

The logo for Rogers Water Utilities (RWU) features the letters "RWU" in a white, sans-serif font, positioned within a blue, stylized wave-like shape that curves upwards and to the right.

ROGERS WATER UTILITIES

**Rogers Water Utilities
Sewer Department**

**Financial Statements
and
Supplementary Information
June 30, 2023 and 2022**

(With Independent Auditor's Report Thereon)

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the **Rogers Water Utilities Sewer Department** (the Sewer Department), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Sewer Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Sewer Department, as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Sewer Department and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Notes 2 and 10 to the financial statements, during the year ended June 30, 2023, the Sewer Department implemented new accounting guidance, Governmental Accounting Standards Board (GASB) Statement 96, *Subscription-based Information Technology Arrangements*. The Sewer Department recorded right-to-use subscription assets and liabilities upon implementation of the standard using the facts and circumstances that existed at that date. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Sewer Department's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sewer Department's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sewer Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

To the Waterworks and Sewer Commission
Rogers Water Utilities Sewer Department

Other Matters

As discussed in Note 1, the financial statements present only the Sewer Department and do not purport to, and do not, present fairly the financial position of the Rogers Water Utilities or the City of Rogers, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and pension schedules on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Sewer Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Waterworks and Sewer Commission
Rogers Water Utilities Sewer Department

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated December 4, 2023 on our consideration of the Sewer Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sewer Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive script, and "PLC" is written in a more formal, blocky font.

Rogers, Arkansas
December 4, 2023

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Management's Discussion and Analysis

June 30, 2023, 2022, and 2021

This management's discussion and analysis of the financial performance of the Rogers Water Utilities Sewer Department (Sewer Department) provides an overview of the Sewer Department's financial activities for the years ended June 30, 2023, 2022, and 2021. Rogers Water Utilities is a component unit of the City of Rogers, Arkansas, and is overseen by the Rogers Waterworks and Sewer Commission, an autonomous board of directors, created by the Rogers City Council. The Rogers Sewer Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

Financial Highlights Discussion

- The Sewer Department's net position increased by \$8,706,894 or 6.5% from fiscal year 2022. Net position increased by \$6,827,617, or 5.4%, in 2022 over fiscal year 2021.
- Sewer Department operating revenues increased by \$1,294,783 or 7.7% from fiscal year 2022. Operating revenues increased by \$1,426,116, or 9.2% in 2022 over 2021.
- Operating expenses increased by \$2,057,864 or 18.2% from fiscal year 2022. Operating expenses increased by \$1,074,386, or 10.4% in 2022 over 2021.
- Net position before capital contributions increased by \$5,068,443 or 3.8% during fiscal year 2023. In fiscal year 2022, net position before capital contributions increased by \$5,357,041.

Rogers Sewer Department Fiscal Year 2023 Highlights

- The change in net position before capital contributions exceeded budget by \$448,443 and was less than prior year operating results by \$288,598.
- The number of customers increased by 433 or 1.72% from the prior year. Billed sewer consumption increased by 6.65%.
- Continue with two (2) software integrations, Cityworks, for asset management, and Tyler Technologies, for billing and accounting functions. Both projects are still ongoing. RWU went "live" with Tyler Technologies on September 6, 2022. Cityworks is scheduled to go "live" in October 2023.
- RWU will continue the \$550,000/year City-wide meter change out program. At this rate, our meter change out will be perpetual and based on the life cycle of the water meters. The change out is being conducted by Utility Staff.
- RWU substantially completed Train II rehabilitation at the Pollution Control Facility. Total project costs capitalized in fiscal year 2022 were \$4.8 million.
- RWU received approval for funding via the ANRC for \$31 million to complete Phase II of the Solids Handling Project, Phase II. The project includes redundant solids dryers as well as all of the associated building and equipment. The rate was significantly lower than other financial alternatives available. The rate is 1.5%.

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Management's Discussion and Analysis

June 30, 2023, 2022, and 2021

- The Arkansas Natural Resources Commission (ANRC) approved \$270 million dollars in American Rescue Plan Act funding for Arkansas Drinking Water and Wastewater providers. The ANRC selected two RWU projects to receive this funding. The Bardenpho Treatment Basins Train I and II Rehab and Repair (awarded a grant in the amount of \$2,527,260). The maximum award for any applicant was capped at \$5 million dollars.

Rogers Sewer Department Fiscal Year 2022 Highlights

- The change in net position before capital contributions exceeded budget by \$973,000 and was less than prior year operating results by \$369,000.
- The number of customers increased by 424 or 1.71% from the prior year. Billed sewer consumption increased by 2.13%.
- Continue with two (2) software integrations, Cityworks, for asset management, and Tyler Technologies, for billing and accounting functions. Both projects are still ongoing.
- RWU will continue the \$500,000/year City-wide meter change out program. At this rate, our meter change out will be perpetual and based on the life cycle of the water meters. The change out is being conducted by Utility Staff.
- RWU substantially completed Train II rehabilitation at the Pollution Control Facility. Total project costs capitalized in fiscal year 2022 were \$4.8 million.
- RWU received approval for funding via the ANRC for \$31 million to complete Phase II of the Solids Handling Project, Phase II. The project includes redundant solids dryers as well as all of the associated building and equipment. The rate was significantly lower than other financial alternatives available. The rate is 1.5%.

Rogers Sewer Department Fiscal Year 2021 Highlights

- The change in net position before capital contributions exceeded budget by \$1,987,000 and prior year operating results by \$1,029,000.
- The number of customers increased by 548 or 2.27% from the prior year. Billed sewer consumption increased by 3.91%.
- RWU continued the focus of debt-reduction by early call of the Series 2010 Sewer Bonds; the principal amount called was approximately \$1,915,000.
- RWU signed an agreement with Timmons Group to implement Cityworks software, a web GIS-centric enterprise management system to manage, track, analyze and score your infrastructure assets, in a joint agreement with the City of Rogers.
- RWU signed a 4-year contract with Tyler Technologies to replace RWU's current operating software. The start of the contract is July 1, 2021 and includes replacement of billing, accounting, payroll, and other operating functions.
- RWU completed Phase 1 of the Pollution Control Biosolids Handling project at a total cost of \$8.9 million. The funding of the project was entirely from rates and fund reserves.

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Management's Discussion and Analysis

June 30, 2023, 2022, and 2021

- RWU began the initial planning stages of Phase 2 of the Pollution Control Biosolids Handling project. The team of Hawkins-Weir/Black & Veatch was retained to prepare a plan and estimate costs of the project.
- RWU concluded a Wastewater Master Plan update with Freese and Nichols. This Master Plan includes a Capital Improvement Plan (CIP) for both the Collections System and the Rogers Pollution Control Facility. These CIP's will aid RWU's financial planning and any future rate structures.
- RWU will continue the \$500,000/year City-wide meter change out program. At this rate, our meter change out will be perpetual and based on the life cycle of the water meters. The change out is being conducted by Utility Staff.

