

**ROGERS WATER UTILITIES
WATER DEPARTMENT
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

**ROGERS WATER UTILITIES WATER 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 Water Department
Rogers, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the **Rogers Water Utilities Water Department** ("the Water Department"), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements which collectively comprise the Water Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Water Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Water 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 Water Department** and do not purport to, and do not, present fairly the financial position of the Rogers Water Utilities or the City of Rogers, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 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 Water Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America 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 Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 28, 2013

ROGERS WATER UTILITIES WATER 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 Water Department (Water Department) provides an overview of the Water 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 Water Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

Financial Highlights Discussion

- The Water Department's net assets increased by \$1,222,000 or 2.0%, over fiscal year 2012. Net assets increased by \$223,000 or 0.4% in fiscal year 2012 over 2011.
- Water Department operating revenues decreased by \$28,000, or 0.3% from 2012. Operating Revenues increased \$641,000 or 7.3% in 2012 over 2011.
- Operating expenses increased by \$37,000, or 0.5% from 2012. Operating Expenses increased \$335,000, or 4.4% in 2012 over 2011.
- Net Assets increased by \$440,000 before capital contributions during fiscal year 2013. In fiscal year 2012 Net Assets before capital contributions increased by \$460,000.
- 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 Water Department Fiscal Year 2013 Highlights

- Exceeded budgeted operating results with the help of a dry fall. Fell slightly short of matching prior year operating results.
- Completed the remodeling of the utility training center and record retention/storage facility.
- While the number of customers increased by 636 or 2.24% from the prior year, overall billed water consumption decreased 1.0% for fiscal year 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.
- Absorbed a \$.02/1000 gallons rate increase from Beaver Water District for bulk water purchases.

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Rogers Water Department Fiscal Year 2012 Highlights

- Exceeded budgeted and prior year operating results with the help of a dry fall, spring and summer.
- 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 is necessary in the near future.
- While the number of customers increased by only 430 or 1.54% from the prior year, overall billed water consumption increased by 10.4% for fiscal year 2012.
- Refunded the 2004 Revenue Improvement Bonds and issued \$8,505,000 of 2012 Revenue Refunding Bonds. This resulted in a "insubstance defeasance" of the 2004 Bonds, and a net present value benefit of \$480,000.
- 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 the prior year and budgeted amounts. New construction in Rogers continues to be sluggish.
- Absorbed a \$.02/1000 gallons rate increase from Beaver Water District for bulk water purchases.

Rogers Water Department Fiscal Year 2011 Highlights

- Issued \$224,000 of vouchers as required in the settlement of the class action lawsuit involving access and impact fee. 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.
- Absorbed a \$.02/1000 gallons rate increase from Beaver Water District for bulk water purchases.
- 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.
- Turned a budgeted loss of (\$172,000) to a profit of \$180,000 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. The last year the Water Department showed a profit was fiscal year 2008.
- In spite of Water Department funds increasing by \$671,000, 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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- While the number of customers increased by only 483 or 1.8% from the prior year, overall billed water consumption increased by 4.3%.

Using This Annual Report

The Water 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 Water Department, including resources held by the Water Department but restricted for specific purposes by creditors. The Water Department is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

ROGERS WATER UTILITIES WATER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Highlights

