

**ROGERS WATER UTILITIES  
WATER DEPARTMENT  
FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
JUNE 30, 2019 AND 2018  
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## INDEPENDENT AUDITOR'S 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, 2019 and 2018, 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.

### ***Auditor's 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 auditor's 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, 2019 and 2018, 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 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 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 9, 2019 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.

*Landmark PLC*

**LANDMARK PLC  
CERTIFIED PUBLIC ACCOUNTANTS**

Rogers, Arkansas  
September 9, 2019

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019, 2018, AND 2017**

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, 2019, 2018, and 2017. 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 \$2,892,000 or 3.9%, over fiscal year 2018. Net position increased by \$3,665,000 or 5.1% in fiscal year 2018 over 2017.
- Water Department operating revenues decreased by \$56,000, or .5% from 2018. Operating Revenues increased \$241,000, or 2.1% from 2017.
- Operating expenses decreased by \$55,000, or .6% from 2018. Operating Expenses increased \$781,000 or 8.6% in 2018 over 2017.
- Net Position increased by \$1,239,000 before capital contributions during fiscal year 2019. In fiscal year 2018, net position before capital contributions increased by \$1,130,000.

**Rogers Water Department Fiscal Year 2019 Highlights**

- The change in net position before capital contributions exceeded budget by \$54,000 and prior year operating results by \$108,000
- The number of customers increased by 676 or 2.09% from the prior year. Billed water consumption increased by 1.27%.
- Continued a City wide meter change out program and extended the completion period to be over the next 5 to 7 years. The change out is being conducted by Utility Staff.
- Our water supplier, Beaver Water District, implemented a rate increase of \$.02 per thousand effective October 1, 2019.
- Brent Dobler, appointed by the Commission, filled the position of Superintendent on September 1, 2018. The former Superintendent, Earl Rausch, officially retired on August 31, 2018.
- In February 2019, RWU hired Dana Daniel as Human Resources Manager. The contract with the City of Rogers for HR services expired January 1, 2019.
- The Utility successfully implemented credit and debit card processing updates with Paymentus in September 2018. Customers may now pay Utility bills online using a customer portal and on the phone using IVR. Paymentus is responsible for PCI compliance.
- Evaluation of Utility capital needs and cash requirements by conducting a water and sewer rate study with HDR is still ongoing. The process is expected to be completed in October 2019 with the possibility of rate increases and bond issues in the future fiscal years.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
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**Rogers Water Department Fiscal Year 2018 Highlights**

- The change in net position before capital contributions exceeded budget but fell short of prior year operating results by \$228,000.
- The number of customers increased by 576 or 1.81% from the prior year. Billed water consumption increased by 2.6%.
- Continued the focus on the Utility goal of debt-reduction by early call of the series 2008 Water 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.
- Our water supplier, Beaver Water District, implemented a rate increase of \$.03 per thousand effective October 1, 2018.
- 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.
- 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, has indicated the intention to conserve water usage by 25% by the year 2025. In fiscal year 18, Tyson Foods had an 8% reduction in water consumption.

**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.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
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- 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.

**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**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Financial Highlights**

