

CABOT WATERWORKS

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended December 31, 2022 and 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Cabot Water and Wastewater Commission
Cabot, Arkansas

Opinions

We have audited the accompanying financial statements of Cabot Water and Wastewater Commission as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Cabot Water and Wastewater Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Cabot Water and Wastewater Commission as of December 31, 2022 and 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. 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 Cabot Water and Wastewater Commission 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 opinions.

Responsibilities of Management of the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 Cabot Water and Wastewater Commission'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.

Auditors' 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 misstatements, 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 generally accepted 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 judgement made by a reasonable user based on the financial statements.

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.

In performing an audit in accordance with generally accepted 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 Cabot Water and Wastewater Commission'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 aggregate, that raise substantial doubt about Cabot Water and Wastewater Commission'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 8 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cabot Water and Wastewater Commission's 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.

Cabot Water and Wastewater Commission
Cabot, Arkansas
Page Four

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2023 on our consideration of Cabot Water and Wastewater Commission's 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 Water and Wastewater Commission's internal control over financial reporting and compliance.

Cobb and Siskie, Ltd.

Certified Public Accountants
June 21, 2023

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

This section presents management's analysis of the financial condition and activities of the Cabot WaterWorks (the Utility) for the year ended December 31, 2022. 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 \$85,609,046 and exceeded liabilities and deferred inflows of resources in the amount of \$76,273,947, an increase of \$1,793,205 from 2021. Total assets at December 31, 2021 amounted to \$84,314,686 and exceeded liabilities in the amount of \$74,481,642, an increase of \$1,504,665 from 2020.
- Operating revenue for 2022 amounted to \$6,358,237. This was an increase of \$50,242, or 0.8% from 2021, for which the operating revenue of \$6,307,995 represented an increase of \$277,708, or 4.6% from 2020.
- Operating expenses in 2022 were \$6,597,251, an increase of \$551,821 or 9.1% from 2021. For 2021, the operating expenses of \$6,045,430, a decrease of \$218,770, or 3.5% from 2020.
- Net operating income(loss) was \$(239,014), in 2022 and \$262,565 in 2021, representing a net earnings decrease in 2022 of \$481,579 from 2021. For 2021, net operating income increased by \$496,458 from 2020.

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, 2022

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 \$105.6 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 9 through 13 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, 2022

Other Selected Information

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Selected data for analysis:			
Customers at year end	11,148	11,059	10,753
Revenues:			
Utility Revenues	\$ 6,358,237	\$ 6,307,995	\$ 6,030,287
Total Revenues	<u>\$ 6,358,237</u>	<u>\$ 6,307,995</u>	<u>\$ 6,030,287</u>
Operating Expenses:			
Expenses excluding depreciation and amortization	\$ 3,771,269	\$ 3,299,639	\$ 3,632,496
Depreciation and Amortization	<u>2,825,982</u>	<u>2,745,791</u>	<u>2,631,704</u>
Total Expenses	<u>\$ 6,597,251</u>	<u>\$ 6,045,430</u>	<u>\$ 6,264,200</u>
Ratio of operating revenue to:			
Operating expenses, excluding depreciation	1.69	1.91	1.66
Operating expenses	1.75	1.04	0.96
Total assets and deferred outflows of resources	0.07	0.10	0.07
Net position	0.08	0.08	0.08
Debt related ratios:			
Debt to net position	0.08	0.12	0.15

General Trends and Significant Events

The population of Cabot, Arkansas continued to grow in 2022, and the number of customers serviced by the Utility increased during the year from 11,059 active users to 11,148.

Financial Condition

The Utility's financial condition is sound. Total unrestricted net assets as of December 31, 2022 were \$5,314,309, and restricted assets amounted to \$2,541,888. Operating revenues for 2022 were \$6,358,237. Total unrestricted assets as of December 31, 2021 were \$4,533,401, and restricted assets amounted to \$2,487,936. Operating revenues for 2021 were \$6,307,995.

Results of Operations

Net Operating Income:

The net operating income(loss) was \$(239,104) in 2022 and \$262,565 in 2021.

