

**ROGERS WATER UTILITIES
SEWER DEPARTMENT
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2018 AND 2017
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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, 2018 and 2017, 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, 2018 and 2017, 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 31 and 32 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 14, 2018 on our consideration of the Sewer Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sewer Department's internal control over financial reporting and compliance.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC

Certified Public Accountants

Rogers, Arkansas
September 14, 2018

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018, 2017, AND 2016

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, 2018, 2017, and 2016. 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 \$4,639,000, or 4.5%, over fiscal year 2017. Net position increased by \$5,773,000 or 6.0% in 2017 over 2016.
- Sewer Department operating revenues increased by \$46,000, or 0.4% in 2018. Operating revenues increased by \$417,000 or 3.5% in 2017 over 2016.
- Operating expenses increased by \$715,000, or 8.4% from 2017. Operating expenses increased by \$865,000 or 11.3% in 2017 over 2016.
- Net position increased by \$2,771,000 before capital contributions during fiscal year 2018. In fiscal year 2017, net assets before capital contributions increased by \$2,906,000.

Rogers Sewer Department Fiscal Year 2018 Highlights

- The change in net position before capital contributions exceeded budget but fell short of prior year operating results by \$134,000.
- The number of customers increased by 387 or 1.69% from the prior year. Billed sewer consumption increased by 1.2%.
- Continued the focus on the Utility goal of debt-reduction by early call of the series 2008 Sewer Bonds.
- Continued a City wide meter change out program and extended the completion period to be over the next 6 to 8 years. The change out is being conducted by Utility Staff.
- The Utility filled the Superintendent position which will become vacant by the retirement of Earl Rausch August 31, 2018. Brent Dobler was appointed by the Commission to fill the position.
- The RWU Commission approved an Educational Assistance plan and program for Rogers Water Utilities staff.
- The RWU Commission approved the RWU Compensation Policy effective August 21, 2017.
- The Utility has contracted with HDR Engineering firm to evaluate funding of future capital needs and cash requirements by conducting a water and sewer rate study, as well as evaluating the level of current access and impact fees. No rate increase or issuance of debt is anticipated in fiscal year 19.

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- The Utility has negotiated a contract with Paymentus to upgrade its credit and debit card processing. The upgrade is expected to be implemented in fiscal year 19.
- Tyson Foods, RWU's largest industrial customer, indicated the intention to conserve water usage by 25% by the year 2025. In fiscal year 18, Tyson Foods had an 8% reduction in sewer consumption.
- NANTRAG, Northwest Arkansas Nutrient Trading Research Group, submitted proposed nutrient trading regulation to Arkansas Department of Environmental Quality (ADEQ) for third-party rule-making in order to manage phosphorus discharge in the area.

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 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.

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- 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.

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
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Financial Highlights

Assets, Liabilities and Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Total current assets	\$ 18,660,461	\$ 15,932,580	\$ 18,226,236
Restricted cash and investments	3,234,093	3,150,832	3,148,835
Other noncurrent assets	104,287,404	103,415,028	101,912,335
Total assets	<u>\$ 126,181,958</u>	<u>\$122,498,440</u>	<u>\$ 123,287,406</u>
Deferred Outflows of Resources			
Pension costs	<u>\$ 1,136,963</u>	<u>\$ 894,807</u>	<u>\$ 561,597</u>
Liabilities			
Total current liabilities	\$ 2,340,942	\$ 1,665,780	\$ 1,890,670
Liabilities payable from restricted assets	85,035	93,438	410,219
Noncurrent liabilities	17,557,774	18,872,921	24,901,773
Total liabilities	<u>\$ 19,983,751</u>	<u>\$ 20,632,139</u>	<u>\$ 27,202,662</u>
Deferred Inflows of Resources			
Pension costs	\$ 54,543	\$ 80,861	\$ 195,842
Deferred bond refunding gain	418,321	456,935	-
Total deferred inflows of resources	<u>\$ 472,864</u>	<u>\$ 537,796</u>	<u>\$ 195,842</u>
Net Position			
Invested in capital assets, net of related debt	\$ 87,865,578	\$ 85,249,156	\$ 77,515,972
Restricted	3,149,058	3,057,394	2,738,616
Unrestricted	15,847,670	13,916,762	16,195,911
Total net position	<u>\$ 106,862,306</u>	<u>\$102,223,312</u>	<u>\$ 96,450,499</u>