**Assets, Liabilities and Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets</b>			
Total current assets	\$ 15,015,936	\$ 13,081,071	\$ 12,032,380
Restricted cash and investments	4,866,057	4,787,153	5,326,606
Other noncurrent assets	83,242,528	82,549,397	80,165,880
Total assets	<u>\$ 103,124,521</u>	<u>\$ 100,417,621</u>	<u>\$ 97,524,866</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension outflows	\$ 492,199	\$ 712,327	\$ 575,553
Deferred bond refunding costs	622,690	678,381	734,073
Total deferred outflow of resources	<u>\$ 1,114,889</u>	<u>\$ 1,390,708</u>	<u>\$ 1,309,626</u>
<b>Liabilities</b>			
Total current liabilities	\$ 2,673,299	\$ 2,246,542	\$ 2,533,387
Liabilities payable from restricted assets	1,289,773	1,246,551	1,193,480
Long-term liabilities	21,742,067	22,784,603	23,226,266
Total liabilities	<u>\$ 25,705,139</u>	<u>\$ 26,277,696</u>	<u>\$ 26,953,133</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension inflows	<u>\$ 145,361</u>	<u>\$ 34,275</u>	<u>\$ 50,506</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	\$ 62,828,920	\$ 61,666,370	\$ 58,292,789
Restricted	3,576,284	3,540,602	4,133,127
Unrestricted	11,983,706	10,289,386	9,404,937
Total net position	<u>\$ 78,388,910</u>	<u>\$ 75,496,358</u>	<u>\$ 71,830,853</u>
<b>Operating Results and Changes in Net Position</b>			
Operating revenues	<u>\$ 11,517,758</u>	<u>\$ 11,573,606</u>	<u>\$ 11,332,594</u>
<b>Operating expenses</b>			
Depreciation	2,580,920	2,567,865	2,450,407
Other operating expenses	7,231,493	7,299,479	6,636,352
Total operating expenses	<u>9,812,413</u>	<u>9,867,344</u>	<u>9,086,759</u>
Operating income	<u>1,705,345</u>	<u>1,706,262</u>	<u>2,245,835</u>
<b>Other revenues (expenses)</b>			
Interest expense	(709,974)	(728,616)	(829,876)
Other income (expenses)	243,209	152,789	(57,607)
Total other revenues (expenses)	<u>(466,765)</u>	<u>(575,827)</u>	<u>(887,483)</u>
Change in net position before capital contributions	1,238,580	1,130,435	1,358,352
Capital Contributions	<u>1,653,972</u>	<u>2,535,070</u>	<u>3,243,621</u>
Change in Net Position	2,892,552	3,665,505	4,601,973
Net Position, Beginning of Year	<u>75,496,358</u>	<u>71,830,853</u>	<u>67,228,880</u>
Net Position, End of Year	<u>\$ 78,388,910</u>	<u>\$ 75,496,358</u>	<u>\$ 71,830,853</u>

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2019, the Water Department's investment in capital assets was \$83,243,000 (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 \$1,211,000 were incurred on a variety of construction projects during 2019. \$2,246,000 of constructed assets were completed and placed in service, consisting mostly of water main construction and rehabilitation projects. In addition, \$1,569,000 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 2018 the Water Department had construction of \$1,324,000 and contributed capital of \$2,422,000, and in 2017 construction of \$1,396,000 and contributed capital of \$3,103,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were \$494,000 in 2019, as compared to \$1,206,000 in 2018 and \$1,000,000 in 2017.

Additional information regarding capital assets can be found on Note 5 of this report.

**Long-Term Debt**

The Water Department had \$20,545,000 in revenue bonds outstanding as of June 30, 2019, which is a decrease of \$495,000 from 2018 resulting from scheduled principal payments. Revenue bonds outstanding as of June 30, 2018 were \$21,040,000, which was a decrease of \$1,015,000 from 2017. This decrease is a result of the early call of the Series 2008 Water Bonds and other scheduled principal payments.

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

**Additional Management Comments**

Water consumption in fiscal year 2019 was 1.26% more than the previous year, primarily due to customer growth. The change in net position for the year was greater than budget and the prior year.

The Rogers Water Department funded capital improvements out of reserves in fiscal year 2019. Significant projects in process at the end of the year included various City of Rogers street improvements Major projects expected in fiscal year 2019 also include water main projects for City of Rogers street projects and other waterline replacements and extensions.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
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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 rate increase of \$.02/1000 gallons effective October 1, 2019. This increase is in addition to the \$.10/1000 gallons implemented over the past four years. 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. 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. The process continues into FY 20 with the possibility of rate increases and bond issues in the future fiscal years.

The Information Technology department at RWU has initiated several confidential projects to reduce the risk of any ransomware attack. Continuous training of all RWU employees on this issue is a major component of RWU's security strategy.