CABOT WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Expenses:

The utility operating expenses in 2022 were \$6,597,251, and \$6,045,430 in 2021, or 103.7% and 95.8%, respectively of total operating revenue, and are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Salaries and Related Expenses	\$ 1,626,328	\$ 1,361,272	\$ 1,707,614
Public Safety	281,942	270,926	267,320
Chemical and Materials	235,799	110,006	175,230
Contract and Professional Services	107,789	93,684	116,568
Insurance and Medical Expenses	329,035	304,317	285,034
Utilities and Telephone	415,741	367,146	338,538
Depreciation and Amortization	2,825,982	2,745,791	2,631,704
Maintenance and Repairs	76,044	102,109	150,544
Other Operating	<u>698,591</u>	<u>690,179</u>	<u>591,648</u>
Total Operating Expense	<u><u>\$ 6,597,251</u></u>	<u><u>\$ 6,045,430</u></u>	<u><u>\$ 6,264,200</u></u>

Capital Assets and Long-Term Debt

The investment in plant and equipment increased by \$2,837,420 in capital acquisitions during 2022. Total debt to capital assets was 7.3% and 8.56% at the end of 2022 and 2021, respectively. This reflects the net changes in capital assets and indebtedness for 2022.

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, 2022 AND 2021

ASSETS

CURRENT ASSETS

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 6,571,588	\$ 5,942,794
Accounts Receivable Trade, Less Allowance for Uncollectible Accounts of \$24,096 and \$22,986	1,028,588	1,099,153
Inventory	297,446	320,867
Prepaid Expenses	527,727	407,095
Total Current Assets	<u>8,425,349</u>	<u>7,769,909</u>

RESTRICTED ASSETS

Cash and Cash Equivalents	<u>2,541,888</u>	<u>2,487,936</u>
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CAPITAL ASSETS, NET

Utility Plant in Service	<u>73,811,927</u>	<u>73,778,363</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pensions	<u>829,882</u>	<u>278,478</u>
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Total Assets	<u>\$ 85,609,046</u>	<u>\$ 84,314,686</u>
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The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

	<u>2022</u>	<u>2021</u>
Accounts Payable	\$ 26,772	\$ 30,153
Sanitation Fees Payable	138,511	147,105
Sales Tax Payable	25,564	25,147
Compensated Absences Payable	177,954	158,896
Accrued Payroll	41,980	39,383
Payroll Taxes Payable	9,982	8,727
Payable - Insurance	38,747	40,351
Accrued Expense - Other	59,741	38,743
Meter Deposits	893,025	863,367
Accrued Sludge Removal	244,348	244,348
Accrued Interest Payable	11,348	13,291
Current Portion of Long-Term Debt	933,294	923,872
Total Current Liabilities	<u>2,601,266</u>	<u>2,533,383</u>

LONG TERM LIABILITIES, Less Current Maturities

Revenue Bonds Payable	4,460,883	5,394,186
Net Pension Liability	2,244,795	670,215
Total Long-Term Liabilities	<u>6,705,678</u>	<u>6,064,401</u>

Total Liabilities	<u>9,306,944</u>	<u>8,597,784</u>
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DEFERRED INFLOWS OF RESOURCES

Pensions	<u>28,155</u>	<u>1,235,260</u>
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NET POSITION

Investment in Capital Assets		
Net of Related Liability	68,417,750	67,460,305
Restricted for Debt Service and Construction Improvements	2,541,888	2,487,936
Unrestricted	5,314,309	4,533,401
Total Net Position	<u>76,273,947</u>	<u>74,481,642</u>

