

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
JUNE 30, 2013 AND 2012  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

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, 2013 and 2012, and the related notes to the financial statements which collectively comprise the Sewer Department's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Sewer Department's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Sewer Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates

made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Rogers Water Utilities Sewer Department** as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

As discussed in Note 1, the financial statements present only the **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.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the Sewer Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America as of and for the years ended June 30, 2013 and 2012. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have issued our report dated August 28, 2013 on our consideration of the Sewer Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



BEALL BARCLAY & COMPANY, PLC  
Certified Public Accountants

Rogers, Arkansas  
August 28, 2013

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013, 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, 2013, 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 \$3,101,000 or 3.7%, over fiscal year 2012. Net assets increased by \$2,662,000 or 3.3% in 2012 over 2011.
- Sewer Department operating revenues increased by \$260,000, or 2.4% in 2013. Operating revenues increased \$215,000 or 2.0% in 2012 over 2011.
- Operating expenses increased by \$91,000, or 1.3% from 2012. Operating expenses increased by \$163,000 or 2.4% in 2012 over 2011.
- Net assets increased by \$2,715,000 before capital contributions during fiscal year 2013. In fiscal year 2012, net assets before capital contributions increased by \$2,445,000.
- During fiscal year 2013, the Sewer Department implemented GASB 65 (refer to note one in the notes to the financial statements for more information).

**Rogers Sewer Department Fiscal Year 2013 Highlights**

- Exceeded budgeted and prior year operating results with the help of a dry fall.
- Participated with other local cities in an intergovernmental work group regarding phosphorus in the Illinois River.
- Completed the remodeling of the utility training center and record retentions/storage facility.
- While the number of customers increased by 480 or 2.4% from the prior year, overall billed sewer consumption decreased by 0.6% for fiscal year 2013.
- Continued with the installation of the \$3.5 million dollar sludge dryer. At the end of fiscal year 2013, some performance testing remained to be completed, but the sludge dryer was placed in service in July 2013.
- Revenue from access and impact fees exceeded both the prior year and budgeted amounts. New construction in Rogers appears to be recovering after being sluggish during the recession.
- In May 2013, the 1995 ADFA bonds were paid off in their entirety. The bonds were paid off using sewer department reserves and resulted in significant savings in interest expense.

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**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 customer 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.
- 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.

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- 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.
- 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, 2013, 2012, AND 2011**

**Financial Highlights**

**Assets, Liabilities and Net Assets**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>			
Total current assets	\$ 12,273,488	\$ 14,664,507	\$ 13,505,153
Restricted cash and investments	4,077,634	4,738,076	6,575,365
Other noncurrent assets	103,007,504	103,458,400	103,371,388
Total assets	<u>\$ 119,358,626</u>	<u>\$ 122,860,983</u>	<u>\$ 123,451,906</u>
<b>Liabilities</b>			
Total current liabilities	\$ 3,129,120	\$ 3,865,425	\$ 3,784,423
Liabilities payable from restricted assets	478,902	542,535	566,536
Noncurrent liabilities	29,815,519	35,618,973	38,252,599
Total liabilities	<u>\$ 33,423,541</u>	<u>\$ 40,026,933</u>	<u>\$ 42,603,558</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 71,254,519	\$ 65,177,065	\$ 61,782,559
Restricted	3,598,732	4,195,541	6,008,829
Unrestricted	11,081,834	13,461,444	13,056,960
Total net assets	<u>\$ 85,935,085</u>	<u>\$ 82,834,050</u>	<u>\$ 80,848,348</u>
<b>Operating Results and Changes in Net Assets</b>			
Operating revenues	<u>\$ 11,131,042</u>	<u>\$ 10,871,326</u>	<u>\$ 10,656,048</u>
<b>Operating expenses</b>			
Depreciation and amortization	3,182,515	3,215,704	3,202,523
Other operating expenses	3,901,314	3,777,356	3,627,238
Total operating expenses	<u>7,083,829</u>	<u>6,993,060</u>	<u>6,829,761</u>
Operating income	<u>4,047,213</u>	<u>3,878,266</u>	<u>3,826,287</u>
<b>Other revenues (expenses)</b>			
Interest expense	(1,394,674)	(1,502,145)	(1,585,834)
Other income (expenses)	62,773	69,016	160,339
Total other revenues (expenses)	<u>(1,331,901)</u>	<u>(1,433,129)</u>	<u>(1,425,495)</u>
Changes in net assets before capital contributions	2,715,312	2,445,137	2,400,792
Capital Contributions	<u>385,723</u>	<u>216,440</u>	<u>857,237</u>
Change in Net Assets	3,101,035	2,661,577	3,258,029
Net Assets, Beginning of Year	<u>82,834,050</u>	<u>80,172,473</u>	<u>77,590,319</u>
Net Assets, End of Year	<u>\$ 85,935,085</u>	<u>\$ 82,834,050</u>	<u>\$ 80,848,348</u>
Implementation of GASB 65			<u>(675,875)</u>
Net Assets, Restated			<u>\$ 80,172,473</u>

