

**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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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.

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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
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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.

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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.

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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 |
| | | | <u>14,664,507</u> | | <u>13,505,153</u> |
| RESTRICTED CASH AND INVESTMENTS | | | | | |
| Restricted cash and cash equivalents | | | 1,044,631 | | 798,177 |
| Investments | | | <u>3,693,445</u> | | <u>5,777,188</u> |
| | | | <u>4,738,076</u> | | <u>6,575,365</u> |
| FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION | | | | | |
| | | | <u>103,400,951</u> | | <u>102,553,054</u> |
| OTHER ASSETS | | | | | |
| Bond issuance costs, net of amortization of \$742,159 and \$671,058, respectively | | | 675,875 | | 746,976 |
| Forbearance agreement receivable | | | <u>57,449</u> | | <u>71,358</u> |
| | | | <u>733,324</u> | | <u>818,334</u> |
| Total Assets | | \$ | <u>123,536,858</u> | \$ | <u>123,451,906</u> |

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.

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 – CONTINUED

Use of Estimates

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market. Inventory consists of construction and maintenance supplies related to the sewer system.

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At June 30, 2012 and 2011, the Sewer Department had no cash equivalents.

Investments

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

Accounts Receivable

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

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

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 – CONTINUED

Long-Lived Assets

FASB Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Sewer Department's reported earnings, financial 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 Assets 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, 2012 and 2011, cumulative contributed capital fixed assets amounted to approximately \$30,257,000 and \$30,041,000, respectively.

Fixed Assets

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

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

The Sewer Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Sewer Department at June 30, 2012 and 2011 amounted to approximately \$4,200,000 and \$4,400,000, respectively.

Amortization of Bond Premiums and Discounts

Bond premiums and discounts are amortized over the lives of the related bond issues. Net amortization expense of \$28,713 and \$29,372 is included as a component of interest expense for the years ended June 30, 2012 and 2011, respectively.

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 – CONTINUED

Bond Issuance Costs

Bond issuance costs are costs incurred in connection with the issuance of various bonds and are being amortized on the straight-line method over the lives of the related bond issues. Amortization expense amounted to \$71,101 and \$73,956 for the years ended June 30, 2012 and 2011, respectively.

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 the Statements of Net Assets date.

Current Accounting Developments

In December 2010, the GASB issued Statement Number 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. GASB 62 is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements.

In June 2011, the GASB issued Statement Number 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

In March 2012, the GASB issued Statement Number 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement Number 66 (GASB 66), *Technical Corrections – 2012*, effective for periods beginning after December 15, 2012. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB 62.

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

**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 – CONTINUED

Net Assets Classifications

Net assets are 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 assets – 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 assets – 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 assets and unrestricted net assets are available, the Sewer Department’s policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the Sewer Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2012, the Sewer Department had approximately \$3,463,000 in deposit balances reported as cash and cash equivalents in the Statements of Net Assets, of which approximately \$1,049,300 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities’ name. Additionally, the Sewer Department had approximately \$11,630,800 in certificates of deposit reported as investments in the Statements of Net Assets, of which approximately \$10,027,900 were FDIC insured and the remaining balances were collateralized by securities held by the bank in the Utilities’ name.

NOTE 3: DUE TO/FROM WATER DEPARTMENT

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Rogers Water Utilities. Rogers Water Utilities sends a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. In addition, see Note 14 for details regarding the impact of voucher redemptions on the due to/due from Water Department balance. The balances as of June 30, 2012 and 2011 are shown in the Statements of Net Assets under the captions Due to water department and Due from water department.

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

NOTE 4: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2012 and 2011 as follows:

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Construction | \$ 799,470 | \$ 3,000,171 |
| Debt service reserve | 2,399,206 | 2,390,841 |
| Depreciation reserve for additional replacements to the sewer system | 1,375,863 | 1,122,639 |
| New customer fees collected for additions of fixed assets | 163,422 | 61,675 |
| Accrued interest | <u>115</u> | <u>39</u> |
| | <u>\$ 4,738,076</u> | <u>\$ 6,575,365</u> |

NOTE 5: RELATED PARTIES

The Sewer Department maintains deposits and certificates of deposit with banks whose officers serve on the Commission of the Rogers Water Utilities. At June 30, 2012 and 2011, these deposits amounted to approximately \$8,164,000 and \$6,859,000, respectively.

