

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
JUNE 30, 2016 AND 2015  
TABLE OF CONTENTS**

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	4
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Position.....	10
Statements of Revenues, Expenses and Changes in Net Position.....	12
Statements of Cash Flows .....	13
Notes to Financial Statements.....	15
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedules of the Sewer Department's Proportionate Share of the Net Pension Liability .....	32
Schedules of Contributions .....	33
<b>SUPPLEMENTARY INFORMATION</b>	
Schedules of Operating Expenses .....	34
Schedules of Principal and Interest Payments:	
Sewer Revenue Improvement Bonds – Series 2007 .....	35
Sewer Revenue Refunding Bonds – Series 2008 .....	36
Sewer Revenue Refunding Bonds – Series 2010 .....	37
Schedules of Fixed Assets .....	38
Schedule of Sewer System Rates .....	40
Schedules of Sewer Customers .....	41
Schedules of Billable Gallons.....	42
<b>INDEPENDENT AUDITORS' 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</b> .....	43



## INDEPENDENT AUDITORS' REPORT

To the Waterworks and Sewer Commission  
**Rogers Water Utilities Sewer Department**  
Rogers, Arkansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** (“the Sewer Department”), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements which collectively comprise the Sewer Department’s basic financial statements as listed in the table of contents.

### ***Management’s Responsibility for the Financial Statements***

The Sewer Department’s management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors’ Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Sewer Department’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 Sewer Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Department as of June 30, 2016 and 2015, and its changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

As discussed in Note 1, the financial statements present only the Sewer Department and do not purport to, and do not, present fairly the financial position of the Rogers Water Utilities or the City of Rogers, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and pension schedules on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the Sewer Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America as of and for the years ended June 30, 2016 and 2015. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated September 14, 2016 on our consideration of the Sewer Department's internal control over financial reporting and 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 the 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 Sewer Department's internal control over financial reporting and compliance.

*Beall Barclay & Company, PLC*

**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Rogers, Arkansas  
September 14, 2016

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016, 2015, AND 2014**

This management's discussion and analysis of the financial performance of the Rogers Water Utilities Sewer Department (Sewer Department) provides an overview of the Sewer Department's financial activities for the years ended June 30, 2016, 2015, and 2014. Rogers Water Utilities is a component unit of the City of Rogers, Arkansas, and is overseen by the Rogers Waterworks and Sewer Commission, an autonomous board of directors, created by the Rogers City Council. The Rogers Sewer Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

**Financial Highlights Discussion**

- The Sewer Department's net position increased by \$5,289,000, or 5.8%, over fiscal year 2015. Net position increased by \$3,530,000 or 4.0% in 2015 over 2014.
- Sewer Department operating revenues increased by \$760,000, or 6.9% in 2016. Operating revenues decreased by \$118,000 or 1.1% in 2015 over 2014.
- Operating expenses increased by \$239,000, or 3.2% from 2015. Operating expenses decreased by \$21,000 or 0.3% in 2015 over 2014.
- Net position increased by \$3,150,000 before capital contributions during fiscal year 2016. In fiscal year 2015, net assets before capital contributions increased by \$2,502,000.

**Rogers Sewer Department Fiscal Year 2016 Highlights**

- Exceeded budgeted and prior year operating results.
- The number of customers increased by 490 or 2.24% from the prior year. Billed sewer consumption increased by 3.9%.
- Continued the focus on the Utility goal of debt-reduction by decreasing outstanding debt.
- Received Commission approval for and proceeded with a City wide meter change out program to be completed over the next 5-7 years. The change out will be conducted by Utility staff.
- Began using tablets in the field for electronic processing of service orders, troubles, shut offs, and meter change outs.
- Began the process of reviewing all outstanding debt for possible retirement or refunding. Budgeted in excess of \$5,000,000 for possible early retirement of debt in fiscal year 2017.
- Participated with Fayetteville, Springdale, Bentonville, Washington County and Benton County in an intergovernmental work group (IWG) regarding phosphorus in the Illinois River.
- Participated with Fayetteville, Springdale and Bentonville in the formation of the Northwest Arkansas Nutrient Trading Research Advisory Group.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016, 2015, AND 2014**

- Suffered the death of the senior manager at the Rogers Pollution Control facility. Hired an outside consultant to assist management during the transition period and process of hiring a new manager.

**Rogers Sewer Department Fiscal Year 2015 Highlights**

- Exceeded budgeted operating results by \$106,000. Fell short of matching prior year operating results.
- While the number of customers increased by 526 or 2.5% from the prior year, overall billed sewer consumption decreased 3.7% for fiscal year 2015.
- Appointed Robert Frazier, Frazier & Frazier Attorneys as General Counsel for the Rogers Waterworks and Sewer Commission. Appointed Mitchell Williams as consulting Attorneys for Bond and other issues.
- Continued the focus on the Utility goal of debt-reduction by decreasing outstanding debt.
- Presented an Investment Policy for consideration by the Rogers Waterworks and Sewer Commission. The policy became effective March 16, 2015.
- Added the position of Operations Manager in April of 2015. The Operations Manager coordinates and supervises the water and sewer field operations departments as well as the meter reading department.
- Budgeted staff and funds for a meter change out program, possibly to be implemented in fiscal year 2016.
- Began testing of electronic service orders using tablets in the field. Placed the process in service in August 2015.
- Implemented GASB 68 regarding pension plan reporting.

**Rogers Sewer Department Fiscal Year 2014 Highlights**

- Exceeded budgeted operating results by \$758,000. Fell short of matching prior year operating results.
- Participated with other local cities in an intergovernmental work group regarding phosphorus in the Illinois River.
- While the number of customer increased by 500 or 2.4% from the prior year, overall billed sewer consumption decreased by 1.5% for fiscal year 2014.
- Completed and placed in service the \$3.5 million sludge dryer in July 2013. The sludge earned a "Class A" certification and the Utility entered into a contract to sell dried sludge in fiscal year 2015.
- Hired an independent consultant to monitor the sewer collection system to identify potential sewer repair and rehabilitation sites.
- Focused on the Utility goal of debt-reduction by continuing to decrease outstanding debt. In November 2013, the 1996 ADFA bonds were paid off in their entirety. The bonds were paid off using sewer department reserves and resulted in significant savings in interest expense.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015, AND 2014**

- Commenced the search for a new Utility Superintendent with the appointment of Earl Rausch. Rausch has over 15 years of service with RWU. He is a licensed Professional Engineer and has treatment and distribution licenses for both water and sewer with the State of Arkansas.
- Entered into a cost-sharing agreement with the City of Rogers for Human Resource Services.
- Appointed Deputy City Attorney, Chris Griffin, as attorney due to Deputy Attorney, Jim Clark's retirement from the City of Rogers.
- Conducted a professional wage comparison survey to ensure Utility wages are comparable to industry and area standards.