Operating Results and Changes in Net Position

Operating revenues	<u>\$ 12,243,350</u>	<u>\$ 12,197,451</u>	<u>\$ 11,780,503</u>
Operating expenses			
Depreciation	3,822,982	3,655,000	3,537,723
Other operating expenses	5,419,745	4,872,598	4,124,571
Total operating expenses	<u>9,242,727</u>	<u>8,527,598</u>	<u>7,662,294</u>
Operating income	<u>3,000,623</u>	<u>3,669,853</u>	<u>4,118,209</u>
Other revenues (expenses)			
Interest expense	(422,749)	(731,686)	(1,082,452)
Other income (expenses)	193,624	(31,984)	114,193
Total other revenues (expenses)	<u>(229,125)</u>	<u>(763,670)</u>	<u>(968,259)</u>
Changes in net position before capital contributions	2,771,498	2,906,183	3,149,950
Capital Contributions	<u>1,867,496</u>	<u>2,866,630</u>	<u>2,139,245</u>
Change in Net Position	4,638,994	5,772,813	5,289,195
Net Position, Beginning of Year	<u>102,223,312</u>	<u>96,450,499</u>	<u>91,161,304</u>
Net Position, End of Year	<u>\$ 106,862,306</u>	<u>\$102,223,312</u>	<u>\$ 96,450,499</u>

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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, the Sewer Department's investment in capital assets was \$104,287,000 (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 \$1,650,000 during fiscal year 2018 were incurred on a variety of sewer system and sewer rehab projects. \$335,000 of constructed assets were completed and placed in service, consisting mostly of sewer rehab and replacements. In addition, \$1,858,000 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 2017, the Sewer Department had construction of \$1,124,000 and contributed capital of \$2,861,000, and in 2016, construction of \$697,000 and contributed capital of \$2,126,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$1,188,000 in 2018, as compared to \$1,173,000 in 2017 and \$749,000 in 2016.

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

Long-Term Debt

The Sewer Department had \$14,825,000 in revenue bonds outstanding as of June 30, 2018, which is a decrease of \$1,595,000 from 2017 resulting from early call of the Series 2008 Sewer Bonds and other scheduled principal payments. Revenue bonds outstanding as of June 30, 2017 were \$16,420,000 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.

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

Additional Management Comments

Sewer consumption in fiscal year 2018 was 1.2% more than the previous year. Sewer consumption in 2018 increased year over year largely due to customer growth. While this, of course, has favorably impacted the bottom line, significant maintenance and upgrades at the Rogers Pollution Control Facility have resulted in a change in net position less than fiscal year 2018, while still exceeding the budget.

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The Rogers Sewer Department funded capital improvements out of reserves in fiscal year 2018. Completed projects were mostly sewer replacements. Projects in process at the end of the year included various City of Rogers street improvements and upgrades at the Rogers Pollution Control Facility. Major projects expected in fiscal year 2019 also include sewer main projects for City of Rogers street projects, continued upgrades to the Rogers Pollution Control facility, and sewer rehab.

An internal rate study was completed by Utility personnel for the Sewer Department during fiscal year 2012. It indicated no rate increase is necessary at this time. The drought conditions for several years and reduced debt service have helped delay the need for a rate increase. However with significant capital needs likely in upcoming years, the Utility contracted with HDR in 2018 to conduct a water and sewer rate study, as well as evaluating the current levels of access and impact fees and surcharges. Neither a rate increase nor bond issue is anticipated in fiscal year 2019 or 2020.