NOTE 6: FORBEARANCE AGREEMENT RECEIVABLE

In September of 2006, the Rogers Water Utilities and a commercial developer entered into a cost sharing agreement for the construction of water and sewer mains to a commercial development. During the year ended June 30, 2010, the Rogers Water Utilities entered into a forbearance agreement with the developer. Under the terms of the agreement, the developer will pay \$311,974 of cost sharing, in monthly installments of \$5,000, bearing interest at 5% per year, with a lump sum of \$198,100 due July 1, 2012. In June 2012, Rogers Water Utilities and the developer entered into an extension agreement for payment of the \$198,100 lump sum. The extension agreement provides for monthly installments of \$5,000, bearing interest at 3½% and amortized to December 2015. The balance of \$57,449 and \$71,358 reported in the Statements of Net Assets as of June 30, 2012 and 2011, respectively, represents the Sewer Department's share of the forbearance agreement receivable.

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.

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

NOTE 8: 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 one year 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, 2012, investments of the Sewer Department were fully collateralized or insured.

At June 30, 2012 and 2011, the Sewer Department's investments consisted of \$11,630,753 and \$11,053,721, respectively, held in certificates of deposit and \$2,866,954 and \$4,955,162, respectively, held in United States Government securities. All investments at June 30, 2012 and 2011 had maturities of less than one year.

NOTE 9: CHANGES IN FIXED ASSETS

| | <u>Balance June 30, 2011</u> | <u>Transfers/ Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2012</u> |
|--------------------------|--------------------------------------|---------------------------------|---------------------|--------------------------------------|
| Land | \$ 1,795,753 | \$ - | - | \$ 1,795,753 |
| Buildings | 51,553,976 | 256,906 | (242,014) | 51,568,868 |
| Equipment | 46,008,603 | 523,049 | (190,329) | 46,341,323 |
| Vehicles | 905,747 | 21,718 | (25,766) | 901,699 |
| Contributed property | 30,041,378 | 215,842 | - | 30,257,220 |
| Construction in progress | 618,278 | 3,347,088 | (331,258) | 3,634,108 |
| | 130,923,735 | 4,364,603 | (789,367) | 134,498,971 |
| Accumulated depreciation | <u>(28,370,681)</u> | <u>(3,144,603)</u> | <u>417,264</u> | <u>(31,098,020)</u> |
| | <u>\$ 102,553,054</u> | <u>\$ 1,220,000</u> | <u>\$ (372,103)</u> | <u>\$103,400,951</u> |

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

NOTE 9: CHANGES IN FIXED ASSETS – CONTINUED

| | <u>Balance June 30, 2010</u> | <u>Transfers/ Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2011</u> |
|--------------------------|--------------------------------------|---------------------------------|-----------------------|--------------------------------------|
| Land | \$ 1,791,953 | \$ 3,800 | \$ - | \$ 1,795,753 |
| Buildings | 51,668,073 | 155,290 | (269,387) | 51,553,976 |
| Equipment | 44,461,912 | 1,616,449 | (69,758) | 46,008,603 |
| Vehicles | 1,031,268 | 282 | (125,803) | 905,747 |
| Contributed property | 29,185,344 | 856,034 | - | 30,041,378 |
| Construction in progress | <u>92,460</u> | <u>1,891,069</u> | <u>(1,365,251)</u> | <u>618,278</u> |
| | 128,231,010 | 4,522,924 | (1,830,199) | 130,923,735 |
| Accumulated depreciation | <u>(25,707,065)</u> | <u>(3,128,567)</u> | <u>464,951</u> | <u>(28,370,681)</u> |
| | <u>\$ 102,523,945</u> | <u>\$ 1,394,357</u> | <u>\$ (1,365,248)</u> | <u>\$102,553,054</u> |

NOTE 10: COMMITMENTS AND CONCENTRATIONS

The Sewer Department is committed to several construction contracts in process at year-end totaling \$4,902,586. As of June 30, 2012, \$3,416,833 had been incurred in connection with these contracts.

During the years ended June 30, 2012 and 2011, the Sewer Department had an industrial customer who made up 8.34% and 10.27%, respectively, of accounts receivable. For the years ended June 30, 2012 and 2011, this customer also accounted for 10.46% and 16.42%, respectively, of total consumption.

NOTE 11: BONDS PAYABLE

Series 1995 Revenue Improvement Bonds

In August 1995, the Sewer Department issued \$13,000,000 in Revenue Improvement Bonds (Series 1995) at an average rate of 3.0% to provide for the cost of constructing extensions, betterments, and improvements to the sewer system. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2012 and 2011, the outstanding principal was \$4,650,943 and \$5,393,020, respectively.

Series 1996 Revenue Improvement Bonds

In April 1996, the Sewer Department issued \$13,600,000 in Revenue Improvement Bonds (Series 1996) at an average rate of 2.5% to finance the planning, design and construction of wastewater treatment facilities. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2012 and 2011, the outstanding principal was \$4,721,728 and \$5,487,547, respectively.