**Using This Annual Report**

The Sewer Department's financial statements consist of three statements - a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Sewer Department including resources held by the Sewer Department but restricted for specific purposes by creditors. The Sewer Department is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.



**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015, AND 2014**

**Financial Highlights**

**Assets, Liabilities and Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Total current assets	\$ 18,226,236	\$ 14,382,113	\$ 11,276,388
Restricted cash and investments	3,148,835	2,993,854	3,199,749
Other noncurrent assets	101,912,335	101,887,345	102,583,680
Total assets	<u>\$ 123,287,406</u>	<u>\$ 119,263,312</u>	<u>\$ 117,059,817</u>
<b>Deferred Outflows of Resources</b>			
Pension costs	<u>\$ 561,597</u>	<u>\$ 389,130</u>	<u>\$ -</u>
<b>Liabilities</b>			
Total current liabilities	\$ 1,890,670	\$ 1,901,721	\$ 1,972,530
Liabilities payable from restricted assets	410,219	422,185	433,172
Noncurrent liabilities	24,901,773	25,664,169	27,022,540
Total liabilities	<u>\$ 27,202,662</u>	<u>\$ 27,988,075</u>	<u>\$ 29,428,242</u>
<b>Deferred Inflows of Resources</b>			
Pension costs	<u>\$ 195,842</u>	<u>\$ 503,063</u>	<u>\$ -</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	\$ 77,515,972	\$ 76,333,661	\$ 75,879,494
Restricted	2,738,616	2,571,669	2,766,577
Unrestricted	16,195,911	12,255,974	8,985,504
Total net position	<u>\$ 96,450,499</u>	<u>\$ 91,161,304</u>	<u>\$ 87,631,575</u>

**Operating Results and Changes in Net Position**

<b>Operating revenues</b>	<u>\$ 11,780,503</u>	<u>\$ 11,020,826</u>	<u>\$ 11,138,627</u>
<b>Operating expenses</b>			
Depreciation	3,537,723	3,458,256	3,419,532
Other operating expenses	4,124,571	3,965,183	4,024,983
Total operating expenses	<u>7,662,294</u>	<u>7,423,439</u>	<u>7,444,515</u>
<b>Operating income</b>	<u>4,118,209</u>	<u>3,597,387</u>	<u>3,694,112</u>
<b>Other revenues (expenses)</b>			
Interest expense	(1,082,452)	(1,121,298)	(1,212,771)
Other income (expenses)	114,193	25,847	21,234
Total other revenues (expenses)	<u>(968,259)</u>	<u>(1,095,451)</u>	<u>(1,191,537)</u>
<b>Changes in net position before capital contributions</b>	3,149,950	2,501,936	2,502,575
<b>Capital Contributions</b>	<u>2,139,245</u>	<u>1,027,793</u>	<u>642,666</u>
<b>Change in Net Position</b>	5,289,195	3,529,729	3,145,241
<b>Net Position, Beginning of Year</b>	<u>91,161,304</u>	<u>87,631,575</u>	<u>85,935,085</u>
<b>Net Position, End of Year</b>		91,161,304	89,080,326
<b>Implementation of GASB 68</b>	-	-	<u>(1,448,751)</u>
<b>Net Position, Restated</b>	<u>\$ 96,450,499</u>	<u>\$ 91,161,304</u>	<u>\$ 87,631,575</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016, 2015, AND 2014**

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2016, the Sewer Department's investment in capital assets was \$101,912,000 (net of accumulated depreciation). This investment of capital assets included land, buildings, improvements, machinery and equipment, and contributed property.

**Major capital asset events include the following:**

- Construction costs of \$697,000 during fiscal year 2016 were incurred on a variety of sewer system and sewer rehab projects. \$790,000 of constructed assets were completed and placed in service, consisting mostly of sewer rehab and replacements. In addition, \$2,126,000 of sewer mains constructed by developers was contributed to the Sewer Department to own and maintain. This is recorded as a capital contribution in the Statements of Revenues, Expenses, and Changes in Net Position. In 2015, the Sewer Department had construction of \$857,000 and contributed capital of \$1,025,000, and in 2014, construction of \$1,634,000 and contributed capital of \$639,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$749,000 in 2016, as compared to \$916,000 in 2015 and \$739,000 in 2014.

Additional information regarding capital assets can be found on Note 10 of this report.

**Long-Term Debt**

The Sewer Department had \$23,815,000 in revenue bonds outstanding as of June 30, 2016, which is a decrease of \$1,120,000 from 2015 resulting from principal payments. Revenue bonds outstanding as of June 30, 2015 were \$24,935,000 which is a decrease of \$1,105,000 from 2014 resulting from principal payments.

Additional information regarding long-term debt can be found at Note 9 of this report.

**Additional Management Comments**

Sewer consumption in fiscal year 2016 was 3.9% more than the previous year. Sewer consumption in 2016 increased year over year largely due to wet weather in fiscal year 2015. This, of course has favorably impacted the bottom line, resulting in operating income greater than fiscal year 2015, and exceeding the budget. The focus on controlling expenses continues.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016, 2015, AND 2014**

The Rogers Sewer Department funded capital improvements out of reserves in fiscal year 2016. Completed projects were mostly sewer replacements. Projects in process at the end of the year included various City of Rogers street improvements. Major projects expected in fiscal year 2017 also include sewer main projects for City of Rogers street projects, and sewer rehab.

An internal rate study was completed by Utility personnel for the Sewer Department during fiscal year 2012. It indicated no rate increase is necessary at this time. The drought conditions for several years and reduced debt service have helped delay the need for a rate increase. New construction in Rogers seems to be increasing. The collection system and treatment facilities in Rogers are current and appear to have adequate capacity for the foreseeable future. Financial reserves are adequate and should enable the Rogers Waterworks and Sewer Commission and Rogers Water Utilities staff to meet most future contingencies.

