

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

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2012 AND 2011
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** ("the Sewer Department"), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 2012 and 2011 as shown in the table of contents. These financial statements are the responsibility of the City of Rogers, Arkansas Water Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the **Rogers Water Utilities 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Rogers Water Utilities Sewer Department** as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2012 on our consideration of the Sewer Department's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of 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.

Our audits were conducted for the purpose of forming an opinion on the **Rogers Water Utilities 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 as of and for the years ended June 30, 2012 and 2011. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Beall Barclay & Company, PLC
BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 2, 2012

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

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, 2012 and 2011. 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 assets increased by \$2,662,000 or 3.3%, over fiscal year 2011. Net assets increased by \$3,258,000 or 4.2% in 2011 over 2010.
- Sewer Department operating revenues increased by \$215,000, or 2.0% in 2012. Operating revenues increased \$247,000 or 2.4% in 2011 over 2010.
- Operating expenses increased by \$163,000, or 2.4% from 2011. Operating expenses decreased by \$701,000 or 9.3% in 2011 over 2010.
- Net assets increased by \$2,445,000 before capital contributions during fiscal year 2012. In fiscal year 2011, net assets before capital contributions increased by \$2,401,000.

Rogers Sewer Department Fiscal Year 2012 Highlights

- Exceeded budgeted and prior year operating results with the help of a dry fall, spring and summer.
- Participated with other local cities in an intergovernmental work group regarding phosphorus in the Illinois River.
- Completed the remodeling of the old administration building which provided better employee working conditions, better customer service, and employee safety.
- Performed an internally prepared rate study which indicated a rate increase was not needed at this time.
- While the number of customers increased by only 312 or 1.56% from the prior year, overall billed sewer consumption increased by 4.4% for fiscal year 2012.
- Successfully engineered the arrival, and subsequently began the installation of the \$3.5 million dollar sludge dryer. Some construction remains to be completed, but the sludge dryer is expected to be placed in service in September 2012.

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A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

- Began the search for a new Utility Superintendent due to the retirement of the former superintendent after 28 years of service.
- Revenue from access and impact fees fell below both prior year and budgeted amounts. New construction in Rogers continues to be sluggish.

Rogers Sewer Department Fiscal Year 2011 Highlights

- Issued \$465,000 of vouchers as required in the settlement of the class action lawsuit involving access and impact fees. These vouchers (credit memos) must be used to pay for access and impact fees by those members of the class action suit that met the qualifications to receive them, or the vouchers can be transferred to another party. The vouchers must be used within the next five years, or be forfeited. Also, finalized all other requirements of the class action lawsuit.
- Suffered the loss of a Commissioner from death and successful appointment of a qualified replacement.
- Reinstated the City Attorney for the City of Rogers, Arkansas as the official legal representative for Rogers Water Utilities and the Water and Sewer Commission.
- Exceeded budgeted and prior year operating results with the help of a dry fall and summer. Cost savings from the reduction in force in 2009 and other cost containment contributed as well.
- In spite of Sewer Department funds increasing by \$4,367,000 (including \$3.3 million from proceeds of a bond issue for the purchase of a sludge dryer), there was a substantial decrease in revenue from investment earnings due to the significant decrease in interest rates.
- Revenue from access and impact fees, while not increasing significantly, was greater than budgeted and prior year results.
- While the number of customer increased by only 406 or 2.1% from the prior year, overall billed sewer consumption increased by .4%.
- Issued Series 2010 Sewer Revenue Bonds for \$3,310,000 for the purchase of a sludge dryer. Engineering is complete for the sludge dryer and construction of the dryer is expected to be completed early in fiscal year 2013.
- Made the final payment on the Series 1991 Sewer Revenue Bonds fully retiring the issue.
- Made a seamless transition to a new manager at the Pollution Control Facility after the retirement of the previous manager.
- Encountered unprecedented hydraulic loading as the result of record rainfalls with no violations.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

- Participated with other local cities in an intergovernmental work group regarding phosphorus in the Illinois River.