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

NOTE 11: BONDS PAYABLE – CONTINUED

Series 2007 Revenue Improvement Bonds

In February 2007, the Sewer Department issued \$22,000,000 in Revenue Improvement Bonds (Series 2007) at an average rate of 4.6% to finance general improvements to the sewer system and related infrastructure. The bond matures in 2037 with principal payments due in February beginning in 2012 and interest payments due in February and August of each year. As of June 30, 2012 and 2011, the outstanding principal was \$21,550,000 and \$22,000,000, respectively.

Series 2008 Revenue Refunding Bonds

In May 2008, the Sewer Department issued \$4,820,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Sewer Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$189,430. The bond matures in fiscal year 2019 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2012 and 2011, the outstanding principal was \$3,420,000 and \$3,855,000, respectively.

Series 2010 Revenue Bonds

In December 2010, the Sewer Department issued \$3,310,000 in Revenue Bonds (Series 2010) at an average rate of 3.6% to finance the purchase and installation of a sludge dryer for the processing of solid waste. The bond matures in fiscal year 2031 with principal payments due in December and interest payments due in December and June of each year. As of June 30, 2012 and 2011, the outstanding principal was \$3,185,000 and \$3,310,000, respectively.

All Bond Issues

System revenues and all assets are pledged to the bonds outstanding. The debt service coverage ratio, calculated as described in the Series 2007 and 2008 bond documents, as of June 30, 2012 and 2011, is 1.77 and 1.93, respectively. Total interest paid during the years ended June 30, 2012 and 2011 totaled \$1,663,659 and \$1,686,243, respectively. Total interest capitalized during the years ended June 30, 2012 and 2011 totaled \$108,800 and \$60,571, respectively.

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, 2012 and 2011.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 11: BONDS PAYABLE – CONTINUED

Following is a summary of changes in bonds payable:

| | Balance June 30, 2011 | Increases | Decreases | Balance June 30, 2012 | Amounts Due Within One Year |
|---|-----------------------------|-------------|---------------------|-----------------------------|--------------------------------|
| Revenue Improvement Bonds, Series 1995 | \$ 5,393,020 | \$ - | \$ 742,077 | \$ 4,650,943 | \$ 772,056 |
| Revenue Improvement Bonds, Series 1996 | 5,487,547 | - | 765,819 | 4,721,728 | 792,857 |
| Revenue Improvement Bonds, Series 2007 | 22,000,000 | - | 450,000 | 21,550,000 | 465,000 |
| Revenue Refunding Bonds, Series 2008 | 3,855,000 | - | 435,000 | 3,420,000 | 445,000 |
| Revenue Bonds, Series 2010 | 3,310,000 | - | 125,000 | 3,185,000 | 130,000 |
| Plus premiums | 755,588 | - | 30,292 | 725,296 | - |
| Less discounts | (30,660) | - | (1,579) | (29,081) | - |
| | <u>\$40,770,495</u> | <u>\$ -</u> | <u>\$ 2,546,609</u> | <u>\$ 38,223,886</u> | <u>\$ 2,604,913</u> |

| | Balance June 30, 2010 | Increases | Decreases | Balance June 30, 2011 | Amounts Due Within One Year |
|---|-----------------------------|---------------------|---------------------|-----------------------------|--------------------------------|
| Revenue Refunding Bonds, Series 1991 | \$ 367,652 | \$ - | \$ 367,652 | \$ - | \$ - |
| Revenue Improvement Bonds, Series 1995 | 6,106,282 | - | 713,262 | 5,393,020 | 742,077 |
| Revenue Improvement Bonds, Series 1996 | 6,227,250 | - | 739,703 | 5,487,547 | 765,819 |
| Revenue Improvement Bonds, Series 2007 | 22,000,000 | - | - | 22,000,000 | 450,000 |
| Revenue Refunding Bonds, Series 2008 | 4,275,000 | - | 420,000 | 3,855,000 | 435,000 |
| Revenue Bonds, Series 2010 | - | 3,310,000 | - | 3,310,000 | 125,000 |
| Plus premiums | 785,881 | - | 30,293 | 755,588 | - |
| Less discounts | - | (31,581) | (921) | (30,660) | - |
| | <u>\$39,762,065</u> | <u>\$ 3,278,419</u> | <u>\$ 2,269,989</u> | <u>\$ 40,770,495</u> | <u>\$ 2,517,896</u> |

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

NOTE 11: BONDS PAYABLE – CONTINUED

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

| Year Ending | | | |
|--------------------|----------------------|----------------------|----------------------|
| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2013 | \$ 2,604,913 | \$ 1,570,604 | \$ 4,175,517 |
| 2014 | 2,699,098 | 1,476,644 | 4,175,742 |
| 2015 | 2,790,529 | 1,377,160 | 4,167,689 |
| 2016 | 2,869,296 | 1,275,526 | 4,144,822 |
| 2017 | 3,010,487 | 1,168,370 | 4,178,857 |
| 2018-2022 | 5,988,348 | 4,793,970 | 10,782,318 |
| 2023-2027 | 4,960,000 | 3,781,755 | 8,741,755 |
| 2028-2032 | 6,030,000 | 2,478,255 | 8,508,255 |
| 2033-2037 | <u>6,575,000</u> | <u>1,010,035</u> | <u>7,585,035</u> |
| Total | <u>\$ 37,527,671</u> | <u>\$ 18,932,319</u> | <u>\$ 56,459,990</u> |