Since sewer billings are based on water consumption, Rogers Sewer Department shares the cost of meters with the Rogers Water Department. There are new requirements regarding the replacement of brass water meters to comply with the "Reduction of Lead in Drinking Water Act." Effective January 1, 2014 brass meters are no longer be allowed to be placed in the ground for potable water usage. Brass meters already in service will be allowed to continue in service, but, if they are physically removed for any purpose they can only be reinstalled at the location they were removed from. Otherwise, they must be replaced with composite or no lead brass meters. Over the next five to seven years Rogers Sewer Department plans to change out all noncompliant meters in our system.

Total Maximum Daily Load (TMDL) study being conducted by USEPA continues to be a significant concern for the Cities of Northwest Arkansas. It could result in serious total phosphorus restrictions on the discharge of the Rogers Pollution Control Facility (RPF) and the storm sewers of the City of Rogers. Implementation plans and waste load allocations necessitated by the TMDL, will reduce the amount of permitted phosphorus discharge from the RPF, resulting in new discharge permits, Administrative Orders, and the like, to force compliance on the Cities of Northwest Arkansas. Improvements to the Publicly Owned Treatment Works (POTW's) in Northwest Arkansas will be paid for by user fees. The cost for the required treatment plant improvements is not definable now, nor is the timeline for compliance; however, the scale of the impact on the homes, businesses, and industries of Northwest Arkansas can hardly be overstated. Water quality issues could well define the continued economic health of the regions for decades to come.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2016 AND 2015**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,660,519	\$ 1,670,146
Investments	11,229,563	11,235,265
Accounts receivable, net of allowance for doubtful accounts of \$205,000 and \$235,000, respectively	1,230,133	1,258,135
Due from water department	-	98,506
Inventory	63,938	76,823
Prepaid expenses	<u>42,083</u>	<u>43,238</u>
 Total Current Assets	 <u>18,226,236</u>	 <u>14,382,113</u>
 <b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	597,911	568,897
Investments	2,550,906	2,424,900
Accrued interest receivable	<u>18</u>	<u>57</u>
 Total Restricted Cash and Investments	 <u>3,148,835</u>	 <u>2,993,854</u>
 <b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<u>101,912,335</u>	<u>101,878,736</u>
 <b>OTHER ASSETS</b>		
Forbearance agreement receivable	<u>-</u>	<u>8,609</u>
 Total Assets	 123,287,406	 119,263,312
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	<u>561,597</u>	<u>389,130</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 123,849,003</u>	 <u>\$ 119,652,442</u>

See Independent Auditors' Report and Notes to Financial Statements.

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

	2016	2015
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 132,337	\$ 222,278
Accounts payable to construction contractors	123,251	64,974
Accrued expenses	409,630	407,547
Accrued vouchers	-	86,922
Due to water department	30,452	-
Current portion of bonds payable	<u>1,195,000</u>	<u>1,120,000</u>
 Total Current Liabilities	 <u>1,890,670</u>	 <u>1,901,721</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accrued interest payable	<u>410,219</u>	<u>422,185</u>
 Total Liabilities Payable From Restricted Assets	 <u>410,219</u>	 <u>422,185</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net of unamortized premiums and discounts	23,201,363	24,425,075
Net pension liability	<u>1,700,410</u>	<u>1,239,094</u>
 Total Long-Term Liabilities	 <u>24,901,773</u>	 <u>25,664,169</u>
 Total Liabilities	 27,202,662	 27,988,075
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension inflows	<u>195,842</u>	<u>503,063</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>27,398,504</u>	 <u>28,491,138</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	77,515,972	76,333,661
Restricted	2,738,616	2,571,669
Unrestricted	<u>16,195,911</u>	<u>12,255,974</u>
 Total Net Position	 <u>96,450,499</u>	 <u>91,161,304</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 123,849,003</u>	 <u>\$ 119,652,442</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**STATEMENTS REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Residential sewer	\$ 6,539,003	\$ 6,405,210
Commercial sewer	1,949,112	1,860,464
Industrial sewer	1,460,392	1,349,483
Penalties	139,055	133,194
Access, impact and new customer fees	1,495,845	1,177,396
Other operating revenue	<u>197,096</u>	<u>95,079</u>
 Total Operating Revenues	 <u>11,780,503</u>	 <u>11,020,826</u>
<b>OPERATING EXPENSES</b>		
Pollution control facility and field expense	2,806,077	2,787,521
General and administrative	1,318,494	1,177,662
Depreciation	<u>3,537,723</u>	<u>3,458,256</u>
 Total Operating Expenses	 <u>7,662,294</u>	 <u>7,423,439</u>
<b>OPERATING INCOME</b>	<u>4,118,209</u>	<u>3,597,387</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	124,418	42,620
Loss on disposal of fixed assets	-	(6,773)
Interest expense	(1,082,452)	(1,121,298)
Trustee fees	<u>(10,225)</u>	<u>(10,000)</u>
 Total Other Revenues (Expenses)	 <u>(968,259)</u>	 <u>(1,095,451)</u>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	 3,149,950	 2,501,936
<b>CAPITAL CONTRIBUTIONS</b>	<u>2,139,245</u>	<u>1,027,793</u>
<b>CHANGE IN NET POSITION</b>	5,289,195	3,529,729
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>91,161,304</u>	<u>87,631,575</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$96,450,499</u>	<u>\$91,161,304</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,976,509	\$ 9,526,014
Cash received from access, impact and new customer fees	1,481,344	1,175,985
Cash received from penalties and other operating revenue	263,730	228,273
Payments for salaries and benefits	(2,242,115)	(2,185,225)
Payments to suppliers for goods and services	<u>(1,845,688)</u>	<u>(2,053,894)</u>
Net Cash From Operating Activities	<u>7,633,780</u>	<u>6,691,153</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(1,373,800)	(1,765,428)
Principal payments on bonds	(1,120,000)	(1,105,000)
Interest and paying agent fees, net of capitalized interest	(1,133,355)	(1,170,999)
Collection of forbearance agreement	<u>8,609</u>	<u>16,788</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(3,618,546)</u>	<u>(4,024,639)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	124,418	42,620
Net change in investments	5,702	(3,550,131)
Net change in restricted investments	<u>(125,967)</u>	<u>92,243</u>
Net Cash From (Used For) Investing Activities	<u>4,153</u>	<u>(3,415,268)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	4,019,387	(748,754)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,239,043</u>	<u>2,987,797</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 6,258,430</u>	<u>\$ 2,239,043</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 5,660,519	\$ 1,670,146
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>597,911</u>	<u>568,897</u>
	<u>\$ 6,258,430</u>	<u>\$ 2,239,043</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating income	<u>\$ 4,118,209</u>	<u>\$ 3,597,387</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	3,537,723	3,458,256
Allowance for doubtful accounts	30,000	(9,500)
Redeemed vouchers	(86,922)	(1,411)
Net change in pension liability	(18,372)	(95,724)
Changes in assets and liabilities:		
Accounts receivable	(1,998)	(79,643)
Inventory	12,885	1,640
Prepaid expenses	1,155	(4,687)
Accounts payable	(89,941)	(18,712)
Accrued expenses	2,083	32,603
Due to/from water department	<u>128,958</u>	<u>(189,056)</u>
Total adjustments	<u>3,515,571</u>	<u>3,093,766</u>
Net Cash From Operating Activities	<u>\$ 7,633,780</u>	<u>\$ 6,691,153</u>
<b>NONCASH TRANSACTIONS</b>		
Capital contributions	<u>\$ 2,139,245</u>	<u>\$ 1,027,793</u>

