



**ROGERS WATER UTILITIES
WATER DEPARTMENT
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2020 AND 2019
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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, 2020 and 2019, 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, 2020 and 2019, 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 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the 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 25, 2020 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.


Certified Public Accountants

Rogers, Arkansas
September 25, 2020

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020, 2019, AND 2018**

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, 2020, 2019, and 2018. 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 \$3,778,000 or 4.8% over fiscal year 2019. Net position increased by \$2,892,000 or 3.9%, in fiscal year 2019 over 2018.
- Water Department operating revenues increased by \$392,000 or 3.4% from 2019. Operating revenues decreased by \$56,000, or .5% in 2019 from 2018.
- Operating expenses increased by \$548,000 or 5.5% from 2019. Operating expenses decreased by \$55,000, or .6% in 2019 from 2018.
- Net Position increased by \$1,134,000 before capital contributions during fiscal year 2020. In fiscal year 2019, net position before capital contributions increased by \$1,239,000.

Rogers Water Department Fiscal Year 2020 Highlights

- The change in net position before capital contributions exceeded budget by \$294,000 but was less than prior year operating results by \$105,000
- The number of customers increased by 587 or 1.78% from the prior year. Billed water consumption decreased by 4.11%.
- Continued a City wide meter change out program and extended the completion period to be over the next 4 to 6 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, 2020.
- Completed a water and sewer rates study with HDR Engineering to determine Utility capital needs and cash requirements.
- Presented a 5-year rate increase schedule to Rogers Waterworks and Sewer Commission and Rogers City Council. The 5-year rate increase was approved by both governing bodies with the first increase effective on April 1, 2020. The subsequent rate increases will occur each July 1, 2021-2025.
- As a result of the COVID-19 pandemic, commercial water consumption decreased by 21% in the last quarter of fiscal year 2020 compared to the last quarter of fiscal year 2019. As a result, commercial revenue for FY2020 was slightly less than the prior year and budget by 3.6% and 7% respectively.

**ROGERS WATER UTILITIES WATER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020, 2019, AND 2018**

- As a result of the COVID-19 pandemic, RWU suspended service disconnections from March 26 to July 6th and waived all associated reconnection fees. As a result, penalty revenue and service charge income were less than the prior year and budget by \$67,000 combined. Service disconnections resumed on July 7th, 2020.
- Tyson Foods, RWU's largest industrial customer, increased water usage by 6.18% from fiscal year 2019. For the two years prior, Tyson Foods water usage decreased as part of a plan to reduce water usage by 25% by the year 2025.

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 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.

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- 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.

Using This Annual Report

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

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020, 2019, AND 2018

Financial Highlights

Assets, Liabilities and Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Total current assets	\$ 15,538,016	\$ 15,015,936	\$ 13,081,071
Restricted cash and investments	4,794,455	4,866,057	4,787,153
Other noncurrent assets	86,373,110	83,242,528	82,549,397
Total assets	<u>\$ 106,705,581</u>	<u>\$ 103,124,521</u>	<u>\$ 100,417,621</u>
Deferred Outflows of Resources			
Deferred pension outflows	\$ 398,255	\$ 492,199	\$ 712,327
Deferred bond refunding costs	566,998	622,690	678,381
Total deferred outflow of resources	<u>\$ 965,253</u>	<u>\$ 1,114,889</u>	<u>\$ 1,390,708</u>
Liabilities			
Total current liabilities	\$ 3,061,086	\$ 2,673,299	\$ 2,246,542
Liabilities payable from restricted assets	1,339,145	1,289,773	1,246,551
Long-term liabilities	20,987,260	21,742,067	22,784,603
Total liabilities	<u>\$ 25,387,491</u>	<u>\$ 25,705,139</u>	<u>\$ 26,277,696</u>
Deferred Inflows of Resources			
Deferred pension inflows	<u>\$ 116,303</u>	<u>\$ 145,361</u>	<u>\$ 34,275</u>
Net Position			
Invested in capital assets, net of related debt	\$ 66,713,919	\$ 62,828,920	\$ 61,666,370
Restricted	3,455,309	3,576,284	3,540,602
Unrestricted	11,997,812	11,983,706	10,289,386
Total net position	<u>\$ 82,167,040</u>	<u>\$ 78,388,910</u>	<u>\$ 75,496,358</u>
Operating Results and Changes in Net Position			
Operating revenues	<u>\$ 11,910,043</u>	<u>\$ 11,517,758</u>	<u>\$ 11,573,606</u>
Operating expenses			
Depreciation	2,681,615	2,580,920	2,567,865
Other operating expenses	7,679,032	7,231,493	7,299,479
Total operating expenses	<u>10,360,647</u>	<u>9,812,413</u>	<u>9,867,344</u>
Operating income	<u>1,549,396</u>	<u>1,705,345</u>	<u>1,706,262</u>
Other revenues (expenses)			
Interest expense	(692,857)	(709,974)	(728,616)
Other income (expenses)	277,365	243,209	152,789
Total other revenues (expenses)	<u>(415,492)</u>	<u>(466,765)</u>	<u>(575,827)</u>
Change in net position before capital contributions	1,133,904	1,238,580	1,130,435
Capital Contributions	<u>2,644,226</u>	<u>1,653,972</u>	<u>2,535,070</u>
Change in Net Position	3,778,130	2,892,552	3,665,505
Net Position, Beginning of Year	<u>78,388,910</u>	<u>75,496,358</u>	<u>71,830,853</u>
Net Position, End of Year	<u>\$ 82,167,040</u>	<u>\$ 78,388,910</u>	<u>\$ 75,496,358</u>