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**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2013, the Sewer Department's investment in capital assets was \$102,966,000 (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 \$1,497,000 during fiscal year 2013 included construction in progress on the sludge dryer, sewer rehab projects, and completion of the remodeling of the training center building. \$1,528,000 of constructed assets were completed and placed in service. In addition, \$384,000 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 2012, the Sewer Department had construction of \$3,347,000 and contributed capital of \$216,000, and in 2011, construction of \$1,891,000 and contributed capital of \$856,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$868,000 in 2013, as compared to \$431,000 in 2012 and \$410,000 in 2011.

Additional information regarding capital assets can be found on Note 9 of this report.

**Long-Term Debt**

The Sewer Department had \$31,044,000 in revenue bonds outstanding as of June 30, 2013, which is a decrease of \$6,484,000 from 2012 resulting from principal payments. This includes paying off the 1995 ADFA bonds early, in their entirety. Revenue bonds outstanding as of June 30, 2012 were \$37,528,000 which is a decrease of \$2,518,000 from 2011 resulting from principal payments.

Additional information regarding long-term debt can be found at Note 11 of this report.

**Additional Management Comments**

The drought which began in 2010 seems to have subsided in the spring of 2013. However, the drought in the fall of 2012 impacted the financial position of the Rogers Sewer Department quite favorably. Many Sewer Department customers do not have

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separate irrigation (water only, no sewer) meters, so increased water consumption during the drought resulted in increased sewer consumption. Sewer consumption in July and August surpassed the previous year, however, the more rainy spring resulted in a 0.6% overall decrease in sewer consumption in fiscal year 2013. The focus on controlling expenses continues. 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 2013 was the retirement in April 2012 of long time Utility Superintendent, Tom McAlister. Mr. McAlister was the Superintendent of the Utility for 28 years. An interim superintendent was appointed at the end of March of 2012, and in September of 2012 the Rogers Waterworks and Sewer Commission hired a new superintendent. The new superintendent notified the Commission that he was resigning in June 2013, and the Commissioners appointed Earl Rausch, Utility Engineer as Interim Superintendent until the Superintendent position is filled.

The Rogers Sewer Department funded some capital improvements out of reserves in fiscal year 2013. 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 was placed in service in July 2013. Completed capital projects included Phase I Sewer Rehab and the remodeling of the Training Center Building. Projects in process at the end of the year included Phase II Sewer Rehab and completion of the sludge dryer installation. Phase II and Phase III Sewer Rehab as well as the sewer main projects to aid the City of Rogers street projects are expected to proceed in fiscal year 2014.

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 seems to be increasing. 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 noncompliant meters in our system.

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The 1995 ADFA bonds were paid off early in May 2013. Sewer Department reserves were used to pay off the bonds. While the result was a decrease in sewer department reserves, a significant savings in interest expense will result. Utility staff is evaluating the possibility of paying off the 1996 ADFA bonds as well. The outstanding balance on the 1996 bonds is \$3.9 million as of June 30, 2013. Future capital expenditure needs will determine whether it is feasible to pay off the 1996 bonds in fiscal year 2014.

