

**ROGERS WATER UTILITIES
SEWER DEPARTMENT
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2017 AND 2016
TABLE OF CONTENTS**

| | Page |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 |
| FINANCIAL STATEMENTS | |
| 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 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedules of the Sewer Department's Proportionate Share of the Net Pension Liability | 32 |
| Schedules of Contributions | 33 |
| SUPPLEMENTARY INFORMATION | |
| Schedules of Operating Expenses..... | 34 |
| Schedules of Principal and Interest Payments: | |
| Sewer Revenue Refunding Bonds – Series 2008 | 35 |
| Sewer Revenue Refunding Bonds – Series 2010 | 36 |
| Sewer Revenue Refunding Bonds – Series 2016 | 37 |
| Schedules of Fixed Assets..... | 38 |
| Schedule of Sewer System Rates..... | 40 |
| Schedules of Sewer Customers..... | 41 |
| Schedules of Billable Gallons..... | 42 |
| 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 | 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, 2017 and 2016, 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 auditor considers 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, 2017 and 2016, 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. 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 12, 2017 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 12, 2017

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017, 2016, AND 2015**

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, 2017, 2016, and 2015. 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 \$5,773,000, or 6.0%, over fiscal year 2016. Net position increased by \$5,289,000 or 5.8% in 2016 over 2015.
- Sewer Department operating revenues increased by \$417,000, or 3.5% in 2017. Operating revenues increased by \$760,000 or 6.9% in 2016 over 2015.
- Operating expenses increased by \$865,000, or 11.3% from 2016. Operating expenses increased by \$239,000 or 3.2% in 2016 over 2015.
- Net position increased by \$2,906,000 before capital contributions during fiscal year 2017. In fiscal year 2016, net assets before capital contributions increased by \$3,150,000.

Rogers Sewer Department Fiscal Year 2017 Highlights

- Exceeded budgeted operating results but fell short of prior year operating results by \$244,000.
- The number of customers increased by 473 or 2.11% from the prior year. Billed sewer consumption increased by 4.0%.
- Continued the focus on the Utility goal of debt-reduction by accomplishing the successful refunding of the series 2007 Sewer Bonds. The Utility used unrestricted reserves of \$5,380,000, and the issuance of Series 2016 Refunding Bonds to complete the refunding. Significant savings in overall debt service and interest rates were accomplished.
- Continued a City wide meter change out program to be completed over the next 4 to 6 years. The change out is being conducted by Utility Staff.
- Added the position of Shared Services Manager and filled all vacant upper management positions. This was accomplished through a combination of promotions and outside hiring.
- Implemented automated customer contact system for notification of customer in shut off status, and obtained an outside service for answering after hours emergency calls.
- Implemented a plan for significant upgrades to the trains, pumps, lighting and other equipment for the Rogers Pollution Control Facility. Expect to complete additional rehab to the facility in fiscal year 2018.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017, 2016, AND 2015**

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.
- 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.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017, 2016, AND 2015**

- Implemented GASB 68 regarding pension plan reporting.

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, 2017, 2016, AND 2015

Financial Highlights

Assets, Liabilities and Net Position

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------------|----------------------|-----------------------|
| Assets | | | |
| Total current assets | \$ 15,932,580 | \$ 18,226,236 | \$ 14,382,113 |
| Restricted cash and investments | 3,150,832 | 3,148,835 | 2,993,854 |
| Other noncurrent assets | 103,415,028 | 101,912,335 | 101,887,345 |
| Total assets | <u>\$ 122,498,440</u> | <u>\$123,287,406</u> | <u>\$ 119,263,312</u> |
| Deferred Outflows of Resources | | | |
| Pension costs | <u>\$ 894,807</u> | <u>\$ 561,597</u> | <u>\$ 389,130</u> |
| Liabilities | | | |
| Total current liabilities | \$ 1,665,780 | \$ 1,890,670 | \$ 1,901,721 |
| Liabilities payable from restricted assets | 93,438 | 410,219 | 422,185 |
| Noncurrent liabilities | 18,872,921 | 24,901,773 | 25,664,169 |
| Total liabilities | <u>\$ 20,632,139</u> | <u>\$ 27,202,662</u> | <u>\$ 27,988,075</u> |
| Deferred Inflows of Resources | | | |
| Pension costs | \$ 80,861 | \$ 195,842 | \$ 503,063 |
| Deferred bond refunding gain | 456,935 | - | - |
| Total deferred inflows of resources | <u>\$ 537,796</u> | <u>\$ 195,842</u> | <u>\$ 503,063</u> |
| Net Position | | | |
| Invested in capital assets, net of related debt | \$ 85,249,156 | \$ 77,515,972 | \$ 76,333,661 |
| Restricted | 3,057,394 | 2,738,616 | 2,571,669 |
| Unrestricted | 13,916,762 | 16,195,911 | 12,255,974 |
| Total net position | <u>\$ 102,223,312</u> | <u>\$ 96,450,499</u> | <u>\$ 91,161,304</u> |