**ROGERS WATER UTILITIES WATER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020, 2019, AND 2018**

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2020, the Water Department's investment in capital assets was \$86,373,000 (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 \$2,783,000 were incurred on a variety of construction projects during 2020. \$1,038,000 of constructed assets were completed and placed in service, consisting mostly of water main construction and rehabilitation projects. In addition, \$2,542,000 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 2019 the Water Department had construction of \$1,211,000 and contributed capital of \$1,569,000, and in 2018 construction of \$1,324,000 and contributed capital of \$2,422,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were \$488,000 in 2020, as compared to \$494,000 in 2019 and \$1,206,000 in 2018.

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

Long-Term Debt

The Water Department had \$19,765,000 in revenue bonds outstanding as of June 30, 2020, which is a decrease of \$780,000 from 2019 resulting from scheduled principal payments. Revenue bonds outstanding as of June 30, 2019 were \$20,545,000, which was a decrease of \$495,000 from 2018. This decrease is a result of 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 2020 was 4.11% less than the previous year, primarily due to high precipitation. The change in net position for the year was greater than budget but less than the prior year.

The Rogers Water Department funded capital improvements out of reserves in fiscal year 2020. Significant projects in process at the end of the year included various City of Rogers street improvements. Major projects expected in fiscal year 2020 also include water main projects for City of Rogers street projects, recoating and repair of the 11th St. elevated tank, and other waterline replacements and extensions.

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A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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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 subject to increase annually and driven by updated water usage forecasts. Based on recent events, Beaver Water District indicated that it will forgo the anticipated increase for FY 2021. A total increase of \$.12/1000 gallons has been implemented over the past five years. Beaver Water District, is poised to meet the demand of Rogers Water Utility water customers for maximum daily demand twenty years hence.

During fiscal year 2020, a rate study was completed by HDR Engineering. The study indicated a rate increase was appropriate. A 5-year water rate increase schedule was presented to the Rogers Waterworks and Sewer Commission and the Rogers City Council. Both governing bodies approved the rate increase, and it became effective April 1, 2020. The 5-year rate increase schedule, along with possible future bond issues, will facilitate the funding of significant capital needs anticipated over the next 5 years.

The Information Technology department at RWU has initiated several confidential projects to reduce the risk of cyberattacks including ransomware. Continuous training of all RWU employees is a major component of this strategy.

