u>	<u>\$ 4,372,264</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
 SCHEDULE OF INFORMATION REQUIRED BY
 ARKANSAS NATURAL RESOURCES COMMISSION
 FOR THE YEAR ENDED DECEMBER 31, 2020

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 10,753. 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 688,094,800.

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, 2020

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

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULES OF RESTRICTED ASSETS
DECEMBER 31, 2020 AND 2019

RESTRICTED CASH AND CASH EQUIVALENTS

	<u>2020</u>	<u>2019</u>
Bond Fund	\$ 1,976	\$ 1,976
System Improvements Account	2,136,070	1,458,014
Cash with Fiscal Agent (ANRC)	<u>161,622</u>	<u>178,153</u>
 Total Restricted Cash and Cash Equivalents	 <u>\$ 2,299,668</u>	 <u>\$ 1,638,143</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
 SCHEDULE OF GOVERNMENTAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2020

<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 Passed Through the Arkansas Natural Resources Commission- State Revolving Fund Program:	66.802	00F 95601	\$ -
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 12/31/2019</u>	<u>Cash Received In 2020</u>	<u>Principal Repayments In 2020</u>	<u>Bonds Payable 12/31/2020</u>	<u>Governmental Expenditures In 2020</u>
\$ -	\$ -	\$ -	\$ -	\$ -
3,400,868	-	440,158	2,960,730	-
<u>4,563,414</u>	<u>-</u>	<u>402,317</u>	<u>4,161,097</u>	<u>-</u>
<u>\$ 7,964,282</u>	<u>\$ -</u>	<u>\$ 842,475</u>	<u>\$ 7,121,827</u>	<u>\$ -</u>

CABOT WATERWORKS
NOTES TO SCHEDULE OF GOVERNMENTAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2020

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 \$7,121,827 at December 31, 2020 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, 2020 and 2019, 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 23, 2021.

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) as a basis for designing 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 financial statements. 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.

Colb and Suskie, Ltd

Certified Public Accountants
June 23, 2021