Operating Results and Changes in Net Position

| | | | |
|---|-----------------------|----------------------|----------------------|
| Operating revenues | <u>\$ 12,197,451</u> | <u>\$ 11,780,503</u> | <u>\$ 11,020,826</u> |
| Operating expenses | | | |
| Depreciation | 3,655,000 | 3,537,723 | 3,458,256 |
| Other operating expenses | 4,872,598 | 4,124,571 | 3,965,183 |
| Total operating expenses | <u>8,527,598</u> | <u>7,662,294</u> | <u>7,423,439</u> |
| Operating income | <u>3,669,853</u> | <u>4,118,209</u> | <u>3,597,387</u> |
| Other revenues (expenses) | | | |
| Interest expense | (731,686) | (1,082,452) | (1,121,298) |
| Other income (expenses) | (31,984) | 114,193 | 25,847 |
| Total other revenues (expenses) | <u>(763,670)</u> | <u>(968,259)</u> | <u>(1,095,451)</u> |
| Changes in net position before capital contributions | 2,906,183 | 3,149,950 | 2,501,936 |
| Capital Contributions | <u>2,866,630</u> | <u>2,139,245</u> | <u>1,027,793</u> |
| Change in Net Position | 5,772,813 | 5,289,195 | 3,529,729 |
| Net Position, Beginning of Year | <u>96,450,499</u> | <u>91,161,304</u> | <u>87,631,575</u> |
| Net Position, End of Year | <u>\$ 102,223,312</u> | <u>\$ 96,450,499</u> | <u>\$ 91,161,304</u> |

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017, 2016, AND 2015**

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the Sewer Department's investment in capital assets was \$103,415,000 (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 \$1,124,000 during fiscal year 2017 were incurred on a variety of sewer system and sewer rehab projects. \$1,147,000 of constructed assets were completed and placed in service, consisting mostly of sewer rehab and replacements. In addition, \$2,861,000 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 2016, the Sewer Department had construction of \$697,000 and contributed capital of \$2,126,000, and in 2015, construction of \$857,000 and contributed capital of \$1,025,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$1,173,000 in 2017, as compared to \$749,000 in 2016 and \$916,000 in 2015.

Additional information regarding capital assets can be found on Note 9 of this report.

Long-Term Debt

The Sewer Department had \$16,420,000 in revenue bonds outstanding as of June 30, 2017, which is a decrease of \$7,395,000 from 2016 resulting from refunding the Series 2007 Sewer Bonds, using reserves to pay off additional bonds, and other scheduled principal payments. Revenue bonds outstanding as of June 30, 2016 were \$23,815,000 which is a decrease of \$1,120,000 from 2015 resulting from principal payments.

Additional information regarding long-term debt can be found at Note 8 of this report.

Additional Management Comments

Sewer consumption in fiscal year 2017 was 4.0% more than the previous year. Sewer consumption in 2017 increased year over year largely due to customer growth and weather conditions. While this, of course, has favorably impacted the bottom line, significant maintenance and upgrades at the Rogers Pollution Control facility have resulted in operating income less than fiscal year 2016, while still exceeding the budget.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017, 2016, AND 2015

The Rogers Sewer Department funded capital improvements out of reserves in fiscal year 2017. 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 2018 also include sewer main projects for City of Rogers street projects, upgrades to the Rogers Pollution Control facility, and sewer rehab. The Sewer Department also funded debt reduction of \$5,380,000 from unrestricted reserves during fiscal year 2017.

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 four to six 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 (RPFC) 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 RPFC, 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, 2017 AND 2016**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | 2017 | 2016 |
|---|---------------------------|---------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,181,011 | \$ 5,660,519 |
| Investments | 12,127,697 | 11,229,563 |
| Accounts receivable, net of allowance for doubtful accounts of \$204,000 and \$205,000, respectively | 1,283,440 | 1,230,133 |
| Due from water department | 205,245 | - |
| Inventory | 68,315 | 63,938 |
| Prepaid expenses | <u>66,872</u> | <u>42,083</u> |
| Total Current Assets | <u>15,932,580</u> | <u>18,226,236</u> |
| RESTRICTED CASH AND INVESTMENTS | | |
| Restricted cash and cash equivalents | 512,896 | 597,911 |
| Investments | 2,637,936 | 2,550,906 |
| Accrued interest receivable | <u>-</u> | <u>18</u> |
| Total Restricted Cash and Investments | <u>3,150,832</u> | <u>3,148,835</u> |
| FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION | | |
| | <u>103,415,028</u> | <u>101,912,335</u> |
| Total Assets | 122,498,440 | 123,287,406 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred pension outflows | <u>894,807</u> | <u>561,597</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 123,393,247</u> | <u>\$ 123,849,003</u> |