The overall distribution system, storage, and metering systems in Rogers are relatively young due to the City's significant growth over just the last few decades. These systems are able to meet the anticipated water demands as noted in our last Water Master Plan completed in 2016. New software scheduled to be installed in 2021 will allow for a more sophisticated asset management program.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,878,956	\$ 3,084,734
Investments	9,120,895	9,817,781
Accounts receivable, net of allowance for doubtful accounts of \$145,000 and \$135,000, respectively	2,170,327	1,784,243
Due from sewer department	18,900	15,289
Inventory	298,065	269,063
Prepaid expenses	<u>50,873</u>	<u>44,826</u>
 Total Current Assets	 <u>15,538,016</u>	 <u>15,015,936</u>
 RESTRICTED CASH AND INVESTMENTS		
Restricted cash and cash equivalents	487,699	611,100
Investments	<u>4,306,756</u>	<u>4,254,957</u>
 Total Restricted Cash and Investments	 <u>4,794,455</u>	 <u>4,866,057</u>
 FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	 <u>86,373,110</u>	 <u>83,242,528</u>
 Total Assets	 <u>106,705,581</u>	 <u>103,124,521</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	398,255	492,199
Deferred bond refunding costs	<u>566,998</u>	<u>622,690</u>
 Total Deferred Outflows of Resources	 <u>965,253</u>	 <u>1,114,889</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 107,670,834</u></u>	 <u><u>\$ 104,239,410</u></u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2020	2019
CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)		
Accounts payable - trade	\$ 545,490	\$ 471,497
Accounts payable to construction contractors	489,091	317,322
Accounts payable - other	861,196	835,838
Accrued expenses	365,309	268,642
Current portion of bonds payable	<u>800,000</u>	<u>780,000</u>
 Total Current Liabilities (Payable From Current Assets)	 <u>3,061,086</u>	 <u>2,673,299</u>
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)		
Customer meter deposits	1,228,991	1,176,444
Accrued interest payable	<u>110,154</u>	<u>113,329</u>
 Total Current Liabilities (Payable From Restricted Assets)	 <u>1,339,145</u>	 <u>1,289,773</u>
LONG-TERM LIABILITIES		
Bonds payable, net of unamortized premiums and discounts	19,426,189	20,256,298
Net pension liability	<u>1,561,071</u>	<u>1,485,769</u>
 Total Long-Term Liabilities	 <u>20,987,260</u>	 <u>21,742,067</u>
 Total Liabilities	 <u>25,387,491</u>	 <u>25,705,139</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	<u>116,303</u>	<u>145,361</u>
 Total Liabilities and Deferred Inflows of Resources	 <u>25,503,794</u>	 <u>25,850,500</u>
NET POSITION		
Invested in capital assets, net of related debt	66,713,919	62,828,920
Restricted	3,455,309	3,576,284
Unrestricted	<u>11,997,812</u>	<u>11,983,706</u>
 Total Net Position	 <u>82,167,040</u>	 <u>78,388,910</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 107,670,834</u>	 <u>\$ 104,239,410</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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Residential water	\$ 6,051,543	\$ 5,906,241
Commercial water	2,754,147	2,857,183
Industrial water	1,088,940	1,006,678
Sprinkler service and hydrant	127,415	119,065
Service charges and penalties	524,956	592,003
Access, impact, and new customer fees	959,550	643,750
Other operating revenue	403,492	392,838
	<u>11,910,043</u>	<u>11,517,758</u>
OPERATING EXPENSES		
Water purchased	4,780,837	4,677,966
Plant operations and distribution	1,404,816	1,279,908
General and administrative	1,493,379	1,273,619
Depreciation	2,681,615	2,580,920
	<u>10,360,647</u>	<u>9,812,413</u>
	<u>1,549,396</u>	<u>1,705,345</u>
OPERATING INCOME		
OTHER REVENUES (EXPENSES)		
Interest income	280,373	247,234
Gain on sale of fixed assets	3,792	2,775
Interest expense	(692,857)	(709,974)
Trustee fees	(6,800)	(6,800)
	<u>(415,492)</u>	<u>(466,765)</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	1,133,904	1,238,580
CAPITAL CONTRIBUTIONS	<u>2,644,226</u>	<u>1,653,972</u>
CHANGE IN NET POSITION	3,778,130	2,892,552
NET POSITION, BEGINNING OF YEAR	<u>78,388,910</u>	<u>75,496,358</u>
NET POSITION, END OF YEAR	<u>\$ 82,167,040</u>	<u>\$ 78,388,910</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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,635,961	\$ 9,965,410
Cash received from access, impact and new customer fees	959,550	643,750
Cash received from service charges, penalties and other operating revenue	980,995	1,030,272
Payments for water	(4,676,930)	(4,793,596)
Payments for salaries and benefits	(1,729,212)	(1,522,301)
Payments to suppliers for goods and services	<u>(975,344)</u>	<u>(906,117)</u>
Net Cash From Operating Activities	<u>4,195,020</u>	<u>4,417,418</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	280,373	247,234
Net change in investments	696,886	(2,146,248)
Net change in restricted investments	<u>(51,799)</u>	<u>241,734</u>
Net Cash From (Used For) Investing Activities	<u>925,460</u>	<u>(1,657,280)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(2,996,202)	(1,412,494)
Cash received from sale of fixed assets	3,792	2,775
Principal payments on bonds	(780,000)	(495,000)
Interest and paying agent fees, net of capitalized interest	<u>(677,249)</u>	<u>(693,402)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(4,449,659)</u>	<u>(2,598,121)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	670,821	162,017
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,695,834</u>	<u>3,533,817</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,366,655</u>	<u>\$ 3,695,834</u>
CASH AND CASH EQUIVALENTS RESTRICTED CASH AND CASH EQUIVALENTS	<u>\$ 3,878,956</u>	<u>\$ 3,084,734</u>
	<u>487,699</u>	<u>611,100</u>
	<u>\$ 4,366,655</u>	<u>\$ 3,695,834</u>