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

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,190,002	\$ 2,181,011
Investments	12,978,903	12,127,697
Accounts receivable, net of allowance for doubtful accounts of \$195,000 and \$204,000, respectively	1,363,484	1,283,440
Due from water department	-	205,245
Inventory	60,111	68,315
Prepaid expenses	<u>67,961</u>	<u>66,872</u>
 Total Current Assets	 <u>18,660,461</u>	 <u>15,932,580</u>
 RESTRICTED CASH AND INVESTMENTS		
Restricted cash and cash equivalents	457,658	512,896
Investments	<u>2,776,435</u>	<u>2,637,936</u>
 Total Restricted Cash and Investments	 <u>3,234,093</u>	 <u>3,150,832</u>
 FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION		
	<u>104,287,404</u>	<u>103,415,028</u>
 Total Assets	 <u>126,181,958</u>	 <u>122,498,440</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	<u>1,136,963</u>	<u>894,807</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 127,318,921</u></u>	 <u><u>\$ 123,393,247</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Accounts payable - trade	\$ 220,427	\$ 157,442
Accounts payable to construction contractors	563,423	65,608
Accrued expenses	363,815	382,730
Due to water department	13,277	-
Current portion of bonds payable	<u>1,180,000</u>	<u>1,060,000</u>
 Total Current Liabilities	 <u>2,340,942</u>	 <u>1,665,780</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest payable	<u>85,035</u>	<u>93,438</u>
 Total Liabilities Payable From Restricted Assets	 <u>85,035</u>	 <u>93,438</u>
LONG-TERM LIABILITIES		
Bonds payable, net of unamortized premiums and discounts	14,823,505	16,648,937
Net pension liability	<u>2,734,269</u>	<u>2,223,984</u>
 Total Long-Term Liabilities	 <u>17,557,774</u>	 <u>18,872,921</u>
 Total Liabilities	 <u>19,983,751</u>	 <u>20,632,139</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	54,543	80,861
Deferred bond refunding gain	<u>418,321</u>	<u>456,935</u>
 Total Deferred Inflows of Resources	 <u>472,864</u>	 <u>537,796</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>20,456,615</u>	 <u>21,169,935</u>
NET POSITION		
Invested in capital assets, net of related debt	87,865,578	85,249,156
Restricted	3,149,058	3,057,394
Unrestricted	<u>15,847,670</u>	<u>13,916,762</u>
 Total Net Position	 <u>106,862,306</u>	 <u>102,223,312</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 127,318,921</u>	 <u>\$ 123,393,247</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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Residential sewer	\$ 6,828,765	\$ 6,656,204
Commercial sewer	2,066,946	2,042,579
Industrial sewer	1,525,269	1,600,885
Penalties	145,196	137,146
Access, impact and new customer fees	1,551,120	1,624,220
Other operating revenue	<u>126,054</u>	<u>136,417</u>
 Total Operating Revenues	 <u>12,243,350</u>	 <u>12,197,451</u>
OPERATING EXPENSES		
Pollution control facility and field expense	3,667,648	3,365,844
General and administrative	1,752,097	1,506,754
Depreciation	<u>3,822,982</u>	<u>3,655,000</u>
 Total Operating Expenses	 <u>9,242,727</u>	 <u>8,527,598</u>
OPERATING INCOME	<u>3,000,623</u>	<u>3,669,853</u>
OTHER REVENUES (EXPENSES)		
Interest income	200,864	134,735
Gain on disposal of fixed assets	2,235	19,880
Bond issuance costs	-	(176,374)
Interest expense	(422,749)	(731,686)
Trustee fees	<u>(9,475)</u>	<u>(10,225)</u>
 Total Other Revenues (Expenses)	 <u>(229,125)</u>	 <u>(763,670)</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	 2,771,498	 2,906,183
CAPITAL CONTRIBUTIONS	<u>1,867,496</u>	<u>2,866,630</u>
CHANGE IN NET POSITION	4,638,994	5,772,813
NET POSITION, BEGINNING OF YEAR	<u>102,223,312</u>	<u>96,450,499</u>
NET POSITION, END OF YEAR	<u>\$ 106,862,306</u>	<u>\$ 102,223,312</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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 10,340,936	\$ 10,246,361
Cash received from access, impact and new customer fees	1,551,120	1,624,220
Cash received from penalties and other operating revenue	271,250	273,563
Payments for salaries and benefits	(2,722,524)	(2,596,635)
Payments to suppliers for goods and services	<u>(2,185,703)</u>	<u>(2,467,238)</u>
Net Cash From Operating Activities	<u>7,255,079</u>	<u>7,080,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	200,864	134,753
Net change in investments	(851,206)	(898,134)
Net change in restricted investments	<u>(138,499)</u>	<u>(87,030)</u>
Net Cash (Used For) Investing Activities	<u>(788,841)</u>	<u>(850,411)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(2,330,047)	(2,349,512)
Cash received from sale of fixed assets	2,235	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	(1,595,000)	(645,000)
Interest and paying agent fees, net of capitalized interest	<u>(589,673)</u>	<u>(1,132,865)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(4,512,485)</u>	<u>(9,794,383)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,953,753	(3,564,523)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,693,907</u>	<u>6,258,430</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,647,660</u>	<u>\$ 2,693,907</u>
CASH AND CASH EQUIVALENTS	\$ 4,190,002	\$ 2,181,011
RESTRICTED CASH AND CASH EQUIVALENTS	<u>457,658</u>	<u>512,896</u>
	<u>\$ 4,647,660</u>	<u>\$ 2,693,907</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	<u>\$ 3,000,623</u>	<u>\$ 3,669,853</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	3,822,982	3,655,000
Allowance for doubtful accounts	(9,000)	(1,000)
Net change in pension liability	241,811	75,383
Changes in assets and liabilities:		
Accounts receivable	(71,044)	(52,307)
Inventory	8,204	(4,377)
Prepaid expenses	(1,089)	(24,789)
Accounts payable - trade	62,985	25,105
Accrued expenses	(18,915)	(26,900)
Due to/from water department	<u>218,522</u>	<u>(235,697)</u>
Total adjustments	<u>4,254,456</u>	<u>3,410,418</u>
Net Cash From Operating Activities	<u>\$ 7,255,079</u>	<u>\$ 7,080,271</u>
NONCASH TRANSACTIONS		
Capital contributions	\$ 1,867,496	\$ 2,866,630
Property and equipment additions included in accounts payable to construction contractors	\$ 563,423	\$ 65,608