Total Liabilities and Net Position	<u>\$ 85,609,046</u>	<u>\$ 84,314,686</u>
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CABOT WATERWORKS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUE</u>		
Water Revenue	\$ 5,018,544	\$ 4,962,524
Wastewater Revenue	1,339,693	1,322,959
Other Revenue	-	22,512
Total Operating Revenue	<u>6,358,237</u>	<u>6,307,995</u>
<u>OPERATING EXPENSES</u>		
<u>Operating & Maintenance</u>		
Personnel Expenses	1,122,955	1,020,693
Professional & Contracted Services	53,957	46,274
Chemicals & Materials	235,799	110,006
Street Work	31,138	29,113
Utilities	380,889	334,463
Permits & Fees	10,400	10,760
Purchased Water	287,294	291,109
Public Safety	281,942	270,926
Equipment Rental	108	809
Fuel-Vehicle, Equipment, & Property	105,233	81,049
Insurance-Vehicle, Equipment, & Property	67,468	62,452
Insurance-Personnel	191,166	176,706
Repairs & Maintenance	76,044	102,109
Grinder Pump	29,174	33,731
Safety Supplies	11,040	7,624
Small Tools	20,162	35,017
	<u>2,904,769</u>	<u>2,612,841</u>
<u>General & Administrative</u>		
Bad Debt	21,392	25,982
Depreciation & Amortization	2,825,982	2,745,791
Administration Vehicle-Fuel & Insurance	8,180	6,689
Insurance & Medical Expenses	70,401	65,159
Personnel Expense	503,373	340,579
Repairs & Maintenance	6,563	5,053
Utilities	34,852	32,683
Dues, Licenses, Permits, & Subscriptions	34,513	27,320
Professional & Contracted Services	53,832	47,410
Uniforms	13,848	16,934
Education	1,682	3,087
Office Expense	21,545	20,620
Postage & Printing	52,924	52,191
Public Relations	2,273	2,550
Rent-Building	39,900	39,900
Travel	702	420
Taxes, Fines, and Other	377	-
Public Notification	143	221
	<u>3,692,482</u>	<u>3,432,589</u>
Total Operating Expenses	<u>6,597,251</u>	<u>6,045,430</u>

CABOT WATERWORKS
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
NET OPERATING INCOME (LOSS)	\$ (239,014)	\$ 262,565
<u>OTHER REVENUE (EXPENSES)</u>		
Interest Income	107,139	40,378
Interest Expense	(60,609)	(46,488)
Other Income (Expense)	51,496	60,355
Sales Tax Discounts	20,907	23,600
Antenna Lease	129,740	84,863
Gain (Loss) on Sale of Assets	<u>74,099</u>	<u>61,910</u>
TOTAL OTHER REVENUE (EXPENSES)	<u>322,772</u>	<u>224,618</u>
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTION	83,758	487,183
CAPITAL CONTRIBUTIONS	<u>1,708,547</u>	<u>1,017,482</u>
CHANGE IN NET POSITION	1,792,305	1,504,665
NET POSITION, BEGINNING	<u>74,481,642</u>	<u>72,976,977</u>
NET POSITION, ENDING	<u>\$ 76,273,947</u>	<u>\$ 74,481,642</u>

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

CABOT WATERWORKS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2022</u>	<u>2021</u>
Cash Received From Customers	\$ 6,428,784	\$ 6,232,888
Cash Payments to Suppliers for Goods and Services	(1,360,904)	(1,247,997)
Cash Payments for Utilities	(415,741)	(367,955)
Cash Payments for Contract and Professional Services	(107,789)	(93,684)
Cash Payments to Employees for Services	(1,604,873)	(1,681,400)
Other Operating Income	-	22,512
Net Cash Provided - Operating Activities	<u>2,939,477</u>	<u>2,864,364</u>
<u>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Bond Principal Paid	(937,607)	(914,633)
Bond Interest Paid	(62,552)	(71,800)
Plant Acquisition Net	(1,655,135)	(2,644,498)
Proceeds from Disposal of Capital Assets	59,173	62,755
Net Cash Provided - Capital and Related Financing	<u>(2,596,121)</u>	<u>(3,568,176)</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Interest Received	<u>107,139</u>	<u>40,378</u>
Net Cash Provided - Investing Activities	<u>107,139</u>	<u>40,378</u>
<u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits	29,658	33,452
Sales Tax Discounts	20,907	23,600
Antenna Lease	129,740	84,863
Other Income	51,946	60,355
Net Cash Provided - Other Activities	<u>232,251</u>	<u>202,270</u>
Net Increase (Decrease) in Cash	682,746	(461,164)
Cash, Beginning of Year	<u>8,430,730</u>	<u>8,891,894</u>
Cash, End of Year	<u>\$ 9,113,476</u>	<u>\$ 8,430,730</u>

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

CABOT WATERWORKS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED FROM OPERATING ACTIVITIES

	<u>2022</u>	<u>2021</u>
Operating Income (Loss)	\$ (239,014)	\$ 262,565
Depreciation Adjustments	2,825,982	2,745,791
Accounts Receivable (Increase) Decrease	70,565	(52,595)
Inventory (Increase) Decrease	23,421	(34,347)
Prepaid Expenses (Increase) Decrease	(120,632)	2,830
Accounts Payable Increase (Decrease)	(3,381)	(79,763)
Other Operating Liabilities Increase (Decrease)	<u>382,536</u>	<u>19,883</u>
Net Cash Provided From Operating Activities	<u>\$ 2,939,477</u>	<u>\$ 2,864,364</u>

During the years ended December 31, 2022 and 2021, the Utility received \$1,708,547 and \$1,017,482 respectively, in contributed 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, 2022 AND 2021

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, 2022 AND 2021

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, 2022 and 2021 are more fully explained in Note 3.