Using This Annual Report

The Sewer Department's financial statements consist of three statements - a statement of net assets; a statement of revenues, expenses and changes in net assets; 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, 2012, 2011, AND 2010

Financial Highlights

Assets, Liabilities and Net Assets

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|-----------------------|-----------------------|-----------------------|
| Assets | | | |
| Total current assets | \$ 14,664,507 | \$ 13,505,153 | \$ 12,616,053 |
| Restricted cash and investments | 4,738,076 | 6,575,365 | 3,146,887 |
| Other noncurrent assets | 104,134,275 | 103,371,388 | 103,386,366 |
| Total assets | <u>\$ 123,536,858</u> | <u>\$ 123,451,906</u> | <u>\$ 119,149,306</u> |
| Liabilities | | | |
| Total current liabilities | \$ 3,865,425 | \$ 3,784,423 | \$ 3,460,535 |
| Liabilities payable from restricted assets | 542,535 | 566,536 | 577,003 |
| Noncurrent liabilities | 35,618,973 | 38,252,599 | 37,521,449 |
| Total liabilities | <u>\$ 40,026,933</u> | <u>\$ 42,603,558</u> | <u>\$ 41,558,987</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 65,177,065 | \$ 61,782,559 | \$ 62,761,880 |
| Restricted | 4,195,541 | 6,008,829 | 2,569,878 |
| Unrestricted | 14,137,319 | 13,056,960 | 12,258,561 |
| Total net assets | <u>\$ 83,509,925</u> | <u>\$ 80,848,348</u> | <u>\$ 77,590,319</u> |
| Operating Results and Changes in Net Assets | | | |
| Operating revenues | <u>\$ 10,871,326</u> | <u>\$ 10,656,048</u> | <u>\$ 10,408,551</u> |
| Operating expenses | | | |
| Depreciation and amortization | 3,215,704 | 3,202,523 | 3,148,885 |
| Other operating expenses | 3,777,356 | 3,627,238 | 4,381,965 |
| Total operating expenses | <u>6,993,060</u> | <u>6,829,761</u> | <u>7,530,850</u> |
| Operating income | <u>3,878,266</u> | <u>3,826,287</u> | <u>2,877,701</u> |
| Other revenues (expenses) | | | |
| Interest expense | (1,502,145) | (1,585,834) | (1,666,671) |
| Other income (expenses) | 69,016 | 160,339 | 197,665 |
| Total other revenues (expenses) | <u>(1,433,129)</u> | <u>(1,425,495)</u> | <u>(1,469,006)</u> |
| Changes in net assets before capital contributions | 2,445,137 | 2,400,792 | 1,408,695 |
| Capital Contributions | <u>216,440</u> | <u>857,237</u> | <u>267,449</u> |
| Change in Net Assets | 2,661,577 | 3,258,029 | 1,676,144 |
| Net Assets, Beginning of Year | <u>80,848,348</u> | <u>77,590,319</u> | <u>75,914,175</u> |
| Net Assets, End of Year | <u>\$ 83,509,925</u> | <u>\$ 80,848,348</u> | <u>\$ 77,590,319</u> |

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2012, the Sewer Department's investment in capital assets was \$103,401,000 (net of accumulated depreciation). This investment of capital assets included land, buildings, improvements, machinery and equipment, and contributed property.

Major capital asset events include the following:

- Construction costs of \$3,347,000 during fiscal year 2012 included construction in progress on the sludge dryer, sewer rehab projects, and completion of the remodeling of the old Administration building. \$331,000 of constructed assets were completed and placed in service. In addition, \$216,000 of drainage and sewer mains constructed by developers were 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 Assets. In 2011, the Sewer Department had construction of \$1,891,000 and contributed capital of \$856,000, and in 2010, construction of \$1,096,000 and contributed capital of \$267,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$431,000 in 2012, as compared to \$410,000 in 2011 and \$495,000 in 2010.