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | 2017 | 2016 |
|--|---------------------------|---------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable - trade | \$ 157,442 | \$ 132,337 |
| Accounts payable to construction contractors | 65,608 | 123,251 |
| Accrued expenses | 382,730 | 409,630 |
| Due to water department | - | 30,452 |
| Current portion of bonds payable | <u>1,060,000</u> | <u>1,195,000</u> |
| Total Current Liabilities | <u>1,665,780</u> | <u>1,890,670</u> |
| LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | |
| Accrued interest payable | <u>93,438</u> | <u>410,219</u> |
| Total Liabilities Payable From Restricted Assets | <u>93,438</u> | <u>410,219</u> |
| LONG-TERM LIABILITIES | | |
| Bonds payable, net of unamortized premiums and discounts | 16,648,937 | 23,201,363 |
| Net pension liability | <u>2,223,984</u> | <u>1,700,410</u> |
| Total Long-Term Liabilities | <u>18,872,921</u> | <u>24,901,773</u> |
| Total Liabilities | <u>20,632,139</u> | <u>27,202,662</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred pension inflows | 80,861 | 195,842 |
| Deferred bond refunding gain | <u>456,935</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>537,796</u> | <u>195,842</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>21,169,935</u> | <u>27,398,504</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 85,249,156 | 77,515,972 |
| Restricted | 3,057,394 | 2,738,616 |
| Unrestricted | <u>13,916,762</u> | <u>16,195,911</u> |
| Total Net Position | <u>102,223,312</u> | <u>96,450,499</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 123,393,247</u> | <u>\$ 123,849,003</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, 2017 AND 2016

| | 2017 | 2016 |
|--|------------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Residential sewer | \$ 6,656,204 | \$ 6,539,003 |
| Commercial sewer | 2,042,579 | 1,949,112 |
| Industrial sewer | 1,600,885 | 1,460,392 |
| Penalties | 137,146 | 139,055 |
| Access, impact and new customer fees | 1,624,220 | 1,495,845 |
| Other operating revenue | <u>136,417</u> | <u>197,096</u> |
| Total Operating Revenues | <u>12,197,451</u> | <u>11,780,503</u> |
| OPERATING EXPENSES | | |
| Pollution control facility and field expense | 3,365,844 | 2,806,077 |
| General and administrative | 1,506,754 | 1,318,494 |
| Depreciation | <u>3,655,000</u> | <u>3,537,723</u> |
| Total Operating Expenses | <u>8,527,598</u> | <u>7,662,294</u> |
| OPERATING INCOME | <u>3,669,853</u> | <u>4,118,209</u> |
| OTHER REVENUES (EXPENSES) | | |
| Interest income | 134,735 | 124,418 |
| Gain on disposal of fixed assets | 19,880 | - |
| Bond issuance costs | (176,374) | - |
| Interest expense | (731,686) | (1,082,452) |
| Trustee fees | <u>(10,225)</u> | <u>(10,225)</u> |
| Total Other Revenues (Expenses) | <u>(763,670)</u> | <u>(968,259)</u> |
| CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS | 2,906,183 | 3,149,950 |
| CAPITAL CONTRIBUTIONS | <u>2,866,630</u> | <u>2,139,245</u> |
| CHANGE IN NET POSITION | 5,772,813 | 5,289,195 |
| NET POSITION, BEGINNING OF YEAR | <u>96,450,499</u> | <u>91,161,304</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 102,223,312</u></u> | <u><u>\$ 96,450,499</u></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, 2017 AND 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 10,246,361 | \$ 9,976,509 |
| Cash received from access, impact and new customer fees | 1,624,220 | 1,481,344 |
| Cash received from penalties and other operating revenue | 273,563 | 263,730 |
| Payments for salaries and benefits | (2,596,635) | (2,242,115) |
| Payments to suppliers for goods and services | <u>(2,467,238)</u> | <u>(1,845,688)</u> |
| Net Cash From Operating Activities | <u>7,080,271</u> | <u>7,633,780</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital expenditures | (2,349,512) | (1,373,800) |
| Cash received from sale of fixed assets | 20,686 | - |
| Cash received from bond issuance | 14,108,212 | - |
| Bonds refunded | (19,600,000) | - |
| Bond issue costs | (176,374) | - |
| Prepaid bond insurance | (19,530) | - |
| Principal payments on bonds | (645,000) | (1,120,000) |
| Interest and paying agent fees, net of capitalized interest | (1,132,865) | (1,133,355) |
| Collection of forbearance agreement | <u>-</u> | <u>8,609</u> |
| Net Cash (Used for) Capital and Related Financing Activities | <u>(9,794,383)</u> | <u>(3,618,546)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 134,753 | 124,418 |
| Net change in investments | (898,134) | 5,702 |
| Net change in restricted investments | <u>(87,030)</u> | <u>(125,967)</u> |
| Net Cash From (Used For) Investing Activities | <u>(850,411)</u> | <u>4,153</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | <u>(3,564,523)</u> | <u>4,019,387</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>6,258,430</u> | <u>2,239,043</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 2,693,907</u> | <u>\$ 6,258,430</u> |
| CASH AND CASH EQUIVALENTS | <u>\$ 2,181,011</u> | <u>\$ 5,660,519</u> |
| RESTRICTED CASH AND CASH EQUIVALENTS | <u>512,896</u> | <u>597,911</u> |
| | <u>\$ 2,693,907</u> | <u>\$ 6,258,430</u> |

