

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

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

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>4</b>
<b>BASIC 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 Water Department's Proportionate Share of the Net Pension Liability .....	33
Schedules of Contributions .....	34
<b>SUPPLEMENTARY INFORMATION</b>	
Schedules of Operating Expenses.....	35
Schedules of Principal and Interest Payments:	
Water Revenue Refunding Bonds – Series 2008 .....	36
Water Revenue Refunding Bonds – Series 2012 .....	37
Water Revenue Refunding Bonds – Series 2016 .....	38
Schedules of Fixed Assets.....	39
Schedule of Water System Rates .....	41
Schedules of Water Customers .....	42
Schedules of Billable Gallons.....	43
<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>	<b>44</b>



## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Water Department** (the Water 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 Water Department's basic financial statements as listed in the table of contents.

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

The Water 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 Water 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 Water 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 Water 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 Water 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 10 and pension schedules on pages 33 and 34 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 Water 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 Water 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 Water 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 WATER 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 Water Department (Water Department) provides an overview of the Water 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 Water 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 Water Department's net position increased by \$4,602,000 or 6.8%, over fiscal year 2016. Net position increased by \$3,675,000 or 5.8% in fiscal year 2016 over 2015.
- Water Department operating revenues increased by \$422,000, or 3.9% from 2016. Operating Revenues increased \$1,985,000, or 22.2% from 2015 largely due to a rate increase effective July 1, 2015.
- Operating expenses increased by \$461,000, or 5.3% from 2016. Operating Expenses increased \$555,000 or 6.9% in 2016 over 2015.
- Net Position increased by \$1,358,000 before capital contributions during fiscal year 2017. In fiscal year 2016, net position before capital contributions increased by \$1,308,000.

### **Rogers Water Department Fiscal Year 2017 Highlights**

- Exceeded budgeted and prior year operating results.
- The number of customers increased by 581 or 1.9% from the prior year. However, billed water consumption increased by 3.3%.
- Continued the focus on the Utility goal of debt-reduction by accomplishing the successful refunding of the series 2006 Water Bonds. Significant savings resulted from the refunding, resulting in a reduction in overall debt service from more favorable interest rates on the series 2016 Water Refunding Bonds.
- 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.
- Received notification from our water supplier, Beaver Water District of a rate increase of \$.03 per thousand effective October 1, 2017.
- Implemented automated customer contact system for notification of customers in shut off status, and obtained an outside service for answering after hours emergency calls.

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

**Rogers Water Department Fiscal Year 2016 Highlights**

- Exceeded budgeted and prior year operating results.
- The number of customers increased by 716 or 2.35% from the prior year. However, billed water consumption increased by 5.6%.
- Continued the focus on the Utility goal of debt-reduction by decreasing outstanding debt. Called the 2008-B Water Revenue Bonds on June 1, 2016, paying the balance in full early.
- Implemented a water rate increase effective July 1, 2015.
- Considered a Water Master Plan prepared by Garver professional engineering firm as part of long range planning.
- Received Commission approval for and proceeded with a City wide meter change out program to be completed over the next 5 to 7 years. The change out will be conducted by Utility staff.
- Received notification from our water supplier, Beaver Water District of a rate increase of \$.02 per thousand effective October 1, 2016.
- 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 in fiscal year 2017.

**Rogers Water Department Fiscal Year 2015 Highlights**

- Fell short of budgeted and prior year operating results.
- While the number of customers increased by 721 or 2.4% from the prior year, overall billed water consumption decreased 7.4% 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, and considering a possible bond call if reserves are deemed adequate.
- Presented an Investment Policy for consideration by the Rogers Waterworks and Sewer Commission. The policy became effective March 16, 2015.
- Presented a water rate increase to the Rogers Waterworks and Sewer Commission and Rogers City Council. The rate increase was approved by both governing bodies and became effective July 1, 2015.
- Contracted with Garver professional engineering firm to prepare a Water Master Plan for consideration by management and the Commission. The proposed plan should be ready for consideration in Fiscal Year 2016.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2017, 2016, AND 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.
- Received notification from our water supplier, Beaver Water District of a rate increase of \$.03 per thousand effective October 1, 2015.
- Negotiated a contract with Benton County Water District #1 to provide water. The final contract was approved August 12, 2015.
- 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.

