



Cabot WaterWorks

**Financial Statements
December 31, 2024**

(With Independent Auditor's Reports Thereon)

Cabot WaterWorks

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INDEPENDENT AUDITOR'S REPORT

Cabot Water and Wastewater Commission
Cabot WaterWorks
Cabot, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the **Cabot WaterWorks** (the Utility) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Utility as of December 31, 2024, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Utility and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Utility's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utility's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

U.S. GAAP require that the schedule of the Utility's proportionate share of the net pension liability and the schedule of the Utility's contributions to the pension plan be presented to supplement the financial statements. Such information is the responsibility of management, and although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who consider it an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, 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 financial statements, and other knowledge we obtained

Required Supplementary Information (Continued)

during our audit of the 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB as it is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Utility's financial statements. The schedule of insurance coverage and schedule of customers and billing rates are presented for the purposes of additional analysis and are not a required part of the financial statements. The information presented in these schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. GAAS. 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 May 22, 2025, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
May 22, 2025

Financial Statements

Cabot WaterWorks

Statement of Net Position December 31, 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

Cash and cash equivalents	\$ 4,358,340
Investments	2,197,754
Accounts receivable, net	1,079,167
Other current assets	1,030,205
Total Current Assets	8,665,466

Noncurrent Assets

Restricted cash	2,950,376
Capital Assets, Net	76,473,889
Total noncurrent assets	79,424,265

Total Assets	88,089,731
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Deferred Outflows of Resources	567,906
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 88,657,637
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities

Accounts payable	\$ 173,839
Customer deposits	934,824
Other accrued liabilities	426,533
Current portion of long-term debt	952,415
Total Current Liabilities	2,487,611

Noncurrent Liabilities

Compensated Absences	162,174
Long-Term Debt, Less Current Portion	2,565,669
Net Pension Liabilities	2,258,048
Total Noncurrent Liabilities	4,985,891

Total Liabilities	7,473,502
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Deferred Inflows of Resources	92,321
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Total Liabilities and Deferred Inflows of Resources	7,565,823
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Net Position

Net investment in capital assets	75,324,117
Restricted - expendable:	
Restricted for debt service	136,120
Future capital spending	436,580
Unrestricted	5,194,997
Total Net Position	81,091,814

TOTAL LIABILITIES AND NET POSITION	\$ 88,657,637
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See accompanying notes to the financial statements.

Cabot WaterWorks

Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2024

OPERATING REVENUES

Water sales	\$ 4,973,604
Wastewater sales	1,340,939
Connection fees and service charges	82,888
Late payment charges	134,223
Other income	203,062
Total Operating Revenues	<u>6,734,716</u>

OPERATING EXPENSES

Purchased water for resale	334,736
Purchased power	367,704
Salaries and benefits	2,311,785
Contracted labor	21,952
Depreciation	3,015,104
Repair and maintenance	202,614
Materials and supplies	216,880
Utilities and rent	73,769
Property and vehicle insurance	86,140
Professional fees	76,819
Miscellaneous expense	100,732
Bad debt expense	22,231
Fuel	83,039
Postage and delivery	59,483
Public safety	294,712
Total Operating Expenses	<u>7,267,700</u>
Operating Loss	<u>(532,984)</u>

NONOPERATING REVENUES (EXPENSES)

Interest income	391,313
Gain on sale of assets	30,748
Other income	93,456
Interest expense	(43,634)
Net Nonoperating Income	<u>471,883</u>
Loss before Contributions in Aid of Construction	(61,101)

(Continued)

See accompanying notes to the financial statements.

Cabot WaterWorks

Statement of Revenues, Expenses and Changes in Net Position *(Continued)* Year Ended December 31, 2024

CAPITAL CONTRIBUTIONS

Contributions in Aid of Construction	\$ 677,329
City of Cabot - ARPA	454,748
Total Contributions in Aid of Construction	<u>1,132,077</u>
 Increase in Net Position	 1,070,976
 NET POSITION, BEGINNING OF YEAR	 <u>80,020,838</u>
 NET POSITION, END OF YEAR	 <u>\$ 81,091,814</u>

See accompanying notes to the financial statements.