See Independent Auditors' Report and Notes to Financial Statements.

| | 2017 | 2016 |
|--|----------------------------|----------------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES: | | |
| Operating income | <u>\$ 3,669,853</u> | <u>\$ 4,118,209</u> |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Depreciation | 3,655,000 | 3,537,723 |
| Allowance for doubtful accounts | (1,000) | 30,000 |
| Redeemed vouchers | - | (86,922) |
| Net change in pension liability | 75,383 | (18,372) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (52,307) | (1,998) |
| Inventory | (4,377) | 12,885 |
| Prepaid expenses | (24,789) | 1,155 |
| Accounts payable - trade | 25,105 | (89,941) |
| Accrued expenses | (26,900) | 2,083 |
| Due to/from water department | <u>(235,697)</u> | <u>128,958</u> |
| Total adjustments | <u>3,410,418</u> | <u>3,515,571</u> |
| Net Cash From Operating Activities | <u><u>\$ 7,080,271</u></u> | <u><u>\$ 7,633,780</u></u> |
| NONCASH TRANSACTIONS | | |
| Capital contributions | <u><u>\$ 2,866,630</u></u> | <u><u>\$ 2,139,245</u></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, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016, 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.

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, 2017 and 2016, this review has not materially affected the Sewer Department's reported earnings, net position or results of operations.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017 and 2016, cumulative contributed capital fixed assets amounted to approximately \$37,292,000 and \$34,431,000, 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, 2017 and 2016 amounted to approximately \$4,387,000 and \$4,414,000, 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 \$72,786 and \$28,713 are included as a reduction of interest expense for the years ended June 30, 2017 and 2016, respectively.

Amortization of Deferred Bond Refunding Costs

The deferred bond refunding cost associated with the 2016 Water Revenue Refunding Bonds is amortized over the life of the related bond issue (See Note 8). Amortization expense of \$20,916 and \$-0-, respectively, for the years ended June 30, 2017 and 2016 is included as a component of interest expense.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016.

Current Accounting Developments

In May 2017, the GASB issued Statement Number 86 (GASB 86), Certain Debt Extinguishment Issues –effective for fiscal years beginning after June 15, 2017. GASB 86 will improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

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 10 for additional information.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 two items that qualifies for reporting in this category. In regards to the deferred inflows of resources related to pension liabilities and deferred bond refunding costs, these amounts were created as a result of the implementation of GASB 68. See Note 10 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.

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, 2017, the Sewer Department had approximately \$3,246,000 in deposit balances, 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 \$12,728,000 in certificates of deposit reported as investments in the Statements of Net Position, of which all were FDIC insured.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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. The balances as of June 30, 2017 and 2016 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, 2017 and 2016 as follows:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Debt service reserve | \$ 1,503,134 | \$ 1,813,774 |
| Depreciation reserve for additional replacements to the sewer system | 1,113,365 | 1,002,971 |
| New customer fees collected for additions of fixed assets | 534,333 | 332,072 |
| Accrued interest receivable | - | 18 |
| | \$ 3,150,832 | \$ 3,148,835 |

NOTE 5: 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 6: 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.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017, investments of the Sewer Department were fully collateralized or insured.

At June 30, 2017 and 2016, the Sewer Department’s investments consisted of \$12,728,165 and \$11,634,623, respectively, held in certificates of deposit and \$2,037,468 and \$2,145,846, respectively, held in United States government securities. All investments at June 30, 2017 and 2016 had maturities of less than five years.

NOTE 7: COMMITMENTS AND CONCENTRATIONS

The Sewer Department is committed to several construction contracts in process at June 30, 2017 totaling \$679,743. As of June 30, 2017, \$386,143 had been incurred in connection with these contracts.

For the years ended June 30, 2017 and 2016, the Sewer Department had one customer that accounted for 13.7% and 12.9%, respectively, of total usage.