Assets, Liabilities and Net Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Total current assets	\$ 10,725,780	\$ 10,312,314	\$ 9,549,132
Restricted cash and investments	6,462,471	5,980,201	5,905,322
Other noncurrent assets	74,055,077	74,403,209	75,695,938
Total assets	<u>\$ 91,243,328</u>	<u>\$ 90,695,724</u>	<u>\$ 91,150,392</u>
Liabilities			
Total current liabilities	\$ 2,154,645	\$ 2,187,204	\$ 2,264,927
Liabilities payable from restricted assets	1,070,273	1,061,042	1,040,522
Noncurrent liabilities	25,588,381	26,239,584	26,860,485
Total liabilities	<u>\$ 28,813,299</u>	<u>\$ 29,487,830</u>	<u>\$ 30,165,934</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 47,654,811	\$ 47,387,974	\$ 47,591,899
Restricted	5,392,198	4,919,159	4,864,800
Unrestricted	9,383,020	8,900,761	8,527,759
Total net assets	<u>\$ 62,430,029</u>	<u>\$ 61,207,894</u>	<u>\$ 60,984,458</u>
Operating Results and Changes in Net Assets			
Operating revenues	<u>\$ 9,418,426</u>	<u>\$ 9,447,017</u>	<u>\$ 8,806,360</u>
Operating expenses			
Depreciation and amortization	2,074,703	2,100,290	2,073,025
Other operating expenses	5,841,541	5,779,255	5,471,490
Total operating expenses	<u>7,916,244</u>	<u>7,879,545</u>	<u>7,544,515</u>
Operating income	<u>1,502,182</u>	<u>1,567,472</u>	<u>1,261,845</u>
Other revenues (expenses)			
Interest expense	(1,098,553)	(1,166,956)	(1,199,567)
Other income (expenses)	36,286	59,104	117,695
Total other revenues (expenses)	<u>(1,062,267)</u>	<u>(1,107,852)</u>	<u>(1,081,872)</u>
Change in net assets before capital contributions	439,915	459,620	179,973
Capital Contributions	<u>782,220</u>	<u>200,633</u>	<u>1,203,034</u>
Change in Net Assets	1,222,135	660,253	1,383,007
Net Assets, Beginning of Year	<u>61,207,894</u>	<u>60,547,641</u>	<u>59,601,451</u>
Net Assets, End of Year	<u>\$ 62,430,029</u>	<u>\$ 61,207,894</u>	<u>\$ 60,984,458</u>
Implementation of GASB 65			<u>(436,817)</u>
Net Assets, Restated			<u>\$ 60,547,641</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2013, the Water Department's investment in capital assets was \$73,953,000 (net of accumulated depreciation). This investment in capital assets included land, buildings, improvements, machinery and equipment, and contributed property.

Major capital asset events include the following:

- Construction costs of \$673,000 were incurred on a variety of construction projects during 2013. \$711,000 of constructed assets were completed and placed in service, consisting mostly of water main construction and rehabilitation projects and completion of the remodeling of the training center building. In addition, \$727,000 of water mains constructed by developers was contributed to the Water Department to own and maintain. This is recorded as a capital contribution in the statement of revenues, expenses, and changes in net assets. In 2012 the Water Department had construction costs of \$899,000 and contributed capital of \$161,000, and in 2011 construction of \$635,000 and contributed capital of \$1,133,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were \$366,000 in 2013, as compared to \$232,000 in 2012 and \$271,000 in 2011.

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

Long-Term Debt

The Water Department had \$27,275,000 in revenue bonds outstanding as of June 30, 2013, which is a decrease of \$635,000 from 2012. The decrease is due to scheduled principal payments. Revenue bonds outstanding as of June 30, 2012 were \$27,910,000 which was an increase of \$270,000 from 2011. The increase is due to the issuance of \$8,505,000 of 2012 Refunding Bonds that refunded \$7,700,000 of 2004 Water revenue bonds, and other scheduled principal payments of \$535,000.

Additional information regarding long-term debt can be found at Note 10 of this report.

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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 Water Department quite favorably. Water consumption in July and August surpassed the previous year, however the more rainy spring resulted in a 1.0% overall decrease in water consumption in fiscal year 2013. The focus on controlling expenses continues. This, of course, has impacted the bottom line, resulting in operating income slightly less than fiscal year 2012, but exceeding the budget.

Also of significance to the Rogers Water 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 Water Department funded capital improvements out of reserves in fiscal year 2013. Completed projects included 21st Street watermain relocations and 24th street watermain, and the remodeling of the Training Center Building. There are no significant projects in process at the end of the year. Other projects expected in fiscal year 2014 include water main projects to aid the City of Rogers street projects.