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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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
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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, 2018 and 2017, 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, 2018 and 2017, this review has not materially affected the Sewer Department's reported earnings, net position or results of operations.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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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, 2018 and 2017, cumulative contributed capital fixed assets amounted to approximately \$39,150,000 and \$37,292,000, 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, 2018 and 2017 amounted to approximately \$4,534,000 and \$4,387,000, 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 \$110,432 and \$72,786 are included as a reduction of interest expense for the years ended June 30, 2018 and 2017, respectively.

Amortization of Deferred Bond Refunding Costs

The deferred bond refunding cost associated with the 2016 Sewer Revenue Refunding Bonds is amortized over the life of the related bond issue (See Note 4). Amortization expense of \$38,614 and \$20,916, respectively, for the years ended June 30, 2018 and 2017 is included as a component of interest expense.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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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, 2018 and 2017.

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 provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt.

In June 2018, the GASB issued Statement Number 89 (GASB 89), Accounting for Interest Cost Incurred before the End of a Construction Period – effective for fiscal years beginning after December 15, 2019. GASB 89 will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for interest cost incurred before the end of a construction period.

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

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 9 for additional information.

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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 9 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, 2018, the Sewer Department had approximately \$5,689,000 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 \$13,587,000 in certificates of deposit reported as investments in the Statements of Net Position, of which all were FDIC insured.

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NOTE 3: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2018 and 2017 as follows:

	2018	2017
Debt service reserve	\$ 1,145,312	\$ 1,503,134
Depreciation reserve for additional replacements to the sewer system	1,065,803	1,113,365
New customer fees collected for additions of fixed assets	<u>1,022,978</u>	<u>534,333</u>
	<u><u>\$ 3,234,093</u></u>	<u><u>\$ 3,150,832</u></u>

NOTE 4: BONDS PAYABLE

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 bonds were paid in full in November 2017 as a result of an early call.

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.

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.

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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, 2018 and 2017, amortization expense for prepaid bond insurance was \$1,578 and \$855, 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.

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, 2018 and 2017, is 3.13 and 3.23, respectively. Total interest paid during the years ended June 30, 2018 and 2017 totaled \$589,673 and \$1,132,865, respectively. No interest was capitalized during the years ended June 30, 2018 and 2017.

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, 2018 and 2017.