(f) Inventory

Inventory consists of parts and supplies and is valued at lower of cost or market using the first-in, first-out (FIFO) method.

(g) Restricted Assets

Restricted assets consist of cash and cash equivalents which are restricted by ordinance of the City of Cabot and bond requirements. Restricted assets are further described in Note 4.

(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, 2022 AND 2021

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) 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.
- (l) 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, 2022, and December 31, 2021.
- (m) 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.
- (n) 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.
- (o) Leases
In June of 2017, the Governmental Accounting Standards Board Issued GASB Statement No. 87, *Leases*. This Statement affects accounting and financial reporting by state and local governments for leases and is effective for fiscal years beginning after June 15, 2021. This Statement impacts governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset; and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Utility's implementation of this pronouncement resulted in no impact on the current year or prior year financial statements.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Pensions

The Government Accounting Standards Board (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 9.

(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.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022 and 2021 are as follows:

	<u>2022</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 5,942,794	\$ 2,487,936	\$ 8,430,730
Net Increase (Decrease)	628,794	53,952	682,746
Total Cash at End of Year	<u>\$ 6,571,588</u>	<u>\$ 2,541,888</u>	<u>\$ 9,113,476</u>

	<u>2021</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 6,592,226	\$ 2,299,668	\$ 8,891,894
Net Increase (Decrease)	(649,432)	188,268	(461,164)
Total Cash at End of Year	<u>\$ 5,942,794</u>	<u>\$ 2,487,936</u>	<u>\$ 8,430,730</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 \$9,113,476 and \$8,430,730 at December 31, 2022 and 2021, respectively, are deposits with financial institutions of \$9,204,401 at December 31, 2022 and \$8,480,452 at December 31, 2021. These deposits were fully covered by either FDIC insurance or appropriate collateralization at these respective dates.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3: ACCOUNTS RECEIVABLE, TRADE

Accounts receivable at December 31, 2022 and 2021 consisted of the following:

Trade Receivables

	<u>2022</u>	<u>2021</u>
Trade Receivables, Current	\$ 1,006,855	\$ 1,073,453
Trade Receivables, Past Due	45,829	48,686
Total	<u>1,052,684</u>	<u>1,122,139</u>
Allowance for Uncollectibles, Beginning of Year	(22,986)	(19,915)
Bad Debt Recoveries	20,282	22,911
Provision of Bad Debt Expense	<u>(21,392)</u>	<u>(25,982)</u>
Allowance for Uncollectibles, End of Year	<u>(24,096)</u>	<u>(22,986)</u>
Accounts Receivable, Net of Allowance for Uncollectibles	<u>\$ 1,028,588</u>	<u>\$ 1,099,153</u>

NOTE 4: 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, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Bond Funds	\$ 1,976	\$ 1,976
System Improvements Account	2,378,973	2,324,396
Cash with Fiscal Agent	<u>160,939</u>	<u>161,564</u>
Total Restricted Assets	<u>\$ 2,541,888</u>	<u>\$ 2,487,936</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5: CAPITAL ASSETS

Capital assets as of December 31, 2022, and 2021 consisted of the following components of utility plant in service:

	<u>2022</u> Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 1,585,046	\$ 5,700	\$ -	\$ 1,590,746
Construction in Progress	394,563	-	-	394,563
Total Capital Assets Not Being Depreciated	<u>1,979,609</u>	<u>5,700</u>	<u>-</u>	<u>1,985,309</u>
Capital Assets Being Depreciated:				
Water System	54,538,028	1,242,968	-	55,780,996
Wastewater System	48,665,828	1,366,743	175,471	49,857,100
Equipment	1,486,588	43,131	-	1,529,719
Vehicles	2,854,230	160,534	-	3,014,764
Office Furniture and Equipment	202,207	18,344	-	220,551
Buildings	110,310	-	-	110,310
Total Capital Assets Being Depreciated	<u>107,857,191</u>	<u>2,831,720</u>	<u>175,471</u>	<u>110,513,440</u>
Less Accumulated Depreciation for:				
Water System	18,377,521	1,364,616	103,601	19,638,536
Wastewater System	14,246,368	1,114,969	-	15,361,337
Equipment	1,317,553	36,951	-	1,354,504
Vehicles	1,851,564	298,718	93,996	2,056,286
Office Furniture and Equipment	196,551	7,431	-	203,982
Buildings	68,880	3,297	-	72,177
Total Accumulated Depreciation	<u>36,058,437</u>	<u>2,825,982</u>	<u>197,597</u>	<u>38,686,822</u>
Capital Assets, Net	<u>\$ 73,778,363</u>	<u>\$ 11,438</u>	<u>\$ (22,126)</u>	<u>\$ 73,811,927</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5: CAPITAL ASSETS (CONTINUED)

	<u>2021</u> Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 1,576,971	\$ 8,075	\$ -	\$ 1,585,046
Construction in Progress	394,563	-	-	394,563
Total Capital Assets Not Being Depreciated	<u>1,971,534</u>	<u>8,075</u>	<u>-</u>	<u>1,979,609</u>
Capital Assets Being Depreciated:				
Water System	53,072,168	1,465,860	-	54,538,028
Wastewater System	47,244,989	1,420,839	-	48,665,828
Equipment	1,498,665	15,583	27,660	1,486,588
Vehicles	2,526,807	453,325	125,902	2,854,230
Office Furniture and Equipment	202,207	-	-	202,207
Buildings	110,310	-	-	110,310
Total Capital Assets Being Depreciated	<u>104,655,146</u>	<u>3,355,607</u>	<u>153,562</u>	<u>107,857,191</u>
Less Accumulated Depreciation for:				
Water System	17,064,936	1,312,585	-	18,377,521
Wastewater System	13,182,348	1,064,020	-	14,246,368
Equipment	1,299,019	45,348	26,814	1,317,553
Vehicles	1,663,058	314,409	125,903	1,851,564
Office Furniture and Equipment	190,939	5,612	-	196,551
Buildings	65,063	3,817	-	68,880
Total Accumulated Depreciation	<u>33,465,363</u>	<u>2,745,791</u>	<u>152,717</u>	<u>36,058,437</u>
Capital Assets, Net	<u>\$ 73,161,317</u>	<u>\$ 617,891</u>	<u>\$ 845</u>	<u>\$ 73,778,363</u>

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$2,825,982 and \$2,745,791, respectively.

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: 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, 2022 and 2021, balances of \$138,511 and \$147,105, respectively, were due to the City of Cabot.

NOTE 7: 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 originally 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, 2022 AND 2021

NOTE 7: 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, 2022 AND 2021

NOTE 7: INDEBTEDNESS (CONTINUED)

Net changes in total indebtedness for the year ended December 31, 2022 are as follows:

	<u>2022</u>				Amount Due
	Balance			Balance	Within One
	<u>12/31/2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2022</u>	<u>Year</u>
<u>Revenue Bonds Payable</u>					
\$278,454 2020A City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$8,027, including interest of 2.1% through June 2028	\$ 110,864	\$ -	\$ 27,668	\$ 83,196	\$ 14,233
\$2,960,730 2020B City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$254,821, including a servicing fee of 1% through October 2026	2,479,497	-	486,058	1,993,439	490,930
\$4,161,097 2020C City of Cabot Water and Sewer Revenue Bonds; semiannual installments of \$230,199, including a servicing fee of 1% through October 2026	<u>3,741,423</u>	<u>-</u>	<u>423,881</u>	<u>3,317,542</u>	<u>428,131</u>
Total Indebtedness	<u>\$ 6,331,784</u>	<u>\$ -</u>	<u>\$ 937,607</u>	<u>\$ 5,394,177</u>	<u>\$ 933,294</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 7: INDEBTEDNESS (CONTINUED)

Net changes in total indebtedness for the year ended December 31, 2021, are as follows:

	<u>2021</u>				Amount Due
	Balance			Balance	Within One
	<u>12/31/2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2021</u>	<u>Year</u>
<u>Revenue Bonds Payable</u>					
\$278,454 2020A City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$8,027, including interest of 2.1% through June 2028	\$ 124,028	\$ -	\$ 13,164	\$ 110,864	\$ 13,726
 \$2,960,730 2020B City of Cabot, Arkansas Water and Wastewater Revenue Bonds; semiannual installments of \$254,821, including a servicing fee of 1% through October 2026	 2,960,730	 -	 481,233	 2,479,497	 486,049
 \$4,161,097 2020C City of Cabot Water and Sewer Revenue Bonds; semiannual installments of \$230,199, including a servicing fee of 1% through October 2026	 4,161,097	 -	 419,674	 3,741,423	 423,881
				-	
Total Indebtedness	<u>\$ 7,232,691</u>	<u>\$ -</u>	<u>\$ 914,071</u>	<u>\$ 6,331,784</u>	<u>\$ 923,656</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 7: INDEBTEDNESS (CONTINUED)

Total debt service payments on all indebtedness subsequent to December 31, 2022 are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2023	\$ 933,294	\$ 1,821	\$ 50,818	\$ 985,933
2024	942,805	1,523	41,604	985,932
2025	952,414	1,220	32,298	985,932
2026	962,124	910	22,899	985,933
2027	461,019	594	14,680	476,293
2028-2030	<u>1,142,521</u>	<u>176</u>	<u>17,060</u>	<u>1,159,757</u>
	<u>\$ 5,394,177</u>	<u>\$ 6,244</u>	<u>\$ 179,359</u>	<u>\$ 5,579,780</u>

NOTE 8: 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, 2022 and 2021, 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, 2022 AND 2021

NOTE 9: 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, 2022 and 2021

NOTE 9: 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, 2022 and 2021, respectively.

Utility contributions for the years ending December 31, 2022 and 2021 were \$205,681 and \$205,338 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, 2022 AND 2021

NOTE 9: 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, 2022, Cabot WaterWorks reported a liability of \$2,244,795 for its proportionate share of the net pension liability. The collective Net Pension Liability was measured as of June 30, 2022, 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 .08325% and .08719% for June 30, 2022 and 2021, respectively.

For the years ended December 31, 2021 and 2020, Cabot WaterWorks recognized a pension expense of \$(21,752) and \$(118,832) respectively. At December 31, 2022, 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	\$ 53,883	\$ (27,103)
Changes of Assumptions	473,543	-
Net difference between projected and Actual Investment Earnings on Pension Plan Investments	-	-
Change in Proportion and Differences between Employer Contributions and Share of Contributions	199,616	(1,052)
Utility Contributions Made subsequent to the measurement date	102,840	-
Total	<u>\$ 829,882</u>	<u>\$ (28,155)</u>

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

\$102,840 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, 2023.

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:

2023	\$ (195,015)
2024	\$ (136,153)
2025	\$ (37,474)
2026	\$ (330,245)
2027	
Thereafter	\$ -

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2021, 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	25 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 PR-2006 Healthy Annuitant 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 Scale MP-2017.
Average Service Life of All Members	3.9676

CABOT WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 9: 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, 2021, 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%	3.05%
Domestic Fixed	18%	0.57%
Total	100%	
<hr/>		
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, 2022 AND 2021

NOTE 9: 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	Discount Rate	1% Higher
(6.15%)	(7.15%)	(8.15%)
\$ 2,004,868	\$ 670,215	\$ (432,022)

NOTE 10: 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 11: 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 reasonably estimated at this time.

NOTE 12: SUBSEQUENT EVENTS

Cabot WaterWorks did not have any recognized or nonrecognized subsequent events occur after December 31, 2022, the date of the statement of the financial statements. Subsequent events and transactions have been evaluated for potential recognition or disclosure through June 21, 2023, the date the financial statements were available to be issued.