Looking ahead, the source of water for all Northwest Arkansas, Beaver Lake, appears to be in good shape, with reserves adequate to meet current needs without additional rate increases at this time. Our water wholesaler, Beaver Water District, is poised to meet the demand of Rogers Water Utility water customers for maximum daily demand twenty years hence. Beaver Water District has implemented a series of rate increases which have not been passed along to our customers. An internal rate study was completed by Utility personal during fiscal year 2012. It indicated a rate increase is necessary in the near future. The drought conditions of the past three years have helped delay a rate increase for the time being. However, the summer of 2013 has proven to be wetter than normal, and additional work on rate studies may be eminent.

The distribution system, storage, and metering systems in Rogers are fairly up-to-date and able to meet anticipated demands. The water distribution system is able to deliver water in sufficient quantities to those who demand it. New construction in Rogers seems to be increasing. Financial reserves appear to be sufficient to enable the Rogers Waterworks and Sewer Commission and Rogers Water Utilities staff to meet most future contingencies.

Water quality issues continue to challenge Beaver Water District and the four cities of Northwest Arkansas that are their customers. Disinfection By-products Rule Phase II

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Total Trihalomethane (TTHM) and Total Haloacetic Acid (THAA) regulations became effective January 1, 2013. Beaver Water District has changed its process to Chlorine Dioxide pre-treatment to reduce the production of these pollutants during the treatment process. The individual cities of NWA will ultimately be responsible for adhering to these regulations and all provisions of the Safe Drinking Water Act. The Arkansas Department of Health is providing classes for continuing education and training to assist the Cities in compliance with these standards.