Additional information regarding capital assets can be found on Note 9 of the notes to the financial statements.

Long-Term Debt

The Sewer Department had \$37,528,000 in revenue bonds outstanding as of June 30, 2012, which is a decrease of \$2,518,000 resulting from principal payments in 2012. Revenue bonds outstanding as of June 30, 2011 were \$40,046,000 which was an increase of \$1,069,000 from 2010 due to the issuance of Series 2010 Revenue Bonds totaling \$3,310,000 and principal payments totaling \$2,241,000.

Additional information regarding long-term debt can be found at Note 11 of the notes to the financial statements.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Additional Management Comments

The drought which began in 2010 and continues through the summer of 2012 has impacted the financial position of the Rogers Sewer Department quite favorably. Many Sewer Department customers do not have separate irrigation (water only, no sewer) meters, so increased water consumption during the drought results in increased sewer consumption. Sewer consumption in July, August, September and then again in the spring during May and June surpassed the previous year, resulting in a 4.4% overall increase in sewer consumption in fiscal year 2012. The focus on controlling expenses continues as well, including working with a reduced workforce. This of course has impacted the bottom line, resulting in improved operating income that exceeds both the prior year, and the budget.

Also of significance to the Rogers Sewer Department during fiscal year 2012 was the retirement in April of long time Utility Superintendent, Tom McAlister. Mr. McAlister was the Superintendent of the Utility for the past 28 years. An interim superintendent was appointed at the end of March, and the Rogers Waterworks and Sewer Commission is currently in the process of hiring a new Superintendent. Several well qualified candidates have applied for the position, and a new Superintendent should be in place soon.

The Rogers Sewer Department funded some capital improvements out of reserves in fiscal year 2012. However, the sludge dryer project was substantially paid for by proceeds from a 2010 bond issue for that purpose. The total cost of the sludge dryer will be about \$3.5 million. It is expected to be placed in service in September 2012. Completed capital projects included Price Lane sewer main project and the remodeling of the Utility Administration Building. Projects in process at the end of the year included historic central sanitary sewer rehab and completion of the sludge dryer installation. The remodel of the Utility Training Center facility is expected to proceed in early fiscal year 2013. Other projects expected in fiscal year 2013 include sewer main projects to aid the City of Rogers street projects, and additional sewer main rehab.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011

An internal rate study was completed by Utility personal for the Sewer Department during fiscal year 2012. It indicated no rate increase is necessary at this time. The drought conditions have helped delay the need for a rate increase. New construction in Rogers, although somewhat sluggish, seems to be picking up. The collection system and treatment facilities in Rogers are current and appear to have adequate capacity for the foreseeable future. Financial reserves are adequate and should enable the Rogers Waterworks and Sewer Commission and Rogers Water Utilities staff to meet most future contingencies.

Since sewer billings are based on water consumption, Rogers Sewer Department shares the cost of meters with the Rogers Water Department. There are new requirements regarding the replacement of brass water meters to comply with the "Reduction of Lead in Drinking Water Act." Effective January 1, 2014 brass meters will no longer be allowed to be placed in the ground. Brass meters already in service will be allowed to continue in service, but, if they are physically removed for any purpose they cannot be reinstalled. They must be replaced with composite or no lead brass meters. Over the next eight to ten years Rogers Sewer Department plans to change out all non-compliant meters in our system.