The Total Maximum Daily Load (TMDL) study being conducted by the United States Environmental Protection Agency (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**  
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**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2013 AND 2012**

	<b>ASSETS</b>	
	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,123,506	\$ 2,418,984
Investments	8,735,274	10,804,262
Accounts receivable, net of allowance for doubtful accounts of \$250,500 and \$249,500, respectively	1,307,709	1,337,744
Accrued interest receivable	2,410	5,732
Inventory	68,046	65,837
Prepaid expenses	36,543	31,948
	<hr/>	<hr/>
Total Current Assets	12,273,488	14,664,507
 <b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	737,496	1,044,631
Investments	3,340,049	3,693,330
Accrued interest receivable	89	115
	<hr/>	<hr/>
Total Restricted Cash and Investments	4,077,634	4,738,076
 <b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<hr/>	<hr/>
	102,965,889	103,400,951
 <b>OTHER ASSETS</b>		
Forbearance agreement receivable	41,615	57,449
	<hr/>	<hr/>
Total Assets	<u>\$ 119,358,626</u>	<u>\$ 122,860,983</u>

See Independent Auditors' Report and Notes to Financial Statements.

## LIABILITIES AND NET ASSETS

	2013	2012
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 188,950	\$ 124,727
Accounts payable to construction contractors	535,859	450,973
Accrued expenses	362,586	382,082
Accrued vouchers	108,797	132,911
Due to water department	37,077	169,819
Current portion of bonds payable	<u>1,895,851</u>	<u>2,604,913</u>
 Total Current Liabilities	 <u>3,129,120</u>	 <u>3,865,425</u>
 <b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accrued interest payable	<u>478,902</u>	<u>542,535</u>
 Total Liabilities Payable From Restricted Assets	 <u>478,902</u>	 <u>542,535</u>
 <b>BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS</b>	 <u>29,815,519</u>	 <u>35,618,973</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	71,254,519	65,177,065
Restricted	3,598,732	4,195,541
Unrestricted	<u>11,081,834</u>	<u>13,461,444</u>
 Total Net Assets	 <u>85,935,085</u>	 <u>82,834,050</u>
 Total Liabilities and Net Assets	 <u>\$ 119,358,626</u>	 <u>\$ 122,860,983</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Residential sewer	\$ 6,263,740	\$ 6,194,460
Commercial sewer	1,866,145	1,774,666
Industrial sewer	1,708,667	1,875,458
Penalties	138,716	138,163
Access, impact and new customer fees	1,051,751	795,406
Other operating revenue	<u>102,023</u>	<u>93,173</u>
 Total Operating Revenues	 <u>11,131,042</u>	 <u>10,871,326</u>
<b>OPERATING EXPENSES</b>		
Pollution control facility and field expense	2,690,426	2,624,147
General and administrative	1,210,888	1,153,209
Depreciation and amortization	<u>3,182,515</u>	<u>3,215,704</u>
 Total Operating Expenses	 <u>7,083,829</u>	 <u>6,993,060</u>
<b>OPERATING INCOME</b>	<u>4,047,213</u>	<u>3,878,266</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	45,156	72,668
Gain on disposal of fixed assets	27,617	6,348
Interest expense	(1,394,674)	(1,502,145)
Trustee fees	<u>(10,000)</u>	<u>(10,000)</u>
 Total Other Revenues (Expenses)	 <u>(1,331,901)</u>	 <u>(1,433,129)</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	 2,715,312	 2,445,137
<b>CAPITAL CONTRIBUTIONS</b>	<u>385,723</u>	<u>216,440</u>
<b>CHANGE IN NET ASSETS</b>	3,101,035	2,661,577
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>82,834,050</u>	<u>80,172,473</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 85,935,085</u>	<u>\$ 82,834,050</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,868,587	\$ 9,691,395
Cash received from access, impact and new customer fees	1,030,542	644,106
Cash received from penalties and other operating revenue	240,739	231,336
Payments for salaries and benefits	(1,931,511)	(1,820,669)
Payments to suppliers for goods and services	<u>(2,067,527)</u>	<u>(1,732,476)</u>
Net Cash From Operating Activities	<u>7,140,830</u>	<u>7,013,692</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(2,278,154)	(3,778,277)
Cash received from sale of fixed assets	28,927	8,565
Principal payments on bonds	(6,483,802)	(2,517,896)
Interest and paying agent fees, net of capitalized interest	(1,497,021)	(1,564,859)
Collection of forbearance agreement	<u>15,834</u>	<u>13,909</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(10,214,216)</u>	<u>(7,838,558)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	48,478	83,393
Net change in investments	2,068,988	(572,567)
Net change in restricted investments	<u>353,281</u>	<u>2,083,743</u>
Net Cash From Investing Activities	<u>2,470,747</u>	<u>1,594,569</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(602,639)	769,703
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,463,615</u>	<u>2,693,912</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,860,976</u>	<u>\$ 3,463,615</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 2,123,506	\$ 2,418,984
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>737,496</u>	<u>1,044,631</u>
	<u>\$ 2,861,002</u>	<u>\$ 3,463,615</u>

See Independent Auditors' Report and Notes to Financial Statements.