Cabot WaterWorks

Statement of Cash Flows Year Ended December 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from

User fees	\$ 6,870,985
Total Receipts	<u>6,870,985</u>

Disbursements For

Salaries, wages and employee benefits	2,269,966
Goods and services	1,568,162
Purchased water	367,704
Total Disbursements	<u>4,205,832</u>
Net Cash Provided by Operating Activities	<u>2,665,153</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(3,115,465)
Proceeds from sale of capital assets	37,003
Contributions in aid of construction	1,132,077
Principal paid on long-term debt	(942,799)
Interest paid on long-term debt	<u>(39,318)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,928,502)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	391,313
Purchase of investments	2,018,847
Unrealized gain on investments	(30,748)
Other income	<u>93,456</u>
Net Cash Provided by Investing Activities	<u>2,472,868</u>

NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	2,209,519
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CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	<u>5,099,197</u>
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CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u><u>\$ 7,308,716</u></u>
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See accompanying notes to the financial statements.

Cabot WaterWorks

Statement of Cash Flows *(Continued)* Year Ended December 31, 2024

RECONCILIATION OF OPERATING LOSS TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (532,984)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	3,015,104
Changes in operating assets and liabilities:	
Accounts receivable, net	(18,446)
Other current assets	154,715
Accounts payable	(10,884)
Net pension liability and related deferred outflows and inflows of resources	41,819
Due to other agencies	15,829

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 2,665,153

RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED

CASH TO STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 4,358,340
Restricted cash	2,950,376

TOTAL CASH, CASH EQUIVALENTS AND RESTRICTED CASH

\$ 7,308,716

See accompanying notes to the financial statements.

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 1: REPORTING ENTITY

Cabot WaterWorks (the Utility, a component unit of the City of Cabot, the City) is an independent public entity established in 2006 to manage and operate the municipal water and wastewater system of the City. The Utility provides water and wastewater services to residential, farming and commercial operations in the City and outlying areas. The governing board of the Utility is a Board of Commissioners, comprised of five members who serve eight-year terms. The commissioners must be qualified electors of the City or of the area served, and are subject to appointment by a majority vote of the remaining commissioners and confirmation by a two-thirds vote of the City Council.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The Utility's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable. Operating revenues consist primarily of user charges, and operating expenses include the costs of maintaining and operating the water supply, treatment and distribution system. In addition, operating revenues and expenses derived from or related directly to providing water supply, treatment and distribution services are distinguished from non-operating revenues and expenses for purposes of presentation on the statement of revenues, expenses and changes in net position. When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Utility's policy is to first apply the expense toward restricted resources if restrictions have been met, then toward unrestricted resources.

Cash and Cash Equivalents

For purposes of the presentation on the statement of cash flows, cash and cash equivalents include cash on hand, all demand deposit and money market deposit accounts held with financial institutions and money market mutual funds held with investment banking firms.

Investments

Investments are stated at fair value. Purchases and sales of investments are reported on a trade date basis. Realized gains and losses resulting from investment sales, as well as unrealized gains and losses resulting from changes in the fair value of investments are reported as nonoperating income (expense) in the statement of revenues, expenses and changes in net position.

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable, Net

All active customers are required to place a utility deposit with the Utility. Accounts receivable are ordinarily due fifteen days after the issuance of an invoice. If an account has not been paid after the 15 days, it will incur a late fee charge. After 25 days, the account will be disconnected and charged a disconnect fee.

Accounts receivable are stated net of an allowance for doubtful accounts, determined by management based upon a review of outstanding receivables and historical collection information. Management does not anticipate material losses on the Utility's receivables in excess of the established allowances, which was approximately \$22,000 at December 31, 2024.

Inventories

Materials and supplies used in the operation and maintenance of capital assets are stated at average cost and included in other accrued assets on the statement of net position.

Capital Assets, Net

Capital assets are reported at historical cost. Contributed assets are recorded at their estimated fair value at the time of contribution. Costs related to major additions and betterments of capital assets are capitalized, while costs of repairs and maintenance that do not add value or extend the useful life of the related asset are expensed as incurred.

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

<u>Asset Type</u>	<u>Years</u>
Original water distribution system and major expansions	40-50
Wastewater treatment plant	25
Wastewater collection lines	50
Building and improvements	25-50
Furniture, equipment and vehicles	3-10

Management evaluates events or changes in circumstances affecting assets comprising utility plant in service on a yearly basis to determine whether impairment has occurred. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded. There was no impairment losses recorded for the year ended December 31, 2024.

Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Utility's deferred outflows and inflows of resources consist of deferred outflows and inflows of resources related to the Utility's pension plan, as further discussed in Note 8.

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions in Aid of Construction

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.

Compensated Absences

Utility employees earn paid time off benefits on the basis of length of service time. Subject to certain restrictions, employees are compensated for unused paid time off upon leaving the Utility's employment. All paid time off is accrued when incurred in the Utility's financial statements.

Due to Other Agencies

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

Long-Term Debt

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Retirement Benefits

The Utility participates in the Arkansas Public Employees Retirement System (APERS), a cost-sharing multi-employer defined benefit plan, which provides retirement benefits to the Utility's employees. Pension items are allocated to the Utility based on contributions paid to APERS. For purposes of measuring the net position liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of APERS and additions to/deductions from APERS' fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Revenue Recognition

Rates are established by the Board of Commissioners, subject to approval by the City Council. The Utility recognizes revenue as water and sewer services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied. Revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. Unbilled amounts are calculated by deriving estimates based on average daily usage of the billing cycle immediately following the accounting period and are included in accounts receivable and operating revenues in the financial statements.

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

As an essential government function of the State of Arkansas, the Utility is exempt from income taxes under Section 115 for the Internal Revenue Code and a similar provision of state law.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and disclosed in the notes. Actual results could differ from those estimates.

The useful lives of assets comprising the capital assets are significant estimates used to determine the amount of depreciation expense and the net book value of capital assets reported in the Utility's financial statements.

Estimates and assumptions are used by an independent actuary to perform actuarial valuations for the Utility's retirement plan. These valuations are the basis for determining net pension liability.

Recently Adopted Accounting Standards

Effective January 1, 2024, the Utility implemented GASB Statement No. 101, *Compensated Absences* (GASB Statement No. 101) issued in June 2022. GASB Statement No. 101 provides guidance on the accounting and financial reporting for compensated absences. The statement requires liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The adoption of this statement did not have a material effect on the financial statements.

NOTE 3: RESTRICTED ASSETS

The Utility's restricted assets include the following:

The system improvement fund is comprised of unspent bond proceeds to be used specifically for the purpose of providing improvements to the water and sewer systems.

The bond fund includes resources accumulated by the Utility for the payment of principal and interest on outstanding bonds.

The ARPA fund is comprised of unspent American Rescue Plan funding that will be used for a water line upgrade project.

Balances in these restricted asset accounts are as follows:

Improvement fund	\$ 2,368,312
Bonds fund	145,484
ARPA fund	<u>436,580</u>
Total restricted assets	<u><u>\$ 2,950,376</u></u>

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 4: DEPOSITS AND INVESTMENTS

Deposits

State statutes require the Utility to maintain cash balances on deposit with financial institutions located within the State. Custodial credit risk is the risk that, in the event of failure of a financial institution, the Utility will not be able to recover the value of the deposits, investments or collateral securities that are in the possession of the institution. It is generally the Utility's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the Utility's name by an agent of the Utility. On December 31, 2024, all of the Utility's deposits were fully covered by FDIC insurance and collateral held by the Utility's agent in the Utility's name. As of December 31, 2024, the weighted average maturity of the Northern Institutional Treasury Portfolio was 41 days and was rated AAAm by Standard & Poor's.

Investments

State statutes authorize the Utility to invest in direct obligations of the State of Arkansas, municipal entities located within the State, the U.S. Treasury and U.S. agency and government-sponsored entities, subject to minimum credit rating and maximum maturity limitation requirements.

Interest Rate Risk

The Utility does not have a formal investment policy that addresses interest rate risk, which is the risk that changes in interest rates will adversely affect the fair value of an investment; however, the Utility adheres to State statutes, which limit the eligible investment to having a maturity of 5 years or less except in special circumstances.

Credit Risk

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligation. The Utility manages its credit risk by investing in government-issued treasuries and agencies, and FDIC insured certificates of deposit. All the Utility's investments at December 31, 2024, are insured or registered and held in the Utility's name.

Fair Value Disclosure

The Utility categorizes certain assets within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on valuation inputs used to measure the fair value of assets. The three levels of the fair value hierarchy for investments are as follows:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets that can be accessed at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for an asset, either directly or indirectly.
- Level 3: Inputs are unobservable and significant to the fair value measurement.