NOTE 12: PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

The Sewer Department contributes to the Arkansas Public Employees Retirement System (APERS), a statewide cost-sharing multiple-employer defined benefit pension plan administered by the State of Arkansas. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

All employees who work a minimum of eighty hours per month for more than ninety consecutive calendar days receive coverage under the plan. Contribution and benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. General administration and responsibility for the operation of the system is vested in a nine member Board of Trustees.

Members are eligible for full retirement benefits (1) at age 65 with five years of actual service, (2) at any age with twenty-eight years of actual service, or (3) at age 55 with thirty-five years of service. The member's final average salary and number of years of service determines the normal retirement benefit which is paid on a monthly basis.

A member may retire with a reduced benefit, provided they have at least ten years of actual service, if the member is within ten years of their normal retirement age. The plan also provides for disability and survivor benefits.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 12: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

The State of Arkansas issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201, by calling 1-800-682-7377, or on the web at www.apers.org.

Funding Policy

The plan, which applies to all persons hired after December 31, 1997, originally did not allow employee contributions. Arkansas Act 2084 of 2005 requires participants who joined after July 1, 2005 to contribute 5% of their gross wages. The Sewer Department is required to contribute at an actuarially determined rate. For the years ended June 30, 2012 and 2011, the rate is 13.47% and 12.46%, respectively, of annual covered payroll. The contribution requirements of plan members and the Sewer Department are established and may be amended only by state law. Sewer Department contributions for the years ended June 30, 2012, 2011 and 2010 totaled \$178,948, \$164,836 and \$155,588, respectively. Employee contributions for the years ended June 30, 2012, 2011 and 2010 totaled \$18,922, \$17,938 and \$16,578, respectively.

Annual Pension Cost

For the years ended June 30, 2012 and 2011, the Sewer Department's annual pension cost of \$178,948 and \$164,836, respectively, for APERS was equal to the Sewer Department's required and actual contributions. The required contribution was determined as part of the June 30, 2010 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on present and future assets of 8% per year, compounded annually, (b) projected salary increase of 4% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 4.7% to 10.6% per year, attributable to seniority/merit, (d) pre- and post-retirement mortality based on the RP-2000 Combined Mortality table set forward two years for men, and (e) annual compounded post-retirement increases of 3% per year. Present assets (cash and investments) are valued on a market related basis in which differences between actual and assumed returns are phased in over a four year period. The unfunded actuarial accrued liabilities are being amortized to produce contribution amounts (principal and interest) which are a level percent of payroll contributions. The amortization period as of June 30, 2010 was 30 years.

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

NOTE 12: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Schedule of Funding Progress (\$ Millions)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Entry Age Actuarial Accrued Liability (b)</u> | <u>Unfunded Accrued Liability (UAL) (b - a)</u> |
|---|--|--|---|
| June 30, 2008 | \$ 5,866 | \$ 6,543 | \$ 677 |
| June 30, 2009 | 5,413 | 6,938 | 1,525 |
| June 30, 2010 | 5,409 | 7,304 | 1,895 |

| <u>Actuarial Valuation Date</u> | <u>Annual Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAL as of % of Covered Payroll ((b-a)/c)</u> |
|---|--|------------------------------------|---|
| June 30, 2008 | 89.7% | \$ 1,380 | 49.1% |
| June 30, 2009 | 78.0% | 1,434 | 106.3% |
| June 30, 2010 | 74.1% | 1,523 | 124.4% |

Three-Year Trend Information

| <u>Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------|--------------------------------------|--|-----------------------------------|
| June 30, 2010 | \$ 155,588 | 100% | - |
| June 30, 2011 | 164,836 | 100% | - |
| June 30, 2012 | 178,948 | 100% | - |

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 assistance 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, 2012 and 2011 were \$36,914 and \$30,772, respectively.

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

NOTE 13: EMPLOYEE BENEFIT PLANS – CONTINUED

Deferred Compensation Plan

The Rogers Water 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 Rogers Water 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 Rogers Water Utilities in an amount equal to the fair market value of the deferred account for each participant. The Rogers Water 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, 2012 and 2011 was \$7,500 and \$9,310, respectively. At June 30, 2012 and 2011, there were six and seven employees participating in the plan, respectively.