Using This Annual Report

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

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Management's Discussion and Analysis
June 30, 2023, 2022, and 2021

Financial Highlights

Assets, Liabilities and Net Position

| | 2023 | 2022 | 2021 |
|---|-----------------------|-----------------------|-----------------------|
| Assets | | | |
| Total current assets | \$ 26,279,959 | \$ 24,585,624 | \$ 21,597,206 |
| Restricted cash and investments | 2,013,088 | 1,437,218 | 1,468,867 |
| Other noncurrent assets | 126,463,953 | 120,703,840 | 118,519,743 |
| Total assets | \$ 154,757,000 | \$ 146,726,682 | \$ 141,585,816 |
| Deferred Outflows of Resources | | | |
| Pension costs | \$ 1,403,871 | \$ 487,937 | \$ 863,876 |
| Liabilities | | | |
| Total current liabilities | \$ 3,801,824 | \$ 2,885,301 | \$ 2,564,797 |
| Liabilities payable from restricted assets | 46,367 | 54,200 | 61,733 |
| Noncurrent liabilities | 10,068,138 | 9,169,299 | 12,969,584 |
| Total liabilities | \$ 13,916,329 | \$ 12,108,800 | \$ 15,596,114 |
| Deferred Inflows of Resources | | | |
| Pension costs | \$ 42,366 | \$ 1,571,922 | \$ 101,424 |
| Deferred bond refunding gain | 225,249 | 263,864 | 302,478 |
| Total deferred inflows of resources | \$ 267,615 | \$ 1,835,786 | \$ 403,902 |
| Net Position | | | |
| Invested in capital assets, net of related debt | \$ 118,085,465 | \$ 110,825,637 | \$ 107,208,206 |
| Restricted | 1,966,721 | 1,383,018 | 1,407,134 |
| Unrestricted | 21,924,741 | 21,061,378 | 17,834,336 |
| Total net position | \$ 141,976,927 | \$ 133,270,033 | \$ 126,449,676 |
| Operating Results and Changes in Net Position | | | |
| Operating revenues | \$ 18,124,292 | \$ 16,829,509 | \$ 15,403,393 |
| Operating expenses | | | |
| Depreciation and amortization | 5,436,121 | 5,039,730 | 4,440,471 |
| Other operating expenses | 7,950,851 | 6,289,378 | 5,627,372 |
| Total operating expenses | 13,386,972 | 11,329,108 | 10,067,843 |
| Operating income | 4,737,320 | 5,500,401 | 5,335,550 |
| Other revenues (expenses) | | | |
| Interest expense | (164,329) | (214,013) | (280,308) |
| Other income (expenses) | 495,452 | 70,653 | 144,021 |
| Total other revenues (expenses) | 331,123 | (143,360) | (136,287) |
| Changes in net position before capital contributions | 5,068,443 | 5,357,041 | 5,199,263 |
| Capital Contributions | 3,638,451 | 1,470,576 | 5,696,399 |
| Change in Net Position | 8,706,894 | 6,827,617 | 10,895,662 |
| Net Position, Beginning of Year | 133,270,033 | 126,442,416 | 115,546,754 |
| Net Position, End of Year | \$ 141,976,927 | \$ 133,270,033 | \$ 126,442,416 |

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Management's Discussion and Analysis

June 30, 2023, 2022, and 2021

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2023, the Sewer Department's investment in capital assets was \$126,464,000 (net of accumulated depreciation). This investment of capital assets included land, buildings, improvements, machinery and equipment, right of use subscriptions and contributed property.

Major capital asset events include the following:

- Construction costs of \$5,357,000 during fiscal year 2023 were incurred on a variety of sewer system and sewer rehab projects. \$829,000 of constructed assets were completed and placed in service, consisting mostly of Train 2 Rehab of the pollution control facility. In addition, \$3,628,000 of sewer mains constructed by developers was contributed to the Sewer Department to own and maintain. This is recorded as a capital contribution in the Statements of Revenues, Expenses, and Changes in Net Position. In 2022, the Sewer Department had construction of \$4,889,000 and contributed capital of \$1,459,000, and in 2021, construction of \$3,573,000 and contributed capital of \$9,659,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$2,211,000 in 2023, as compared to \$941,000 in 2022 and \$1,033,000 in 2021.

Additional information regarding capital assets can be found on Note 6 of this report.

Long-Term Debt

The Sewer Department had \$6,955,000 in revenue bonds outstanding as of June 30, 2023, which is a decrease of \$1,175,000 from 2022 resulting from regularly scheduled principal payments. Revenue bonds outstanding as of June 30, 2022, were \$8,130,000 which is a decrease of \$1,130,000 from 2021 resulting from regularly scheduled principal payments and early call of Series 2010 Sewer Bonds.

Additional information regarding long-term debt can be found at Note 9 of this report.

Additional Management Comments

Sewer consumption in fiscal year 2023 increased 1.72% from the previous year, primarily due to customer growth. The change in net position for the year was greater than budget and the prior year.

RWU now has recently completed Master Plans for the water distribution system, the sewer collection system, and the Rogers Pollution Control Facility. These plans provide conservative estimates for future capital improvements that will allow the Utility to provide service to our customers. It is estimated that build-out will occur in year 2045. These numbers will be further refined by in-depth design contracts and will be vital for future budgeting and rate studies for the Utility.

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Management's Discussion and Analysis

June 30, 2023, 2022, and 2021

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. Remaining rate increases will occur from July 1, 2021-2025.

The Rogers Sewer Department funded capital improvements out of reserves in fiscal year 2023. Completed projects include rehabilitation of train 2 at the RPCF and various sewer replacements. Projects in process at the end of the year included various City of Rogers street improvements, engineering design for Phase 2 of the solids handling project, and other various sewer line projects. Major projects expected in fiscal year 2024 include construction of phase 2 of the solids handling project, sewer main projects for City of Rogers street projects, and sewer rehab and expansion.

A Memorandum of Agreement was reached between the State of Arkansas and the State of Oklahoma on November 13, 2018 with regard to Total Maximum Daily Load (TMDL) phosphorus limits. The MOU reads "The States, through the appropriate Parties, will continue to require existing point-source dischargers in the Illinois River Watershed with a design capacity of greater than 1 MGD to operate under existing NPDES permits reflecting an effluent limit for total phosphorus of not more than 1 mg/L based upon a 30-day average..." RPCF can meet this prescribed limit of phosphorus. RPCF's 30-day average phosphorus level is under 0.2 mg/L.