	2013	2012
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating Income	<u>\$ 4,047,213</u>	<u>\$ 3,878,266</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	3,182,515	3,215,704
Allowance for doubtful accounts	1,000	9,500
Redeemed vouchers	(21,209)	(151,300)
Changes in assets and liabilities:		
Accounts receivable	29,035	(162,689)
Inventory	(2,209)	4,551
Prepaid expenses	(4,595)	(1,138)
Accounts payable	64,223	(52,940)
Accrued expenses	(19,496)	22,406
Due to/from water department	<u>(135,647)</u>	<u>251,332</u>
Total adjustments	<u>3,093,617</u>	<u>3,135,426</u>
Net Cash From Operating Activities	<u>\$ 7,140,830</u>	<u>\$ 7,013,692</u>
<b>NONCASH TRANSACTIONS</b>		
Capital contributions	<u>\$ 385,723</u>	<u>\$ 216,440</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, 2013 AND 2012**

**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.

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

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**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, 2013 and 2012, 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.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Long-Lived Assets***

The Sewer Department reviews long-lived assets and certain identifiable intangibles held and used by the Sewer Department for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended June 30, 2013 and 2012, this review 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, 2013 and 2012, cumulative contributed capital fixed assets amounted to approximately \$30,641,000 and \$30,257,000, 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, 2013 and 2012 amounted to approximately \$4,100,000 and \$4,200,000, 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 is included as a component of interest expense for each of the years ended June 30, 2013 and 2012.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Compensated Absences***

The Sewer Department's policies permit employees to earn time off benefits. The expense and related liability are recognized and accrued regardless of whether the employee is expected to realize the benefit. Compensated absences are computed using the regular pay rate in effect at June 30, 2013 and 2012.

***Implementation of GASB 65 – Prior Year Financial Statements Restated***

During the year ended June 30, 2013, the Sewer Department adopted GASB 65 which 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. GASB 65 states that debt issuance costs should be expensed as incurred and accounting changes should be applied retroactively by restatement of the beginning net asset position. Accordingly, the effect of this change was to remove \$675,875 of unamortized bond issuance costs from other assets and a corresponding reduction of unrestricted net assets as of July 1, 2011.

***Current Accounting Developments***

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 of GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions and GASB 62.

In June 2012, the GASB issued Statement Number 67 (GASB 67), Financial Reporting for Pension Plans – An amendment of GASB Statement No.25, effective for periods beginning after June 15, 2013. GASB 67 is intended to improve the accounting and financial reporting for public employee pensions by state and local governments. GASB 67 replaces the requirements of GASB Statement No. 25 and GASB Statement No. 50, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

In June 2012, the GASB issued Statement Number 68 (GASB 68), Accounting and Financial Reporting for Pensions, effective for periods beginning after June 15, 2014. GASB 68 is intended to improve the accounting and financial reporting for public employee pensions by state and local governments. GASB 68 replaces the requirements of GASB Statement No. 27 and GASB Statement No. 50, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Current Accounting Developments - Continued***

Management is currently evaluating the impact of implementation of these statements to the financial statements of the Sewer Department, and does not expect the implementation of these statements to significantly impact the financial statements of the Sewer Department.

***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, 2013, the Sewer Department had approximately \$2,861,000 in deposit balances reported as cash and cash equivalents in the Statements of Net Assets, of which approximately \$750,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities’ name. Additionally, the Sewer Department had approximately \$9,565,000 in certificates of deposit reported as investments in the Statements of Net Assets, of which all were FDIC insured.

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**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, 2013 and 2012 are shown in the Statements of Net Assets under the caption Due to water department.

**NOTE 4: RESTRICTED CASH AND INVESTMENTS**

Restricted cash and investments are held for specific purposes at June 30, 2013 and 2012 as follows:

	2013	2012
Construction	\$ 405,212	\$ 799,470
Debt service reserve	2,164,487	2,399,206
Depreciation reserve for additional replacements to the sewer system	1,323,328	1,375,863
New customer fees collected for additions of fixed assets	184,518	163,422
Accrued interest	<u>89</u>	<u>115</u>
	<u>\$ 4,077,634</u>	<u>\$ 4,738,076</u>

**NOTE 5: RELATED PARTIES**

The Sewer Department maintained deposits and certificates of deposit with banks whose officers served on the Commission of the Rogers Water Utilities. At June 30, 2012, these deposits amounted to approximately \$8,164,000. As of June 30, 2013, no commission members were employed by banks used by the Sewer Department.