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

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	<u>\$ 1,549,396</u>	<u>\$ 1,705,345</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,681,615	2,580,920
Allowance for doubtful accounts	10,000	-
Net change in pension liability	140,188	98,788
Changes in assets and liabilities:		
Accounts receivable	(396,084)	76,243
Due from sewer department	(3,611)	(2,012)
Inventory	(29,002)	(19,836)
Prepaid expenses	(6,047)	(1,633)
Accounts payable - trade and other	99,351	(40,188)
Accrued expenses and customer deposits	<u>149,214</u>	<u>19,791</u>
Total adjustments	<u>2,645,624</u>	<u>2,712,073</u>
Net Cash From Operating Activities	<u><u>\$ 4,195,020</u></u>	<u><u>\$ 4,417,418</u></u>
OTHER NONCASH TRANSACTIONS		
Capital contributions	\$ 2,644,226	\$ 1,653,972
Property and equipment additions included in accounts payable to construction contractors	\$ 489,091	\$ 317,322

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

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - Water Department

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

Fund Type

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

Basis of Accounting

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

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

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

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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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.

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, 2020 and 2019, the Water Department had cash equivalents of \$250,041 and \$1,010,544, respectively.

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.

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.

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, 2020 and 2019, cumulative contributed capital fixed assets amounted to approximately \$47,015,000 and \$44,473,000, respectively.

ROGERS WATER UTILITIES WATER DEPARTMENT
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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, 2020 and 2019, this review has not materially affected the Water Department's reported earnings, financial position or results of operations.

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, 2020 and 2019 amounted to approximately \$5,319,000 and \$4,841,000, respectively.

Amortization of Bond Discounts and Premiums

Bond discounts and premiums are amortized over the lives of the related bond issues. Net amortization was \$30,109 and \$30,110, respectively, for the years ended June 30, 2020 and 2019, and is included as a component of interest expense. See Note 8.

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 \$55,692 and \$55,691 for the years ended June 30, 2020 and 2019, respectively, is included as a component of interest expense.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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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 the 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.

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, 2020 and 2019.

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.

ROGERS WATER UTILITIES WATER DEPARTMENT
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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.

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.

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, 2020, the Water Department had approximately \$4,538,000 in deposit balances, of which approximately \$611,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities’ name. Additionally, the Water Department had approximately \$12,647,000 in certificates of deposit reported as investments in the Statements of Net Position, all of which were FDIC insured.

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2020 and 2019 as follows:

	2020	2019
Meter deposits	\$ 1,342,312	\$ 1,281,711
Debt service reserve	669,839	668,721
Depreciation reserve for additional replacements to the water system	2,671,077	2,807,037
New customer fees collected for additions of fixed assets	<u>111,227</u>	<u>108,588</u>
	<u><u>\$ 4,794,455</u></u>	<u><u>\$ 4,866,057</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, 2020, investments of the Water Department were fully collateralized or insured.