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

Fair Value Disclosure (Continued)

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2024:

Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 2,197,754	\$ 2,197,754	\$ -	\$ -

The certificates of deposit have a maturity date of less than one year from the year ended December 31, 2024.

NOTE 5: CAPITAL ASSETS, NET

A summary of changes in capital assets that occurred during the year ended December 31, 2024, is as follows:

	2023	Increases	Decreases	2024
Non-depreciable:				
Land and easements	\$ 1,427,353	\$ 640	\$ -	\$ 1,427,993
Water storage/use rights	115,845	-	-	115,845
Construction in Progress	18,290,164	1,591,896	(507,833)	19,374,227
	<u>19,833,362</u>	<u>1,592,536</u>	<u>(507,833)</u>	<u>20,918,065</u>
Depreciable:				
Water distribution system	39,221,424	346,758	-	39,568,182
Wastewater treatment plants	29,555,558	235,269	(18,573)	29,772,254
Buildings and improvements	111,439	-	-	111,439
Equipment	7,471,746	962,535	(132,634)	8,301,647
Developer contributions	21,360,323	487,362	-	21,847,685
Accumulated depreciation	<u>(41,174,069)</u>	<u>(3,015,104)</u>	<u>143,790</u>	<u>(44,045,383)</u>
	<u>56,546,421</u>	<u>(983,180)</u>	<u>(7,417)</u>	<u>55,555,824</u>
Capital assets, net	<u>\$ 76,379,783</u>	<u>\$ 609,356</u>	<u>\$ (515,250)</u>	<u>\$ 76,473,889</u>

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 6: COMPENSATED ABSENCES

Activity related to the Utility's compensated absences as well as the amounts due within one year and greater than one year for the year ended December 31, 2024, is as follows:

Beginning balance	\$ 185,694
Net change	<u>17,023</u>
Ending balance	<u><u>\$ 202,717</u></u>
Amounts due in one year	\$ 40,543
Long-term	<u>162,174</u>
	<u><u>\$ 202,717</u></u>

Compensated absences due in one year are reported in accrued liabilities on the statement of net position.

NOTE 7: LONG-TERM DEBT

The Utility's long-term debt consists of revenue refunding bonds issued to refund previously issued debt. Significant terms and principal balances of the Utility's long-term debt at December 31, 2024, are as follows:

\$278,454 2020A City of Cabot, Arkansas Water and Wastewater Revenue Refunding Bonds; semiannual installments of \$8,027, including interest of 2.10% through June 2028	\$ 54,432
\$2,960,730 2020B City of Cabot, Arkansas Water and Wastewater Revenue Refunding Bonds; semiannual installments of \$254,821, including interest of 0.00% through October 2026	1,006,664
\$4,161,097 2020C City of Cabot, Arkansas Water and Wastewater Revenue Refunding Bonds; semiannual installments of \$230,199, including interest of 0.00% through October 2030	<u>2,456,988</u>
	3,518,084
Less current portion	<u>(952,415)</u>
Long-term debt, net of current portion	<u><u>\$ 2,565,669</u></u>

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 7: LONG-TERM DEBT (Continued)

All of the Utility's long-term debt is secured by a pledge of revenues generated by the Utility.

Long-term debt activity for the year ended December 31, 2024, is as follows:

Beginning principal balance	\$ 4,460,883
Retirements	<u>(942,799)</u>
Ending principal balance	<u>\$ 3,518,084</u>

Scheduled principal and interest payments of long-term debt are as follows at December 31, 2024:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 952,415	\$ 1,220	\$ 953,635
2026	962,124	910	963,034
2027	461,019	594	461,613
2028	459,019	176	459,195
2029	454,537	-	454,537
2030	228,970	-	228,970
	<u>\$ 3,518,084</u>	<u>\$ 2,900</u>	<u>\$ 3,520,984</u>

NOTE 8: PENSION PLAN

Arkansas Public Employee's Retirement Plan

Plan description: Utility employees participate in the Arkansas Public Employees' Retirement Plan (the Plan), a multi-employer, cost sharing, defined benefit plan, qualified under Section 401(a) of the Internal Revenue Code, with defined contribution options. The administration and control of the plan is vested in the Board of Trustees of APERS.

Benefits provided: The Plan provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Current retirement law provides for the three percent COLA to all APERS retirees who have been retired or participated in the Deferred Retirement Option Plan (DROP) for at least twelve months on July 1 of each year. Benefit provisions are established by state law and may be amended only by state legislature.