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.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
STATEMENTS OF NET POSITION  
JUNE 30, 2019 AND 2018**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,084,734	\$ 3,243,355
Investments	9,817,781	7,671,533
Accounts receivable, net of allowance for doubtful accounts of \$135,000 in each year	1,784,243	1,860,486
Due from sewer department	15,289	13,277
Inventory	269,063	249,227
Prepaid expenses	<u>44,826</u>	<u>43,193</u>
 Total Current Assets	 <u>15,015,936</u>	 <u>13,081,071</u>
 <b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	611,100	290,462
Investments	<u>4,254,957</u>	<u>4,496,691</u>
 Total Restricted Cash and Investments	 <u>4,866,057</u>	 <u>4,787,153</u>
 <b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<u>83,242,528</u>	<u>82,549,397</u>
 Total Assets	 <u>103,124,521</u>	 <u>100,417,621</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	492,199	712,327
Deferred bond refunding costs	<u>622,690</u>	<u>678,381</u>
 Total Deferred Outflows of Resources	 <u>1,114,889</u>	 <u>1,390,708</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 104,239,410</u>	 <u>\$ 101,808,329</u>

See Independent Auditor's Report and Notes to Financial Statements.

## LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2019	2018
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 471,497	\$ 609,567
Accounts payable to construction contractors	317,322	109,737
Accounts payable - other	835,838	737,956
Accrued expenses	268,642	294,282
Current portion of bonds payable	<u>780,000</u>	<u>495,000</u>
 Total Current Liabilities	 <u>2,673,299</u>	 <u>2,246,542</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer meter deposits	1,176,444	1,131,013
Accrued interest payable	<u>113,329</u>	<u>115,538</u>
 Total Liabilities Payable From Restricted Assets	 <u>1,289,773</u>	 <u>1,246,551</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net of unamortized premiums and discounts	20,256,298	21,066,408
Net pension liability	<u>1,485,769</u>	<u>1,718,195</u>
 Total Long-Term Liabilities	 <u>21,742,067</u>	 <u>22,784,603</u>
 Total Liabilities	 <u>25,705,139</u>	 <u>26,277,696</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension inflows	<u>145,361</u>	<u>34,275</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>25,850,500</u>	 <u>26,311,971</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	62,828,920	61,666,370
Restricted	3,576,284	3,540,602
Unrestricted	<u>11,983,706</u>	<u>10,289,386</u>
 Total Net Position	 <u>78,388,910</u>	 <u>75,496,358</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 104,239,410</u>	 <u>\$ 101,808,329</u>

See Independent Auditor's Report.

**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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUES</b>		
Residential water	\$ 5,906,241	\$ 5,924,942
Commercial water	2,857,183	2,742,990
Industrial water	1,006,678	1,020,312
Sprinkler service / hydrant	119,065	111,165
Service charges and penalties	592,003	577,774
Access / impact / new customer fees	643,750	819,750
Other operating revenue	<u>392,838</u>	<u>376,673</u>
 Total Operating Revenues	 <u>11,517,758</u>	 <u>11,573,606</u>
<b>OPERATING EXPENSES</b>		
Water purchased	4,677,966	4,630,777
Plant operations and distribution	1,279,908	1,277,074
General and administrative	1,273,619	1,391,628
Depreciation	<u>2,580,920</u>	<u>2,567,865</u>
 Total Operating Expenses	 <u>9,812,413</u>	 <u>9,867,344</u>
 <b>OPERATING INCOME</b>	 <u>1,705,345</u>	 <u>1,706,262</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	247,234	151,934
Gain on disposal of fixed assets	2,775	9,905
Interest expense	(709,974)	(728,616)
Trustee fees	<u>(6,800)</u>	<u>(9,050)</u>
 Total Other Revenues (Expenses)	 <u>(466,765)</u>	 <u>(575,827)</u>
 <b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	 1,238,580	 1,130,435
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,653,972</u>	<u>2,535,070</u>
<b>CHANGE IN NET POSITION</b>	2,892,552	3,665,505
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>75,496,358</u>	<u>71,830,853</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 78,388,910</u></u>	<u><u>\$ 75,496,358</u></u>