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**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% per year and amortized to December 2015. The balance of \$41,615 and \$57,449 reported in the Statements of Net Assets as of June 30, 2013 and 2012, 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.

**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, 2013, investments of the Sewer Department were fully collateralized or insured.



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**NOTE 8: INVESTMENTS – CONTINUED**

At June 30, 2013 and 2012, the Sewer Department's investments consisted of \$9,564,658 and \$11,630,638, respectively, held in certificates of deposit and \$2,510,665 and \$2,866,954, respectively, held in United States Government securities. All investments at June 30, 2013 and 2012 had maturities of less than one year.

**NOTE 9: CHANGES IN FIXED ASSETS**

	<u>Balance June 30, 2012</u>	<u>Transfers/ Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2013</u>
Land	\$ 1,795,753	\$ -	-	\$ 1,795,753
Buildings	51,568,868	155,426	(41,635)	51,682,659
Equipment	46,341,323	1,849,725	(118,722)	48,072,326
Vehicles	901,699	390,569	(181,208)	1,111,060
Contributed property	30,257,220	383,820	-	30,641,040
Construction in progress	<u>3,634,108</u>	<u>1,497,213</u>	<u>(1,527,990)</u>	<u>3,603,331</u>
	134,498,971	4,276,753	(1,869,555)	136,906,169
Accumulated depreciation	<u>(31,098,020)</u>	<u>(3,182,515)</u>	<u>340,255</u>	<u>(33,940,280)</u>
	<u>\$ 103,400,951</u>	<u>\$ 1,094,238</u>	<u>\$ (1,529,300)</u>	<u>\$102,965,889</u>

	<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	<u>618,278</u>	<u>3,347,088</u>	<u>(331,258)</u>	<u>3,634,108</u>
	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>

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**NOTE 10: COMMITMENTS AND CONCENTRATIONS**

The Sewer Department is committed to several construction contracts in process at June 30, 2013 totaling \$5,337,853. As of June 30, 2013, \$4,466,572 had been incurred in connection with these contracts.

During the years ended June 30, 2013 and 2012, the Sewer Department had an industrial customer who made up 5.67% and 8.34%, respectively, of accounts receivable. For the years ended June 30, 2013 and 2012, this customer also accounted for 14.26% and 10.46%, respectively, of total usage.

**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. During the year ended June 30, 2013, the Department paid the outstanding balance in full. As of June 30, 2012, the outstanding principal was \$4,650,943.

***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, 2013 and 2012, the outstanding principal was \$3,928,868 and \$4,721,728, respectively.

***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 and interest payments due in February and August of each year. As of June 30, 2013 and 2012, the outstanding principal was \$21,085,000 and \$21,550,000, 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, 2013 and 2012, the outstanding principal was \$2,975,000 and \$3,420,000, respectively.

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**NOTE 11: BONDS PAYABLE – CONTINUED**

**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, 2013 and 2012, the outstanding principal was \$3,055,000 and \$3,185,000, 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, 2013 and 2012, is 2.39 and 1.77, respectively. Total interest paid during the years ended June 30, 2013 and 2012 totaled \$1,591,521 and \$1,663,659, respectively. Total interest capitalized during the years ended June 30, 2013 and 2012 totaled \$104,500 and \$108,800, 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, 2013 and 2012.