The Total Maximum Daily Load (TMDL) study being conducted by USEPA continues to be a significant concern for the Cities of Northwest Arkansas. It could result in serious total phosphorus restrictions on the discharge of the Rogers Pollution Control Facility (RPFC) and the storm sewers of the City of Rogers. Implementation plans and waste load allocations necessitated by the TMDL, will reduce the amount of permitted phosphorus discharge from the RPFC, resulting in new discharge permits, Administrative Orders, and the like, to force compliance on the Cities of Northwest Arkansas. Improvements to the Publicly Owned Treatment Works (POTW's) in Northwest Arkansas will be paid for by user fees. The cost for the required treatment plant improvements is not definable now, nor is the timeline for compliance; however, the scale of the impact on the homes, businesses, and industries of Northwest Arkansas can hardly be overstated. Water quality issues could well define the continued economic health of the regions for decades to come.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

| | ASSETS | |
|---|----------------|----------------|
| | 2012 | 2011 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,418,984 | \$ 1,895,735 |
| Investments | 10,804,262 | 10,231,695 |
| Accounts receivable, net of allowance for doubtful accounts of \$249,500 and \$240,000, respectively | 1,337,744 | 1,184,555 |
| Accrued interest receivable | 5,732 | 16,457 |
| Due from water department | - | 75,513 |
| Inventory | 65,837 | 70,388 |
| Prepaid expenses | 31,948 | 30,810 |
| | <hr/> | <hr/> |
| Total Current Assets | 14,664,507 | 13,505,153 |
| RESTRICTED CASH AND INVESTMENTS | | |
| Restricted cash and cash equivalents | 1,044,631 | 798,177 |
| Investments | 3,693,445 | 5,777,188 |
| | <hr/> | <hr/> |
| Total Restricted Cash and Investments | 4,738,076 | 6,575,365 |
| FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION | | |
| | <hr/> | <hr/> |
| | 103,400,951 | 102,553,054 |
| OTHER ASSETS | | |
| Bond issuance costs, net of amortization of \$742,159 and \$671,058, respectively | 675,875 | 746,976 |
| Forbearance agreement receivable | 57,449 | 71,358 |
| | <hr/> | <hr/> |
| Total Other Assets | 733,324 | 818,334 |
| | <hr/> | <hr/> |
| Total Assets | \$ 123,536,858 | \$ 123,451,906 |

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET ASSETS

| | 2012 | 2011 |
|---|---------------------------|---------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable - trade | \$ 124,727 | \$ 171,859 |
| Accounts payable to construction contractors | 450,973 | 456,781 |
| Accrued expenses | 382,082 | 359,676 |
| Accrued vouchers | 132,911 | 278,211 |
| Due to water department | 169,819 | - |
| Current portion of bonds payable | <u>2,604,913</u> | <u>2,517,896</u> |
| Total Current Liabilities | <u>3,865,425</u> | <u>3,784,423</u> |
| LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | |
| Accrued interest payable | <u>542,535</u> | <u>566,536</u> |
| Total Liabilities Payable From Restricted Assets | <u>542,535</u> | <u>566,536</u> |
| BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS | <u>35,618,973</u> | <u>38,252,599</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 65,177,065 | 61,782,559 |
| Restricted | 4,195,541 | 6,008,829 |
| Unrestricted | <u>14,137,319</u> | <u>13,056,960</u> |
| Total Net Assets | <u>83,509,925</u> | <u>80,848,348</u> |
| Total Liabilities and Net Assets | <u>\$ 123,536,858</u> | <u>\$ 123,451,906</u> |