At June 30, 2020 and 2019, the Water Department's investments consisted of \$12,646,585 and \$13,295,428, respectively, held in certificates of deposit and \$781,066 and \$777,310, respectively, held in United States government securities. All investments at June 30, 2020 and 2019 had maturities of less than five years.

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTE 5: CHANGES IN FIXED ASSETS

	Balance June 30, 2019	Transfers/ Additions	Disposals	Balance June 30, 2020
Land	\$ 732,981	\$ -	\$ -	\$ 732,981
Buildings	1,744,205	-	-	1,744,205
Equipment	69,911,546	1,456,018	(140,038)	71,227,526
Vehicles	512,519	69,597	(38,896)	543,220
Contributed property	44,473,159	2,541,976	-	47,015,135
Construction in progress	499,075	2,782,547	(1,037,941)	2,243,681
	<u>117,873,485</u>	<u>6,850,138</u>	<u>(1,216,875)</u>	<u>123,506,748</u>
Accumulated depreciation	<u>(34,630,957)</u>	<u>(2,681,615)</u>	<u>178,934</u>	<u>(37,133,638)</u>
	<u>\$ 83,242,528</u>	<u>\$ 4,168,523</u>	<u>\$ (1,037,941)</u>	<u>\$ 86,373,110</u>
	Balance June 30, 2018	Transfers/ Additions	Disposals	Balance June 30, 2019
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
	<u>115,051,077</u>	<u>5,520,287</u>	<u>(2,697,879)</u>	<u>117,873,485</u>
Accumulated depreciation	<u>(32,501,680)</u>	<u>(2,580,920)</u>	<u>451,643</u>	<u>(34,630,957)</u>
	<u>\$ 82,549,397</u>	<u>\$ 2,939,367</u>	<u>\$ (2,246,236)</u>	<u>\$ 83,242,528</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.

ROGERS WATER UTILITIES WATER DEPARTMENT
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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, 2020 and 2019 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, 2020 and 2019, 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, 2020 and 2019 is 2.52 and 2.53, respectively. Total interest paid during the years ended June 30, 2020 and 2019 totaled \$677,249 and \$693,402, respectively. No interest was capitalized during the years ended June 30, 2020 and 2019.

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, 2020 and 2019.

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

Year Ending June 30,	Principal	Interest	Total
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	1,215,000	537,644	1,752,644
2026-2030	6,750,000	2,004,709	8,754,709
2031-2035	8,240,000	693,557	8,933,557
2036	220,000	3,437	223,437
Total	\$ 19,765,000	\$ 5,690,314	\$ 25,455,314

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

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Amounts Due Within One Year
Revenue Refunding Bonds, Series 2012	\$ 7,535,000	\$ -	\$ 435,000	\$ 7,100,000	\$ 450,000
Revenue Refunding Bonds, Series 2016	13,010,000	-	345,000	12,665,000	350,000
Bonds payable, gross	20,545,000	-	780,000	19,765,000	800,000
Plus premiums	491,298	-	30,109	461,189	-
	<u>\$ 21,036,298</u>	<u>\$ -</u>	<u>\$ 810,109</u>	<u>\$ 20,226,189</u>	<u>\$ 800,000</u>

	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>

NOTE 9: COMMITMENTS AND CONCENTRATION

The Water Department is committed to several construction contracts in process at year end totaling \$4,214,438. As of June 30, 2020, \$2,243,681 had been incurred in connection with these contracts.

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

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, 2020 and 2019 were \$76,070 and \$66,050, respectively.

ROGERS WATER UTILITIES WATER DEPARTMENT
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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, 2020 and 2019 was \$8,835 and \$5,330, respectively. At June 30, 2020 and 2019, there were six and four employees, respectively, 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, 2020 and 2019 were \$11,800 and \$8,400, respectively.

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.

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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.