NOTE 8: 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. This bond was refunded during the year ended June 30, 2017. The remaining premium was included in calculating the deferred bond refunding costs for the Series 2016 Revenue Refunding Bonds. As of June 30, 2017 and 2016, the outstanding principal was \$0- and \$19,600,000, 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, 2017 and 2016, the outstanding principal was \$1,055,000 and \$1,560,000, respectively.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016, the outstanding principal was \$2,515,000 and \$2,655,000, respectively.

Series 2016 Sewer Revenue Refunding Bonds

On December 13, 2016, the Sewer Department issued \$12,850,000 in Sewer Revenue Refunding Bonds (Series 2016) with an average interest rate of 3.89% and used unrestricted reserves of \$5,380,000 and debt service reserves of \$661,154 to refund \$19,600,000 of outstanding Sewer Revenue Improvement Bonds, Series 2007 with an average interest rate of 4.91%. The net proceeds of \$14,030,940 from the Series 2016 bond issues (after premiums, payment of bond issuance costs, and other costs) and additional sewer department reserves totaling \$6,041,154 were put in a trust and used to pay the outstanding principal and the accrued interest on the Series 2007 Sewer Bonds in full on February 1, 2017 when they first became callable. The bond matures in fiscal year 2029 with principal payments due in November and interest payments due in November and May of each year.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$477,851. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being charged to interest expense over the life of the bonds using the straight-line method. The Sewer Department completed the refunding to reduce its total debt service payments over the next 21 years by \$14,530,274 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,599,564. The Series 2016 bond also included prepaid bond insurance costs of \$19,530 which are amortized against interest expense over the life of the Series 2016 bonds. During the years ended June 30, 2017 and 2016, amortization expense for prepaid bond insurance was \$855 and \$-0-, respectively. The remaining prepaid bond insurance is included in the Statements of Net Position under the caption "Prepaid expenses." Furthermore, the Series 2016 bonds had issuance costs of \$176,374. As of June 30, 2017 and 2016, the outstanding principal was \$12,850,000 and \$-0-, 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 bond documents, as of June 30, 2017 and 2016, is 3.23 and 3.38, respectively. Total interest paid during the years ended June 30, 2017 and 2016 totaled \$1,132,865 and \$1,133,355, respectively. No interest was capitalized during the years ended June 30, 2017 and 2016.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016.

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> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 1,060,000 | \$ 589,694 | \$ 1,649,694 |
| 2019 | 1,715,000 | 545,246 | 2,260,246 |
| 2020 | 1,215,000 | 498,350 | 1,713,350 |
| 2021 | 1,255,000 | 460,550 | 1,715,550 |
| 2022 | 1,290,000 | 416,525 | 1,706,525 |
| 2023-2027 | 7,245,000 | 1,263,600 | 8,508,600 |
| 2028-2031 | <u>2,640,000</u> | <u>119,950</u> | <u>2,759,950</u> |
| Total | <u>\$ 16,420,000</u> | <u>\$ 3,893,915</u> | <u>\$ 20,313,915</u> |

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Following is a summary of changes in bonds payable:

| | Balance June 30, 2016 | Increases | Decreases | Balance June 30, 2017 | Amounts Due Within One Year |
|---|--------------------------------------|-----------------------------|-----------------------------|--------------------------------------|--|
| Revenue Improvement Bonds, Series 2007 | \$ 19,600,000 | \$ - | \$ 19,600,000 | \$ - | \$ - |
| Revenue Refunding Bonds, Series 2008 | 1,560,000 | - | 505,000 | 1,055,000 | 520,000 |
| Revenue Bonds Series 2010 | 2,655,000 | - | 140,000 | 2,515,000 | 145,000 |
| Revenue Refunding Bonds, Series 2016 | - | 12,850,000 | - | 12,850,000 | 395,000 |
| Bonds payable, gross | <u>23,815,000</u> | <u>12,850,000</u> | <u>20,245,000</u> | <u>16,420,000</u> | <u>1,060,000</u> |
| Plus premiums | 604,127 | 1,368,612 | 662,618 | 1,310,121 | - |
| Less discounts | <u>(22,764)</u> | <u>-</u> | <u>(1,580)</u> | <u>(21,184)</u> | <u>-</u> |
| | <u><u>\$ 24,396,363</u></u> | <u><u>\$ 14,218,612</u></u> | <u><u>\$ 20,906,038</u></u> | <u><u>\$ 17,708,937</u></u> | <u><u>\$ 1,060,000</u></u> |

| | 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 |
| Revenue Refunding Bonds, Series 2016 | - | - | - | - | - |
| Bonds payable, gross | <u>24,935,000</u> | <u>-</u> | <u>1,120,000</u> | <u>23,815,000</u> | <u>1,195,000</u> |
| Plus premiums | 634,419 | - | 30,292 | 604,127 | - |
| Less discounts | <u>(24,344)</u> | <u>-</u> | <u>(1,580)</u> | <u>(22,764)</u> | <u>-</u> |
| | <u><u>\$ 25,545,075</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,148,712</u></u> | <u><u>\$ 24,396,363</u></u> | <u><u>\$ 1,195,000</u></u> |