CABOT WATERWORKS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance</u>
<u>OPERATING REVENUE</u>			
Water Revenue	\$ 5,018,544	\$ 4,955,245	\$ 63,299
Wastewater Revenue	1,339,693	1,340,871	(1,178)
Other Revenue	-	-	-
Total Operating Revenue	<u>6,358,237</u>	<u>6,296,116</u>	<u>62,121</u>
<u>OPERATING EXPENSES</u>			
<u>Operating & Maintenance</u>			
Personnel Expenses	1,122,955	1,153,792	30,837
Professional & Contracted Services	53,957	88,034	34,077
Chemicals & Materials	235,799	270,734	34,935
Street Work	31,138	47,500	16,362
Equipment Rental	108	7,200	7,092
Utilities	380,889	380,889	-
Permits & Fees	10,400	11,200	800
Purchased Water	287,294	296,378	9,084
Public Safety	281,942	281,942	-
Fuel-Vehicle & Equipment	105,233	105,233	-
Insurance-Vehicle, Equipment, & Property	67,468	74,503	7,035
Insurance-Personnel	191,166	251,022	59,856
Repairs & Maintenance	76,044	127,614	51,570
Grinder Pump	29,174	40,000	10,826
Safety Supplies	11,040	13,488	2,448
Small Tools	20,162	33,200	13,038
	<u>2,904,769</u>	<u>3,182,729</u>	<u>277,960</u>
<u>General and Administrative</u>			
Bad Debt	21,392	26,100	4,708
Depreciation	2,825,982	2,828,094	2,112
Administration Vehicle-Fuel & Insurance	8,180	8,400	220
Insurance & Medical Expenses	70,401	81,111	10,710
Personnel Expenses	503,373	713,694	210,321
Repairs & Maintenance	6,563	11,040	4,477
Utilities	34,852	43,742	8,890
Dues, Licenses, Permits, & Subscriptions	34,513	58,460	23,947
Professional & Contracted Services	53,832	79,772	25,940
Uniforms	13,848	22,000	8,152
Education	1,682	9,000	7,318
Office Expense	21,545	30,900	9,355
Postage & Printing	52,924	61,800	8,876
Public Relations	2,273	8,500	6,227
Rent-Building	39,900	40,000	100
Travel	702	5,100	4,398
Taxes, Fines, and Other	377	1,119	742
Public Notification	143	3,000	2,857
	<u>3,692,482</u>	<u>4,031,832</u>	<u>339,350</u>
Total Operating Expenses	<u>6,597,251</u>	<u>7,214,561</u>	<u>617,310</u>
NET OPERATING INCOME (LOSS)	<u>\$ (239,014)</u>	<u>\$ (918,445)</u>	<u>\$ 679,431</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, 2022

	<u>Water</u>	<u>Wastewater</u>	<u>General and Administrative</u>	<u>Total</u>
<u>OPERATING REVENUE</u>				
Water Revenue	\$ 5,018,544	\$ -	\$ -	\$ 5,018,544
Wastewater Revenue	-	1,339,693	-	1,339,693
Other Revenue	-	-	-	-
Total Operating Revenue	<u>5,018,544</u>	<u>1,339,693</u>	<u>-</u>	<u>6,358,237</u>
<u>OPERATING EXPENSES</u>				
<u>Operating and Maintenance</u>				
Personnel Expenses	961,137	161,818	-	1,122,955
Professional & Contracted Services	19,818	34,139	-	53,957
Chemicals & Materials	155,993	79,806	-	235,799
Street Work	21,016	10,122	-	31,138
Equipment Rental	108	-	-	108
Utilities	196,990	183,899	-	380,889
Permits & Fees	500	9,900	-	10,400
Purchased Water	287,294	-	-	287,294
Public Safety	281,942	-	-	281,942
Fuel-Vehicle & Equipment	74,065	31,168	-	105,233
Insurance - Vehicle, Equipment & Property	35,003	32,465	-	67,468
Insurance - Personnel	137,495	53,671	-	191,166
Repairs & Maintenance	21,631	54,413	-	76,044
Grinder Pump	-	29,174	-	29,174
Safety Supplies	5,953	5,087	-	11,040
Small Tools	11,118	9,044	-	20,162
	<u>2,210,063</u>	<u>694,706</u>	<u>-</u>	<u>2,904,769</u>
<u>General and Administrative</u>				
Bad Debt	17,114	4,278	-	21,392
Depreciation & Amortization	1,689,160	1,136,822	-	2,825,982
Administration Vehicle - Fuel & Insurance	-	-	8,180	8,180
Insurance & Medical Expenses	202	-	70,199	70,401
Personnel Expenses	213	803	502,357	503,373
Repairs & Maintenance	888	188	5,487	6,563
Utilities	22,068	8,765	4,019	34,852
Dues, Licenses, Permits, & Subscriptions	17,003	531	16,979	34,513
Professional & Contracted Services	6,200	-	47,632	53,832
Uniforms	6,807	7,041	-	13,848
Education	570	56	1,056	1,682
Office Expense	6,981	-	14,564	21,545
Postage & Printing	50,757	565	1,602	52,924
Public Relations	2,248	25	-	2,273
Rent - Building	22,350	-	17,550	39,900
Travel	22	61	619	702
Taxes, Fines, & Other	54	319	4	377
Public Notification	-	14	129	143
	<u>1,842,637</u>	<u>1,159,468</u>	<u>690,377</u>	<u>3,692,482</u>
Total Operating Expenses	<u>4,052,700</u>	<u>1,854,174</u>	<u>690,377</u>	<u>6,597,251</u>
NET OPERATING INCOME (LOSS)	<u>\$ 965,844</u>	<u>\$ (514,481)</u>	<u>\$ (690,377)</u>	<u>\$ (239,014)</u>