**Using This Annual Report**

The Water 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 Water Department, including resources held by the Water Department but restricted for specific purposes by creditors. The Water 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 WATER 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>
<b>Assets</b>			
Total current assets	\$ 12,032,380	\$ 11,126,231	\$ 11,271,475
Restricted cash and investments	5,326,606	5,146,617	6,074,164
Other noncurrent assets	80,165,880	77,130,536	75,277,330
Total assets	<u>\$ 97,524,866</u>	<u>\$ 93,403,384</u>	<u>\$ 92,622,969</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension outflows	\$ 575,553	\$ 363,685	\$ 239,547
Deferred bond refunding costs	734,073	645,714	694,142
	<u>\$ 1,309,626</u>	<u>\$ 1,009,399</u>	<u>\$ 933,689</u>
<b>Liabilities</b>			
Total current liabilities	\$ 2,533,387	\$ 2,627,010	\$ 2,894,069
Liabilities payable from restricted assets	1,193,480	1,165,745	1,132,002
Long-term liabilities	23,226,266	23,269,762	25,667,073
Total liabilities	<u>\$ 26,953,133</u>	<u>\$ 27,062,517</u>	<u>\$ 29,693,144</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension inflows	<u>\$ 50,506</u>	<u>\$ 121,386</u>	<u>\$ 309,352</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	\$ 58,292,789	\$ 55,000,429	\$ 50,285,278
Restricted	4,133,127	3,980,872	4,942,162
Unrestricted	9,404,937	8,247,579	8,326,722
Total net position	<u>\$ 71,830,853</u>	<u>\$ 67,228,880</u>	<u>\$ 63,554,162</u>
<b>Operating Results and Changes in Net Position</b>			
<b>Operating revenues</b>	<u>\$ 11,332,594</u>	<u>\$ 10,910,594</u>	<u>\$ 8,925,466</u>
<b>Operating expenses</b>			
Depreciation	2,450,407	2,261,917	2,164,798
Other operating expenses	6,636,352	6,364,282	5,906,708
Total operating expenses	<u>9,086,759</u>	<u>8,626,199</u>	<u>8,071,506</u>
<b>Operating income</b>	<u>2,245,835</u>	<u>2,284,395</u>	<u>853,960</u>
<b>Other revenues (expenses)</b>			
Interest expense	(829,876)	(1,067,502)	(1,054,236)
Other income (expenses)	(57,607)	90,690	43,774
Total other revenues (expenses)	<u>(887,483)</u>	<u>(976,812)</u>	<u>(1,010,462)</u>
<b>Change in net position before capital contributions</b>	1,358,352	1,307,583	(156,502)
<b>Capital Contributions</b>	<u>3,243,621</u>	<u>2,367,135</u>	<u>1,077,404</u>
<b>Change in Net Position</b>	4,601,973	3,674,718	920,902
<b>Net Position, Beginning of Year</b>	<u>67,228,880</u>	<u>63,554,162</u>	<u>62,633,260</u>
<b>Net Position, End of Year</b>	<u>\$ 71,830,853</u>	<u>\$ 67,228,880</u>	<u>\$ 63,554,162</u>

**ROGERS WATER UTILITIES WATER 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 Water Department's investment in capital assets was \$80,166,000 (net of accumulated depreciation). This investment in capital assets included land, buildings, improvements, machinery and equipment, and contributed property.

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

- Construction costs of \$1,396,000 were incurred on a variety of construction projects during 2017. \$1,975,000 of constructed assets were completed and placed in service, consisting mostly of water main construction and rehabilitation projects. In addition, \$3,103,000 of water mains constructed by developers was contributed to the Water Department to own and maintain. This is recorded as a capital contribution in the statement of revenues, expenses, and changes in net position. In 2016 the Water Department had construction of \$1,562,000 and contributed capital of \$2,291,000, and in 2015 construction of \$1,378,000 and contributed capital of \$1,001,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were \$1,000,000 in 2017, as compared to \$283,000 in 2016 and \$419,000 in 2015.

Additional information regarding capital assets can be found on Note 7 of this report.

**Long-Term Debt**

The Water Department had \$22,055,000 in revenue bonds outstanding as of June 30, 2017, which is a decrease of \$830,000 from 2016. The decrease is due to scheduled principal payments and the refunding of the 2006 Water Revenue Improvement Bonds (\$13,995,000) and issuance of the 2016 Water Revenue Refunding Bonds (\$13,725,000) on December 13, 2016. Revenue bonds outstanding as of June 30, 2016 were \$22,885,000 which was a decrease of \$2,945,000 from 2015. This large decrease was due to scheduled principal payments and the early call of the 2008-B Water Revenue Improvement bonds on June 1, 2016. Additional information regarding long-term debt can be found on Note 8 of this report.

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

**Additional Management Comments**

Water consumption in fiscal year 2017 was 3.3% more than the previous year. Water consumption in 2017 increased year over year due mostly to customer growth. This, of course, in addition to the July 1, 2015 rate increase has favorably impacted the bottom line, resulting in an increase in net position greater than fiscal year 2016, and also greater than the budget. The focus on reducing debt and controlling expenses continues.

The Rogers Water Department funded capital improvements out of reserves in fiscal year 2017. Significant 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 water main projects for City of Rogers street projects.

Looking ahead, the source of water for all Northwest Arkansas, Beaver Lake, appears to be in good shape. Rate increases from the water supplier, Beaver Water District, are driven by updated water usage forecasts, and indicate the likelihood of a series of rate increases over the next four years totaling \$.10/1000 gallons. Beaver Water District, is poised to meet the demand of Rogers Water Utility water customers for maximum daily demand twenty years hence. An internal rate study was completed by Utility personal during fiscal year 2015. It indicated a rate increase was appropriate. Utility personal proposed a water rate increase to the Rogers Waterworks and Sewer Commission and the Rogers City Council. Both governing bodies approved the rate increase, and it became effective July 1, 2015.

The distribution system, storage, and metering systems in Rogers are fairly up-to-date and able to meet anticipated demands. The water distribution system is able to deliver water in sufficient quantities to those who demand it. New construction in Rogers seems to be increasing. Financial reserves appear to be sufficient to enable the Rogers Waterworks and Sewer Commission and Rogers Water Utilities staff to meet most future contingencies.