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|--|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Residential sewer | \$ 6,194,460 | \$ 5,947,347 |
| Commercial sewer | 1,774,666 | 1,674,720 |
| Industrial sewer | 1,875,458 | 1,877,812 |
| Penalties | 138,163 | 133,699 |
| Access, impact and new customer fees | 795,406 | 939,390 |
| Other operating revenue | <u>93,173</u> | <u>83,080</u> |
| Total Operating Revenues | <u>10,871,326</u> | <u>10,656,048</u> |
| OPERATING EXPENSES | | |
| Pollution control facility and field expense | 2,622,995 | 2,525,102 |
| General and administrative | 1,154,361 | 1,102,136 |
| Depreciation and amortization | <u>3,215,704</u> | <u>3,202,523</u> |
| Total Operating Expenses | <u>6,993,060</u> | <u>6,829,761</u> |
| OPERATING INCOME | <u>3,878,266</u> | <u>3,826,287</u> |
| OTHER REVENUES (EXPENSES) | | |
| Interest income | 72,668 | 139,451 |
| Gain on disposal of fixed assets | 6,348 | 27,888 |
| Interest expense | (1,502,145) | (1,585,834) |
| Trustee fees | <u>(10,000)</u> | <u>(7,000)</u> |
| Total Other Revenues (Expenses) | <u>(1,433,129)</u> | <u>(1,425,495)</u> |
| CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS | 2,445,137 | 2,400,792 |
| CAPITAL CONTRIBUTIONS | <u>216,440</u> | <u>857,237</u> |
| CHANGE IN NET ASSETS | 2,661,577 | 3,258,029 |
| NET ASSETS, BEGINNING OF YEAR | <u>80,848,348</u> | <u>77,590,319</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 83,509,925</u></u> | <u><u>\$ 80,848,348</u></u> |

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 9,691,395 | \$ 9,451,797 |
| Cash received from access, impact and new customer fees | 644,106 | 752,791 |
| Cash received from penalties and other operating revenue | 231,336 | 216,779 |
| Payments for salaries and benefits | (1,820,669) | (1,727,274) |
| Payments to suppliers for goods and services | (1,732,476) | (1,985,486) |
| Net Cash From Operating Activities | <u>7,013,692</u> | <u>6,708,607</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital expenditures | (3,778,277) | (1,931,694) |
| Cash received from sale of fixed assets | 8,565 | 27,888 |
| Cash received from bond issuance | - | 3,278,419 |
| Payment of issuance costs | - | (42,231) |
| Principal payments on bonds | (2,517,896) | (2,240,618) |
| Interest and paying agent fees, net of capitalized interest | (1,564,859) | (1,632,672) |
| Collection of forbearance agreement | 13,909 | 12,362 |
| Net Cash (Used for) Capital and Related Financing Activities | <u>(7,838,558)</u> | <u>(2,528,546)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 83,393 | 176,642 |
| Net change in investments | (572,567) | (658,801) |
| Net change in restricted investments | 2,083,743 | (3,506,012) |
| Net Cash From (Used for) Investing Activities | <u>1,594,569</u> | <u>(3,988,171)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | 769,703 | 191,890 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,693,912</u> | <u>2,502,022</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 3,463,615</u> | <u>\$ 2,693,912</u> |
| CASH AND CASH EQUIVALENTS | \$ 2,418,984 | \$ 1,895,735 |
| RESTRICTED CASH AND CASH EQUIVALENTS | <u>1,044,631</u> | <u>798,177</u> |
| | <u>\$ 3,463,615</u> | <u>\$ 2,693,912</u> |

See Independent Auditors' Report and Notes to Financial Statements.

| | 2012 | 2011 |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES: | | |
| Operating Income | <u>\$ 3,878,266</u> | <u>\$ 3,826,287</u> |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Depreciation and amortization | 3,215,704 | 3,202,523 |
| Allowance for doubtful accounts | 9,500 | 18,000 |
| Redeemed vouchers | (151,300) | (186,599) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (162,689) | (66,082) |
| Inventory | 4,551 | (3,602) |
| Prepaid expenses | (1,138) | 3,220 |
| Accounts payable | (52,940) | (111,408) |
| Accrued expenses | 22,406 | (24,130) |
| Due to/from water department | <u>251,332</u> | <u>50,398</u> |
| Total adjustments | <u>3,135,426</u> | <u>2,882,320</u> |
| Net Cash From Operating Activities | <u>\$ 7,013,692</u> | <u>\$ 6,708,607</u> |
| NONCASH TRANSACTIONS | | |
| Capital contributions | <u>\$ 216,440</u> | <u>\$ 857,237</u> |

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Fund Type

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

Basis of Accounting

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

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

The Sewer Department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) of accounting pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.