The Arkansas Department of Energy & Environment – Division of Environmental Quality filed a Complaint for Declaratory and Injunctive Relief in the United States District Court against the United States Environmental Protection Agency. See Case No. 4-22-CV-359 (BMS). The outcome of this case will indirectly determine the phosphorus limits that will be required of any new process design at the Rogers Pollution Control Facility. This case directly involves two neighboring pollution control facilities and the outcome will most likely affect the pending permit for the Rogers Pollution Control Facility. At this time, no new permit has been received.

The Information Technology department at RWU continues to implement confidential projects that reduce the risk of cyberattacks including ransomware. Continuous training of all RWU employees is a major component of this strategy as well as vulnerability testing on a regular basis with the Department of Homeland Security and CISA.

The final migration from the IBM AS400 environment will be completed in FY24. The installation of Cityworks software in FY23 allows for a cloud-based GIS-centric system that efficiently connects City departments and provides a more robust asset management program. The Tyler Technologies software allows for a more updated accounting, billing, and customer service environment that will meet the long-term needs of the Utility.

A rate study consultant has been selected and RWU will begin this study in FY24.

Financial Statements

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Statements of Net Position

June 30, 2023 and 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------|-----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,705,525 | \$ 4,251,793 |
| Investments | 21,230,920 | 18,155,770 |
| Accounts receivable, net of allowance for doubtful accounts of \$169,500 in each year | 2,057,056 | 1,817,755 |
| Due from water department | - | 31,595 |
| Inventory | 136,284 | 185,226 |
| Prepaid expenses | 150,174 | 143,485 |
| Total Current Assets | <u>26,279,959</u> | <u>24,585,624</u> |
| RESTRICTED CASH AND INVESTMENTS | | |
| Restricted cash and cash equivalents | 275,655 | 306,858 |
| Investments | 1,737,433 | 1,130,360 |
| | <u>2,013,088</u> | <u>1,437,218</u> |
| FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION | <u>126,463,953</u> | <u>120,703,840</u> |
| Total Assets | <u>154,757,000</u> | <u>146,726,682</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred pension outflows | <u>1,403,871</u> | <u>487,937</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 156,160,871</u> | <u>\$ 147,214,619</u> |

See accompanying notes to financial statements.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Statements of Net Position
June 30, 2023 and 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | 2023 | 2022 |
|---|-----------------------|-----------------------|
| CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS) | | |
| Accounts payable - trade | \$ 216,877 | \$ 325,420 |
| Accounts payable to construction contractors | 1,521,000 | 780,014 |
| Accrued expenses | 652,389 | 487,573 |
| Due to water department | 70,813 | - |
| Current portion of subscription liability | 70,906 | 67,455 |
| Current portion of software hosting | 49,839 | 49,839 |
| Current portion of bonds payable | 1,220,000 | 1,175,000 |
| Total Current Liabilities (Payable from Current Assets) | 3,801,824 | 2,885,301 |
| CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS) | | |
| Accrued interest payable | 46,367 | 54,200 |
| Total Current Liabilities (Payable from Restricted Assets) | 46,367 | 54,200 |
| LONG-TERM LIABILITIES | | |
| Software hosting payable | 139,396 | 247,447 |
| Subscription liability | 292,961 | 363,866 |
| Bonds payable, net of unamortized premiums and discounts | 6,380,137 | 7,710,732 |
| Net pension liability | 3,255,644 | 847,254 |
| | 10,068,138 | 9,169,299 |
| Total Liabilities | 13,916,329 | 12,108,800 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred pension inflows | 42,366 | 1,571,922 |
| Deferred bond refunding discounts and premiums | 225,249 | 263,864 |
| | 267,615 | 1,835,786 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 118,085,465 | 110,825,637 |
| Restricted | 1,966,721 | 1,383,018 |
| Unrestricted | 21,924,741 | 21,061,378 |
| | 141,976,927 | 133,270,033 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | \$ 156,160,871 | \$ 147,214,619 |

See accompanying notes to financial statements.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

**Statements of Revenues, Expenses and
Changes in Net Position
Years ended June 30, 2023 and 2022**

| | <u>2023</u> | <u>2022</u> |
|--|------------------------------|------------------------------|
| OPERATING REVENUES | | |
| Residential sewer | \$ 10,377,288 | \$ 9,286,330 |
| Commercial sewer | 3,498,632 | 2,984,066 |
| Industrial sewer | 2,395,416 | 2,300,061 |
| Penalties | 111,223 | 152,541 |
| Access, impact and new customer fees | 1,435,740 | 1,896,621 |
| Other operating revenue | <u>305,993</u> | <u>209,890</u> |
| | <u>18,124,292</u> | <u>16,829,509</u> |
| OPERATING EXPENSES | | |
| Pollution control facility and field expense | 5,700,405 | 4,401,329 |
| General and administrative | 2,250,446 | 1,888,049 |
| Depreciation and amortization | <u>5,436,121</u> | <u>5,039,730</u> |
| | <u>13,386,972</u> | <u>11,329,108</u> |
| OPERATING INCOME | <u>4,737,320</u> | <u>5,500,401</u> |
| OTHER REVENUES (EXPENSES) | | |
| Interest income | 499,452 | 65,576 |
| Gain on sale of fixed assets | - | 9,077 |
| Interest expense | (164,329) | (214,013) |
| Trustee fees | <u>(4,000)</u> | <u>(4,000)</u> |
| | <u>331,123</u> | <u>(143,360)</u> |
| CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS | 5,068,443 | 5,357,041 |
| CAPITAL CONTRIBUTIONS | <u>3,638,451</u> | <u>1,470,576</u> |
| CHANGE IN NET POSITION | <u>8,706,894</u> | <u>6,827,617</u> |
| NET POSITION, BEGINNING OF YEAR | 133,270,033 | 126,255,537 |
| PRIOR PERIOD ADJUSTMENT (GASB 96) | <u>-</u> | <u>186,879</u> |
| NET POSITION, BEGINNING OF YEAR, RESTATED | <u>133,270,033</u> | <u>126,442,416</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 141,976,927</u></u> | <u><u>\$ 133,270,033</u></u> |

See accompanying notes to financial statements.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Statements of Cash Flows
Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 16,032,035 | \$ 14,334,567 |
| Cash received from access, impact and new customer fees | 1,435,740 | 1,896,621 |
| Cash received from penalties and other operating revenue | 417,216 | 362,431 |
| Payments for salaries and benefits | (3,664,745) | (3,170,174) |
| Payments to suppliers for goods and services | (4,193,085) | (3,323,441) |
| Net Cash From Operating Activities | <u>10,027,161</u> | <u>10,100,004</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 499,452 | 65,576 |
| Net change in investments | (3,075,150) | (2,137,172) |
| Net change in restricted investments | (607,073) | 181,140 |
| Net Cash (Used For) Investing Activities | <u>(3,182,771)</u> | <u>(1,890,456)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital expenditures | (6,816,797) | (5,674,419) |
| Cash received from sale of fixed assets | - | 10,545 |
| Principal payments on bonds | (1,175,000) | (1,130,000) |
| Principal payments on software hosting | (108,051) | (97,214) |
| Payments on subscription liability | (87,126) | (87,126) |
| Interest and paying agent fees, net of capitalized interest | (305,700) | (351,800) |
| Net Cash (Used For) Capital and Related Financing Activities | <u>(8,492,674)</u> | <u>(7,330,014)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | (1,648,284) | 879,534 |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>4,558,651</u> | <u>3,679,117</u> |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 2,910,367</u> | <u>\$ 4,558,651</u> |