Water quality issues continue to challenge Beaver Water District and the four cities of Northwest Arkansas that are their customers. Disinfection By-products Rule Phase II Total Trihalomethane (TTHM) and Total Haloacetic Acid (THAA) regulations became effective January 1, 2013. Beaver Water District has changed its process to Chlorine Dioxide pre-treatment to reduce the production of these pollutants during the treatment process. The individual cities of NWA will ultimately be responsible for adhering to a these regulations and all provisions of the Safe Drinking Water Act. The Arkansas Department of Health is providing classes for continuing education and training to assist the Cities in compliance with these standards.

**ROGERS WATER UTILITIES WATER 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**

	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,436,605	\$ 3,292,482
Investments	6,585,299	5,611,851
Accounts receivable, net of allowance for doubtful accounts of \$139,000 and \$143,000, respectively	1,711,807	1,967,249
Accrued interest receivable	-	35
Due from sewer department	-	30,452
Inventory	254,923	196,655
Prepaid expenses	43,746	27,507
	<u>12,032,380</u>	<u>11,126,231</u>
 <b>TOTAL CURRENT ASSETS</b>		
	<u>12,032,380</u>	<u>11,126,231</u>
 <b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	701,888	324,716
Investments	4,624,718	4,821,894
Accrued interest receivable	-	7
	<u>5,326,606</u>	<u>5,146,617</u>
 <b>TOTAL RESTRICTED CASH AND INVESTMENTS</b>		
	<u>5,326,606</u>	<u>5,146,617</u>
 <b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<u>80,165,880</u>	<u>77,130,536</u>
 <b>TOTAL ASSETS</b>		
	<u>97,524,866</u>	<u>93,403,384</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	575,553	363,685
Deferred bond refunding costs	734,073	645,714
	<u>1,309,626</u>	<u>1,009,399</u>
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
	<u>\$ 98,834,492</u>	<u>\$ 94,412,783</u>

See Independent Auditors' Report and Notes to Financial Statements.

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

	<b>2017</b>	<b>2016</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 455,473	\$ 437,365
Accounts payable to construction contractors	130,372	633,895
Accounts payable - other	707,406	690,443
Due to sewer department	205,245	-
Accrued expenses	264,891	305,307
Current portion of bonds payable	<u>770,000</u>	<u>560,000</u>
 Total Current Liabilities	 <u>2,533,387</u>	 <u>2,627,010</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer meter deposits	1,072,713	1,019,954
Accrued interest payable	<u>120,767</u>	<u>145,791</u>
 Total Liabilities Payable From Restricted Assets	 <u>1,193,480</u>	 <u>1,165,745</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net of unamortized premiums and discounts	21,837,168	22,215,821
Net pension liability	<u>1,389,098</u>	<u>1,053,941</u>
 Total Long-Term Liabilities	 <u>23,226,266</u>	 <u>23,269,762</u>
 Total Liabilities	 26,953,133	 27,062,517
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension inflows	<u>50,506</u>	<u>121,386</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>27,003,639</u>	 <u>27,183,903</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	58,292,789	55,000,429
Restricted	4,133,127	3,980,872
Unrestricted	<u>9,404,937</u>	<u>8,247,579</u>
 Total Net Position	 <u>71,830,853</u>	 <u>67,228,880</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 98,834,492</u>	 <u>\$ 94,412,783</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Residential water	\$ 5,721,380	\$ 5,697,209
Commercial water	2,645,761	2,417,321
Industrial water	1,063,004	973,483
Sprinkler service / hydrant	104,840	93,575
Service charges and penalties	576,571	568,576
Access / impact / new customer fees	857,805	798,466
Other operating revenue	<u>363,233</u>	<u>361,964</u>
 Total Operating Revenues	 <u>11,332,594</u>	 <u>10,910,594</u>
<b>OPERATING EXPENSES</b>		
Water purchased	4,296,558	4,166,023
Plant operations and distribution	1,178,361	1,184,089
General and administrative	1,161,433	1,014,170
Depreciation	<u>2,450,407</u>	<u>2,261,917</u>
 Total Operating Expenses	 <u>9,086,759</u>	 <u>8,626,199</u>
<b>OPERATING INCOME</b>	 <u>2,245,835</u>	 <u>2,284,395</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	109,363	89,565
Gain on disposal of fixed assets	23,492	12,950
Bond issuance costs	(180,437)	-
Interest expense	(829,876)	(1,067,502)
Trustee fees	<u>(10,025)</u>	<u>(11,825)</u>
 Total Other Revenues (Expenses)	 <u>(887,483)</u>	 <u>(976,812)</u>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	 1,358,352	 1,307,583
<b>CAPITAL CONTRIBUTIONS</b>	 <u>3,243,621</u>	 <u>2,367,135</u>
<b>CHANGE IN NET POSITION</b>	 4,601,973	 3,674,718
<b>NET POSITION, BEGINNING OF YEAR</b>	 <u>67,228,880</u>	 <u>63,554,162</u>
<b>NET POSITION, END OF YEAR</b>	 <u><u>\$ 71,830,853</u></u>	 <u><u>\$ 67,228,880</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,438,102	\$ 8,962,303
Cash received from access, impact and new customer fees	857,805	788,287
Cash received from service charges, penalties and other operating revenue	992,563	961,416
Payments for water	(4,276,130)	(4,109,854)
Payments for salaries and benefits	(1,575,598)	(1,510,209)
Payments to suppliers for goods and services	<u>(576,370)</u>	<u>(861,375)</u>
Net Cash From Operating Activities	<u>4,860,372</u>	<u>4,230,568</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(2,406,862)	(2,014,165)
Cash received from sale of fixed assets	37,026	12,950
Cash received from bond issuance	14,260,313	-
Bonds refunded	(13,995,000)	-
Bond issue costs	(180,437)	-
Prepaid bond insurance	(16,134)	-
Principal payments on bonds	(560,000)	(2,945,000)
Interest and paying agent fees, net of capitalized interest	(811,116)	(1,002,051)
Collections on forbearance agreement	<u>-</u>	<u>21,078</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(3,672,210)</u>	<u>(5,927,188)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	109,405	89,658
Net change in investments	(973,448)	(93,087)
Net change in restricted investments	<u>197,176</u>	<u>1,011,442</u>
Net Cash From (Used For) Investing Activities	<u>(666,867)</u>	<u>1,008,013</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	521,295	(688,607)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,617,198</u>	<u>4,305,805</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,138,493</u>	<u>\$ 3,617,198</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 3,436,605	\$ 3,292,482
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>701,888</u>	<u>324,716</u>
	<u>\$ 4,138,493</u>	<u>\$ 3,617,198</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2017	2016
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating Income	<u>\$ 2,245,835</u>	<u>\$ 2,284,395</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,450,407	2,261,917
Allowance for doubtful accounts	4,000	36,000
Net change in pension liability	52,409	(20,120)
Redeemed vouchers	-	(39,903)
Changes in assets and liabilities:		
Accounts receivable, including receivable for capital expenditure of \$-0- and \$352,325, respectively	(100,883)	(255,285)
Inventory	(58,268)	67,267
Prepaid expenses	(16,239)	531
Accounts payable - trade and other	35,071	(21,939)
Accrued expenses and customer deposits	12,343	46,663
Due to/from sewer department	<u>235,697</u>	<u>(128,958)</u>
Total adjustments	<u>2,614,537</u>	<u>1,946,173</u>
Net Cash From Operating Activities	<u>\$ 4,860,372</u>	<u>\$ 4,230,568</u>
<b>OTHER NONCASH TRANSACTIONS</b>		
Capital contributions	<u>\$ 3,243,621</u>	<u>\$ 2,367,135</u>