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 9: CHANGES IN FIXED ASSETS

| | Balance June 30, 2016 | Transfers/ Additions | Disposals | Balance June 30, 2017 |
|--------------------------|--------------------------------------|---------------------------------|-----------------------|--------------------------------------|
| Land | \$ 1,805,153 | \$ - | \$ - | \$ 1,805,153 |
| Buildings | 55,293,114 | 668,010 | (12,932) | 55,948,192 |
| Equipment | 51,880,363 | 1,469,219 | (264,858) | 53,084,724 |
| Vehicles | 1,216,055 | 182,812 | (126,219) | 1,272,648 |
| Contributed property | 34,430,516 | 2,861,248 | - | 37,291,764 |
| Construction in progress | 408,933 | 1,124,169 | (1,146,959) | 386,143 |
| | <u>145,034,134</u> | <u>6,305,458</u> | <u>(1,550,968)</u> | <u>149,788,624</u> |
| Accumulated depreciation | <u>(43,121,799)</u> | <u>(3,655,000)</u> | <u>403,203</u> | <u>(46,373,596)</u> |
| | <u>\$ 101,912,335</u> | <u>\$ 2,650,458</u> | <u>\$ (1,147,765)</u> | <u>\$ 103,415,028</u> |
| | Balance June 30, 2015 | Transfers/ Additions | Disposals | Balance June 30, 2016 |
| 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 |
| | <u>141,643,622</u> | <u>4,361,780</u> | <u>(971,268)</u> | <u>145,034,134</u> |
| Accumulated depreciation | <u>(39,764,886)</u> | <u>(3,537,723)</u> | <u>180,810</u> | <u>(43,121,799)</u> |
| | <u>\$ 101,878,736</u> | <u>\$ 824,057</u> | <u>\$ (790,458)</u> | <u>\$ 101,912,335</u> |

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10: 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, but prior to 7/1/2007 | 2.03% |
| Contributory 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:

- 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, 2017 AND 2016

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, 2016. 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 \$2,391,348,072 was measured as of June 30, 2016, 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.

At June 30, 2017 and 2016, the Sewer Department reported deferred outflows of resources and deferred inflows of resources as of June 30, 2016 and 2015, respectively, related to pensions from the following sources:

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

| <u>2017</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 2,100 | \$ (79,779) |
| Changes of assumptions | 170,427 | - |
| Changes in proportion and differences between employer contributions and proportionate share | 67,234 | (1,082) |
| Net difference between projected and actual earnings on pension plan investments | 388,290 | - |
| Contributions subsequent to measurement date | <u>266,756</u> | <u>-</u> |
| Balance, June 30, 2017 | <u>\$ 894,807</u> | <u>\$ (80,861)</u> |
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| <u>2016</u> | <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> |
| Balance, June 30, 2016 | <u>\$ 561,597</u> | <u>\$ (195,842)</u> |

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2018, 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 ending June 30:

| | |
|------------|--------------|
| 2017 | \$ (125,994) |
| 2018 | (110,368) |
| 2019 | (204,098) |
| 2020 | (106,730) |
| 2021 | - |
| Thereafter | - |

Actuarial Assumptions

The total pension liability in the June 30, 2016 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 | 21 years (12 years for District Judges New Plan/Paid Off Old Plan and 19 years for District Judges Still Paying Old Plan) |
| Asset Valuation Method | 4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan) |
| Investment Rate of Return | 7.50% |
| Salary Increases | 3.25% - 9.85% including inflation (3.25% - 6.96% including inflation for District Judges) |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition |
| Mortality Table | Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females |
| Average Service Life of All Members | 4.4487 |

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2016 are summarized in the table below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|-------------------|--|
| Broad Domestic Equity | 38% | 6.82% |
| International Equity | 24% | 6.88% |
| Real Assets | 16% | 3.07% |
| Absolute Return | 5% | 3.35% |
| Domestic Fixed | 17% | 0.83% |
| Total | 100% | |

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 | Discount Rate | 1% Higher |
|--------------|---------------|--------------|
| 6.50% | 7.50% | 8.50% |
| \$ 3,366,555 | \$ 2,223,984 | \$ 1,273,094 |

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 11: 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 and vision 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, 2017 and 2016 were \$102,280 and \$79,731, 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, 2017 and 2016 was \$35,966 and \$25,440, respectively. At June 30, 2017 and 2016, there were seven and six employees participating in the plan, respectively.

NOTE 12: SUBSEQUENT EVENT

On August 21, 2017, the Waterworks and Sewer Commission approved the early call of the 2008 Revenue Refunding Bonds (Series 2008).