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>
2019	\$ 1,180,000	\$ 535,750	\$ 1,715,750
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	1,345,000	364,850	1,709,850
2024-2028	7,520,000	971,700	8,491,700
2029-2031	<u>1,020,000</u>	<u>47,000</u>	<u>1,067,000</u>
Total	<u>\$ 14,825,000</u>	<u>\$ 3,294,725</u>	<u>\$ 18,119,725</u>

ROGERS WATER UTILITIES SEWER DEPARTMENT
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Following is a summary of changes in bonds payable:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
Revenue Refunding					
Bonds, Series 2008	\$ 1,055,000	\$ -	\$ 1,055,000	\$ -	\$ -
Revenue Bonds					
Series 2010	2,515,000	-	145,000	2,370,000	145,000
Revenue Refunding					
Bonds, Series 2016	<u>12,850,000</u>	<u>-</u>	<u>395,000</u>	<u>12,455,000</u>	<u>1,035,000</u>
Bonds payable, gross	16,420,000	-	1,595,000	14,825,000	1,180,000
Plus premiums	1,310,121	-	112,011	1,198,110	-
Less discounts	<u>(21,184)</u>	<u>-</u>	<u>(1,579)</u>	<u>(19,605)</u>	<u>-</u>
	<u>\$ 17,708,937</u>	<u>\$ -</u>	<u>\$ 1,705,432</u>	<u>\$ 16,003,505</u>	<u>\$ 1,180,000</u>

	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	-	135,000	2,515,000	145,000
Revenue Refunding					
Bonds, Series 2016	<u>-</u>	<u>12,850,000</u>	<u>-</u>	<u>12,850,000</u>	<u>395,000</u>
Bonds payable, gross	23,815,000	12,850,000	20,240,000	16,420,000	1,060,000
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>\$ 24,396,363</u>	<u>\$14,218,612</u>	<u>\$ 20,901,038</u>	<u>\$ 17,708,937</u>	<u>\$ 1,060,000</u>

NOTE 5: 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, 2018 and 2017 are shown in the Statements of Net Position under the caption "Due to or from water department."

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NOTE 6: CHANGES IN FIXED ASSETS

	Balance June 30, 2017	Transfers/ Additions	Disposals	Balance June 30, 2018
Land	\$ 1,805,153	\$ -	\$ -	\$ 1,805,153
Buildings	55,948,192	199,592	(2,272)	56,145,512
Equipment	53,084,724	1,297,736	(305,697)	54,076,763
Vehicles	1,272,648	25,555	(6,991)	1,291,212
Contributed property	37,291,764	1,857,800	-	39,149,564
Construction in progress	386,143	1,649,672	(334,998)	1,700,817
	149,788,624	5,030,355	(649,958)	154,169,021
Accumulated depreciation	(46,373,596)	(3,822,982)	314,961	(49,881,617)
	<u>\$ 103,415,028</u>	<u>\$ 1,207,373</u>	<u>\$ (334,997)</u>	<u>\$ 104,287,404</u>
	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
	145,034,134	6,305,458	(1,550,968)	149,788,624
Accumulated depreciation	(43,121,799)	(3,655,000)	403,203	(46,373,596)
	<u>\$ 101,912,335</u>	<u>\$ 2,650,458</u>	<u>\$ (1,147,765)</u>	<u>\$ 103,415,028</u>

NOTE 7: 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.

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NOTE 8: COMMITMENTS AND CONCENTRATIONS

The Sewer Department is committed to several construction contracts in process at June 30, 2018 totaling \$3,452,157. As of June 30, 2018, \$1,700,817 had been incurred in connection with these contracts.

For the years ended June 30, 2018 and 2017, the Sewer Department had one customer that accounted for 12.4% and 13.7%, respectively, of total usage.

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.

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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.

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 14.50% of compensation for the fiscal year ended June 30, 2017. 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 \$2,584,140,475 was measured as of June 30, 2017, 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, 2018 and 2017, the Sewer Department reported deferred outflows of resources and deferred inflows of resources as of June 30, 2017 and 2016, respectively, related to pensions from the following sources:

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<u>2018</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 53,239	\$ (54,014)
Changes of assumptions	441,878	-
Changes in proportion and differences between employer contributions and proportionate share	231,846	(529)
Net difference between projected and actual earnings on pension plan investments	111,386	-
Contributions subsequent to measurement date	<u>298,614</u>	<u>-</u>
Balance, June 30, 2018	<u>\$ 1,136,963</u>	<u>\$ (54,543)</u>
	Deferred	Deferred Inflows
	Outflows of	of Resources
	Resources	
<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>

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Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2019, 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:

2019	\$ (207,278)
2020	(371,749)
2021	(238,091)
2022	33,312

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (10.6 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

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2017 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	18%	0.83%
Total	100%	

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate

1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
\$ 4,163,939	\$ 2,734,269	\$ 1,547,148

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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JUNE 30, 2018 AND 2017

NOTE 10: 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, 2018 and 2017 were \$107,360 and \$102,280, 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, 2018 and 2017 was \$22,811 and \$35,966, respectively. At June 30, 2018 and 2017, there were nine and seven employees participating in the plan, respectively.