Also on the horizon 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 Water Department plans to change out all noncompliant meters in our system.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	ASSETS	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,887,015	\$ 2,535,202
Investments	6,115,462	5,658,697
Accounts receivable, net of allowance for doubtful accounts of \$192,500 and \$193,000, respectively	1,426,991	1,685,000
Accrued interest receivable	1,261	1,920
Due from sewer department	37,077	169,819
Inventory	235,251	242,413
Prepaid expenses	22,723	19,263
	<hr/>	<hr/>
Total Current Assets	10,725,780	10,312,314
	<hr/>	<hr/>
RESTRICTED CASH AND INVESTMENTS		
Restricted cash and cash equivalents	606,331	239,099
Investments	5,855,932	5,740,882
Accrued interest receivable	208	220
	<hr/>	<hr/>
Total Restricted Cash and Investments	6,462,471	5,980,201
	<hr/>	<hr/>
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION		
	73,953,192	74,262,558
	<hr/>	<hr/>
OTHER ASSETS		
Forbearance agreement receivable	101,885	140,651
	<hr/>	<hr/>
Total Assets	<u>\$ 91,243,328</u>	<u>\$ 90,695,724</u>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable - trade	\$ 428,144	\$ 471,862
Accounts payable to construction contractors	3,500	63,951
Accounts payable - other	717,916	703,912
Accrued expenses	246,317	251,882
Current portion of bonds payable	710,000	635,000
Accrued vouchers	48,768	60,597
	<u>2,154,645</u>	<u>2,187,204</u>
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer meter deposits	888,913	867,489
Accrued interest payable	181,360	193,553
	<u>1,070,273</u>	<u>1,061,042</u>
 BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS		
	<u>25,588,381</u>	<u>26,239,584</u>
 NET ASSETS		
Invested in capital assets, net of related debt	47,654,811	47,387,974
Restricted	5,392,198	4,919,159
Unrestricted	9,383,020	8,900,761
	<u>62,430,029</u>	<u>61,207,894</u>
 Total Net Assets	<u>62,430,029</u>	<u>61,207,894</u>
 Total Liabilities and Net Assets	<u>\$ 91,243,328</u>	<u>\$ 90,695,724</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Residential water	\$ 5,022,704	\$ 5,139,524
Commercial water	2,105,795	2,068,275
Industrial water	958,390	1,079,651
Sprinkler service / hydrant	37,845	37,248
Service charges and penalties	441,473	446,968
Access / impact / new customer fees	554,225	426,550
Other operating revenue	297,994	248,801
	<hr/>	<hr/>
Total Operating Revenues	9,418,426	9,447,017
	<hr/>	<hr/>
OPERATING EXPENSES		
Water purchased	4,004,682	4,045,239
Plant operations and distribution	1,029,264	970,157
General and administrative	807,595	763,859
Depreciation and amortization	2,074,703	2,100,290
	<hr/>	<hr/>
Total Operating Expenses	7,916,244	7,879,545
	<hr/>	<hr/>
OPERATING INCOME	1,502,182	1,567,472
	<hr/>	<hr/>
OTHER REVENUES (EXPENSES)		
Interest income	40,469	63,586
Gain on disposal of fixed assets	6,617	6,318
Interest expense	(1,098,553)	(1,166,956)
Trustee fees	(10,800)	(10,800)
	<hr/>	<hr/>
Total Other Revenues (Expenses)	(1,062,267)	(1,107,852)
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CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	439,915	459,620
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CAPITAL CONTRIBUTIONS	782,220	200,633
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CHANGE IN NET ASSETS	1,222,135	660,253
	<hr/>	<hr/>
NET ASSETS, BEGINNING OF YEAR	61,207,894	60,547,641
	<hr/>	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 62,430,029</u>	<u>\$ 61,207,894</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 8,382,743	\$ 8,014,073
Cash received from access, impact and new customer fees	539,491	350,647
Cash received from service charges, penalties and other operating revenue	760,891	730,205
Payments for water	(4,076,686)	(3,987,762)
Payments for salaries and benefits	(1,176,846)	(1,151,593)
Payments to suppliers for goods and services	<u>(483,939)</u>	<u>(843,319)</u>
Net Cash From Operating Activities	<u>3,945,654</u>	<u>3,112,251</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(1,043,568)	(1,113,670)
Cash received from sale of fixed assets	6,617	6,318
Cash received from bond issuance	-	8,546,854
Payment of issuance costs	-	(68,406)
Principal payments on bonds	(635,000)	(590,000)
Payment to trust for bond defeasance	-	(8,469,058)
Interest and paying agent fees, net of capitalized interest	(1,062,749)	(1,173,999)
Collections of forbearance agreement	<u>38,766</u>	<u>34,053</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,695,934)</u>	<u>(2,827,908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	41,140	72,132
Net change in investments	(456,765)	(534,953)
Net change in restricted investments	<u>(115,050)</u>	<u>(583,780)</u>
Net Cash (Used for) Investing Activities	<u>(530,675)</u>	<u>(1,046,601)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	719,045	(762,258)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,774,301</u>	<u>3,536,559</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,493,346</u>	<u>\$ 2,774,301</u>
CASH AND CASH EQUIVALENTS RESTRICTED CASH AND CASH EQUIVALENTS	<u>\$ 2,887,015</u>	<u>\$ 2,535,202</u>
	<u>606,331</u>	<u>239,099</u>
	<u>\$ 3,493,346</u>	<u>\$ 2,774,301</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating Income	<u>\$ 1,502,182</u>	<u>\$ 1,567,472</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	2,074,703	2,100,290
Allowance for doubtful accounts	(500)	3,000
Redeemed vouchers	(14,734)	(75,903)
Changes in assets and liabilities:		
Accounts receivable	258,509	(313,625)
Inventory	7,162	(9,785)
Prepaid expenses	(3,460)	97
Accounts payable - trade and other	(29,714)	73,026
Accrued expenses	15,859	19,011
Due to/from sewer department	<u>135,647</u>	<u>(251,332)</u>
Total adjustments	<u>2,443,472</u>	<u>1,544,779</u>
Net Cash From Operating Activities	<u>\$ 3,945,654</u>	<u>\$ 3,112,251</u>
OTHER NONCASH TRANSACTIONS		
Capital contributions	<u>\$ 782,220</u>	<u>\$ 200,633</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 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 Water Department provides water services to the City of Rogers and certain surrounding areas. The City Council approves the rate changes of the Utilities. The debt of the Utilities is maintained in the name of the City of Rogers, Arkansas.