See Independent Auditors' Report and Notes to Financial Statements.



**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Reporting Entity - Sewer Department***

The City of Rogers, Arkansas was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. Rogers Water Utilities (the Utilities) is a blended component unit of the City of Rogers, Arkansas and is governed by the Waterworks and Sewer Commission, which is appointed by the City Council. The Utilities operate through two separate departments – the Water Department and the Sewer Department. The Sewer Department provides sewer services to the City of Rogers and certain surrounding areas. The City Council approves the rate changes of the Utilities. The debt of the Utilities is maintained in the name of the City of Rogers, Arkansas.

***Fund Type***

The Sewer Department is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

***Basis of Accounting***

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from other revenues (expenses) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Sewer Department. All revenue and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Sewer Department.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Sewer Department applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Use of Estimates***

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

***Inventory***

Inventory is valued at the lower of cost (first-in, first-out method) or market. Inventory consists of construction and maintenance supplies related to the sewer system.

***Cash Equivalents***

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At June 30, 2016 and 2015, the Sewer Department had no cash equivalents.

***Investments***

Investments consist of certificates of deposit with original maturities of greater than three months and governmental securities. Certificates of deposit are recorded at amortized cost, which approximates fair value. Governmental securities are recorded at fair market value based on quoted market prices. Income related to investments is recorded when earned.

***Accounts Receivable***

Accounts receivable relate to sewer billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a ten percent penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

***Subsequent Events***

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Long-Lived Assets***

The Sewer Department reviews long-lived assets and certain identifiable intangibles held and used by the Sewer Department for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended June 30, 2016 and 2015, this review has not materially affected the Sewer Department's reported earnings, net position or results of operations.

***Contributed Capital***

The Sewer Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contributions in the Statements of Revenues, Expenses and Changes in Net Position and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of sewer lines and related infrastructure. At June 30, 2016 and 2015, cumulative contributed capital fixed assets amounted to approximately \$34,431,000 and \$32,305,000, respectively.

***Fixed Assets***

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Structures	5 - 40 years
Mains and hydrants	50 years
Sewer service lines	50 years
Meters	20 - 25 years
Pollution control facility	2 - 50 years
Shop equipment and machinery	2 - 10 years
Transportation equipment	3 - 10 years
Two-way radio system	5 - 15 years
Field equipment	2 - 20 years
Office equipment	3 - 20 years

The Sewer Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Sewer Department at June 30, 2016 and 2015 amounted to approximately \$4,414,000 and \$3,891,000, respectively.

***Amortization of Bond Premiums and Discounts***

Bond premiums and discounts are amortized over the lives of the related bond issues. Net amortization expense of \$28,713 is included as a reduction of interest expense for each of the years ended June 30, 2016 and 2015.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Compensated Absences***

The Sewer Department's policies permit employees to earn time off benefits. The expense and related liability are recognized and accrued regardless of whether the employee is expected to realize the benefit. Compensated absences are computed using the regular pay rate in effect at June 30, 2016 and 2015.

***Current Accounting Developments***

In December 2015, the GASB issued Statement Number 78 (GASB 78), Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans, effective for fiscal years beginning after December 15, 2015. GASB 78 addresses a practice issue regarding the scope and applicability of GASB 68, Accounting and Financial Reporting for Pensions. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions.

In March 2016, the GASB issued Statement Number 82 (GASB 82), Pension Issues – An amendment of GASB Statements No. 67, No. 68, and No. 73., effective for fiscal years beginning after June 15, 2016. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Management is currently evaluating the impact of implementation of these statements to the financial statements of the Sewer Department and does not expect the implementation of these statements to significantly impact the financial statements of the Sewer Department.

***Implementation of GASB 68 – Year Ended June 30, 2014 Financial Statements Restated***

During the year ended June 30, 2015, the Sewer Department adopted GASB Statement Number 68 (GASB 68) which improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 states that for cost-sharing pension plans, a liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. Accordingly, the effect of this change was to add \$1,448,751 to net pension liability, and a corresponding reduction of unrestricted net assets as of June 30, 2014.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Pensions***

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (“APERS”) and additions to or deductions from the 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. Investments are reported at fair value.

***Deferred Inflows and Outflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Sewer Department only has one item that qualifies for reporting in this category. It is the deferred outflow of resources on pension costs reported in the statement of net position. A deferred outflows of resources related to pension liabilities, these amounts were created as a result of the implementation of GASB 68. See Note 11 for additional information.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Sewer Department has one item that qualifies for reporting in this category. In regards to the deferred inflows of resources related to pension liabilities, these amounts were created as a result of the implementation of GASB 68. See Note 11 for additional information.

***Net Position Classifications***

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

When an expense is incurred for purposes for which both restricted net position and unrestricted net position is available, the Sewer Department’s policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS**

Deposits in financial institutions are financial instruments that could potentially subject the Sewer Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2016, the Sewer Department had approximately \$6,590,000 in deposit balances reported as cash and cash equivalents in the Statements of Net Position, of which approximately \$750,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities' name. Additionally, the Sewer Department had approximately \$11,635,000 in certificates of deposit reported as investments in the Statements of Net Position, of which all were FDIC insured.