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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 15.32% of compensation for the fiscal year ended June 30, 2019. 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 \$2,412,528,797 was measured as of June 30, 2019, 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, 2020 and 2019, the Water Department reported deferred outflows of resources and deferred inflows of resources as of June 30, 2019 and 2018, respectively, related to pensions from the following sources:

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 42,486	\$ (2,319)
Changes of assumptions	84,730	(60,010)
Changes in proportion and differences between employer contributions and proportionate share	61,152	(42,115)
Net difference between projected and actual earnings on pension plan investments	-	(11,859)
Contributions subsequent to measurement date	<u>209,887</u>	<u>-</u>
Balance, June 30, 2020	<u>\$ 398,255</u>	<u>\$ (116,303)</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>187,751</u>	<u>-</u>
Balance, June 30, 2019	<u>\$ 492,199</u>	<u>\$ (145,361)</u>

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2021, 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:

2021	\$ 102,280
2022	(57,069)
2023	(2,536)
2024	29,390

Actuarial Assumptions

The total pension liability in the June 30, 2019 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	30 years (8.6 years for District Judges New Plan/Paid Off Old Plan and 17 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	7.15%
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, 2020 AND 2019

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, 2019 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.20%
International Equity	24%	6.33%
Real Estate	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	18%	1.54%
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%
\$ 2,502,007	\$ 1,561,071	\$ 784,755

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12: RISKS AND UNCERTAINTIES

The COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the Water Department's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak. However, it is presumed that the Water Department's operations will be impacted.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 25, 2020, the date the financial statements were available to be issued, and none were identified requiring recognition or disclosure.

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, 2020 THROUGH 2015**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Proportion of the net pension liability	0.06%	0.07%	0.07%	0.06%	0.06%	0.05%
Proportionate share of the net pension liability	\$ 1,561,071	\$ 1,485,769	\$ 1,718,195	\$ 1,389,098	\$ 1,053,941	\$ 761,957
Covered - employee payroll	\$ 1,374,871	\$ 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	113.54%	117.54%	133.88%	108.50%	87.98%	70.12%
Plan's fiduciary net position as a percentage of the total pension liability	78.55%	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 six 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, 2020 THROUGH 2015**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Contractually required contribution	\$ 209,887	\$ 187,751	\$ 185,515	\$ 183,273	\$ 161,515	\$ 149,290
Contributions in relation to the contractually required contribution	\$ (209,887)	\$ (187,751)	\$ (185,515)	\$ (183,273)	\$ (161,515)	\$ (149,290)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water Department's covered-employee payroll	\$ 1,374,871	\$ 1,264,034	\$ 1,283,356	\$ 1,280,327	\$ 1,197,940	\$ 1,086,721
Contributions as a percentage of covered-employee payroll	15.27%	14.85%	14.46%	14.31%	13.48%	13.74%

*Fiscal Year 2015 was the first year of implementation, therefore only six 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, 2020 AND 2019

	2020	2019
WATER PURCHASED	<u>\$ 4,780,837</u>	<u>\$ 4,677,966</u>
PLANT OPERATIONS AND DISTRIBUTION		
Employee benefits	260,812	281,349
Insurance	25,925	22,523
Operating supplies and other	80,237	94,457
Payroll taxes	44,626	41,936
Repairs and maintenance	335,842	222,669
Salaries	603,811	558,450
Utilities	<u>53,563</u>	<u>58,524</u>
	<u>1,404,816</u>	<u>1,279,908</u>
GENERAL AND ADMINISTRATIVE		
Bad debts	24,646	19,966
Employee benefits	393,078	275,726
Insurance	12,853	12,946
Office supplies and postage	115,732	113,828
Other	104,793	228,624
Payroll taxes	55,507	50,356
Professional fees	48,307	60,239
Salaries	585,381	394,733
Taxes and fees	130,768	98,579
Utilities	<u>22,314</u>	<u>18,622</u>
	<u>1,493,379</u>	<u>1,273,619</u>
DEPRECIATION	<u>2,681,615</u>	<u>2,580,920</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 10,360,647</u></u>	<u><u>\$ 9,812,413</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, 2020**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2020	<u>\$ 7,100,000</u>		<u>\$ 1,362,530</u>	<u>\$ 8,462,530</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, 2020**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
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, 2020	<u>\$ 12,665,000</u>		<u>\$ 4,327,784</u>	<u>\$ 16,992,784</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, 2020 AND 2019