See independent auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2020A BOND ISSUE
DECEMBER 31, 2022

2.10% \$110,864				
<u>Due Date</u>	<u>Principal</u>		<u>Interest</u>	<u>Total Annual Requirement</u>
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
	\$ 83,196	\$	6,244	\$ 89,440

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2020B BOND ISSUE
DECEMBER 31, 2022

<u>Due Date</u>	1.00% \$2,960,730		
	<u>Principal</u>	<u>Service Fee</u>	<u>Total Annual Requirement</u>
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	253,543	1,268	509,631
	<u>\$ 1,993,439</u>	<u>\$ 45,113</u>	<u>\$ 2,038,552</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2020C BOND ISSUE
DECEMBER 31, 2022

1.00% \$4,161,097			
<u>Due Date</u>	<u>Principal</u>	<u>Service Fee</u>	<u>Total Annual Requirement</u>
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>\$ 3,317,542</u>	<u>\$ 134,246</u>	<u>\$ 3,451,788</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF INFORMATION REQUIRED BY
ARKANSAS NATURAL RESOURCES COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2022

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 11,148. 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 743,002,900.
- 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, 2022

<u>Company</u>	<u>Coverage</u>	<u>Date of Policy</u>	<u>Amount</u>
Arkansas Municipal League	Property	11/06/22 – 11/06/23	\$ 23,341,708
Arkansas Municipal League	Vehicle	12/08/21 – 12/31/22	\$ 1,995,425

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULES OF RESTRICTED ASSETS
DECEMBER 31, 2022 AND 2021

RESTRICTED CASH AND CASH EQUIVALENTS

	<u>2022</u>	<u>2021</u>
Bond Fund	\$ 1,976	\$ 1,976
System Improvements Account	2,378,973	2,324,396
Cash with Fiscal Agent (ANRC)	<u>160,939</u>	<u>161,564</u>
 Total Restricted Cash and Cash Equivalents	 <u>\$ 2,541,888</u>	 <u>\$ 2,487,936</u>

See auditors' report on supplementary schedules.

CABOT WATERWORKS
SCHEDULE OF GOVERNMENTAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2022

<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:			\$ -
Funding Source: Capitalization Grants for Clean Water State Revolving Fund	66.458		
2020B City of Cabot, Arkansas Water and Wastewater Revenue Bonds		00300-DWSRFL #1	8,000,000
2020C 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 12/31/2021</u>	<u>Cash Received In 2022</u>	<u>Principal Repayments In 2022</u>	<u>Bonds Payable 12/31/2022</u>	<u>Governmental Expenditures In 2022</u>
\$ -	\$ -	\$ -	\$ -	\$ -
2,479,497	-	486,058	1,993,439	-
<u>3,741,423</u>	<u>-</u>	<u>423,881</u>	<u>3,317,542</u>	<u>-</u>
<u>\$ 6,220,920</u>	<u>\$ -</u>	<u>\$ 909,939</u>	<u>\$ 5,310,981</u>	<u>\$ -</u>

CABOT WATERWORKS
NOTES TO SCHEDULE OF GOVERNMENTAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2022

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 \$5,309,981 at December 31, 2022 are included in Note 7 to Cabot WaterWorks' financial statements.

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2022 and 2021, 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 21, 2023.

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.

Cobb and Suskie, Ltd.

Certified Public Accountants
June 21, 2023