**NOTE 3: DUE TO/FROM WATER DEPARTMENT**

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Utilities. The Utilities send a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. In prior years, voucher redemptions were netted against these balances, however, these vouchers expired in October of 2015. See Note 13 for further details. The balances as of June 30, 2016 and 2015 are shown in the Statements of Net Position under the caption "Due to or from water department."

**NOTE 4: RESTRICTED CASH AND INVESTMENTS**

Restricted cash and investments are held for specific purposes at June 30, 2016 and 2015 as follows:

	<b>2016</b>	<b>2015</b>
Debt service reserve	\$ 1,813,774	\$ 1,897,671
Depreciation reserve for additional replacements to the sewer system	1,002,971	971,430
New customer fees collected for additions of fixed assets	332,072	124,696
Accrued interest	18	57
	<u>\$ 3,148,835</u>	<u>\$ 2,993,854</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 5: FORBEARANCE AGREEMENT RECEIVABLE**

In September of 2006, the Utilities and a commercial developer entered into a cost sharing agreement for the construction of water and sewer mains to a commercial development. During the year ended June 30, 2010, the Utilities entered into a forbearance agreement with the developer. Under the terms of the agreement, the developer will pay \$311,974 of cost sharing, in monthly installments of \$5,000, bearing interest at 5% per year, with a lump sum of \$198,100 due July 1, 2012. In June 2012, Utilities and the developer entered into an extension agreement for payment of the \$198,100 lump sum. The extension agreement provides for monthly installments of \$5,000, bearing interest at 3½% per year and amortized to December 2015. During the year ended June 30, 2016, the Sewer Department collected the outstanding receivable.

**NOTE 6: RISK MANAGEMENT**

The Sewer Department is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 7: INVESTMENTS**

The Sewer Department's investment policies are to comply with the provisions of state statutes, which generally require that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in direct obligations of the United States of America, the principal and interest of which are fully guaranteed by the United States government.

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Sewer Department's investment policy is to attempt to match investment maturities with cash flow requirements.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Sewer Department's policy to minimize credit risk losses due to default of security issuers or backers by limiting investments to the safest types of securities. The Sewer Department's investments consist of certificates of deposit with original maturities of greater than ninety days and less than five years and securities issued by the United States government.

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Sewer Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2016, investments of the Sewer Department were fully collateralized or insured.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 7: INVESTMENTS - CONTINUED**

At June 30, 2016 and 2015, the Sewer Department's investments consisted of \$11,634,623 and \$11,637,798, respectively, held in certificates of deposit and \$2,145,846 and \$2,022,367, respectively, held in United States government securities. All investments at June 30, 2016 and 2015 had maturities of less than five years.

**NOTE 8: COMMITMENTS AND CONCENTRATIONS**

The Sewer Department is committed to several construction contracts in process at June 30, 2016 totaling \$930,756. As of June 30, 2016, \$408,933 had been incurred in connection with these contracts.

For the years ended June 30, 2016 and 2015, the Sewer Department had one customer that accounted for 12.9% and 10.7%, respectively, of total usage.

**NOTE 9: BONDS PAYABLE**

***Series 2007 Revenue Improvement Bonds***

In February 2007, the Sewer Department issued \$22,000,000 in Revenue Improvement Bonds (Series 2007) at an average rate of 4.6% to finance general improvements to the sewer system and related infrastructure. The bond matures in 2037 with principal payments due in February and interest payments due in February and August of each year. As of June 30, 2016 and 2015, the outstanding principal was \$19,600,000 and \$20,100,000, respectively.

***Series 2008 Revenue Refunding Bonds***

In May 2008, the Sewer Department issued \$4,820,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Sewer Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$189,430. The bond matures in fiscal year 2019 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2016 and 2015, the outstanding principal was \$1,560,000 and \$2,045,000, respectively.

***Series 2010 Revenue Bonds***

In December 2010, the Sewer Department issued \$3,310,000 in Revenue Bonds (Series 2010) at an average rate of 3.6% to finance the purchase and installation of a sludge dryer for the processing of solid waste. The bond matures in fiscal year 2031 with principal payments due in December and interest payments due in December and June of each year. As of June 30, 2016 and 2015, the outstanding principal was \$2,655,000 and \$2,790,000, respectively.

***All Bond Issues***

System revenues and all assets are pledged to the bonds outstanding. The debt service coverage ratio, calculated as described in the Series 2007 and 2008 bond documents, as of June 30, 2016 and 2015, is 3.41 and 3.16, respectively. Total interest paid during the years ended June 30, 2016 and 2015 totaled \$1,123,132 and \$1,160,998, respectively. No interest was capitalized during the years ended June 30, 2016 and 2015.



**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 9: BONDS PAYABLE - CONTINUED**

***All Bond Issues - Continued***

The Sewer Department is required to establish rates sufficient to pay the expenses and operation and maintenance of the sewer system, making monthly deposits into bond funds for repayment obligations which will be due and payable in the forthcoming year, and to make deposits in an amount equal to 4% of gross sewer system revenues for the preceding month into the depreciation fund. The Sewer Department was in compliance with all debt covenants for the years ended June 30, 2016 and 2015.

Principal and interest maturities of the Sewer Department bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,195,000	\$ 1,082,167	\$ 2,277,167
2018	1,260,000	1,037,644	2,297,644
2019	1,300,000	990,846	2,290,846
2020	795,000	949,100	1,744,100
2021	835,000	916,287	1,751,287
2022-2026	4,740,000	4,002,418	8,742,418
2027-2031	5,975,000	2,761,911	8,736,911
2032-2036	6,270,000	1,316,062	7,586,062
2037	1,445,000	72,254	1,517,254
Total	<u>\$23,815,000</u>	<u>\$13,128,689</u>	<u>\$36,943,689</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 9: BONDS PAYABLE - CONTINUED**

Following is a summary of changes in bonds payable:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due Within One Year
Revenue Improvement Bonds, Series 2007	\$ 20,100,000	\$ -	\$ 500,000	\$ 19,600,000	\$ 550,000
Revenue Refunding Bonds, Series 2008	2,045,000	-	485,000	1,560,000	505,000
Revenue Bonds Series 2010	2,790,000	-	135,000	2,655,000	140,000
Bonds payable, gross	24,935,000	-	1,120,000	23,815,000	1,195,000
Plus premiums	634,419	-	30,292	604,127	-
Less discounts	(24,344)	-	(1,580)	(22,764)	-
	<u>\$ 25,545,075</u>	<u>\$ -</u>	<u>\$ 1,148,712</u>	<u>\$ 24,396,363</u>	<u>\$ 1,195,000</u>