Fund Type

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

Basis of Accounting

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

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

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

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

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 water 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 Water Department had no cash equivalents.

Investments

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

Accounts Receivable

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

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 WATER 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 – CONTINUED

Long-Lived Assets

The Water Department reviews long-lived assets and certain identifiable intangibles held and used by the Water Department for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended June 30, 2013 and 2012, this review has not materially affected the Water Department's reported earnings, financial position or results of operations.

Contributed Capital

The Water Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contributions in the Statements of Revenues, Expenses and Changes in Net Assets and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of water lines and related infrastructure. At June 30, 2013 and 2012, cumulative contributed capital fixed assets amounted to approximately \$33,303,000 and \$32,576,000, 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
Water towers	10 - 50 years
Water service lines	33 years
Water meters	25 years
Shop equipment and machinery	3 - 10 years
Transportation equipment	3 - 10 years
Two-way radio system	5 - 15 years
Field equipment	1 - 20 years
Office equipment	3 - 10 years

The Water Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Water Department at June 30, 2013 and 2012 amounted to approximately \$4,102,000 and \$2,608,000, respectively.

Amortization of Bond Discounts and Premiums

Bond discounts and premiums are amortized over the lives of the related bond issues. Amortization expense of \$10,369 and \$9,602, respectively, for the years ended June 30, 2013 and 2012 is included as a component of interest expense.

ROGERS WATER UTILITIES WATER 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 – CONTINUED

Amortization of Deferred Refunding Loss

The deferred refunding loss associated with the 2012 Water Revenue Refunding Bonds is amortized over the life of the related bond issue (See Note 10). Amortization expense of \$48,428 and \$8,071, respectively, for the years ended June 30, 2013 and 2012 is included as a component of interest expense.

Implementation of GASB 65 – Prior Year Financial Statements Restated

During the year ended June 30, 2013, the Water 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 \$436,817 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 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.

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

ROGERS WATER UTILITIES WATER 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 – CONTINUED

Compensated Absences

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

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 and unrestricted net assets are available, the Water 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 Water Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2013, the Water Department had approximately \$3,493,000 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 Water Department had approximately \$10,739,000 in certificates of deposit reported as investments in the Statements of Net Assets, of which approximately \$9,536,000 were FDIC insured and the remaining balances were collateralized by securities held by the bank in the Utilities' name.

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

NOTE 3: DUE TO/FROM SEWER DEPARTMENT

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Rogers Water Utilities. Rogers Water Utilities sends a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. In addition, see Note 14 for details regarding the impact of voucher redemptions on the due to/due from Sewer Department balance. The balances as of June 30, 2013 and 2012 are shown in the Statements of Net Assets under the caption Due from sewer 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
Meter deposits	\$ 1,115,964	\$ 934,522
Debt service reserve	1,137,066	1,068,034
Depreciation reserve for additional replacements to the water system	4,050,148	3,850,950
Construction	63,602	63,356
New customer fees collected for additions of fixed assets	95,483	63,119
Accrued interest	<u>208</u>	<u>220</u>
	<u>\$ 6,462,471</u>	<u>\$ 5,980,201</u>

NOTE 5: RELATED PARTIES

The Water 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 \$8,912,000. As of June 30, 2013, no commission members were employed by banks used by the Water Department.

NOTE 6: RISK MANAGEMENT

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

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

NOTE 7: 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 \$101,885 and \$140,651, reported in the Statements of Net Assets as of June 30, 2013 and 2012, respectively, represents the Water Department's share of the forbearance agreement receivable.

NOTE 8: INVESTMENTS

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

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Water Department's policy to minimize credit risk losses due to default of security issuers or backers by limiting investments to the safest types of securities. The Water Department's investments consist of certificates of deposit with original maturities of greater than ninety days and less than 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 Water Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2013, investments of the Water Department were fully collateralized or insured.