Contributions: Contributions are set forth in state statute and the Plan was established as contributory. Act 793 of 1977 allowed existing and previous members to become noncontributory members. Anyone joining after January 1, 1978 was automatically enrolled as a noncontributory member. Act 2084 of 2005 established a new contributory requirement for all covered employees first hired on or after July 1, 2005. Employees hired prior to this date have the option to become a

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 8: PENSION PLAN (Continued)

Arkansas Public Employee's Retirement Plan (Continued)

contributory member at any time. The Utility is required to contribute a percent of covered salary at an actuarially determined rate. Required employer contributions made during the period July 1, 2023 through June 30, 2024 totaled \$315,843. Employer contribution rates applicable were 15.32% of covered payroll.

Pension Liabilities, Pension Expense, and Deferred Inflows/Outflows of Resources Related to Pensions: At December 31, 2024, the Utility reported a liability of \$2,258,048 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on a projection of the Utility's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2024, the Utility's proportion was 0.31%.

For the year ended December 31, 2024, the Utility recognized the actuarially determined pension expense of \$377,936. At December 31, 2024, the Utility reported deferred inflows and outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 87,630	\$ (92,321)
Change in proportion and differences between employer contributions and share of contributions	175,156	-
Change in assumptions	78,692	-
Net difference between projected actual investment earnings on pension plan investments	65,505	-
Utility contributions subsequent to the measurement date	160,923	-
Total	<u>\$ 567,906</u>	<u>\$ (92,321)</u>

At December 31, 2024, the Utility reported \$160,923 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net position liability in the year ending December 31, 2024.

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 8: PENSION PLAN (Continued)

Arkansas Public Employee's Retirement Plan (Continued)

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

Year ended December 31:	Deferred Outflow/Inflows
2025	\$ 234,396
2026	367,335
2027	(72,107)
2028	(54,039)
	<u>\$ 475,585</u>

Actuarial assumptions: The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount rate	7.00%
Inflation rate	3.25%
Salary increases	3.25-9.85%
Investment rate of return, net	7.00%

The mortality tables used to measure retired life mortality were the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. The disability post-retirement mortality tables used were the RP-2006 Disabled Retiree benefit weighted generational mortality tables for males and females. The death in-service mortality tables used were the RP-2006 Employee benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using the Scale MP-2017.

Investment Rate of Return: The long-term expected rate of return on 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 current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2020-2029 were based upon capital market assumptions provided by the Plan's

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 8: PENSION PLAN (Continued)

Arkansas Public Employee's Retirement Plan (Continued)

investment consultant. For each major asset class included in the Plan's target asset allocation as of December 31, 2024, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	39%	5.03%
International Equity	17%	6.34%
Real Estate	16%	4.51%
Private Equity	5%	9.00%
Hedge Funds	2%	3.63%
Domestic Fixed	21%	3.38%
Total	100%	

Discount rate: A single discount rate of 7% 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%. 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.

Sensitivity of the Utility's proportionate share of the net pension liability to changes in the discount rate: The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate of one percentage point lower (6%) or one percentage point higher (8%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Utility's proportionate share of the net pension liability	\$ 3,853,043	\$ 2,258,048	\$ 943,092

Cabot WaterWorks

Notes to the Financial Statements December 31, 2024

NOTE 8: PENSION PLAN (Continued)

Arkansas Public Employee's Retirement Plan (Continued)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued APERS financial report. Additional financial and actuarial information is available in APERS' annual financial report for the year ended June 30, 2024. This information and the actuarial valuation report are available on the APERS website, www.apers.org. The reports may also be obtained by writing to APERS, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-501-682-7800.

NOTE 9: COMMITMENTS AND CONTINGENCIES

The Utility has an agreement with Central Arkansas Water to purchase a minimum of 300,000 gallons of water per day, up to a maximum of 9,000,000 gallons per day. Water purchased from Central Arkansas Water for the year ended December 31, 2024, totaled \$334,736.

NOTE 10: RISK MANAGEMENT

The Utility is exposed to various levels of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utility has purchased insurance to address these risks. There have been no significant reductions in the Utility's coverage during the year ended December 31, 2024. In addition, there have been no settlements in excess of the Utility's coverage in any of the prior three fiscal years.