See Independent Auditors' Report and Notes to Financial Statements.



**ROGERS WATER UTILITIES WATER 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 - Water 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 Water Department provides water 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 Water 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 revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Water Department. All revenues 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 Water Department.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Water 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 WATER 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 water 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 Water Department had no cash equivalents.

***Investments***

Investments consist of certificates of deposit with original maturities of greater than ninety days 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 water and trash service 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 Water Department reviews long-lived assets and certain identifiable intangibles held and used by the Water 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 Water Department's reported earnings, financial position or results of operations.

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

***Contributed Capital***

The Water 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 water lines and related infrastructure. At June 30, 2017 and 2016, cumulative contributed capital fixed assets amounted to approximately \$40,483,000 and \$37,380,000, 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
Water towers	5 - 50 years
Water service lines	33 years
Water meters	20 - 25 years
Shop equipment and machinery	3 - 10 years
Transportation equipment	3 - 10 years
Two-way radio system	5 - 15 years
Field equipment	3 - 20 years
Office equipment	3 - 20 years

The Water 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 Water Department at June 30, 2017 and 2016 amounted to approximately \$4,603,000 and \$4,322,000, respectively.

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

Bond discounts and premiums are amortized over the lives of the related bond issues. Net amortization (income) expense was (\$14,688) and \$55,705, respectively, for the years ended June 30, 2017 and 2016, and is included as a component of interest expense.

***Amortization of Deferred Bond Refunding Costs***

The deferred bond refunding costs associated with the 2012 Water Revenue Refunding Bonds and 2016 Water Revenue Refunding Bonds are amortized over the life of the related bond issue (See Note 8). Amortization expense of \$52,363 and \$48,429, respectively, for the years ended June 30, 2017 and 2016 is included as a component of interest expense.

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

***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 Water Department has two items that qualify for reporting in this category: bond refunding costs and changes regarding pension liabilities. A deferred outflow on bond refunding costs results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note 8 for additional information. In regards to the deferred outflows of resources related to pension liabilities, these amounts were created as a result of the implementation of GASB 68. See Note 9 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 Water 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 9 for additional information.

***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.

***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.

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

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

***Compensated Absences***

The Water 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 rates in effect at June 30, 2017 and 2016.

***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 and unrestricted net position is available, the Water 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 Water Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2017, the Water Department had approximately \$4,074,000 in deposit balances reported as cash and cash equivalents in the Statements of Net Position, of which approximately \$575,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities' name. Additionally, the Water Department had approximately \$10,303,000 in certificates of deposit reported as investments in the Statements of Net Position, all of which were FDIC insured.

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

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Rogers Water Utilities. Rogers Water Utilities sends 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

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

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 from sewer department” and “Due to sewer department.”

**NOTE 4: RESTRICTED CASH AND INVESTMENTS**

Restricted cash and investments are held for specific purposes at June 30, 2017 and 2016 as follows:

	<b>2017</b>	<b>2016</b>
Meter deposits	\$ 1,207,670	\$ 1,105,130
Debt service reserve	832,555	772,869
Depreciation reserve for additional replacements to the water system	3,211,687	3,065,972
New customer fees collected for additions of fixed assets	74,694	202,639
Accrued interest receivable	-	7
	<u>\$ 5,326,606</u>	<u>\$ 5,146,617</u>

**NOTE 5: RISK MANAGEMENT**

The Water 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 Water 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 Water Department’s investment policy is to attempt to match investment maturities with cash flow requirements.