See Independent Auditor's 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, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,965,410	\$ 9,650,730
Cash received from access, impact and new customer fees	643,750	819,750
Cash received from service charges, penalties and other operating revenue	1,030,272	1,012,747
Payments for water	(4,793,596)	(4,533,135)
Payments for salaries and benefits	(1,522,301)	(1,553,263)
Payments to suppliers for goods and services	<u>(906,117)</u>	<u>(1,035,227)</u>
Net Cash From Operating Activities	<u>4,417,418</u>	<u>4,361,602</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	247,234	151,934
Net change in investments	(2,146,248)	(1,086,234)
Net change in restricted investments	<u>241,734</u>	<u>128,027</u>
Net Cash (Used For) Investing Activities	<u>(1,657,280)</u>	<u>(806,273)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(1,412,494)	(2,437,246)
Cash received from disposal of fixed assets	2,775	10,204
Principal payments on bonds	(495,000)	(1,015,000)
Interest and paying agent fees, net of capitalized interest	<u>(693,402)</u>	<u>(717,963)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,598,121)</u>	<u>(4,160,005)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	162,017	(604,676)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,533,817</u>	<u>4,138,493</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,695,834</u>	<u>\$ 3,533,817</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 3,084,734	\$ 3,243,355
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>611,100</u>	<u>290,462</u>
	<u>\$ 3,695,834</u>	<u>\$ 3,533,817</u>

See Independent Auditor's Report.

	2019	2018
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating income	<u>\$ 1,705,345</u>	<u>\$ 1,706,262</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,580,920	2,567,865
Allowance for doubtful accounts	-	4,000
Net change in pension liability	98,788	176,092
Changes in assets and liabilities:		
Accounts receivable	76,243	(152,679)
Inventory	(19,836)	5,696
Due from sewer department	(2,012)	(218,522)
Prepaid expenses	(1,633)	553
Accounts payable - trade and other	(40,188)	184,644
Accrued expenses and customer deposits	<u>19,791</u>	<u>87,691</u>
Total adjustments	<u>2,712,073</u>	<u>2,655,340</u>
Net Cash From Operating Activities	<u><u>\$ 4,417,418</u></u>	<u><u>\$ 4,361,602</u></u>
<b>OTHER NONCASH TRANSACTIONS</b>		
Capital contributions	\$ 1,653,972	\$ 2,535,070
Property and equipment additions included in accounts payable to construction contractors	\$ 317,322	\$ 109,737

See Independent Auditor's Report and Notes to Financial Statements.



**ROGERS WATER UTILITIES WATER DEPARTMENT**  
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**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.

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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 net realizable value. 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, 2019 and 2018, 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 Auditor's 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, 2019 and 2018, this review has not materially affected the Water Department's reported earnings, financial position or results of operations.

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***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, 2019 and 2018, cumulative contributed capital fixed assets amounted to approximately \$44,473,000 and \$42,904,000, 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, 2019 and 2018 amounted to approximately \$4,841,000 and \$4,527,000, respectively.

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

Bond discounts and premiums are amortized over the lives of the related bond issues. Net amortization income was \$30,110 and \$30,760, respectively, for the years ended June 30, 2019 and 2018, 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 \$55,691 and \$55,692 for the years ended June 30, 2019 and 2018, respectively, is included as a component of interest expense.

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***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 10 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 10 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 June 2017, the GASB issued Statement Number 87 (GASB 87), Leases – effective for periods beginning after December 15, 2019. GASB 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases for governments.

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 Water Department and does not expect the implementation of these statements to significantly impact the financial statements of the Water Department.

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***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, 2019 and 2018.

***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.

***Reclassification***

Certain accounts in prior period financial statements have been reclassified for comparative purposes to conform with the presentation in the current period financial statements.