See accompanying notes to financial statements.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Statements of Cash Flows
Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES: | | |
| Operating income | \$ 4,737,320 | \$ 5,500,401 |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Depreciation and amortization | 5,436,121 | 5,039,730 |
| Allowance for doubtful accounts | - | (500) |
| Net change in pension liability | (37,100) | (426,834) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (239,301) | (235,390) |
| Due from water department | 31,595 | 266,606 |
| Inventory | 48,942 | (114,628) |
| Prepaid expenses | (6,689) | (37,291) |
| Accounts payable - trade | (108,543) | 39,560 |
| Accrued expenses | 164,816 | 68,350 |
| Due to water department | 70,813 | - |
| Net Cash From Operating Activities | <u><u>\$ 10,097,974</u></u> | <u><u>\$ 10,100,004</u></u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION: | | |
| CASH AND CASH EQUIVALENTS | | |
| Petty cash | \$ 150 | \$ 150 |
| Operating and maintenance | <u>2,705,375</u> | <u>4,251,643</u> |
| | 2,705,525 | 4,251,793 |
| RESTRICTED CASH AND CASH EQUIVALENTS | | |
| Depreciation savings | <u>275,655</u> | <u>306,858</u> |
| TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS | <u><u>\$ 2,981,180</u></u> | <u><u>\$ 4,558,651</u></u> |
| NONCASH TRANSACTIONS | | |
| Capital contributions of property and equipment | \$ 3,638,451 | \$ 1,459,388 |
| Other capital contributions | \$ - | \$ 11,188 |
| Property and equipment additions included in accounts payable to construction contractors | \$ 1,521,000 | \$ 780,014 |

See accompanying notes to financial statements.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 1: NATURE OF ACTIVITIES

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

Fund Type

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

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, the Sewer Department had cash equivalents of \$1,737,434 and \$1,129,869, respectively.

Investments

Investments consist of certificates of deposit with original maturities of greater than three months and governmental securities. Certificates of deposit are recorded at amortized cost, which approximates fair value. Governmental securities are recorded at fair market value based on quoted market prices. Income related to investments is recorded when earned.

Accounts Receivable

Accounts receivable relate to sewer billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a ten percent penalty. Customers are required to make a deposit, recorded on the Water Department, and deposits can be offset against the receivable through an intercompany charge.

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 sewer system.

Long-Lived Assets

The Sewer Department reviews long-lived assets and certain identifiable intangibles held and used by the Sewer Department for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended June 30, 2023 and 2022, this review has not materially affected the Sewer Department's reported earnings, net position or results of operations.

Contributed Capital

The Sewer Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contributions in the Statements of Revenues, Expenses and Changes in Net Position and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of sewer lines and related infrastructure. At June 30, 2023 and 2022, cumulative contributed capital fixed assets amounted to approximately \$51,915,000 and \$48,287,000, respectively.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

| | |
|------------------------------|---------------|
| Structures | 5 - 40 years |
| Mains and hydrants | 50 years |
| Sewer service lines | 50 years |
| Meters | 20 - 25 years |
| Pollution control facility | 2 - 50 years |
| Shop equipment and machinery | 2 - 10 years |
| Transportation equipment | 3 - 10 years |
| Two-way radio system | 5 - 15 years |
| Field equipment | 2 - 20 years |
| Office equipment | 3 - 20 years |
| Software hosting | 3 years |

The Sewer Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Sewer Department at June 30, 2023 and 2022 amounted to approximately \$5,839,000 and \$5,110,000, respectively.

Right to Use Assets

The Sewer Department has recorded right to use assets as a result of implementing GASB 96. The right to use assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any subscription payments made prior to the term, less incentives, and plus any ancillary charges necessary to place the subscription into service. The right to use assets are amortized on a straight-line basis over the life of the related subscription.

Amortization of Bond Premiums and Discounts

Bond premiums and discounts are amortized over the lives of the related bond issues. Net amortization expense of \$110,595 for each of the years ended June 30, 2023 and 2022, is included as a component of interest expense.

Amortization of Deferred Bond Refunding Costs

The deferred bond refunding cost associated with the 2016 Sewer Revenue Refunding Bonds is amortized over the life of the related bond issue (See Note 9). Amortization expense of \$38,614 and \$38,615 is included as a component of interest expense for each of the years ended June 30, 2023 and 2022.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

Compensated Absences

The Sewer Department's policies permit employees to earn time off benefits. The expense and related liability are recognized and accrued regardless of whether the employee is expected to realize the benefit. Compensated absences are computed using the regular pay rate in effect at June 30, 2023 and 2022.

Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (APERS) and additions to or deductions from the APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Sewer Department only has one item that qualifies for reporting in this category, which is the deferred outflow of resources on pension costs reported in the Statement of Net Position. These amounts were created as a result of the implementation of GASB 68. See Note 12 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 Sewer Department has two items that qualify for reporting in this category. In regards to the deferred inflows of resources related to pension liabilities and deferred bond refunding costs, these amounts were created as a result of the implementation of GASB 68. See Note 12 for additional information.

Reclassification

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

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

When an expense is incurred for purposes for which both restricted net position and unrestricted net position is available, the Sewer Department’s policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

Adoption of GASB Statements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA as a contract that conveys control of the right to use a SBITA vendor’s IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The statement also requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and it provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. The adoption of this statement required a prior period adjustment in the amount of \$186,879 to June 30, 2021 net position and resulted in the recognition of right-to-use subscription assets and liabilities.

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the Sewer Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2023, the Sewer Department had approximately \$3,780,734 in deposit balances, of which \$750,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities’ name. Additionally, the Sewer Department had approximately \$21,231,000 in certificates of deposit reported as investments in the Statements of Net Position, of which all were FDIC insured.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 4: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2023 and 2022 as follows:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Debt service reserve | \$ 883,279 | \$ 847,029 |
| Depreciation reserve for additional replacements to the sewer system | 275,655 | 306,858 |
| New customer fees collected for additions of fixed assets | <u>854,154</u> | <u>283,331</u> |
| | <u>\$ 2,013,088</u> | <u>\$ 1,437,218</u> |

NOTE 5: INVESTMENTS

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

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

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Sewer Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2023, investments of the Sewer Department were fully collateralized or insured.