**ROGERS WATER UTILITIES WATER 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 Water 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 Water 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 Water 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 Water Department were fully collateralized or insured.

At June 30, 2017 and 2016, the Water Department’s investments consisted of \$10,302,769 and \$9,458,237, respectively, held in certificates of deposit and \$907,248 and \$975,508, respectively, held in United States government securities. All investments at June 30, 2017 and 2016 had maturities of less than five years.

**NOTE 7: CHANGES IN FIXED ASSETS**

	<b>Balance June 30, 2016</b>	<b>Transfers/ Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2017</b>
Land	\$ 729,366	\$ 1,975	\$ -	\$ 731,341
Buildings	1,736,679	6,066	-	1,742,745
Equipment	63,631,124	2,879,965	(338,745)	66,172,344
Vehicles	508,195	86,983	(75,777)	519,401
Contributed property	37,380,089	3,102,728	-	40,482,817
Construction in progress	1,714,893	1,396,231	(1,974,663)	1,136,461
	<u>105,700,346</u>	<u>7,473,948</u>	<u>(2,389,185)</u>	<u>110,785,109</u>
Accumulated depreciation	<u>(28,569,810)</u>	<u>(2,450,407)</u>	<u>400,988</u>	<u>(30,619,229)</u>
	<u>\$ 77,130,536</u>	<u>\$ 5,023,541</u>	<u>\$ (1,988,197)</u>	<u>\$ 80,165,880</u>

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

	<u>Balance June 30, 2015</u>	<u>Transfers/ Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2016</u>
Land	\$ 605,510	\$ 123,856	\$ -	\$ 729,366
Buildings	1,736,679	-	-	1,736,679
Equipment	63,005,665	886,832	(261,373)	63,631,124
Vehicles	385,660	167,373	(44,838)	508,195
Contributed property	35,088,934	2,291,155	-	37,380,089
Construction in progress	1,047,911	1,561,986	(895,004)	1,714,893
	101,870,359	5,031,202	(1,201,215)	105,700,346
Accumulated depreciation	<u>(26,614,107)</u>	<u>(2,261,917)</u>	<u>306,214</u>	<u>(28,569,810)</u>
	<u>\$ 75,256,252</u>	<u>\$ 2,769,285</u>	<u>\$ (895,001)</u>	<u>\$ 77,130,536</u>

**NOTE 8: BONDS PAYABLE**

***Series 2006 Revenue Improvement Bonds***

In November 2006, the Water Department issued \$15,525,000 in Revenue Improvement Bonds (Series 2006) at an average rate of 4.3% to finance general improvements to the water system and related infrastructure. The bond matures in fiscal year 2037 with principal payments due in November and interest payments due in November and May of each year. This bond was refunded during the year ended June 30, 2017. The remaining discount of \$139,000 was included in calculating the deferred bond refunding costs for the Series 2016 Water Revenue Refunding Bonds. As of June 30, 2017 and 2016, the outstanding principal was \$-0- and \$14,175,000, respectively.

***Series 2008 Revenue Refunding Bonds***

In May 2008, the Water Department issued \$2,220,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Water Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$79,791. 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 \$485,000 and \$715,000, respectively.

***Series 2008B Revenue Refunding Bonds***

In September 2008, the Water Department issued \$3,565,000 in Revenue Refunding Bonds (Series 2008B) at an average rate of 3.48% to finance the cost of refunding the Water Revenue Improvement Bonds, Series 2003. This transaction resulted in an economic gain of \$91,933. During the year ended June 30, 2016, the Department paid the outstanding balance in full.



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

***Series 2012 Water Revenue Refunding Bonds***

On April 18, 2012, the Water Department issued \$8,505,000 in Water Revenue Refunding Bonds (Series 2012) with an average interest rate of 3.13% to advance refund \$7,645,000 of outstanding Water Revenue Improvement Bonds, Series 2004 with an average interest rate of 4.75%. The net proceeds of \$8,456,998 (after payment of bond issuance costs and other costs) were deposited in an irrevocable trust with an escrow agent and were used to purchase U.S. government securities. All debt service payments were paid by the trust and all outstanding Water Revenue Improvement Bonds, Series 2004 Bonds were redeemed in full on November 1, 2014.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$847,499. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to interest expense over the life of the bonds using the straight-line method. The Water Department completed the advance refunding to reduce its total debt service payments over the next 18 years by \$610,822 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$480,287. As of June 30, 2017 and 2016, the outstanding principal was \$7,845,000 and \$7,995,000, respectively.

***Series 2016 Water Revenue Refunding Bonds***

On December 13, 2016, the Water Department issued \$13,725,000 in Water Revenue Refunding Bonds (Series 2016) with an average interest rate of 3.37% to refund \$13,995,000 of outstanding Water Revenue Improvement Bonds, Series 2006 with an average interest rate of 4.33%. The net proceeds of \$14,065,289 (after premiums, payment of bond issuance costs, and other costs) were used to pay the outstanding principal and the accrued interest on the Series 2006 Water Bonds on December 13, 2016.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$140,722. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to interest expense over the life of the bonds using the straight-line method. The Water Department completed the advance refunding to reduce its total debt service payments over the next 19 years by \$3,470,757 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,006,537. The Series 2016 bonds also included prepaid bond insurance costs of \$16,134 which are amortized against interest expense over the life the Series 2016 bonds. During the years ended June 30, 2017 and 2016, amortization expense for prepaid bond insurance was \$451 and \$-0-, respectively. The remaining prepaid bond insurance is included in Statements of Net Position under the caption "Prepaid expenses." Furthermore, the Series 2016 bonds had issuance costs of \$180,437. As of June 30, 2017 and 2016, the outstanding principal was \$13,725,000 and \$-0-, respectively.