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, 2017, 2016, AND 2015**

| | <u>2017</u> | <u>2016</u> | <u>2015*</u> |
|---|--------------|--------------|--------------|
| Proportion of the net pension liability | 0.09 % | 0.09 % | 0.09 % |
| Proportionate share of the net pension liability | \$ 2,223,984 | \$ 1,700,410 | \$ 1,239,094 |
| Covered - employee payroll | \$ 1,855,224 | \$ 1,666,569 | \$ 1,651,227 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 119.88 % | 102.03 % | 75.04 % |
| Plan's fiduciary net position | \$ 2,223,984 | \$ 1,700,410 | \$ 1,239,094 |
| Plan's fiduciary net position as a percentage of the total pension liability | 100.00 % | 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 three years are shown.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF CONTRIBUTIONS
JUNE 30, 2017, 2016, AND 2015**

| | <u>2017</u> | <u>2016</u> | <u>2015*</u> |
|--|--------------|--------------|--------------|
| Contractually required contribution | \$ 266,756 | \$ 235,420 | \$ 242,355 |
| Contributions in relation to the contractually required contribution | \$ (266,756) | \$ (235,420) | \$ (242,355) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Sewer Department's covered-employee payroll | \$ 1,855,224 | \$ 1,666,569 | \$ 1,651,227 |
| Contributions as a percentage of covered-employee payroll | 14.38 % | 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 three 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, 2017 AND 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| POLLUTION CONTROL FACILITY AND FIELD EXPENSE | | |
| Employee benefits | \$ 522,720 | \$ 414,270 |
| Insurance | 56,193 | 50,392 |
| Operating supplies and other | 336,906 | 130,571 |
| Payroll taxes | 92,988 | 86,405 |
| Repairs and maintenance | 244,791 | 210,459 |
| Salaries | 1,252,837 | 1,176,838 |
| Sludge disposal costs | 305,376 | 237,401 |
| Supplies and postage | 96,512 | 77,645 |
| Utilities | 457,521 | 422,096 |
| | <u>3,365,844</u> | <u>2,806,077</u> |
| GENERAL AND ADMINISTRATIVE | | |
| Bad debts | 44,087 | 41,988 |
| Consulting services - stream assessment | 20,500 | 20,500 |
| Employee benefits | 189,812 | 140,635 |
| Franchise taxes / use taxes | 359,770 | 350,236 |
| Insurance | 2,580 | 2,626 |
| Office supplies and postage | 103,741 | 100,481 |
| Other | 136,400 | 154,737 |
| Payroll taxes | 41,984 | 35,507 |
| Professional fees | 101,054 | 75,692 |
| Salaries | 484,818 | 373,556 |
| Utilities | 22,008 | 22,536 |
| | <u>1,506,754</u> | <u>1,318,494</u> |
| DEPRECIATION | <u>3,655,000</u> | <u>3,537,723</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 8,527,598</u> | <u>\$ 7,662,294</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 REFUNDING BONDS – SERIES 2008
JUNE 30, 2017**

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|------------------------|----------------------------|--------------------------|-------------------------|----------------------------|
| 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, 2017 | <u><u>\$ 1,055,000</u></u> | | <u><u>\$ 37,459</u></u> | <u><u>\$ 1,092,459</u></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, 2017**

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|------------------------|---------------------|--------------------------|-------------------|---------------------|
| 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, 2017 | <u>\$ 2,515,000</u> | | <u>\$ 718,106</u> | <u>\$ 3,233,106</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
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE BONDS – SERIES 2016
JUNE 30, 2017**

| YEAR | PRINCIPAL | INTEREST RATE | INTEREST | TOTAL |
|------------------------|---------------------|------------------|---------------------|----------------------|
| 2018 | \$ 395,000 | 3.000% | \$ 472,175 | \$ 867,175 |
| 2019 | 1,035,000 | 3.000% | 450,725 | 1,485,725 |
| 2020 | 1,065,000 | 3.000% | 419,225 | 1,484,225 |
| 2021 | 1,095,000 | 3.000% | 386,825 | 1,481,825 |
| 2022 | 1,130,000 | 4.000% | 347,800 | 1,477,800 |
| 2023 | 1,175,000 | 4.000% | 301,700 | 1,476,700 |
| 2024 | 1,220,000 | 4.000% | 253,800 | 1,473,800 |
| 2025 | 1,265,000 | 4.000% | 204,100 | 1,469,100 |
| 2026 | 1,315,000 | 4.000% | 152,500 | 1,467,500 |
| 2027 | 1,365,000 | 4.000% | 98,900 | 1,463,900 |
| 2028 | 1,420,000 | 4.000% | 43,200 | 1,463,200 |
| 2029 | 370,000 | 4.000% | 7,400 | 377,400 |
| Balance, June 30, 2017 | <u>\$12,850,000</u> | | <u>\$ 3,138,350</u> | <u>\$ 15,988,350</u> |