At June 30, 2023 and 2022, the Sewer Department's investments consisted of \$21,230,920 and \$18,155,770, respectively, held in certificates of deposit and \$1,737,433 and \$1,130,360, respectively, held in cash and United States government securities. All investments at June 30, 2023 and 2022 had maturities of less than five years.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 6: CHANGES IN FIXED ASSETS

| | Balance June 30, 2022 | Transfers/ Additions | Disposals | Balance June 30, 2023 |
|---|-----------------------------|-------------------------|-----------------------|-----------------------------|
| Land | \$ 1,805,153 | \$ - | \$ - | \$ 1,805,153 |
| Buildings | 72,723,843 | 576,461 | - | 73,300,304 |
| Equipment | 57,620,312 | 2,158,692 | - | 59,779,004 |
| Vehicles | 1,386,206 | 304,550 | - | 1,690,756 |
| Right to use subscription asset | 1,134,932 | - | - | 1,134,932 |
| Contributed property | 48,287,196 | 3,628,250 | - | 51,915,446 |
| Construction in progress | 3,277,278 | 5,357,295 | (829,014) | 7,805,559 |
| | 186,234,920 | 12,025,248 | (829,014) | 197,431,154 |
| Accumulated depreciation and amortization | (65,531,080) | (5,436,121) | - | (70,967,201) |
| | <u>\$ 120,703,840</u> | <u>\$ 6,589,127</u> | <u>\$ (829,014)</u> | <u>\$ 126,463,953</u> |
| | Balance June 30, 2021 | Transfers/ Additions | Disposals | Balance June 30, 2022 |
| Land | \$ 1,805,153 | \$ - | \$ - | \$ 1,805,153 |
| Buildings | 67,641,023 | 5,086,877 | (4,057) | 72,723,843 |
| Equipment | 56,969,907 | 1,117,932 | (467,527) | 57,620,312 |
| Vehicles | 1,372,225 | 28,016 | (14,035) | 1,386,206 |
| Right to use subscription asset | 1,134,932 | - | - | 1,134,932 |
| Contributed property | 46,827,808 | 1,459,388 | - | 48,287,196 |
| Construction in progress | 3,740,139 | 4,888,553 | (5,351,414) | 3,277,278 |
| | 179,491,187 | 12,580,766 | (5,837,033) | 186,234,920 |
| Accumulated depreciation and amortization | (60,971,444) | (5,039,730) | 480,094 | (65,531,080) |
| | <u>\$ 118,519,743</u> | <u>\$ 7,541,036</u> | <u>\$ (5,356,939)</u> | <u>\$ 120,703,840</u> |

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 7: RISK MANAGEMENT

The Sewer Department is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 8: DUE FROM DUE TO WATER DEPARTMENT

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Utilities. The Utilities send a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. The balances as of June 30, 2023 and 2022 are shown in the Statements of Net Position under the captions "Due from water department" or "Due to water department."

NOTE 9: BONDS PAYABLE

Series 2016 Sewer Revenue Refunding Bonds

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

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$477,851. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being charged to interest expense over the life of the bonds using the straight-line method. The Sewer Department completed the refunding to reduce its total debt service payments over the 21 years by \$14,530,274 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,599,564. The Series 2016 bond also included prepaid bond insurance costs of \$19,530 which are amortized against interest expense over the life of the Series 2016 bonds. During the years ended June 30, 2023 and 2022, amortization expense for prepaid bond insurance was \$1,578. The remaining prepaid bond insurance is included in the Statements of Net Position under the caption "Prepaid expenses." Furthermore, the Series 2016 bonds had issuance costs of \$176,374.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, is 7.24 and 7.13, respectively. Total interest paid during the years ended June 30, 2023 and 2022 totaled \$293,867 and \$351,800, respectively. No interest was capitalized during the years ended June 30, 2023 and 2022.

The Sewer Department is required to establish rates sufficient to pay the expenses and operation and maintenance of the sewer system, making monthly deposits into bond funds for repayment obligations which will be due and payable in the forthcoming year, and to make deposits in an amount equal to 4% of gross sewer system revenues for the preceding month into the depreciation fund. The Sewer Department was in compliance with all debt covenants for the years ended June 30, 2023 and 2022.

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

| Year Ending | | | |
|--------------------|---------------------|-------------------|---------------------|
| June 30, | Principal | Interest | Total |
| 2024 | \$ 1,220,000 | \$ 253,800 | \$ 1,473,800 |
| 2025 | 1,265,000 | 204,100 | 1,469,100 |
| 2026 | 1,315,000 | 152,500 | 1,467,500 |
| 2027 | 1,365,000 | 98,900 | 1,463,900 |
| 2028 | 1,420,000 | 43,200 | 1,463,200 |
| 2029 | 370,000 | 7,400 | 377,400 |
| Total | <u>\$ 6,955,000</u> | <u>\$ 759,900</u> | <u>\$ 7,714,900</u> |

Following is a summary of changes in bonds payable:

| | Balance | | | Balance | Amounts Due |
|--------------------|---------------------|------------------|---------------------|---------------------|------------------------|
| | June 30, | Increases | Decreases | June 30, | Within One Year |
| | 2022 | | | 2023 | |
| Revenue Refunding | | | | | |
| Bonds, Series 2016 | \$ 8,130,000 | \$ - | \$ 1,175,000 | \$ 6,955,000 | \$ 1,220,000 |
| Plus premiums | 755,732 | - | 110,595 | 645,137 | - |
| | <u>\$ 8,885,732</u> | <u>\$ -</u> | <u>\$ 1,285,595</u> | <u>\$ 7,600,137</u> | <u>\$ 1,220,000</u> |

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

| | Balance June 30, 2021 | Increases | Decreases | Balance June 30, 2022 | Amounts Due Within One Year |
|--------------------|-----------------------------|-------------|---------------------|-----------------------------|--------------------------------|
| Revenue Refunding | | | | | |
| Bonds, Series 2016 | \$ 9,260,000 | \$ - | \$ 1,130,000 | \$ 8,130,000 | \$ 1,175,000 |
| Plus premiums | 866,327 | - | 110,595 | 755,732 | - |
| | <u>\$10,126,327</u> | <u>\$ -</u> | <u>\$ 1,240,595</u> | <u>\$ 8,885,732</u> | <u>\$ 1,175,000</u> |

NOTE 10: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The Sewer Department has two subscription-based information technology arrangements for enterprise resource planning software. During 2023, the Sewer Department adopted GASB 96, *Subscription-based Information Technology Arrangements*, and recognized a subscription asset and a subscription liability, discounted at 5%, in the statements of net position. The agreements have terms of three to four years, but automatically renew for a maximum of seven years. The Sewer Department recognized subscription amortization and interest expense of \$162,133 and \$19,671, respectively, which are included in the statements of revenues, expenses and changes in net position in operating expenses and other expenses, respectively for the fiscal year ended June 30, 2023.