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

***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 2008 bond documents, as of June 30, 2017 and 2016 is 2.59. Total interest paid during the years ended June 30, 2017 and 2016 totaled \$811,116 and \$1,002,051, respectively. No interest was capitalized during the years ended June 30, 2017 and 2016.

The Water Department is required to establish rates sufficient to pay the expenses and operation and maintenance of the water 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 water system revenues for the preceding month into the depreciation fund. The Water Department was in compliance with all debt covenants for the years ended June 30, 2017 and 2016.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 770,000	\$ 713,262	\$ 1,483,262
2019	740,000	690,949	1,430,949
2020	780,000	670,450	1,450,450
2021	800,000	650,613	1,450,613
2022	820,000	627,313	1,447,313
2023-2027	5,485,000	2,658,811	8,143,811
2028-2032	7,335,000	1,487,969	8,822,969
2033-2036	5,325,000	265,608	5,590,608
Total	<u>\$ 22,055,000</u>	<u>\$ 7,764,975</u>	<u>\$ 29,819,975</u>

**ROGERS WATER UTILITIES WATER 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:

	<b>Balance June 30, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>	<b>Amounts Due Within One Year</b>
Revenue Improvement Bonds, Series 2006	\$ 14,175,000	\$ -	\$ 14,175,000	\$ -	\$ -
Revenue Refunding Bonds, Series 2008	715,000	-	230,000	485,000	240,000
Revenue Refunding Bonds, Series 2008B	-	-	-	-	-
Revenue Refunding Bonds, Series 2012	7,995,000	-	150,000	7,845,000	150,000
Revenue Refunding Bonds, Series 2016	-	13,725,000	-	13,725,000	380,000
Bonds payable, gross	22,885,000	13,725,000	14,555,000	22,055,000	770,000
Less discounts	(142,206)	-	(142,206)	-	-
Plus premiums	33,027	537,035	17,894	552,168	-
	<u>\$ 22,775,821</u>	<u>\$ 14,262,035</u>	<u>\$ 14,430,688</u>	<u>\$ 22,607,168</u>	<u>\$ 770,000</u>

	<b>Balance June 30, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2016</b>	<b>Amounts Due Within One Year</b>
Revenue Improvement Bonds, Series 2006	\$ 14,350,000	\$ -	\$ 175,000	\$ 14,175,000	\$ 180,000
Revenue Refunding Bonds, Series 2008	935,000	-	220,000	715,000	230,000
Revenue Refunding Bonds, Series 2008B	2,400,000	-	2,400,000	-	-
Revenue Refunding Bonds, Series 2012	8,145,000	-	150,000	7,995,000	150,000
Revenue Refunding Bonds, Series 2016	-	-	-	-	-
Bonds payable, gross	25,830,000	-	2,945,000	22,885,000	560,000
Less discounts	(200,789)	-	(58,583)	(142,206)	-
Plus premiums	35,905	-	2,878	33,027	-
	<u>\$ 25,665,116</u>	<u>\$ -</u>	<u>\$ 2,889,295</u>	<u>\$ 22,775,821</u>	<u>\$ 560,000</u>

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

**NOTE 9: 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 WATER 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 Water 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 WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,311	\$ (49,830)
Changes of assumptions	106,449	-
Changes in proportion and differences between employer contributions and proportionate share	41,994	(676)
Net difference between projected and actual earnings on pension plan investments	242,526	-
Contributions subsequent to measurement date	<u>183,273</u>	<u>-</u>
Balance, June 30, 2017	<u>\$ 575,553</u>	<u>\$ (50,506)</u>

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (69,095)
Changes of assumptions	155,539	-
Changes in proportion and differences between employer contributions and proportionate share	46,631	-
Net difference between projected and actual earnings on pension plan investments	-	(52,291)
Contributions subsequent to measurement date	<u>161,515</u>	<u>-</u>
Balance, June 30, 2016	<u>\$ 363,685</u>	<u>\$ (121,386)</u>

**ROGERS WATER UTILITIES WATER 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, 2017, and will not be amortized in the schedule below. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the Water Department's financial statements as follows:

<b>Years ending June 30:</b>	
2018	\$ (78,696)
2019	(68,936)
2020	(127,479)
2021	(66,663)
2022	-
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:

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

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

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 APERS' target asset allocation as of June 30, 2016 are summarized in the table below:



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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	38%	6.82%
International Equity	24%	6.88%
Real Estate	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 6.50%	Discount Rate 7.50%	1% Higher 8.50%
\$ 2,102,746	\$ 1,389,098	\$ 795,171

**NOTE 10: COMMITMENTS AND CONCENTRATION**

The Water Department is committed to several construction contracts in process at year end totaling \$1,950,358. As of June 30, 2017, \$1,136,461 had been incurred in connection with these contracts.

The Water Department purchases substantially all of its water from the Beaver Water District.