NOTE 14: ACCRUED VOUCHERS

In April 2008, a lawsuit was filed against the Rogers Water Utilities in Benton County Circuit Court claiming violations of law, including illegal exaction of development impact fees and access fees. During the year ended June 30, 2011, management of the Rogers Water Utilities and the plaintiffs reached a settlement agreement. Under the terms of the settlement, the Rogers Water Utilities issued vouchers for 53% of the fees collected between June 27, 2008 and August 31, 2010. The vouchers were issued to the person or entities filing a valid claim with the Utilities by September 7, 2010. The vouchers are redeemable against future access, impact or hookup fees, are transferable and expire in five years. The Sewer Department had accrued \$464,810 in vouchers payable at June 30, 2010, representing the claims filed and approved by the court. The remaining balance at June 30, 2012 and 2011 was \$132,911 and \$278,211, respectively, and represents vouchers not yet redeemed.

The vouchers were allocated to the Sewer Department or the Water Department based on which department originally received the impact and access fees. The vouchers can be redeemed by either department which results in an intercompany transaction between the two departments. During the year ended June 30, 2012, \$6,000 of vouchers accrued by the Water Department were redeemed by the Sewer Department and reported in fee income. See Note 3.

SUPPLEMENTARY INFORMATION

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|--------------------------------|--------------------------------|
| POLLUTION CONTROL FACILITY AND FIELD EXPENSE | | |
| Salaries | \$ 921,252 | \$ 879,069 |
| Payroll taxes | 66,836 | 67,538 |
| Employee benefits | 316,206 | 296,001 |
| Insurance | 38,025 | 36,949 |
| Repairs and maintenance | 222,094 | 249,147 |
| Utilities | 344,502 | 335,276 |
| Supplies and postage | 82,141 | 98,148 |
| Sludge disposal costs | 414,320 | 424,990 |
| Operating supplies and other | 217,619 | 137,984 |
| | <u>2,622,995</u> | <u>2,525,102</u> |
| GENERAL AND ADMINISTRATIVE | | |
| Salaries | 341,296 | 320,168 |
| Salaries - commissioners | 2,096 | 2,097 |
| Payroll taxes | 35,831 | 35,266 |
| Employee benefits | 137,152 | 127,135 |
| Office supplies and postage | 81,807 | 80,305 |
| Professional fees | 32,280 | 34,885 |
| Consulting services - stream assessment | 44,493 | 30,634 |
| Insurance | 2,186 | 2,056 |
| Utilities | 23,079 | 21,240 |
| Bad debts | 48,229 | 54,425 |
| Franchise taxes / use taxes | 333,834 | 320,628 |
| Other | 72,078 | 73,297 |
| | <u>1,154,361</u> | <u>1,102,136</u> |
| DEPRECIATION AND AMORTIZATION | <u>3,215,704</u> | <u>3,202,523</u> |
| TOTAL OPERATING EXPENSES | <u><u>\$ 6,993,060</u></u> | <u><u>\$ 6,829,761</u></u> |

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE IMPROVEMENT BONDS - SERIES 1995
JUNE 30, 2012**

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|------------------------|---------------------|--------------------------|-------------------|---------------------|
| October, 2012 | \$ 382,206 | 3.00% | \$ 93,019 | \$ 475,225 |
| April, 2013 | 389,850 | 3.00% | 85,375 | 475,225 |
| October, 2013 | 397,648 | 3.00% | 77,577 | 475,225 |
| April, 2014 | 405,600 | 3.00% | 69,625 | 475,225 |
| October, 2014 | 413,712 | 3.00% | 61,513 | 475,225 |
| April, 2015 | 421,986 | 3.00% | 53,239 | 475,225 |
| October, 2015 | 430,426 | 3.00% | 44,799 | 475,225 |
| April, 2016 | 439,034 | 3.00% | 36,191 | 475,225 |
| October, 2016 | 447,816 | 3.00% | 27,409 | 475,225 |
| April, 2017 | 456,772 | 3.00% | 18,453 | 475,225 |
| October, 2017 | 465,893 | 3.00% | 9,316 | 475,209 |
| Balance, June 30, 2012 | <u>\$ 4,650,943</u> | | <u>\$ 576,516</u> | <u>\$ 5,227,459</u> |

Dated: August 9, 1995

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE IMPROVEMENT BONDS - SERIES 1996
JUNE 30, 2012**