Dated: December 13, 2016

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
SCHEDULES OF FIXED ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

| Fixed Assets | 2017 | | | |
|-----------------------------|--------------------------|-------------------------|-------------------------|--------------------------|
| | Balance June 30, 2016 | Transfers/ Additions | Transfers/ Disposals | Balance June 30, 2017 |
| Land | \$ 663,254 | \$ - | \$ - | \$ 663,254 |
| Office equipment | 595,633 | 57,939 | (41,232) | 612,340 |
| Vehicles | 1,216,055 | 182,812 | (126,219) | 1,272,648 |
| Shop equipment | 80,121 | - | (618) | 79,503 |
| Field equipment | 1,214,722 | 5,265 | (14,891) | 1,205,096 |
| Radio equipment | 81,383 | 3,107 | (35,050) | 49,440 |
| Water meters | 1,996,471 | 597,339 | (173,068) | 2,420,742 |
| Sewer system | 47,912,033 | 805,570 | - | 48,717,603 |
| Pollution control facility | 53,521,196 | 317,717 | (12,932) | 53,825,981 |
| Structures and parking lots | 1,771,918 | 350,293 | - | 2,122,211 |
| Easements | 1,141,899 | - | - | 1,141,899 |
| Contributed sewer system | 34,430,516 | 2,861,248 | - | 37,291,764 |
| | 144,625,201 | 5,181,290 | (404,010) | 149,402,481 |
| Construction in progress | 408,933 | 1,124,168 | (1,146,958) | 386,143 |
| | <u>\$ 145,034,134</u> | <u>\$ 6,305,458</u> | <u>\$ (1,550,968)</u> | <u>\$ 149,788,624</u> |

Accumulated Depreciation

| | | | | |
|-----------------------------|----------------------|---------------------|---------------------|----------------------|
| Office equipment | \$ 429,123 | \$ 60,251 | \$ (40,425) | \$ 448,949 |
| Vehicles | 868,022 | 74,125 | (126,218) | 815,929 |
| Shop equipment | 69,811 | 1,708 | (618) | 70,901 |
| Field equipment | 960,436 | 63,947 | (14,892) | 1,009,491 |
| Radio equipment | 59,685 | 7,235 | (35,050) | 31,870 |
| Water meters | 760,690 | 146,187 | (173,068) | 733,809 |
| Sewer system | 14,466,262 | 947,676 | - | 15,413,938 |
| Pollution control facility | 18,477,621 | 1,576,150 | (12,932) | 20,040,839 |
| Structures and parking lots | 863,851 | 67,880 | - | 931,731 |
| Contributed sewer system | 6,166,298 | 709,841 | - | 6,876,139 |
| | <u>\$ 43,121,799</u> | <u>\$ 3,655,000</u> | <u>\$ (403,203)</u> | <u>\$ 46,373,596</u> |

See Independent Auditors' Report.

| Fixed Assets | 2016 | | | |
|-----------------------------|--------------------------|-------------------------|-------------------------|--------------------------|
| | Balance June 30, 2015 | Transfers/ Additions | Transfers/ Disposals | Balance June 30, 2016 |
| 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 | 32,304,773 | 2,125,743 | - | 34,430,516 |
| | 141,140,852 | 3,665,161 | (180,812) | 144,625,201 |
| Construction in progress | 502,770 | 696,619 | (790,456) | 408,933 |
| | <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 | 5,494,632 | 671,666 | - | 6,166,298 |
| | <u>\$ 39,764,886</u> | <u>\$ 3,537,723</u> | <u>\$ (180,810)</u> | <u>\$ 43,121,799</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, 2017 AND 2016**

| <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, 2017 AND 2016**

| <u>SEWER CUSTOMER CLASSIFICATIONS</u> | <u>NUMBER OF CUSTOMERS</u> | |
|---------------------------------------|----------------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| Residential customers | 21,051 | 20,627 |
| Commerical customers | 1,758 | 1,709 |
| Industrial customers | <u>36</u> | <u>36</u> |
| Total | <u><u>22,845</u></u> | <u><u>22,372</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, 2017 AND 2016**

| <u>BILLABLE GALLONS CLASSIFICATIONS</u> | <u>NUMBER OF BILLABLE GALLONS</u> | |
|---|-----------------------------------|-----------------------------|
| | <u>2017</u> | <u>2016</u> |
| Residential customers | 995,349,100 | 979,757,700 |
| Commerical customers | 472,992,300 | 450,189,900 |
| Industrial customers | <u>416,144,600</u> | <u>382,010,300</u> |
| Total | <u><u>1,884,486,000</u></u> | <u><u>1,811,957,900</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, 2017, 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 12, 2017.

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 12, 2017