**ROGERS WATER UTILITIES WATER 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 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. Water Department employee contributions for the years ended June 30, 2017 and 2016 were \$68,791 and \$50,405, 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 Water 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 \$2,000 and \$2,945, respectively. At June 30, 2017 and 2016, there were two and four 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 WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF THE WATER 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	0.06 %	0.06 %	0.05 %
Proportionate share of the net pension liability	\$ 1,389,098	\$1,053,941	\$ 761,957
Covered - employee payroll	\$ 1,280,327	\$1,197,940	\$1,086,721
Proportionate share of the net pension liability as percentage of covered-employee payroll	108.50 %	87.98 %	70.12 %
Plan's fiduciary net position	\$ 1,389,098	\$1,053,941	\$ 761,957
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 WATER 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	\$ 183,273	\$ 161,515	\$ 149,290
Contributions in relation to the contractually required contribution	\$ (183,273)	\$ (161,515)	\$ (149,290)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Water Department's covered-employee payroll	\$ 1,280,327	\$ 1,197,940	\$ 1,086,721
Contributions as a percentage of covered-employee payroll	14.31 %	13.48 %	13.74 %

\*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 WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>WATER PURCHASED</b>	<u>\$ 4,296,558</u>	<u>\$ 4,166,023</u>
<b>PLANT OPERATIONS AND DISTRIBUTION</b>		
Employee benefits	248,566	200,524
Insurance	24,162	21,000
Operating supplies and other	83,785	108,636
Payroll taxes	42,909	44,818
Repairs and maintenance	176,362	192,098
Salaries	543,718	558,184
Utilities	<u>58,859</u>	<u>58,829</u>
	<u>1,178,361</u>	<u>1,184,089</u>
<b>GENERAL AND ADMINISTRATIVE</b>		
Bad debts	24,368	19,977
Employee benefits	235,818	173,540
Insurance	12,513	11,843
Office supplies and postage	104,116	101,150
Other	62,483	26,563
Payroll taxes	50,495	40,838
Professional fees	84,775	77,778
Salaries	470,022	447,009
Taxes and fees	94,633	92,725
Utilities	<u>22,210</u>	<u>22,747</u>
	<u>1,161,433</u>	<u>1,014,170</u>
<b>DEPRECIATION</b>	<u>2,450,407</u>	<u>2,261,917</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 9,086,759</u></u>	<u><u>\$ 8,626,199</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
WATER 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	\$ 240,000	3.45%	\$ 12,837	\$ 252,837
2019	<u>245,000</u>	3.55%	<u>4,349</u>	<u>249,349</u>
Balance, June 30, 2017	<u>\$ 485,000</u>		<u>\$ 17,186</u>	<u>\$ 502,186</u>

Dated: May 1, 2008

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas



**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS**  
**WATER REVENUE REFUNDING BONDS – SERIES 2012**  
**JUNE 30, 2017**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	\$ 150,000	2.000%	\$ 235,881	\$ 385,881
2019	160,000	2.000%	232,781	392,781
2020	435,000	2.000%	226,831	661,831
2021	450,000	2.250%	217,419	667,419
2022	455,000	2.500%	206,669	661,669
2023	465,000	2.625%	194,878	659,878
2024	480,000	2.750%	182,175	662,175
2025	805,000	3.000%	163,500	968,500
2026	830,000	3.000%	138,975	968,975
2027	855,000	3.500%	111,563	966,563
2028	885,000	3.500%	81,113	966,113
2029	920,000	3.500%	49,525	969,525
2030	<u>955,000</u>	3.500%	<u>16,713</u>	<u>971,713</u>
Balance, June 30, 2017	<u>\$ 7,845,000</u>		<u>\$ 2,058,023</u>	<u>\$ 9,903,023</u>

Dated: April 18, 2012

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS**  
**WATER REVENUE REFUNDING BONDS – SERIES 2016**  
**JUNE 30, 2017**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	\$ 380,000	3.00%	\$ 464,544	\$ 844,544
2019	335,000	3.00%	453,819	788,819
2020	345,000	3.00%	443,619	788,619
2021	350,000	3.00%	433,194	783,194
2022	365,000	4.00%	420,644	785,644
2023	380,000	4.00%	405,744	785,744
2024	395,000	4.00%	390,244	785,244
2025	410,000	4.00%	374,144	784,144
2026	425,000	4.00%	357,444	782,444
2027	440,000	4.00%	340,144	780,144
2028	460,000	4.00%	322,144	782,144
2029	480,000	4.00%	303,344	783,344
2030	500,000	4.00%	283,744	783,744
2031	1,535,000	4.00%	243,043	1,778,043
2032	1,600,000	3.00%	188,343	1,788,343
2033	1,650,000	3.00%	139,593	1,789,593
2034	1,700,000	3.00%	88,281	1,788,281
2035	1,755,000	3.00%	34,297	1,789,297
2036	220,000	3.13%	3,437	223,437
Balance, June 30, 2017	<u>\$ 13,725,000</u>		<u>\$ 5,689,766</u>	<u>\$ 19,414,766</u>

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF FIXED ASSETS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