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|------------------------|---------------------|--------------------------|-------------------|---------------------|
| October, 2012 | \$ 392,990 | 2.50% | \$ 82,630 | \$ 475,620 |
| April, 2013 | 399,867 | 2.50% | 75,753 | 475,620 |
| October, 2013 | 406,865 | 2.50% | 68,755 | 475,620 |
| April, 2014 | 413,985 | 2.50% | 61,635 | 475,620 |
| October, 2014 | 421,230 | 2.50% | 54,390 | 475,620 |
| April, 2015 | 428,601 | 2.50% | 47,019 | 475,620 |
| October, 2015 | 436,102 | 2.50% | 39,518 | 475,620 |
| April, 2016 | 443,734 | 2.50% | 31,886 | 475,620 |
| October, 2016 | 451,499 | 2.50% | 24,121 | 475,620 |
| April, 2017 | 459,400 | 2.50% | 16,220 | 475,620 |
| October, 2017 | <u>467,455</u> | 2.50% | <u>8,179</u> | <u>475,634</u> |
| Balance, June 30, 2012 | <u>\$ 4,721,728</u> | | <u>\$ 510,106</u> | <u>\$ 5,231,834</u> |

Dated: April 3, 1996

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE IMPROVEMENT BONDS - SERIES 2007
JUNE 30, 2012

| YEAR | PRINCIPAL | INTEREST RATE | INTEREST | TOTAL |
|---------------------------|----------------------|------------------|----------------------|----------------------|
| 2013 | \$ 465,000 | 4.000% | \$ 1,025,881 | \$ 1,490,881 |
| 2014 | 485,000 | 4.375% | 1,007,281 | 1,492,281 |
| 2015 | 500,000 | 4.000% | 986,063 | 1,486,063 |
| 2016 | 500,000 | 4.375% | 966,063 | 1,466,063 |
| 2017 | 550,000 | 4.375% | 944,188 | 1,494,188 |
| 2018 | 595,000 | 4.000% | 920,125 | 1,515,125 |
| 2019 | 620,000 | 4.250% | 896,325 | 1,516,325 |
| 2020 | 645,000 | 4.250% | 869,975 | 1,514,975 |
| 2021 | 675,000 | 4.250% | 842,562 | 1,517,562 |
| 2022 | 705,000 | 4.375% | 813,875 | 1,518,875 |
| 2023 | 735,000 | 5.000% | 783,031 | 1,518,031 |
| 2024 | 770,000 | 5.000% | 746,281 | 1,516,281 |
| 2025 | 810,000 | 5.000% | 707,781 | 1,517,781 |
| 2026 | 850,000 | 5.000% | 667,281 | 1,517,281 |
| 2027 | 890,000 | 5.000% | 624,781 | 1,514,781 |
| 2028 | 935,000 | 5.000% | 580,281 | 1,515,281 |
| 2029 | 985,000 | 5.000% | 533,531 | 1,518,531 |
| 2030 | 1,035,000 | 5.000% | 484,281 | 1,519,281 |
| 2031 | 1,085,000 | 5.000% | 432,531 | 1,517,531 |
| 2032 | 1,140,000 | 5.000% | 378,281 | 1,518,281 |
| 2033 | 1,195,000 | 4.375% | 321,281 | 1,516,281 |
| 2034 | 1,250,000 | 5.000% | 269,000 | 1,519,000 |
| 2035 | 1,310,000 | 5.000% | 206,500 | 1,516,500 |
| 2036 | 1,375,000 | 5.000% | 141,000 | 1,516,000 |
| 2037 | 1,445,000 | 5.000% | 72,254 | 1,517,254 |
| Balance, June 30, 2012 | <u>\$ 21,550,000</u> | | <u>\$ 16,220,433</u> | <u>\$ 37,770,433</u> |

Dated: February 1, 2007

Payment Dates: February 1

Interest Payment Dates: February 1 and August 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE REFUNDING BONDS - SERIES 2008
JUNE 30, 2012**

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|-------------------------------|----------------------------|--------------------------|--------------------------|----------------------------|
| 2013 | \$ 445,000 | 3.000% | \$ 104,658 | \$ 549,658 |
| 2014 | 460,000 | 3.000% | 91,083 | 551,083 |
| 2015 | 470,000 | 3.100% | 76,898 | 546,898 |
| 2016 | 485,000 | 3.250% | 61,731 | 546,731 |
| 2017 | 505,000 | 3.350% | 45,391 | 550,391 |
| 2018 | 520,000 | 3.450% | 27,963 | 547,963 |
| 2019 | 535,000 | 3.550% | 9,494 | 544,494 |
| Balance, June 30, 2012 | <u>\$ 3,420,000</u> | | <u>\$ 417,218</u> | <u>\$ 3,837,218</u> |

Dated: May 1, 2008

Payment Dates: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE BONDS - SERIES 2010
JUNE 30, 2012