**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, 2019, the Water Department had approximately \$3,991,000 in deposit balances, of which approximately \$609,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities' name. Additionally, the Water Department had approximately \$13,295,000 in certificates of deposit reported as investments in the Statements of Net Position, all of which 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, 2019 and 2018 as follows:

	<b>2019</b>	<b>2018</b>
Meter deposits	\$ 1,281,711	\$ 1,307,709
Debt service reserve	668,721	468,280
Depreciation reserve for additional replacements to the water system	2,807,037	2,915,128
New customer fees collected for additions of fixed assets	<u>108,588</u>	<u>96,036</u>
	<u><u>\$ 4,866,057</u></u>	<u><u>\$ 4,787,153</u></u>

**NOTE 4: 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.

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, 2019, investments of the Water Department were fully collateralized or insured.

At June 30, 2019 and 2018, the Water Department's investments consisted of \$13,295,428 and \$11,603,908, respectively, held in certificates of deposit and \$777,310 and \$564,316, respectively, held in United States government securities. All investments at June 30, 2019 and 2018 had maturities of less than five years.

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**NOTE 5: CHANGES IN FIXED ASSETS**

	<b>Balance June 30, 2018</b>	<b>Transfers/ Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2019</b>
Land	\$ 731,341	\$ 1,640	\$ -	\$ 732,981
Buildings	1,741,701	2,504	-	1,744,205
Equipment	67,627,535	2,735,654	(451,643)	69,911,546
Vehicles	512,519	-	-	512,519
Contributed property	42,904,386	1,568,773	-	44,473,159
Construction in progress	1,533,595	1,211,716	(2,246,236)	499,075
	115,051,077	5,520,287	(2,697,879)	117,873,485
Accumulated depreciation	(32,501,680)	(2,580,920)	451,643	(34,630,957)
	<u>\$ 82,549,397</u>	<u>\$ 2,939,367</u>	<u>\$ (2,246,236)</u>	<u>\$ 83,242,528</u>
	<b>Balance June 30, 2017</b>	<b>Transfers/ Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2018</b>
Land	\$ 731,341	\$ -	\$ -	\$ 731,341
Buildings	1,742,745	-	(1,044)	1,741,701
Equipment	66,172,344	2,078,999	(623,808)	67,627,535
Vehicles	519,401	53,979	(60,861)	512,519
Contributed property	40,482,817	2,421,569	-	42,904,386
Construction in progress	1,136,461	1,324,475	(927,341)	1,533,595
	110,785,109	5,879,022	(1,613,054)	115,051,077
Accumulated depreciation	(30,619,229)	(2,567,865)	685,414	(32,501,680)
	<u>\$ 80,165,880</u>	<u>\$ 3,311,157</u>	<u>\$ (927,640)</u>	<u>\$ 82,549,397</u>

**NOTE 6: 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.

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**NOTE 7: 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 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, 2019 and 2018 are shown in the Statements of Net Position under the caption "Due from sewer department" and "Due to sewer department," as applicable.

**NOTE 8: BONDS PAYABLE**

***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.

***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.



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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 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, 2019 and 2018, amortization expense for prepaid bond insurance was \$833. 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.

***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, 2019 and 2018 is 2.53 and 2.50, respectively. Total interest paid during the years ended June 30, 2019 and 2018 totaled \$693,402 and \$717,963, respectively. No interest was capitalized during the years ended June 30, 2019 and 2018.

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, 2019 and 2018.

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

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30,</b>			
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	845,000	600,622	1,445,622
2024	875,000	572,419	1,447,419
2025-2029	6,510,000	2,241,896	8,751,896
2030-2034	7,940,000	959,717	8,899,717
2035-2036	1,975,000	37,734	2,012,734
<b>Total</b>	<b><u>\$ 20,545,000</u></b>	<b><u>\$ 6,360,764</u></b>	<b><u>\$ 26,905,764</u></b>

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Following is a summary of changes in bonds payable:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Amounts Due Within One Year
Revenue Refunding Bonds, Series 2012	\$ 7,695,000	\$ -	\$ 160,000	\$ 7,535,000	\$ 435,000
Revenue Refunding Bonds, Series 2016	13,345,000	-	335,000	13,010,000	345,000
Bonds payable, gross	21,040,000	-	495,000	20,545,000	780,000
Plus premiums	521,408	-	30,110	491,298	-
	<u>\$ 21,561,408</u>	<u>\$ -</u>	<u>\$ 525,110</u>	<u>\$ 21,036,298</u>	<u>\$ 780,000</u>