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

<b>Year Ending</b>			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,895,850	\$ 1,329,442	\$ 3,225,292
2015	1,954,831	1,262,408	3,217,239
2016	1,999,836	1,194,536	3,194,372
2017	2,105,899	1,122,508	3,228,407
2018	1,727,452	1,045,823	2,773,275
2019-2023	4,700,000	4,585,012	9,285,012
2024-2028	5,190,000	3,545,605	8,735,605
2029-2033	6,090,000	2,189,505	8,279,505
2034-2037	<u>5,380,000</u>	<u>688,754</u>	<u>6,068,754</u>
Total	<u>\$ 31,043,868</u>	<u>\$ 16,963,593</u>	<u>\$ 48,007,461</u>

**Bond Issuance Costs**

Bond issuance costs are costs incurred in connection with the issuance of various bonds and were being amortized on the straight-line method over the lives of the related bond issues. As a result of implementing GASB 65 (see Note 1), the Sewer Department did not record the amortization of bond issuance costs for the year ended June 30, 2013. Amortization expense amounted to \$71,101 for the year ended June 30, 2012.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 11: BONDS PAYABLE – CONTINUED**

Following is a summary of changes in bonds payable:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Revenue Improvement Bonds, Series 1995	\$ 4,650,943	\$ -	\$ 4,650,943	\$ -	\$ -
Revenue Improvement Bonds, Series 1996	4,721,728	-	792,860	3,928,868	820,851
Revenue Improvement Bonds, Series 2007	21,550,000	-	465,000	21,085,000	485,000
Revenue Refunding Bonds, Series 2008	3,420,000	-	445,000	2,975,000	460,000
Revenue Bonds, Series 2010	3,185,000	-	130,000	3,055,000	130,000
Plus premiums	725,296	-	30,292	695,004	-
Less discounts	(29,081)	-	(1,579)	(27,502)	-
	<u>\$38,223,886</u>	<u>\$ -</u>	<u>\$ 6,512,516</u>	<u>\$ 31,711,370</u>	<u>\$ 1,895,851</u>

	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>

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

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](http://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, 2013 and 2012, the rate is 14.24% and 13.47%, respectively, of annual covered payroll. Effective July 1, 2013, the rate is 14.88% 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, 2013, 2012 and 2011 totaled \$193,831, \$178,948 and \$164,836, respectively. Employee contributions for the years ended June 30, 2013, 2012 and 2011 totaled \$22,118, \$18,922 and \$17,938, respectively.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 12: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Annual Pension Cost**

For the years ended June 30, 2013 and 2012, the Sewer Department's annual pension cost of \$193,831 and \$178,948, 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, 2012 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, 2012 was 30 years.

**Schedule of Funding Progress (\$ Millions)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Entry Age Actuarial Accrued Liability (b)</b>	<b>Unfunded Accrued Liability (UAL) (b - a)</b>
June 30, 2010	\$ 5,409	\$ 7,304	\$ 1,895
June 30, 2011	5,467	7,734	2,267
June 30, 2012	5,625	8,163	2,538

  

<b>Actuarial Valuation Date</b>	<b>Annual Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAL as of % of Covered Payroll ((b-a)/c)</b>
June 30, 2010	74.1%	\$ 1,523	124.4%
June 30, 2011	70.7%	1,623	139.7%
June 30, 2012	68.9%	1,686	150.5%

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 12: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**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, 2011	\$ 164,836	100%	\$ -
June 30, 2012	178,948	100%	-
June 30, 2013	193,831	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, 2013 and 2012 were \$48,980 and \$36,914, respectively.

**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, 2013 and 2012 was \$23,075 and \$7,500, respectively. At June 30, 2013 and 2012, there were five and six employees participating in the plan, respectively.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**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, 2013 and 2012 was \$108,797 and \$132,911, 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, 2013, \$2,905 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, 2013 AND 2012**

	2013	2012
<b>POLLUTION CONTROL FACILITY AND</b>		
<b>FIELD EXPENSE</b>		
Employee benefits	\$ 359,361	\$ 317,025
Insurance	40,792	38,025
Operating supplies and other	172,027	217,952
Payroll taxes	70,699	66,836
Repairs and maintenance	224,379	222,094
Salaries	964,073	921,252
Sludge disposal costs	381,721	414,320
Supplies and postage	74,737	82,141
Utilities	402,637	344,502
	<u>2,690,426</u>	<u>2,624,147</u>
 <b>GENERAL AND ADMINISTRATIVE</b>		
Bad debts	46,413	48,229
Consulting services - stream assessment	48,189	44,493
Employee benefits	136,887	136,333
Franchise taxes / use taxes	340,328	333,834
Insurance	2,384	2,186
Office supplies and postage	85,997	81,807
Other	96,882	71,745
Payroll taxes	35,066	35,831
Professional fees	50,659	32,280
Salaries	343,882	341,296
Salaries - commissioners	2,047	2,096
Utilities	22,154	23,079
	<u>1,210,888</u>	<u>1,153,209</u>
 <b>DEPRECIATION</b>	 <u>3,182,515</u>	 <u>3,215,704</u>
 <b>TOTAL OPERATING EXPENSES</b>	 <u><u>\$ 7,083,829</u></u>	 <u><u>\$ 6,993,060</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 1996**  
**JUNE 30, 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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>467,452</u>	2.50%	<u>8,179</u>	<u>475,631</u>
Balance, June 30, 2013	<u>\$ 3,928,868</u>		<u>\$ 351,723</u>	<u>\$ 4,280,591</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, 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2013	<u>\$ 21,085,000</u>		<u>\$ 15,194,552</u>	<u>\$ 36,279,552</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, 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2013	<u>\$ 2,975,000</u>		<u>\$ 312,560</u>	<u>\$ 3,287,560</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, 2013**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
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, 2013	<u>\$ 3,055,000</u>		<u>\$ 1,104,758</u>	<u>\$ 4,159,758</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**  
**SCHEDULES OF FIXED ASSETS**  
**YEARS ENDED JUNE 30, 2013 and 2012**