  

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Amounts Due Within One Year
Revenue Improvement Bonds, Series 2007	\$ 20,600,000	\$ -	\$ 500,000	\$ 20,100,000	\$ 500,000
Revenue Refunding Bonds, Series 2008	2,515,000	-	470,000	2,045,000	485,000
Revenue Bonds Series 2010	2,925,000	-	135,000	2,790,000	135,000
Bonds payable, gross	26,040,000	-	1,105,000	24,935,000	1,120,000
Plus premiums	664,712	-	30,293	634,419	-
Less discounts	(25,923)	-	(1,579)	(24,344)	-
	<u>\$ 26,678,789</u>	<u>\$ -</u>	<u>\$ 1,133,714</u>	<u>\$ 25,545,075</u>	<u>\$ 1,120,000</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 10: CHANGES IN FIXED ASSETS**

	<b>Balance June 30, 2015</b>	<b>Transfers/ Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2016</b>
Land	\$ 1,805,153	\$ -	\$ -	\$ 1,805,153
Buildings	55,096,228	203,997	(7,111)	55,293,114
Equipment	50,772,816	1,281,248	(173,701)	51,880,363
Vehicles	1,161,882	54,173	-	1,216,055
Contributed property	32,304,773	2,125,743	-	34,430,516
Construction in progress	502,770	696,619	(790,456)	408,933
	141,643,622	4,361,780	(971,268)	145,034,134
Accumulated depreciation	(39,764,886)	(3,537,723)	180,810	(43,121,799)
	<u>\$ 101,878,736</u>	<u>\$ 824,057</u>	<u>\$ (790,458)</u>	<u>\$ 101,912,335</u>
	<b>Balance June 30, 2014</b>	<b>Transfers/ Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2015</b>
Land	\$ 1,795,753	\$ 9,400	\$ -	\$ 1,805,153
Buildings	55,094,255	136,753	(134,780)	55,096,228
Equipment	49,042,372	1,829,662	(99,218)	50,772,816
Vehicles	1,111,060	73,579	(22,757)	1,161,882
Contributed property	31,280,230	1,024,543	-	32,304,773
Construction in progress	779,588	856,974	(1,133,792)	502,770
	139,103,258	3,930,911	(1,390,547)	141,643,622
Accumulated depreciation	(36,544,975)	(3,458,256)	238,345	(39,764,886)
	<u>\$ 102,558,283</u>	<u>\$ 472,655</u>	<u>\$ (1,152,202)</u>	<u>\$ 101,878,736</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**Plan Description**

The following brief description of the Arkansas Public Employees Retirement System ("APERS") is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

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	2.03%
Non-Contributory	1.72%

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

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

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Benefits Provided - Continued**

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. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 14.76% of compensation for the fiscal year ended June 30, 2015. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

**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**

The collective Net Pension Liability of \$1,841,733,371 was measured as of June 30, 2015, 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.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

At June 30, 2016, the Sewer Department reported deferred outflows of resources and deferred inflows of resources as of June 30, 2015, 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	\$ -	\$ (111,476)
Changes of assumptions	250,944	-
Changes in proportion and differences between employer contributions and proportionate share	75,233	-
Net difference between projected and actual earnings on pension plan investments	-	(84,366)
Contributions subsequent to measurement date	<u>235,420</u>	<u>-</u>
	<u>\$ 561,597</u>	<u>\$ (195,842)</u>

Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2017, and will not be amortized in the schedule below. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the Sewer Department's financial statements as follows:

**Years ended June 30:**

2016	\$ (17,099)
2017	(17,099)
2018	(1,587)
2019	(94,550)
2020	-
Thereafter	-

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Actuarial Assumptions**

The total pension liability in the June 30, 2015 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 (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (13 years for District Judges New Plan/Paid Off Old Plan and 20 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Salary Increases	3.25% - 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Including	3.75%
Post-Retirement Cost-of-Living Increases	3% Annual Compounded Increase
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Average Service Life of All Members	4.5972

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 of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015 are summarized in the table below:

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Actuarial Assumptions- Continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	42%	6.82%
International Equity	25%	6.88%
Real Assets	12%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	<u>16%</u>	0.83%
Total	<u>100%</u>	

**Discount Rate**

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

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

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.50%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

**Sensitivity of Discount Rate**

1% Lower <u>6.50%</u>	Discount Rate <u>7.50%</u>	1% Higher <u>8.50%</u>
\$ 2,801,015	\$ 1,700,410	\$ 785,094



**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 12: EMPLOYEE BENEFIT PLANS**

**Flexible Benefit Plan**

The City of Rogers, Arkansas offers all active full-time employees and elected City officials who receive a W-2 form the option to participate in a flexible benefit plan administered by the Rogers Water Utilities. The flexible benefit plan has been established as a cafeteria plan as permitted under Section 125 of the Internal Revenue Code (IRC) of 1954, as amended, to provide for group medical/dental assistance for its eligible employees and dependents. The plan is funded solely by salary redirections as elected on a voluntary basis by participants. Sewer Department employee contributions for the years ended June 30, 2016 and 2015 were \$79,731 and \$73,151, respectively.

**Deferred Compensation Plan**

The Utilities offers a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code as a benefit to its employees. Each employee may contribute amounts up to the maximum allowed under the IRC. The plan permits employees to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Other than incidental expenses of collecting and disbursing the employees' deferrals and other minor administrative matters, there are no costs to the Sewer Department for the deferred compensation plan.

Plan assets remain the property of the Utilities until paid and are subject only to claims of the Utilities' creditors. Participants' rights under the plan are equivalent to the claims of general creditors of the Utilities in an amount equal to the fair market value of the deferred account for each participant. The Utilities fulfills its fiduciary responsibility by remitting all deferred amounts each pay period to an outside service for investment in a diversified portfolio.

Deferred compensation remitted for investment during the years ended June 30, 2016 and 2015 was \$25,440 and \$32,370, respectively. At June 30, 2016 and 2015, there were six employees participating in the plan.