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
Revenue Refunding Bonds, Series 2008	\$ 485,000	\$ -	\$ 485,000	\$ -	\$ -
Revenue Refunding Bonds, Series 2012	7,845,000	-	150,000	7,695,000	160,000
Revenue Refunding Bonds, Series 2016	13,725,000	-	380,000	13,345,000	335,000
Bonds payable, gross	22,055,000	-	1,015,000	21,040,000	495,000
Plus premiums	552,168	-	30,760	521,408	-
	<u>\$ 22,607,168</u>	<u>\$ -</u>	<u>\$ 1,045,760</u>	<u>\$ 21,561,408</u>	<u>\$ 495,000</u>

**NOTE 9: COMMITMENTS AND CONCENTRATION**

The Water Department is committed to several construction contracts in process at year end totaling \$2,623,195. As of June 30, 2019, \$423,685 had been incurred in connection with these contracts.

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

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**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 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, 2019 and 2018 were \$66,050 and \$71,257, 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, 2019 and 2018 was \$5,330 and \$3,927, respectively. At June 30, 2019 and 2018, there were four employees participating in the plan.

**Education 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, 2019 and 2018 were \$8,400 and \$4,900, respectively.

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**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**Plan Description**

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

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

**Benefits Provided**

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3 year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, 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.

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.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**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 14.75% of compensation for the fiscal year ended June 30, 2018. 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 \$2,205,935,041 was measured as of June 30, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

At June 30, 2019 and 2018, the Water Department reported deferred outflows of resources and deferred inflows of resources as of June 30, 2018 and 2017, respectively, related to pensions from the following sources:

<b>2019</b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,629	\$ (15,597)
Changes of assumptions	169,050	(91,883)
Changes in proportion and differences between employer contributions and proportionate share	111,769	(284)
Net difference between projected and actual earnings on pension plan investments	-	(37,597)
Contributions subsequent to measurement date	187,751	-
Balance, June 30, 2019	<u>\$ 492,199</u>	<u>\$ (145,361)</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>2018</b>		
Differences between expected and actual experience	\$ 33,075	\$ (33,556)
Changes of assumptions	274,517	-
Changes in proportion and differences between employer contributions and proportionate share	144,034	(719)
Net difference between projected and actual earnings on pension plan investments	75,186	-
Contributions subsequent to measurement date	185,515	-
Balance, June 30, 2018	<u>\$ 712,327</u>	<u>\$ (34,275)</u>

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2020, 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:

**Years ending June 30:**

2020	\$ (359,487)
2021	(158,604)
2022	249,299
2023	109,705

**Actuarial Assumptions**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	21 years (9.6 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 WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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, 2018 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 Estate	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%
\$ 2,429,158	\$ 1,485,769	\$ 707,549



**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  
YEARS ENDED JUNE 30, 2019 THROUGH 2015**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Proportion of the net pension liability	0.07%	0.07%	0.06%	0.06%	0.05%
Proportionate share of the net pension liability	\$ 1,485,769	\$ 1,718,195	\$ 1,389,098	\$ 1,053,941	\$ 761,957
Covered - employee payroll	\$ 1,264,034	\$ 1,283,356	\$ 1,280,327	\$ 1,197,940	\$ 1,086,721
Proportionate share of the net pension liability as percentage of covered-employee payroll	117.54%	133.88%	108.50%	87.98%	70.12%
Plan's fiduciary net position as a percentage of the total pension liability	79.59%	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 five years are shown.