**2013**

**Fixed Assets**

	<u>Balance June 30, 2012</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2013</u>
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office equipment	616,681	77,544	(76,489)	617,736
Vehicles	901,699	390,569	(181,208)	1,111,060
Shop equipment	93,411	834	-	94,245
Field equipment	1,549,517	57,689	(36,380)	1,570,826
Radio equipment	69,791	7,431	(5,853)	71,369
Water meters	1,394,493	99,057	-	1,493,550
Laboratory equipment	-	-	-	-
Sewer system	42,617,430	1,607,170	-	44,224,600
Pollution control facility	49,991,339	18,163	(41,635)	49,967,867
Structures and parking lots	1,577,529	137,263	-	1,714,792
Easements	1,132,499	-	-	1,132,499
Contributed sewer system	30,257,220	383,820	-	30,641,040
	<u>130,864,863</u>	<u>2,779,540</u>	<u>(341,565)</u>	<u>133,302,838</u>
Construction in progress	<u>3,634,108</u>	<u>1,497,213</u>	<u>(1,527,990)</u>	<u>3,603,331</u>
	<u>\$ 134,498,971</u>	<u>\$ 4,276,753</u>	<u>\$ (1,869,555)</u>	<u>\$ 136,906,169</u>

**Accumulated Depreciation**

Office equipment	\$ 482,335	\$ 52,267	\$ (76,489)	\$ 458,113
Vehicles	775,362	65,666	(181,208)	659,820
Shop equipment	88,977	1,614	-	90,591
Field equipment	1,300,910	62,540	(36,380)	1,327,070
Radio equipment	64,193	2,857	(5,853)	61,197
Water meters	559,940	58,022	-	617,962
Laboratory equipment	-	-	-	-
Sewer system	10,900,352	851,136	-	11,751,488
Pollution control facility	12,718,911	1,402,987	(40,325)	14,081,573
Structures and parking lots	580,969	78,202	-	659,171
Contributed sewer system	3,626,071	607,224	-	4,233,295
	<u>\$ 31,098,020</u>	<u>\$ 3,182,515</u>	<u>\$ (340,255)</u>	<u>\$ 33,940,280</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULES OF FIXED ASSETS**  
**YEARS ENDED JUNE 30, 2013 and 2012**

**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 SEWER SYSTEM RATES  
JUNE 30, 2013**

<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, 2013 AND 2012**

<u>SEWER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2013</u>	<u>2012</u>
Residential customers	19,199	18,767
Commerical customers	1,623	1,574
Industrial customers	<u>34</u>	<u>35</u>
Total	<u>20,856</u>	<u>20,376</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, 2013 AND 2012**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2013</u>	<u>2012</u>
Residential customers	961,576,900	950,669,400
Commerical customers	431,852,800	407,657,100
Industrial customers	<u>445,718,200</u>	<u>491,699,700</u>
Total	<u><u>1,839,147,900</u></u>	<u><u>1,850,026,200</u></u>

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Waterworks and Sewer Commission  
**Rogers Water Utilities Sewer Department**  
Rogers, Arkansas

We have audited 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, 2013 as shown in the table of contents and have issued our report thereon dated August 28, 2013. 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  
Certified Public Accountants

Rogers, Arkansas  
August 28, 2013