For the year ended June 30, 2022, the Sewer Department recognized subscription amortization and interest expense of \$162,133 and \$22,955, respectively. A restatement of \$186,879 was made to the June 30, 2021 net position to account for this new accounting principle.

As of June 30, 2023 and 2022, the value of the subscription assets was \$1,134,932 and had accumulated amortization of \$389,827 and \$227,694, respectively.

Future payments on the subscription liability are as follows:

| Year ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2024 | \$ 70,906 | \$ 16,220 | \$ 87,126 |
| 2025 | 74,534 | 12,592 | 87,126 |
| 2026 | 78,347 | 8,779 | 87,126 |
| 2027 | 82,356 | 4,770 | 87,126 |
| 2028 | 57,724 | 1,303 | 59,027 |
| Total | <u>\$ 363,867</u> | <u>\$ 43,664</u> | <u>\$ 407,531</u> |

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 11: COMMITMENTS AND CONCENTRATIONS

The Sewer Department is committed to several construction contracts in process at June 30, 2023 totaling \$25,881,582. As of June 30, 2023, \$8,474,008 had been incurred in connection with these contracts.

For the years ended June 30, 2023 and 2022, the Sewer Department had one customer that accounted for 11.68% and 12.39%, respectively, of total usage.

NOTE 12: 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 7/1/2009 | 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,

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A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements

June 30, 2023 and 2022

- 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.

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, 2022. 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 \$2,696,383,467 was measured as of June 30, 2022, 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 Sewer Department
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Notes to Financial Statements
June 30, 2023 and 2022

At June 30, 2023 and 2022, respectively, the Sewer Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| 2023 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 78,008 | \$ (39,312) |
| Changes of assumptions | - | - |
| Changes in proportion and differences between employer contributions and proportionate share | 217,370 | (3,054) |
| Net difference between projected and actual earnings on pension plan investments | 685,565 | - |
| Contributions subsequent to measurement date | 422,928 | - |
| Balance, June 30, 2023 | <u>\$ 1,403,871</u> | <u>\$ (42,366)</u> |
| 2022 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 19,391 | \$ (54,337) |
| Changes of assumptions | - | (5,935) |
| Changes in proportion and differences between employer contributions and proportionate share | 91,456 | (24,431) |
| Net difference between projected and actual earnings on pension plan investments | - | (1,487,219) |
| Contributions subsequent to measurement date | 377,090 | - |
| Balance, June 30, 2022 | <u>\$ 487,937</u> | <u>\$ (1,571,922)</u> |

Rogers Water Utilities Sewer Department

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Notes to Financial Statements

June 30, 2023 and 2022

Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2024, and will not be amortized in the schedule below. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the Sewer Department's financial statements as follows:

Years ending June 30:

| | |
|------|------------|
| 2024 | \$ 181,797 |
| 2025 | 129,693 |
| 2026 | 7,593 |
| 2027 | 619,494 |

Actuarial Assumptions

The total pension liability in the June 30, 2022 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 Percentage of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan) |
| Remaining Amortization Period | 25 years (7.6 years for District Judges New Plan/Paid Off Old Plan and 16 years for District Judges Still Paying Old Plan) |
| Asset Valuation Method | 4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan) |
| Inflation | 3.25% wage inflation, 2.50% price inflation |
| 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 the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for generational mortality improvements using Scale MP-2017. |

Rogers Water Utilities Sewer Department
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Notes to Financial Statements
June 30, 2023 and 2022

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2022 are summarized in the table below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|-------------------|--|
| Broad Domestic Equity | 37% | 6.22% |
| International Equity | 24% | 6.69% |
| Real Assets | 16% | 4.81% |
| Absolute Return | 5% | 3.05% |
| Domestic Fixed | 18% | 0.57% |
| 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% |
|-------------------|------------------------|--------------------|
| \$ 5,175,879 | \$ 3,255,644 | \$ 1,670,318 |

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 13: EMPLOYEE BENEFIT PLANS

Flexible Benefit Plan

The City of Rogers, Arkansas offers all active full-time employees and elected City officials who receive a W-2 form the option to participate in a flexible benefit plan administered by the Rogers Water Utilities. The flexible benefit plan has been established as a cafeteria plan as permitted under Section 125 of the Internal Revenue Code (IRC) of 1954, as amended, to provide for group medical, dental and vision for its eligible employees and dependents. The plan is funded solely by salary redirections as elected on a voluntary basis by participants. Sewer Department employee contributions for the years ended June 30, 2023 and 2022 were \$150,400 and \$137,625, respectively.

Deferred Compensation Plan

The Utilities offers a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code as a benefit to its employees. Each employee may contribute amounts up to the maximum allowed under the IRC. The plan permits employees to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Other than incidental expenses of collecting and disbursing the employees' deferrals and other minor administrative matters, there are no costs to the Sewer Department for the deferred compensation plan.

Plan assets remain the property of the Utilities until paid and are subject only to claims of the Utilities' creditors. Participants' rights under the plan are equivalent to the claims of general creditors of the Utilities in an amount equal to the fair market value of the deferred account for each participant. The Utilities fulfills its fiduciary responsibility by remitting all deferred amounts each pay period to an outside service for investment in a diversified portfolio.

Deferred compensation remitted for investment during the years ended June 30, 2023 and 2022 was \$19,575 and \$19,010, respectively. At June 30, 2023 and 2022, there were seven employees participating in the plan.

Educational Assistance Program (EAP)

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

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Notes to Financial Statements
June 30, 2023 and 2022

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2023, the date that the financial statements were available to be issued.

Rogers Water Utilities applied for and received an offer for funding via the Arkansas Natural Resource Commission (ANRC) for funding for the RPCF Biosolids Handling Building Phase II for \$31,246,250 (Sewer Department). Rogers Water Utilities accepted the offer and the ANRC Commission approved the funding at their meeting August 11, 2023. The project includes \$25,000,000 of construction costs, plus engineering fees, contingencies, and legal. Friday, Eldridge, and Clark law firm has been engaged as bond counsel for the bond issuance.

Also, during September 2023, the Utility received \$5.0 million of the American Rescue Plan Act (ARPA) funding received and passed through the City of Rogers, Arkansas for the biosolids handling project and the Bardenpho Treatment Basins (Trains 1 and 2) rehab & repair.