See Independent Auditor's Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF CONTRIBUTIONS  
YEARS ENDED JUNE 30, 2019 THROUGH 2015**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Contractually required contribution	\$ 187,751	\$ 185,515	\$ 183,273	\$ 161,515	\$ 149,290
Contributions in relation to the contractually required contribution	\$ (187,751)	\$ (185,515)	\$ (183,273)	\$ (161,515)	\$ (149,290)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Water Department's covered-employee payroll	\$ 1,264,034	\$ 1,283,356	\$ 1,280,327	\$ 1,197,940	\$ 1,086,721
Contributions as a percentage of covered-employee payroll	14.85%	14.46%	14.31%	13.48%	13.74%

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

See Independent Auditor's Report.

## **SUPPLEMENTARY INFORMATION**

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>WATER PURCHASED</b>	<u>\$ 4,677,966</u>	<u>\$ 4,630,777</u>
<b>PLANT OPERATIONS AND DISTRIBUTION</b>		
Employee benefits	281,349	300,298
Insurance	22,523	23,945
Operating supplies and other	94,457	88,980
Payroll taxes	41,936	40,219
Repairs and maintenance	222,669	221,629
Salaries	558,450	541,300
Utilities	<u>58,524</u>	<u>60,703</u>
	<u>1,279,908</u>	<u>1,277,074</u>
<b>GENERAL AND ADMINISTRATIVE</b>		
Bad debts	19,966	20,845
Employee benefits	275,726	318,856
Insurance	12,946	13,926
Office supplies and postage	113,828	105,920
Other	228,624	193,853
Payroll taxes	50,356	53,239
Professional fees	60,239	88,473
Salaries	394,733	482,592
Taxes and fees	98,579	94,633
Utilities	<u>18,622</u>	<u>19,291</u>
	<u>1,273,619</u>	<u>1,391,628</u>
<b>DEPRECIATION</b>	<u>2,580,920</u>	<u>2,567,865</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 9,812,413</u></u>	<u><u>\$ 9,867,344</u></u>

See Independent Auditor's Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF PRINCIPAL AND INTEREST PAYMENTS  
WATER REVENUE REFUNDING BONDS – SERIES 2012  
JUNE 30, 2019**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2019	<u>\$ 7,535,000</u>		<u>\$ 1,589,361</u>	<u>\$ 9,124,361</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 Auditor's Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF PRINCIPAL AND INTEREST PAYMENTS**  
**WATER REVENUE REFUNDING BONDS – SERIES 2016**  
**JUNE 30, 2019**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
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, 2019	<u>\$ 13,010,000</u>		<u>\$ 4,771,403</u>	<u>\$ 17,781,403</u>

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditor's Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF FIXED ASSETS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**2019**

**Fixed Assets**

	<u>Balance</u> <u>June 30, 2018</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2019</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	664,317	67,285	(26,812)	704,790
Vehicles	512,519	-	-	512,519
Shop equipment	63,935	-	(5,660)	58,275
Field equipment	785,821	16,674	(72,401)	730,094
Radio equipment	21,554	-	-	21,554
Pumping equipment	85,343	5,826	-	91,169
Water meters	3,007,570	357,752	(346,770)	3,018,552
Water services	1,378,630	-	-	1,378,630
Water tower	11,832,036	-	-	11,832,036
Main line	49,788,329	2,288,117	-	52,076,446
Structures and parking lots	1,741,701	2,504	-	1,744,205
Easements	457,721	1,640	-	459,361
Contributed water main	42,904,386	1,568,773	-	44,473,159
	113,517,482	4,308,571	(451,643)	117,374,410
Construction in progress	1,533,595	1,211,716	(2,246,236)	499,075
	<u>\$ 115,051,077</u>	<u>\$ 5,520,287</u>	<u>\$ (2,697,879)</u>	<u>\$ 117,873,485</u>