**NOTE 13: ACCRUED VOUCHERS**

In April 2008, a lawsuit was filed against the Utilities in Benton County Circuit Court claiming violations of law, including illegal exaction of development impact fees and access fees. During the year ended June 30, 2011, management of the Utilities and the plaintiffs reached a settlement agreement. Under the terms of the settlement, the Utilities issued vouchers for 53% of the fees collected between June 27, 2008 and August 31, 2010. The vouchers were issued to the person or entities filing a valid claim with the Utilities by September 7, 2010. The vouchers are redeemable against future access, impact or hookup fees, are transferable and expire in five years. The Sewer Department had accrued \$464,810 in vouchers payable at June 30, 2010, representing the claims filed and approved by the court. As of October 22, 2015, the vouchers reached their expiration date. The remaining balance at June 30, 2016 and 2015 was \$-0- and \$86,922. During the year ended June 30, 2016, \$14,501 of vouchers were submitted. The remaining balance of \$72,421 was recognized as miscellaneous income during the period.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF THE SEWER DEPARTMENT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015*</u>
Proportion of the net pension liability	0.09%	0.09%
Proportionate share of the net pension liability	\$ 1,700,410	\$ 1,239,094
Covered - employee payroll	\$ 1,666,569	\$ 1,651,227
Proportionate share of the net pension liability as percentage of covered-employee payroll	102.03%	75.04%
Plan's fiduciary net position	\$ 1,700,410	\$ 1,239,094
Plan's fiduciary net position as a percentage of the total pension liability	100.00%	100.00%

\*Fiscal Year 2015 was the first year of implementation, and is based on actuarial valuation as of June 30, 2014, therefore only two years are shown.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF CONTRIBUTIONS  
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015*</u>
Contractually required contribution	\$ 235,420	\$ 242,355
Contributions in relation to the contractually required contribution	\$ (235,420)	\$ (242,355)
Contribution deficiency (excess)	\$ -	\$ -
Sewer Department's covered-employee payroll	\$ 1,666,569	\$ 1,651,227
Contributions as a percentage of covered-employee payroll	14.13%	14.68%

\*Fiscal Year 2015 was the first year of implementation, and is based on actuarial valuation as of June 30, 2014, therefore only two years are shown.

## **SUPPLEMENTARY INFORMATION**

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>POLLUTION CONTROL FACILITY AND FIELD EXPENSE</b>		
Employee benefits	\$ 414,270	\$ 340,368
Insurance	50,392	46,526
Operating supplies and other	137,251	187,193
Payroll taxes	86,405	81,972
Repairs and maintenance	210,459	203,524
Salaries	1,176,838	1,137,218
Sludge disposal costs	237,401	274,747
Supplies and postage	70,965	87,998
Utilities	422,096	427,975
	<u>2,806,077</u>	<u>2,787,521</u>
 <b>GENERAL AND ADMINISTRATIVE</b>		
Bad debts	41,988	42,854
Consulting services - stream assessment	20,500	20,500
Employee benefits	140,635	124,842
Franchise taxes / use taxes	350,236	341,247
Insurance	2,626	2,556
Office supplies and postage	100,481	101,897
Other	154,737	19,164
Payroll taxes	35,507	36,801
Professional fees	75,692	64,723
Salaries	373,556	401,003
Utilities	22,536	22,075
	<u>1,318,494</u>	<u>1,177,662</u>
 <b>DEPRECIATION</b>	<u>3,537,723</u>	<u>3,458,256</u>
 <b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 7,662,294</u></u>	<u><u>\$ 7,423,439</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE IMPROVEMENT BONDS – SERIES 2007  
JUNE 30, 2016**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2017	\$ 550,000	4.375%	\$ 944,188	\$ 1,494,188
2018	595,000	4.000%	920,125	1,515,125
2019	620,000	4.250%	896,325	1,516,325
2020	645,000	4.250%	869,975	1,514,975
2021	675,000	4.250%	842,562	1,517,562
2022	705,000	4.375%	813,875	1,518,875
2023	735,000	5.000%	783,031	1,518,031
2024	770,000	5.000%	746,281	1,516,281
2025	810,000	5.000%	707,781	1,517,781
2026	850,000	5.000%	667,281	1,517,281
2027	890,000	5.000%	624,781	1,514,781
2028	935,000	5.000%	580,281	1,515,281
2029	985,000	5.000%	533,531	1,518,531
2030	1,035,000	5.000%	484,281	1,519,281
2031	1,085,000	5.000%	432,531	1,517,531
2032	1,140,000	5.000%	378,281	1,518,281
2033	1,195,000	4.375%	321,281	1,516,281
2034	1,250,000	5.000%	269,000	1,519,000
2035	1,310,000	5.000%	206,500	1,516,500
2036	1,375,000	5.000%	141,000	1,516,000
2037	1,445,000	5.000%	72,254	1,517,254
Balance, June 30, 2016	<u>\$19,600,000</u>		<u>\$12,235,145</u>	<u>\$ 31,835,145</u>

Dated: February 1, 2007

Payment Dates: February 1

Interest Payment Dates: February 1 and August 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE REFUNDING BONDS – SERIES 2008  
JUNE 30, 2016**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	\$ 505,000	3.350%	\$ 45,391	\$ 550,391
2018	520,000	3.450%	27,963	547,963
2019	<u>535,000</u>	3.550%	<u>9,496</u>	<u>544,496</u>
Balance, June 30, 2016	<u>\$ 1,560,000</u>		<u>\$ 82,850</u>	<u>\$ 1,642,850</u>

Dated: May 1, 2008

Payment Dates: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.



**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE BONDS – SERIES 2010  
JUNE 30, 2016**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	\$ 140,000	2.000%	\$ 92,588	\$ 232,588
2018	145,000	2.250%	89,556	234,556
2019	145,000	4.000%	85,025	230,025
2020	150,000	4.000%	79,125	229,125
2021	160,000	3.000%	73,725	233,725
2022	160,000	3.250%	68,725	228,725
2023	170,000	3.500%	63,150	233,150
2024	175,000	3.500%	57,113	232,113
2025	180,000	3.500%	50,900	230,900
2026	185,000	3.750%	44,281	229,281
2027	195,000	3.750%	37,156	232,156
2028	200,000	3.750%	29,750	229,750
2029	210,000	4.000%	21,800	231,800
2030	215,000	4.000%	13,300	228,300
2031	<u>225,000</u>	4.000%	<u>4,500</u>	<u>229,500</u>
Balance, June 30, 2016	<u>\$ 2,655,000</u>		<u>\$ 810,694</u>	<u>\$ 3,465,694</u>