Educational Assistance Program (EAP)

The Utilities offers an education assistance plan as a benefit to its employees. The program was approved by the Waterworks and Sewer Commission on September 18, 2017. Each employee is eligible to participate in the program after (1) full calendar year of full time employment with RWU and must be in good standing. The program will reimburse employees up to, but no more than \$5,250 per calendar year for covered educational expenses, as outlined the EAP plan document. The reimbursement provided is excluded from the employee's gross income for income tax purposes as provide under 26 U.S.C. § 127. In the event the \$5,250 is lowered as provided by law, the amount of permitted reimbursement under the program shall automatically decrease on the effective date of the new ceiling. Reimbursements shall be made when the employee submits (a) proof of receiving a passing grade in the course or program and (b) proof the expense incurred as receipts for payment of tuition, fees, books, supplies, etc. Reimbursement for the years ended June 30, 2018 and 2017 were \$4,900 and \$-0-, respectively.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11: INVESTMENTS

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

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

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Sewer Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2018, investments of the Sewer Department were fully collateralized or insured.

At June 30, 2018 and 2017, the Sewer Department's investments consisted of \$13,587,048 and \$12,728,165, respectively, held in certificates of deposit and \$2,168,290 and \$2,037,468, respectively, held in United States government securities. All investments at June 30, 2018 and 2017 had maturities of less than five years.

NOTE 12: SUBSEQUENT EVENTS

On August 20th, 2018, the Waterworks and Sewer Commission approved a contract amendment of \$7,740,000 with Crossland Heavy Contractors. The purpose is to complete phase I of the sludge handling facility project at the RWU Pollution Control Facility. Additionally, phase I is seeking approval from City Council on September 11, 2018. The Utility plans to fund phase I of the project with cash reserves. Phase I of the project is expected to be complete by fall of 2019. The Utility has not committed to proceeding with additional phases of the project at this time.

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
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Proportion of the net pension liability	0.11 %	0.09 %	0.09 %	0.09 %
Proportionate share of the net pension liability	\$ 2,734,269	\$ 2,223,984	\$ 1,700,410	\$ 1,239,094
Covered - employee payroll	\$ 2,039,342	\$ 1,855,224	\$ 1,666,569	\$ 1,651,227
Proportionate share of the net pension liability as percentage of covered-employee payroll	134.08 %	119.88 %	102.03 %	75.04 %
Plan's fiduciary net position as a percentage of the total pension liability	75.65 %	75.50 %	80.39 %	84.15 %

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

See Independent Auditors' Report

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Contractually required contribution	\$ 298,615	\$ 266,756	\$ 235,420	\$ 242,355
Contributions in relation to the contractually required contribution	\$ (298,615)	\$ (266,756)	\$ (235,420)	\$ (242,355)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Sewer Department's covered-employee payroll	\$2,024,508	\$1,839,697	\$1,623,586	\$1,641,972
Contributions as a percentage of covered-employee payroll	14.75 %	14.50 %	14.50 %	14.76 %

*Fiscal Year 2015 was the first year of implementation, therefore only four years are shown. Information in this schedule has been determined as of the most recent fiscal year-end.