2020

Fixed Assets

	<u>Balance June 30, 2019</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2020</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	704,790	31,272	(14,336)	721,726
Vehicles	512,519	69,597	(38,896)	543,220
Shop equipment	58,275	-	(6,685)	51,590
Field equipment	730,094	51,125	(10,724)	770,495
Radio equipment	21,554	7,573	-	29,127
Pumping equipment	91,169	-	(9,980)	81,189
Water meters	3,018,552	363,760	(98,313)	3,283,999
Water services	1,378,630	-	-	1,378,630
Water tower	11,832,036	-	-	11,832,036
Main line	52,076,446	1,002,288	-	53,078,734
Structures and parking lots	1,744,205	-	-	1,744,205
Easements	459,361	-	-	459,361
Contributed water main	44,473,159	2,541,976	-	47,015,135
	<u>117,374,410</u>	<u>4,067,591</u>	<u>(178,934)</u>	<u>121,263,067</u>
Construction in progress	499,075	2,782,547	(1,037,941)	2,243,681
	<u>\$ 117,873,485</u>	<u>\$ 6,850,138</u>	<u>\$ (1,216,875)</u>	<u>\$ 123,506,748</u>

Accumulated Depreciation

Office equipment	\$ 528,430	\$ 65,818	\$ (14,336)	\$ 579,912
Vehicles	375,691	57,905	(38,896)	394,700
Shop equipment	56,025	557	(6,685)	49,897
Field equipment	652,878	23,298	(10,724)	665,452
Radio equipment	17,087	1,745	-	18,832
Pumping equipment	60,871	6,119	(9,980)	57,010
Water meters	707,809	231,563	(98,313)	841,059
Water services	1,264,893	24,642	-	1,289,535
Water tower	4,387,422	236,072	-	4,623,494
Main line	16,473,455	1,058,855	-	17,532,310
Structures and parking lots	1,049,070	62,555	-	1,111,625
Contributed water main	9,057,326	912,486	-	9,969,812
	<u>\$ 34,630,957</u>	<u>\$ 2,681,615</u>	<u>\$ (178,934)</u>	<u>\$ 37,133,638</u>

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

2019

Fixed Assets

	<u>Balance June 30, 2018</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance 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.

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF WATER SYSTEM RATES
JUNE 30, 2020 AND 2019**

In November 2019, the City Council approved a rate increase for the Water Department, effective beginning April 1, 2020. The changes are as follows:

MONTHLY WATER RATE FOR CUSTOMERS

INSIDE CITY

	<u>PREVIOUS RATES</u>	<u>NEW RATES</u>
First 1,500 gallons or portion thereof	\$6.89 minimum	\$7.75 minimum
Next 98,500 gallons	\$2.99 / thousand	\$3.36 / thousand
Next 400,000 gallons	\$2.65 / thousand	\$2.98 / thousand
Next 500,000 gallons	\$2.41 / thousand	\$2.71 / thousand
All in excess of 1,000,000 gallons	\$2.25 / thousand	\$2.53 / thousand

MONTHLY WATER RATE FOR CUSTOMERS

OUTSIDE CITY

	<u>PREVIOUS RATES</u>	<u>NEW RATES</u>
First 1,500 gallons or portion thereof	\$8.82 minimum	\$9.92 minimum
Next 98,500 gallons	\$3.81 / thousand	\$4.29 / thousand
Next 400,000 gallons	\$3.38 / thousand	\$3.80 / thousand
Next 500,000 gallons	\$3.07 / thousand	\$3.45 / thousand
All in excess of 1,000,000 gallons	\$2.88 / thousand	\$3.24 / 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, 2020 AND 2019**

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2020</u>	<u>2019</u>
Residential customers	30,621	30,118
Commercial customers	2,945	2,861
Industrial customers	<u>45</u>	<u>45</u>
	<u>33,611</u>	<u>33,024</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, 2020 AND 2019**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2020</u>	<u>2019</u>
Residential customers	1,527,737,800	1,587,783,300
Commercial customers	775,577,200	850,592,800
Industrial customers	<u>431,781,900</u>	<u>413,823,500</u>
	<u>2,735,096,900</u>	<u>2,852,199,600</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, 2020, 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 25, 2020.

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.



Rogers, Arkansas
September 25, 2020