**Accumulated Depreciation**

Office equipment	\$ 486,801	\$ 68,441	\$ (26,812)	\$ 528,430
Vehicles	317,784	57,907	-	375,691
Shop equipment	60,958	727	(5,660)	56,025
Field equipment	699,853	25,426	(72,401)	652,878
Radio equipment	15,395	1,692	-	17,087
Pumping equipment	54,898	5,973	-	60,871
Water meters	876,855	177,724	(346,770)	707,809
Water services	1,238,166	26,727	-	1,264,893
Water tower	4,143,629	243,793	-	4,387,422
Main line	15,442,089	1,031,366	-	16,473,455
Structures and parking lots	986,363	62,707	-	1,049,070
Contributed water main	8,178,889	878,437	-	9,057,326
	<u>\$ 32,501,680</u>	<u>\$ 2,580,920</u>	<u>\$ (451,643)</u>	<u>\$ 34,630,957</u>

**See Independent Auditor's Report.**



**2018**

**Fixed Assets**

	<b>Balance June 30, 2017</b>	<b>Transfers/ Additions</b>	<b>Transfers/ Disposals</b>	<b>Balance June 30, 2018</b>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	618,258	69,170	(23,111)	664,317
Vehicles	519,401	53,979	(60,861)	512,519
Shop equipment	65,465	296	(1,826)	63,935
Field equipment	815,672	21,930	(51,781)	785,821
Radio equipment	21,554	-	-	21,554
Pumping equipment	76,773	8,570	-	85,343
Water meters	2,951,549	603,111	(547,090)	3,007,570
Water services	1,378,630	-	-	1,378,630
Water tower	11,377,786	454,250	-	11,832,036
Main line	48,866,657	921,672	-	49,788,329
Structures and parking lots	1,742,745	-	(1,044)	1,741,701
Easements	457,721	-	-	457,721
Contributed water main	40,482,817	2,421,569	-	42,904,386
	109,648,648	4,554,547	(685,713)	113,517,482
Construction in progress	1,136,461	1,324,475	(927,341)	1,533,595
	<u>\$ 110,785,109</u>	<u>\$ 5,879,022</u>	<u>\$ (1,613,054)</u>	<u>\$ 115,051,077</u>

**Accumulated Depreciation**

Office equipment	\$ 440,676	\$ 68,937	\$ (22,812)	\$ 486,801
Vehicles	318,803	59,842	(60,861)	317,784
Shop equipment	61,852	932	(1,826)	60,958
Field equipment	710,320	41,314	(51,781)	699,853
Radio equipment	12,520	2,875	-	15,395
Pumping equipment	49,719	5,179	-	54,898
Water meters	1,192,549	231,396	(547,090)	876,855
Water services	1,210,995	27,171	-	1,238,166
Water tower	3,909,621	234,008	-	4,143,629
Main line	14,443,257	998,832	-	15,442,089
Structures and parking lots	923,911	63,496	(1,044)	986,363
Contributed water main	7,345,006	833,883	-	8,178,889
	<u>\$ 30,619,229</u>	<u>\$ 2,567,865</u>	<u>\$ (685,414)</u>	<u>\$ 32,501,680</u>

**See Independent Auditor's Report.**

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF WATER SYSTEM RATES  
JUNE 30, 2019 AND 2018**

<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 Auditor's Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF WATER CUSTOMERS**  
**JUNE 30, 2019 AND 2018**

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2019</u>	<u>2018</u>
Residential customers	30,118	29,523
Commercial customers	2,861	2,778
Industrial customers	<u>45</u>	<u>47</u>
	<u>33,024</u>	<u>32,348</u>

See Independent Auditor's Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF BILLABLE GALLONS  
JUNE 30, 2019 AND 2018**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<b>NUMBER OF BILLABLE GALLONS</b>	
	<u>2019</u>	<u>2018</u>
Residential customers	1,587,783,300	1,573,232,300
Commercial customers	850,592,800	811,092,300
Industrial customers	<u>413,823,500</u>	<u>416,871,900</u>
	<u><u>2,852,199,600</u></u>	<u><u>2,801,196,500</u></u>

See Independent Auditor's Report.



**INDEPENDENT AUDITOR'S 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, 2019, 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 9, 2019.

**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.

*Landmark PLC*

**LANDMARK PLC  
CERTIFIED PUBLIC ACCOUNTANTS**

Rogers, Arkansas  
September 9, 2019