Required Supplementary Information

Cabot WaterWorks

Ten Year Summary of Utility's Proportionate Share of the Net Pension Liability For the Plan's Years Ended June 30, 2015 through June 30, 2024 (Unaudited)

	<u>As of June 30, 2024</u>	<u>As of June 30, 2023</u>	<u>As of June 30, 2022</u>	<u>As of June 30, 2021</u>	<u>As of June 30, 2020</u>
Utility's proportion of the net pension liability (percentage)	0.3135%	0.2904%	0.2787%	0.2540%	0.2412%
Utility's proportionate share of the net pension liability (dollars)	\$ 2,258,048	\$ 2,584,213	\$ 2,244,371	\$ 670,212	\$ 2,406,554
Utility's covered - employee payroll	\$ 2,061,802	\$ 1,965,453	\$ 1,857,368	\$ 1,813,071	\$ 1,639,769
Utility proportionate share of the net pension liability as a percentage of its covered - employee payroll	109.52%	131.48%	120.84%	36.97%	146.76%
Plan fiduciary net position as a percentage of the total pension liability	81.61%	77.94%	78.31%	93.57%	75.38%
	<u>As of June 30, 2019</u>	<u>As of June 30, 2018</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>	<u>As of June 30, 2015</u>
Utility's proportion of the net pension liability (percentage)	0.2221%	0.2268%	0.2338%	0.2314%	0.2240%
Utility's proportionate share of the net pension liability (dollars)	\$ 1,892,094	\$ 1,842,501	\$ 2,295,970	\$ 2,189,210	\$ 1,580,440
Utility's covered - employee payroll	\$ 1,500,830	\$ 1,564,502	\$ 1,567,696	\$ 1,942,722	\$ 1,522,543
Utility proportionate share of the net pension liability as a percentage of its covered - employee	126.07%	117.77%	146.46%	112.69%	103.80%
Plan fiduciary net position as a percentage of the total pension liability	78.55%	79.59%	75.65%	75.50%	80.39%

Information in this schedule has been determined as of the measurement date (June 30 of each year) of the Utility's net pension liability.

Cabot WaterWorks

Ten Year Summary of Utility's Contributions to Pension Plan For the Plan's Years Ended June 30, 2015 through June 30, 2024 (Unaudited)

	2024	2023	2022	2021	2020
Required Contributions	<u>\$ 315,843</u>	<u>\$ 301,107</u>	<u>\$ 266,549</u>	<u>\$ 266,681</u>	<u>\$ 251,212</u>
Contributions in relation to the required contribution	<u>315,843</u>	<u>301,107</u>	<u>266,549</u>	<u>266,681</u>	<u>251,212</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 2,061,802	\$ 1,965,453	\$ 1,857,368	\$ 1,813,071	\$ 1,639,769
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	14.35%	14.71%	15.32%
	2019	2018	2017	2016	2015
Required Contributions	<u>\$ 229,927</u>	<u>\$ 230,764</u>	<u>\$ 232,192</u>	<u>\$ 240,508</u>	<u>\$ 224,725</u>
Contributions in relation to the required contribution	<u>229,927</u>	<u>230,764</u>	<u>232,192</u>	<u>240,508</u>	<u>224,725</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 1,500,830	\$ 1,564,502	\$ 1,567,696	\$ 1,942,722	\$ 1,522,543
Contributions as a percentage of covered-employee payroll	15.32%	14.75%	14.81%	12.38%	14.76%

Supplementary Information

Cabot WaterWorks

Schedule of Insurance Coverage December 31, 2024

Company	Coverage	Date of Policy	Amount
Arkansas Municipal League	Property	11/07/24 - 11/06/25	\$ 25,450,469
Arkansas Municipal League	Vehicle	01/02/24 - 01/01/25	\$ 3,099,787

Cabot WaterWorks

Schedule of Customers and Billing Rates Year Ended December 31, 2024

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

a. The number of users for the system was 11,511. The rate structure was 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 1,000 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 those listed below)

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 748,082,900

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



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

Cabot Water and Wastewater Commission
Cabot WaterWorks
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 **Cabot WaterWorks** (the Utility), as of and for the year ended December 31, 2024, and the related notes to the financial statements which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated May 22, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

Cabot Water and Wastewater Commission
Cabot WaterWorks
Cabot, Arkansas

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
May 22, 2025