See Independent Auditors' Report

SUPPLEMENTARY INFORMATION

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
POLLUTION CONTROL FACILITY AND		
FIELD EXPENSE		
Employee benefits	\$ 625,758	\$ 522,720
Insurance	58,869	56,193
Operating supplies and other	226,588	336,906
Payroll taxes	90,606	92,988
Repairs and maintenance	539,171	244,791
Salaries	1,213,115	1,252,837
Sludge disposal costs	299,533	305,376
Supplies and postage	102,627	96,512
Utilities	511,381	457,521
	<u>3,667,648</u>	<u>3,365,844</u>
 GENERAL AND ADMINISTRATIVE		
Bad debts	37,477	44,087
Consulting services - stream assessment	23,000	20,500
Employee benefits	341,565	189,812
Franchise taxes / use taxes	370,761	359,770
Insurance	5,746	2,580
Office supplies and postage	103,569	103,741
Other	74,734	136,400
Payroll taxes	58,125	41,984
Professional fees	88,235	101,054
Salaries	629,765	484,818
Utilities	19,120	22,008
	<u>1,752,097</u>	<u>1,506,754</u>
 DEPRECIATION	<u>3,822,982</u>	<u>3,655,000</u>
 TOTAL OPERATING EXPENSES	<u><u>\$ 9,242,727</u></u>	<u><u>\$ 8,527,598</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE BONDS – SERIES 2010
JUNE 30, 2018**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2018	<u>\$ 2,370,000</u>		<u>\$ 628,550</u>	<u>\$ 2,998,550</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, 2018**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2018	<u>\$12,455,000</u>		<u>\$ 2,666,175</u>	<u>\$ 15,121,175</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, 2018 AND 2017

Fixed Assets	2018			Balance June 30, 2018
	Balance June 30, 2017	Transfers/ Additions	Transfers/ Disposals	
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office equipment	612,340	69,170	(20,008)	661,502
Vehicles	1,272,648	25,555	(6,991)	1,291,212
Shop equipment	79,503	295	(1,331)	78,467
Field equipment	1,205,096	58,326	(53,236)	1,210,186
Radio equipment	49,440	-	-	49,440
Water meters	2,420,742	603,097	(231,122)	2,792,717
Sewer system	48,717,603	566,848	-	49,284,451
Pollution control facility	53,825,981	199,592	(1,228)	54,024,345
Structures and parking lots	2,122,211	-	(1,044)	2,121,167
Easements	1,141,899	-	-	1,141,899
Contributed sewer system	<u>37,291,764</u>	<u>1,857,800</u>	<u>-</u>	<u>39,149,564</u>
	149,402,481	3,380,683	(314,960)	152,468,204
Construction in progress	<u>386,143</u>	<u>1,649,672</u>	<u>(334,998)</u>	<u>1,700,817</u>
	<u>\$ 149,788,624</u>	<u>\$ 5,030,355</u>	<u>\$ (649,958)</u>	<u>\$ 154,169,021</u>
Accumulated Depreciation				
Office equipment	\$ 448,949	\$ 64,741	\$ (20,009)	\$ 493,681
Vehicles	815,929	76,179	(6,991)	885,117
Shop equipment	70,901	1,538	(1,331)	71,108
Field equipment	1,009,491	64,848	(53,236)	1,021,103
Radio equipment	31,870	6,472	-	38,342
Water meters	733,809	183,656	(231,122)	686,343
Sewer system	15,413,938	961,002	-	16,374,940
Pollution control facility	20,040,839	1,617,325	(1,228)	21,656,936
Structures and parking lots	931,731	83,395	(1,044)	1,014,082
Contributed sewer system	<u>6,876,139</u>	<u>763,826</u>	<u>-</u>	<u>7,639,965</u>
	<u>\$ 46,373,596</u>	<u>\$ 3,822,982</u>	<u>\$ (314,961)</u>	<u>\$ 49,881,617</u>

See Independent Auditors' Report.

2017

Fixed Assets

	<u>Balance June 30, 2016</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2017</u>
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
	<u>144,625,201</u>	<u>5,181,290</u>	<u>(404,010)</u>	<u>149,402,481</u>
Construction in progress	<u>408,933</u>	<u>1,124,168</u>	<u>(1,146,958)</u>	<u>386,143</u>
	<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.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
 A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
 SCHEDULES OF SEWER SYSTEM RATES
 JUNE 30, 2018 AND 2017**

<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, 2018 AND 2017**

<u>SEWER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2018</u>	<u>2017</u>
Residential customers	21,387	21,051
Commercial customers	1,809	1,758
Industrial customers	<u>36</u>	<u>36</u>
Total	<u>23,232</u>	<u>22,845</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, 2018 AND 2017**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2018</u>	<u>2017</u>
Residential customers	1,027,289,700	995,349,100
Commercial customers	483,167,000	472,992,300
Industrial customers	<u>397,335,800</u>	<u>416,144,600</u>
Total	<u><u>1,907,792,500</u></u>	<u><u>1,884,486,000</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, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 14, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC

Certified Public Accountants

Rogers, Arkansas

September 14, 2018