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST RATE</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|-----------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|
| 2013 | \$ 130,000 | 2.000% | \$ 103,288 | \$ 233,288 |
| 2014 | 130,000 | 2.000% | 100,688 | 230,688 |
| 2015 | 135,000 | 2.000% | 98,038 | 233,038 |
| 2016 | 135,000 | 2.000% | 95,338 | 230,338 |
| 2017 | 140,000 | 2.000% | 92,588 | 232,588 |
| 2018 | 145,000 | 2.250% | 89,556 | 234,556 |
| 2019 | 145,000 | 4.000% | 85,025 | 230,025 |
| 2020 | 150,000 | 4.000% | 79,125 | 229,125 |
| 2021 | 160,000 | 3.000% | 73,725 | 233,725 |
| 2022 | 160,000 | 3.250% | 68,725 | 228,725 |
| 2023 | 170,000 | 3.500% | 63,150 | 233,150 |
| 2024 | 175,000 | 3.500% | 57,113 | 232,113 |
| 2025 | 180,000 | 3.500% | 50,900 | 230,900 |
| 2026 | 185,000 | 3.750% | 44,281 | 229,281 |
| 2027 | 195,000 | 3.750% | 37,156 | 232,156 |
| 2028 | 200,000 | 3.750% | 29,750 | 229,750 |
| 2029 | 210,000 | 4.000% | 21,800 | 231,800 |
| 2030 | 215,000 | 4.000% | 13,300 | 228,300 |
| 2031 | 225,000 | 4.000% | 4,500 | 229,500 |
| Balance, June 30, 2012 | <u>\$ 3,185,000</u> | | <u>\$ 1,208,046</u> | <u>\$ 4,393,046</u> |

Dated: December 1, 2010

Payment Dates: December 1

Interest Payment Dates: June 1 and December 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF FIXED ASSETS
YEAR ENDED JUNE 30, 2012

Fixed Assets

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Transfers/ Additions</u> | <u>Transfers/ Disposals</u> | <u>Balance</u> <u>June 30, 2012</u> |
|-----------------------------|--|---------------------------------|---------------------------------|--|
| Land | \$ 663,254 | \$ - | \$ - | \$ 663,254 |
| Office equipment | 689,213 | 40,852 | (113,384) | 616,681 |
| Vehicles | 905,747 | 21,718 | (25,766) | 901,699 |
| Shop equipment | 90,384 | 3,027 | - | 93,411 |
| Field equipment | 1,545,923 | 39,372 | (35,778) | 1,549,517 |
| Radio equipment | 72,331 | - | (2,540) | 69,791 |
| Water meters | 1,305,227 | 89,266 | - | 1,394,493 |
| Laboratory equipment | 38,627 | - | (38,627) | - |
| Sewer system | 42,266,898 | 350,532 | - | 42,617,430 |
| Pollution control facility | 50,172,145 | 61,208 | (242,014) | 49,991,339 |
| Structures and parking lots | 1,381,831 | 195,698 | - | 1,577,529 |
| Easements | 1,132,499 | - | - | 1,132,499 |
| Contributed sewer system | 30,041,378 | 215,842 | - | 30,257,220 |
| | <u>130,305,457</u> | <u>1,017,515</u> | <u>(458,109)</u> | <u>130,864,863</u> |
| Construction in progress | <u>618,278</u> | <u>3,347,088</u> | <u>(331,258)</u> | <u>3,634,108</u> |
| | <u>\$ 130,923,735</u> | <u>\$ 4,364,603</u> | <u>\$ (789,367)</u> | <u>\$ 134,498,971</u> |

Accumulated Depreciation

| | | | | |
|-----------------------------|----------------------|---------------------|---------------------|----------------------|
| Office equipment | \$ 540,400 | \$ 55,319 | \$ (113,384) | \$ 482,335 |
| Vehicles | 752,021 | 49,107 | (25,766) | 775,362 |
| Shop equipment | 87,551 | 1,426 | - | 88,977 |
| Field equipment | 1,269,223 | 67,465 | (35,778) | 1,300,910 |
| Radio equipment | 64,743 | 1,990 | (2,540) | 64,193 |
| Water meters | 505,336 | 54,604 | - | 559,940 |
| Laboratory equipment | 38,627 | - | (38,627) | - |
| Sewer system | 10,070,888 | 829,464 | - | 10,900,352 |
| Pollution control facility | 11,509,454 | 1,410,626 | (201,169) | 12,718,911 |
| Structures and parking lots | 508,720 | 72,249 | - | 580,969 |
| Contributed sewer system | 3,023,718 | 602,353 | - | 3,626,071 |
| | <u>\$ 28,370,681</u> | <u>\$ 3,144,603</u> | <u>\$ (417,264)</u> | <u>\$ 31,098,020</u> |

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF FIXED ASSETS
YEAR ENDED JUNE 30, 2011