Dated: December 1, 2010

Payment Dates: December 1

Interest Payment Dates: June 1 and December 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF FIXED ASSETS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

Fixed Assets	2016			
	<u>Balance June 30, 2015</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2016</u>
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office equipment	605,139	69,850	(79,356)	595,633
Vehicles	1,161,882	54,173	-	1,216,055
Shop equipment	80,121	-	-	80,121
Field equipment	1,186,315	28,407	-	1,214,722
Radio equipment	79,837	1,546	-	81,383
Water meters	1,911,660	179,156	(94,345)	1,996,471
Sewer system	46,909,744	1,002,289	-	47,912,033
Pollution control facility	53,324,310	203,997	(7,111)	53,521,196
Structures and parking lots	1,771,918	-	-	1,771,918
Easements	1,141,899	-	-	1,141,899
Contributed sewer system	<u>32,304,773</u>	<u>2,125,743</u>	<u>-</u>	<u>34,430,516</u>
	141,140,852	3,665,161	(180,812)	144,625,201
Construction in progress	<u>502,770</u>	<u>696,619</u>	<u>(790,456)</u>	<u>408,933</u>
	<u>\$ 141,643,622</u>	<u>\$ 4,361,780</u>	<u>\$ (971,268)</u>	<u>\$ 145,034,134</u>

**Accumulated Depreciation**

Office equipment	\$ 453,439	\$ 55,038	\$ (79,354)	\$ 429,123
Vehicles	796,171	71,851	-	868,022
Shop equipment	67,700	2,111	-	69,811
Field equipment	889,181	71,255	-	960,436
Radio equipment	52,870	6,815	-	59,685
Water meters	754,559	100,476	(94,345)	760,690
Sewer system	13,536,337	929,925	-	14,466,262
Pollution control facility	16,924,937	1,559,795	(7,111)	18,477,621
Structures and parking lots	795,060	68,791	-	863,851
Contributed sewer system	<u>5,494,632</u>	<u>671,666</u>	<u>-</u>	<u>6,166,298</u>
	<u>\$ 39,764,886</u>	<u>\$ 3,537,723</u>	<u>\$ (180,810)</u>	<u>\$ 43,121,799</u>

See Independent Auditors' Report.

**2015**

**Fixed Assets**

	<b>Balance June 30, 2014</b>	<b>Transfers/ Additions</b>	<b>Transfers/ Disposals</b>	<b>Balance June 30, 2015</b>
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office equipment	612,371	50,971	(58,203)	605,139
Vehicles	1,111,060	73,579	(22,757)	1,161,882
Shop equipment	81,325	-	(1,204)	80,121
Field equipment	1,147,086	76,328	(37,099)	1,186,315
Radio equipment	59,303	20,534	-	79,837
Water meters	1,694,508	219,864	(2,712)	1,911,660
Sewer system	45,447,779	1,461,965	-	46,909,744
Pollution control facility	53,385,874	73,216	(134,780)	53,324,310
Structures and parking lots	1,708,381	63,537	-	1,771,918
Easements	1,132,499	9,400	-	1,141,899
Contributed sewer system	31,280,230	1,024,543	-	32,304,773
	<u>138,323,670</u>	<u>3,073,937</u>	<u>(256,755)</u>	<u>141,140,852</u>
Construction in progress	<u>779,588</u>	<u>856,974</u>	<u>(1,133,792)</u>	<u>502,770</u>
	<u>\$ 139,103,258</u>	<u>\$ 3,930,911</u>	<u>\$ (1,390,547)</u>	<u>\$ 141,643,622</u>

**Accumulated Depreciation**

Office equipment	\$ 458,317	\$ 52,846	\$ (57,724)	\$ 453,439
Vehicles	739,183	79,745	(22,757)	796,171
Shop equipment	66,585	2,318	(1,203)	67,700
Field equipment	857,039	69,240	(37,098)	889,181
Radio equipment	46,515	6,355	-	52,870
Water meters	683,067	74,203	(2,711)	754,559
Sewer system	12,630,288	906,049	-	13,536,337
Pollution control facility	15,483,058	1,558,731	(116,852)	16,924,937
Structures and parking lots	725,631	69,429	-	795,060
Contributed sewer system	4,855,292	639,340	-	5,494,632
	<u>\$ 36,544,975</u>	<u>\$ 3,458,256</u>	<u>\$ (238,345)</u>	<u>\$ 39,764,886</u>

**See Independent Auditors' Report.**

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF SEWER SYSTEM RATES  
JUNE 30, 2016 AND 2015**

<u>MONTHLY SEWER RATES FOR CUSTOMERS</u>	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>	<u>LOWELL, ARKANSAS</u>
Flat rate of	\$ 11.10	\$ 14.50	\$ 13.32
In addition to (up to 100,000)	\$ 3.86 / thousand	\$ 5.03 / thousand	\$ 4.63 / thousand
All over 100,000	\$ 3.81 / thousand	\$ 5.03 / thousand	\$ 4.57 / thousand

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF SEWER CUSTOMERS  
JUNE 30, 2016 AND 2015**

<u>SEWER CUSTOMER CLASSIFICATIONS</u>	<b>NUMBER OF CUSTOMERS</b>	
	<u>2016</u>	<u>2015</u>
Residential customers	20,627	20,187
Commerical customers	1,709	1,660
Industrial customers	<u>36</u>	<u>35</u>
Total	<u><u>22,372</u></u>	<u><u>21,882</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF BILLABLE GALLONS  
YEARS ENDED JUNE 30, 2016 AND 2015**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2016</u>	<u>2015</u>
Residential customers	979,757,700	961,759,400
Commerical customers	450,189,900	433,963,200
Industrial customers	<u>382,010,300</u>	<u>347,992,100</u>
Total	<u><u>1,811,957,900</u></u>	<u><u>1,743,714,700</u></u>

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' 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***

Waterworks and Sewer Commission  
**Rogers Water Utilities Sewer Department**  
Rogers, Arkansas

We have audited, 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, the financial statements of Rogers Water Utilities **Sewer Department** (“the Sewer Department”), a component unit of the City of Rogers, Arkansas, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 14, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Sewer Department’s internal control over financial reporting (internal control) to determine the 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 Sewer Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Sewer Department’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 Sewer Department’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 the Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our 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 Sewer Department'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 Sewer Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Beall Barclay & Company, PLC*  
**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Rogers, Arkansas  
September 14, 2016