**2017**

**Fixed Assets**

	<u>Balance</u> <u>June 30, 2016</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	592,374	69,238	(43,354)	618,258
Vehicles	508,195	86,983	(75,777)	519,401
Shop equipment	65,465	-	-	65,465
Field equipment	816,800	5,675	(6,803)	815,672
Radio equipment	36,318	3,107	(17,871)	21,554
Pumping equipment	76,773	-	-	76,773
Water meters	2,625,049	597,217	(270,717)	2,951,549
Water services	1,378,630	-	-	1,378,630
Water tower	11,377,786	-	-	11,377,786
Main line	46,661,929	2,204,728	-	48,866,657
Structures and parking lots	1,736,679	6,066	-	1,742,745
Easements	455,746	1,975	-	457,721
Contributed water main	37,380,089	3,102,728	-	40,482,817
	103,985,453	6,077,717	(414,522)	109,648,648
Construction in progress	1,714,893	1,396,231	(1,974,663)	1,136,461
	<u>\$ 105,700,346</u>	<u>\$ 7,473,948</u>	<u>\$ (2,389,185)</u>	<u>\$ 110,785,109</u>

**Accumulated Depreciation**

Office equipment	\$ 420,355	\$ 62,864	\$ (42,543)	\$ 440,676
Vehicles	330,830	51,028	(63,055)	318,803
Shop equipment	60,944	908	-	61,852
Field equipment	671,304	45,819	(6,803)	710,320
Radio equipment	26,962	3,429	(17,871)	12,520
Pumping equipment	45,040	4,679	-	49,719
Water meters	1,235,136	228,129	(270,716)	1,192,549
Water services	1,182,838	28,157	-	1,210,995
Water tower	3,686,563	223,058	-	3,909,621
Main line	13,473,550	969,707	-	14,443,257
Structures and parking lots	860,286	63,625	-	923,911
Contributed water main	6,576,002	769,004	-	7,345,006
	<u>\$ 28,569,810</u>	<u>\$ 2,450,407</u>	<u>\$ (400,988)</u>	<u>\$ 30,619,229</u>

**See Independent Auditors' Report and Notes to Financial Statements.**

**2016**

**Fixed Assets**

	<u>Balance June 30, 2015</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2016</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	599,758	69,897	(77,281)	592,374
Vehicles	385,660	167,373	(44,838)	508,195
Shop equipment	65,465	-	-	65,465
Field equipment	804,415	12,385	-	816,800
Radio equipment	36,318	-	-	36,318
Pumping equipment	76,773	-	-	76,773
Water meters	2,631,062	178,078	(184,091)	2,625,049
Water services	1,378,630	-	-	1,378,630
Water tower	11,377,786	-	-	11,377,786
Main line	46,035,458	626,471	-	46,661,929
Structures and parking lots	1,736,679	-	-	1,736,679
Easements	331,890	123,856	-	455,746
Contributed water main	35,088,934	2,291,155	-	37,380,089
	<u>100,822,448</u>	<u>3,469,215</u>	<u>(306,210)</u>	<u>103,985,453</u>
Construction in progress	<u>1,047,911</u>	<u>1,561,986</u>	<u>(895,004)</u>	<u>1,714,893</u>
	<u>\$ 101,870,359</u>	<u>\$ 5,031,201</u>	<u>\$ (1,201,214)</u>	<u>\$ 105,700,346</u>

**Accumulated Depreciation**

Office equipment	\$ 440,567	\$ 57,072	\$ (77,284)	\$ 420,355
Vehicles	342,088	33,581	(44,839)	330,830
Shop equipment	59,975	969	-	60,944
Field equipment	624,616	46,688	-	671,304
Radio equipment	23,929	3,033	-	26,962
Pumping equipment	40,361	4,679	-	45,040
Water meters	1,286,560	132,667	(184,091)	1,235,136
Water services	1,153,799	29,039	-	1,182,838
Water tower	3,462,904	223,659	-	3,686,563
Main line	12,534,786	938,764	-	13,473,550
Structures and parking lots	793,581	66,705	-	860,286
Contributed water main	5,850,941	725,061	-	6,576,002
	<u>\$ 26,614,107</u>	<u>\$ 2,261,917</u>	<u>\$ (306,214)</u>	<u>\$ 28,569,810</u>

**See Independent Auditors' Report.**

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF WATER SYSTEM RATES  
JUNE 30, 2017 AND 2016**

<u>MONTHLY WATER RATE FOR CUSTOMERS</u>	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>
First 1,500 gallons or portion thereof	\$6.89 minimum	\$8.82 minimum
Next 98,500 gallons	\$2.99 / thousand	\$3.81 / thousand
Next 400,000 gallons	\$2.65 / thousand	\$3.38 / thousand
Next 500,000 gallons	\$2.41 / thousand	\$3.07 / thousand
All in excess of 1,000,000 gallons	\$2.25 / thousand	\$2.88 / thousand

See Independent Auditors' Report.

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

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<b>NUMBER OF CUSTOMERS</b>	
	<u>2017</u>	<u>2016</u>
Residential customers	29,017	28,496
Commerical customers	2,708	2,647
Industrial customers	<u>47</u>	<u>48</u>
	<u>31,772</u>	<u>31,191</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF BILLABLE GALLONS**  
**JUNE 30, 2017 AND 2016**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<b>NUMBER OF BILLABLE GALLONS</b>	
	<u>2017</u>	<u>2016</u>
Residential customers	1,512,180,100	1,531,465,900
Commerical customers	781,831,300	709,681,700
Industrial customers	<u>435,199,600</u>	<u>400,554,500</u>
	<u>2,729,211,000</u>	<u>2,641,702,100</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 Water 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 Water Department** (“the Water 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 Water 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 Water Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Water 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 Water 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 Water 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 Water 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 Water 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