Required Supplementary Information

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

**Schedules of the Sewer Department's Proportionate
Share of the Net Pension Liability
Years ended June 30, 2023 through 2015**

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015*</u> |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Proportion of the net pension liability | 0.12 % | 0.11 % | 0.11 % | 0.11 % | 0.11 % | 0.11 % | 0.09 % | 0.09 % | 0.09 % |
| Proportionate share of the net pension liability | \$ 3,255,644 | \$ 847,254 | \$ 3,120,525 | \$ 2,503,442 | \$ 2,739,699 | \$ 2,734,269 | \$ 2,223,984 | \$ 1,700,410 | \$ 1,239,094 |
| Covered - employee payroll | \$ 2,626,973 | \$ 2,474,720 | \$ 2,173,970 | \$ 2,102,043 | \$ 2,046,075 | \$ 2,039,342 | \$ 1,855,224 | \$ 1,666,569 | \$ 1,651,227 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 123.93 % | 34.24 % | 143.54 % | 119.10 % | 133.90 % | 134.08 % | 119.88 % | 102.03 % | 75.04 % |
| Plan's fiduciary net position as a percentage of the total pension liability | 78.31 % | 93.57 % | 75.38 % | 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 nine years are shown.

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Schedules of Contributions
Years ended June 30, 2023 through 2015

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015*</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ 422,928 | \$ 377,090 | \$ 327,991 | \$ 319,710 | \$ 306,168 | \$ 298,614 | \$ 266,756 | \$ 235,420 | \$ 242,355 |
| Contributions in relation to the contractually required contribution | \$ (422,928) | \$ (377,090) | \$ (327,991) | \$ (319,710) | \$ (306,168) | \$ (298,614) | \$ (266,756) | \$ (235,420) | \$ (242,355) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Sewer Department's covered-employee payroll | \$ 2,626,973 | \$ 2,474,720 | \$ 2,173,970 | \$ 2,102,043 | \$ 2,046,075 | \$ 2,039,342 | \$ 1,855,224 | \$ 1,666,569 | \$ 1,651,227 |
| Contributions as a percentage of covered-employee payroll | 16.10 % | 15.24 % | 15.09 % | 15.21 % | 14.96 % | 14.64 % | 14.38 % | 14.13 % | 14.68 % |

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

See Independent Auditor's Report.

Supplementary Information

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Schedules of Operating Expenses Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| POLLUTION CONTROL FACILITY AND FIELD EXPENSE | | |
| Employee benefits | \$ 576,375 | \$ 256,017 |
| Insurance | 108,767 | 95,414 |
| Operating supplies and other | 337,353 | 371,824 |
| Payroll taxes | 133,115 | 109,926 |
| Repairs and maintenance | 1,179,805 | 704,323 |
| Salaries | 1,902,945 | 1,526,473 |
| Sludge disposal costs | 499,126 | 478,725 |
| Supplies and postage | 191,150 | 152,885 |
| Utilities | 771,769 | 705,742 |
| | <u>5,700,405</u> | <u>4,401,329</u> |
| GENERAL AND ADMINISTRATIVE | | |
| Bad debts | 36,318 | 37,144 |
| Consulting services - stream assessment | - | 10,157 |
| Employee benefits | 250,933 | 90,003 |
| Franchise taxes / use taxes | 531,013 | 507,728 |
| Insurance | 14,723 | 14,817 |
| Office supplies and postage | 141,311 | 144,799 |
| Other | 338,890 | 171,413 |
| Payroll taxes | 67,848 | 63,940 |
| Professional fees | 43,530 | 55,273 |
| Salaries | 794,393 | 766,244 |
| Utilities | 31,487 | 26,531 |
| | <u>2,250,446</u> | <u>1,888,049</u> |
| DEPRECIATION AND AMORTIZATION | <u>5,436,121</u> | <u>5,039,730</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 13,386,972</u> | <u>\$ 11,329,108</u> |

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department

A Component Unit of the City of Rogers, Arkansas

Schedule of Principal and Interest Payments Sewer Revenue Refunding Bonds – Series 2016 June 30, 2023

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|------------------------|---------------------|--------------------------|-------------------|---------------------|
| 2024 | \$ 1,220,000 | 4.000% | \$ 253,800 | \$ 1,473,800 |
| 2025 | 1,265,000 | 4.000% | 204,100 | 1,469,100 |
| 2026 | 1,315,000 | 4.000% | 152,500 | 1,467,500 |
| 2027 | 1,365,000 | 4.000% | 98,900 | 1,463,900 |
| 2028 | 1,420,000 | 4.000% | 43,200 | 1,463,200 |
| 2029 | <u>370,000</u> | 4.000% | <u>7,400</u> | <u>377,400</u> |
| Balance, June 30, 2023 | <u>\$ 6,955,000</u> | | <u>\$ 759,900</u> | <u>\$ 7,714,900</u> |

Dated: December 13, 2016

Payment Dates: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Schedule of Fixed Assets
Year ended June 30, 2023

Fixed Assets

| | <u>Balance</u> <u>June 30, 2022</u> | <u>Transfers/</u> <u>Additions</u> | <u>Transfers/</u> <u>Disposals</u> | <u>Balance</u> <u>June 30, 2023</u> |
|---------------------------------|--|---------------------------------------|---------------------------------------|--|
| Land | \$ 663,254 | \$ - | \$ - | \$ 663,254 |
| Office equipment | 470,172 | 159,719 | - | 629,891 |
| Vehicles | 1,386,206 | 304,550 | - | 1,690,756 |
| Shop equipment | 53,354 | - | - | 53,354 |
| Field equipment | 1,377,630 | 279,015 | - | 1,656,645 |
| Radio equipment | 59,508 | 543 | - | 60,051 |
| Water meters | 3,687,692 | 545,447 | - | 4,233,139 |
| Sewer system | 51,971,956 | 1,173,968 | - | 53,145,924 |
| Pollution control facility | 70,600,172 | 561,384 | - | 71,161,556 |
| Structures and parking lots | 2,123,671 | 15,077 | - | 2,138,748 |
| Easements | 1,141,899 | - | - | 1,141,899 |
| Contributed sewer system | 48,287,196 | 3,628,250 | - | 51,915,446 |
| | 181,822,710 | 6,667,953 | - | 188,490,663 |
| Right to use subscription asset | 1,134,932 | - | - | 1,134,932 |
| Construction in progress | 3,277,278 | 5,357,295 | (829,014) | 7,805,559 |
| | <u>\$ 186,234,920</u> | <u>\$ 12,025,248</u> | <u>\$ (829,014)</u> | <u>\$ 197,431,154</u> |

**Accumulated Depreciation
and Amortization**

| | | | | |
|---------------------------------|----------------------|---------------------|-------------|----------------------|
| Office equipment | \$ 380,363 | \$ 37,359 | \$ - | \$ 417,722 |
| Vehicles | 1,166,562 | 132,863 | - | 1,299,425 |
| Shop equipment | 49,921 | 1,883 | - | 51,804 |
| Field equipment | 1,051,665 | 73,586 | - | 1,125,251 |
| Radio equipment | 51,271 | 2,430 | - | 53,701 |
| Water meters | 903,755 | 187,118 | - | 1,090,873 |
| Sewer system | 20,338,212 | 1,015,917 | - | 21,354,129 |
| Pollution control facility | 28,925,778 | 2,728,793 | - | 31,654,571 |
| Structures and parking lots | 1,343,424 | 82,405 | - | 1,425,829 |
| Contributed sewer system | 11,092,435 | 1,011,634 | - | 12,104,069 |
| Right to use subscription asset | 227,694 | 162,133 | - | 389,827 |
| | <u>\$ 65,531,080</u> | <u>\$ 5,436,121</u> | <u>\$ -</u> | <u>\$ 70,967,201</u> |