Fixed Assets

| | <u>Balance</u> <u>June 30, 2010</u> | <u>Transfers/</u> <u>Additions</u> | <u>Transfers/</u> <u>Disposals</u> | <u>Balance</u> <u>June 30, 2011</u> |
|-----------------------------|--|---------------------------------------|---------------------------------------|--|
| Land | \$ 663,254 | \$ - | \$ - | \$ 663,254 |
| Office equipment | 688,439 | 42,783 | (42,009) | 689,213 |
| Vehicles | 1,031,268 | 282 | (125,803) | 905,747 |
| Shop equipment | 93,530 | 303 | (3,449) | 90,384 |
| Field equipment | 1,535,950 | 34,273 | (24,300) | 1,545,923 |
| Radio equipment | 71,511 | 820 | - | 72,331 |
| Water meters | 1,225,397 | 79,830 | - | 1,305,227 |
| Laboratory equipment | 38,627 | - | - | 38,627 |
| Sewer system | 40,808,458 | 1,458,440 | - | 42,266,898 |
| Pollution control facility | 50,371,008 | 70,524 | (269,387) | 50,172,145 |
| Structures and parking lots | 1,297,065 | 84,766 | - | 1,381,831 |
| Easements | 1,128,699 | 3,800 | - | 1,132,499 |
| Contributed sewer system | 29,185,344 | 856,034 | - | 30,041,378 |
| | 128,138,550 | 2,631,855 | (464,948) | 130,305,457 |
| Construction in progress | 92,460 | 1,891,069 | (1,365,251) | 618,278 |
| | <u>\$ 128,231,010</u> | <u>\$ 4,522,924</u> | <u>\$ (1,830,199)</u> | <u>\$ 130,923,735</u> |

Accumulated Depreciation

| | | | | |
|-----------------------------|----------------------|---------------------|---------------------|----------------------|
| Office equipment | \$ 525,294 | \$ 57,116 | \$ (42,010) | \$ 540,400 |
| Vehicles | 823,289 | 54,536 | (125,804) | 752,021 |
| Shop equipment | 89,883 | 1,117 | (3,449) | 87,551 |
| Field equipment | 1,223,890 | 69,633 | (24,300) | 1,269,223 |
| Radio equipment | 62,876 | 1,867 | - | 64,743 |
| Water meters | 454,458 | 50,878 | - | 505,336 |
| Laboratory equipment | 38,627 | - | - | 38,627 |
| Sewer system | 9,257,666 | 813,222 | - | 10,070,888 |
| Pollution control facility | 10,351,746 | 1,427,096 | (269,388) | 11,509,454 |
| Structures and parking lots | 446,578 | 62,142 | - | 508,720 |
| Contributed sewer system | 2,432,758 | 590,960 | - | 3,023,718 |
| | <u>\$ 25,707,065</u> | <u>\$ 3,128,567</u> | <u>\$ (464,951)</u> | <u>\$ 28,370,681</u> |

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
 A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
 SCHEDULE OF SEWER SYSTEM RATES
 JUNE 30, 2012**

| <u>MONTHLY SEWER RATES FOR CUSTOMERS</u> | <u>INSIDE CITY</u> | <u>OUTSIDE CITY</u> | <u>LOWELL, ARKANSAS</u> |
|--|--------------------|---------------------|-----------------------------|
| Flat rate of | \$ 11.10 | \$ 14.50 | \$ 13.32 |
| In addition to (up to 100,000) | \$ 3.86 / thousand | \$ 5.03 / thousand | \$ 4.63 / thousand |
| All over 100,000 | \$ 3.81 / thousand | \$ 5.03 / thousand | \$ 4.57 / thousand |

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF SEWER CUSTOMERS
YEARS ENDED JUNE 30, 2012 AND 2011**

| <u>SEWER CUSTOMER CLASSIFICATIONS</u> | <u>NUMBER OF CUSTOMERS</u> <u>2012</u> | <u>2011</u> |
|---------------------------------------|---|----------------------|
| Residential customers | 18,767 | 18,466 |
| Commerical customers | 1,574 | 1,563 |
| Industrial customers | <u>35</u> | <u>35</u> |
| Total | <u><u>20,376</u></u> | <u><u>20,064</u></u> |

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF BILLABLE GALLONS
YEARS ENDED JUNE 30, 2012 AND 2011**

| <u>BILLABLE GALLONS CLASSIFICATIONS</u> | <u>NUMBER OF BILLABLE GALLONS</u> | |
|---|-----------------------------------|-----------------------------|
| | <u>2012</u> | <u>2011</u> |
| Residential customers | 950,669,400 | 902,075,400 |
| Commerical customers | 407,657,100 | 384,195,500 |
| Industrial customers | <u>491,699,700</u> | <u>485,741,800</u> |
| Total | <u><u>1,850,026,200</u></u> | <u><u>1,772,012,700</u></u> |

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER
MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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 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 year ended June 30, 2012 as shown in the table of contents and have issued our report thereon dated August 2, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Sewer Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sewer Department's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sewer Department's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the City Council, the Mayor, the Waterworks and Sewer Commission, and applicable bonding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Rogers, Arkansas
August 2, 2012