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Schedule of Fixed Assets
Year ended June 30, 2022

Fixed Assets

| | <u>Balance</u> <u>June 30, 2021</u> | <u>Transfers/</u> <u>Additions</u> | <u>Transfers/</u> <u>Disposals</u> | <u>Balance</u> <u>June 30, 2022</u> |
|---------------------------------|--|---------------------------------------|---------------------------------------|--|
| Land | \$ 663,254 | \$ - | \$ - | \$ 663,254 |
| Office equipment | 749,371 | 45,712 | (324,911) | 470,172 |
| Vehicles | 1,372,225 | 28,016 | (14,035) | 1,386,206 |
| Shop equipment | 57,905 | - | (4,551) | 53,354 |
| Field equipment | 1,254,268 | 132,177 | (8,815) | 1,377,630 |
| Radio equipment | 56,493 | 3,015 | - | 59,508 |
| Water meters | 3,463,834 | 353,108 | (129,250) | 3,687,692 |
| Sewer system | 51,388,036 | 583,920 | - | 51,971,956 |
| Pollution control facility | 65,517,352 | 5,086,877 | (4,057) | 70,600,172 |
| Structures and parking lots | 2,123,671 | - | - | 2,123,671 |
| Easements | 1,141,899 | - | - | 1,141,899 |
| Contributed sewer system | 46,827,808 | 1,459,388 | - | 48,287,196 |
| | 174,616,116 | 7,692,213 | (485,619) | 181,822,710 |
| Right of use subscription asset | 1,134,932 | - | - | 1,134,932 |
| Construction in progress | 3,740,139 | 4,888,553 | (5,351,414) | 3,277,278 |
| | <u>\$ 179,491,187</u> | <u>\$ 12,580,766</u> | <u>\$ (5,837,033)</u> | <u>\$ 186,234,920</u> |

**Accumulated Depreciation
and Amortization**

| | | | | |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|
| Office equipment | \$ 626,421 | \$ 77,385 | \$ (323,443) | \$ 380,363 |
| Vehicles | 1,079,716 | 100,881 | (14,035) | 1,166,562 |
| Shop equipment | 52,522 | 1,950 | (4,551) | 49,921 |
| Field equipment | 990,282 | 70,198 | (8,815) | 1,051,665 |
| Radio equipment | 48,894 | 2,377 | - | 51,271 |
| Water meters | 845,193 | 187,812 | (129,250) | 903,755 |
| Sewer system | 19,329,748 | 1,008,464 | - | 20,338,212 |
| Pollution control facility | 26,535,386 | 2,390,392 | - | 28,925,778 |
| Structures and parking lots | 1,261,179 | 82,245 | - | 1,343,424 |
| Contributed sewer system | 10,136,542 | 955,893 | - | 11,092,435 |
| Right of use subscription asset | 65,561 | 162,133 | - | 227,694 |
| | <u>\$ 60,971,444</u> | <u>\$ 5,039,730</u> | <u>\$ (480,094)</u> | <u>\$ 65,531,080</u> |

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Schedule of Sewer System Rates
June 30, 2023 and 2022

In November 2019, the City Council approved a 5-year rate increase schedule with the first increase effective April 1, 2020. The subsequent rate increases will occur each July 1, 2021-2025. The rates in place prior to 7/1/2022, new rates effective 7/1/2022 and the rates effective 7/1/2023 are shown below.

| Monthly Sewer Rates For Customers | | Inside the City | | |
|--|--|---------------------------------|---------------------------|---------------------------|
| | | Prior to 7/1/2022 | Effective 7/1/2022 | Effective 7/1/2023 |
| Flat rate of | | \$13.92 | \$15.18 | \$15.63 |
| In addition to (up to 100,000) | | \$4.84 / thousand | \$5.28 / thousand | \$5.44 / thousand |
| All over 100,000 | | \$4.78 / thousand | \$5.21 / thousand | \$5.37 / thousand |
| Monthly Sewer Rates For Customers | | Outside the City | | |
| | | Prior to 7/1/2022 | Effective 7/1/2022 | Effective 7/1/2023 |
| Flat rate of | | \$18.19 | \$19.83 | \$20.42 |
| In addition to (up to 100,000) | | \$6.31 / thousand | \$6.88 / thousand | \$7.08 / thousand |
| All over 100,000 | | \$6.31 / thousand | \$6.88 / thousand | \$7.08 / thousand |
| Monthly Sewer Rates For Customers | | City of Lowell, Arkansas | | |
| | | Prior to 7/1/2022 | Effective 7/1/2022 | Effective 7/1/2023 |
| Flat rate of | | \$16.71 | \$18.21 | \$18.75 |
| In addition to (up to 100,000) | | \$5.81 / thousand | \$6.33 / thousand | \$6.52 / thousand |
| All over 100,000 | | \$5.73 / thousand | \$6.25 / thousand | \$6.44 / thousand |

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Schedules of Sewer Customers
June 30, 2023 and 2022

| SEWER CUSTOMER CLASSIFICATIONS | NUMBER OF CUSTOMERS | |
|---------------------------------------|----------------------------|---------------|
| | 2023 | 2022 |
| Residential customers | 23,477 | 23,123 |
| Commercial customers | 2,084 | 2,006 |
| Industrial customers | 33 | 32 |
| Total | 25,594 | 25,161 |

See Independent Auditor's Report.

Rogers Water Utilities Sewer Department
A Component Unit of the City of Rogers, Arkansas

Schedules of Billable Gallons
Years ended June 30, 2023 and 2022

| BILLABLE GALLONS CLASSIFICATIONS | NUMBER OF BILLABLE GALLONS | |
|---|-----------------------------------|----------------------|
| | 2023 | 2022 |
| Residential customers | 1,182,784,530 | 1,074,880,400 |
| Commercial customers | 593,684,400 | 548,923,600 |
| Industrial customers | 457,084,200 | 470,576,600 |
| Total | <u>2,233,553,130</u> | <u>2,094,380,600</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 Sewer Department
Rogers, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Rogers Water Utilities Sewer Department** (the Sewer Department), a component unit of the City of Rogers, Arkansas, which comprise the statement of net position as of June 30, 2023, 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 December 4, 2023.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Waterworks and Sewer Commission
Rogers Water Utilities Sewer Department

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas
December 4, 2023