At June 30, 2013 and 2012, the Water Department's investments consisted of \$10,738,845 and \$10,268,426, respectively, held in certificates of deposit and \$1,232,549 and \$1,131,153, respectively, held in United States Government securities. All investments at June 30, 2013 and 2012 had maturities of less than one year.

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

NOTE 9: CHANGES IN FIXED ASSETS

	<u>Balance June 30, 2012</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2013</u>
Land	\$ 605,510	\$ -	\$ -	\$ 605,510
Buildings	1,545,436	134,263	-	1,679,699
Equipment	59,931,860	925,402	(101,812)	60,755,450
Vehicles	395,607	17,084	(27,864)	384,827
Contributed property	32,575,710	726,820	-	33,302,530
Construction in progress	<u>45,051</u>	<u>672,803</u>	<u>(711,035)</u>	<u>6,819</u>
	95,099,174	2,476,372	(840,711)	96,734,835
Accumulated depreciation	<u>(20,836,616)</u>	<u>(2,074,703)</u>	<u>129,676</u>	<u>(22,781,643)</u>
	<u>\$ 74,262,558</u>	<u>\$ 401,669</u>	<u>\$ (711,035)</u>	<u>\$ 73,953,192</u>
	<u>Balance June 30, 2011</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2012</u>
Land	\$ 593,060	\$ 12,450	\$ -	\$ 605,510
Buildings	1,387,174	191,495	(33,233)	1,545,436
Equipment	59,158,325	880,814	(107,279)	59,931,860
Vehicles	376,327	19,710	(430)	395,607
Contributed property	32,415,012	160,698	-	32,575,710
Construction in progress	<u>18,822</u>	<u>899,098</u>	<u>(872,869)</u>	<u>45,051</u>
	93,948,720	2,164,265	(1,013,811)	95,099,174
Accumulated depreciation	<u>(18,906,336)</u>	<u>(2,071,222)</u>	<u>140,942</u>	<u>(20,836,616)</u>
	<u>\$ 75,042,384</u>	<u>\$ 93,043</u>	<u>\$ (872,869)</u>	<u>\$ 74,262,558</u>

NOTE 10: BONDS PAYABLE

Series 2006 Revenue Improvement Bonds

In November 2006, the Water Department issued \$15,525,000 in Revenue Improvement Bonds (Series 2006) at an average rate of 4.3% to finance general improvements to the water system and related infrastructure. The bond matures in fiscal year 2037 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 \$14,680,000 and \$14,835,000, respectively.

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

NOTE 10: BONDS PAYABLE – CONTINUED

Series 2008 Revenue Refunding Bonds

In May 2008, the Water Department issued \$2,220,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Water Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$79,791. 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 \$1,365,000 and \$1,570,000, respectively.

Series 2008B Revenue Refunding Bonds

In September 2008, the Water Department issued \$3,565,000 in Revenue Refunding Bonds (Series 2008B) at an average rate of 3.48% to finance the cost of refunding the Water Revenue Improvement Bonds, Series 2003. This transaction resulted in an economic gain of \$91,933. The bond matures in fiscal year 2024 with principal and interest payments due in April and October of each year. As of June 30, 2013 and 2012, the outstanding principal was \$2,805,000 and \$3,000,000, respectively.

Series 2012 Water Revenue Refunding Bonds

On April 18, 2012, the Water Department issued \$8,505,000 in Water Revenue Refunding Bonds (Series 2012) with an average interest rate of 3.13% to advance refund \$7,645,000 of outstanding Water Revenue Improvement Bonds, Series 2004 with an average interest rate of 4.75%. The net proceeds of \$8,456,998 (after payment of bond issuance costs and other costs) were deposited in an irrevocable trust with an escrow agent and were used to purchase U.S. government securities. The trust will provide for all future debt service payments on the 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Water Department's Statements of Net Assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$847,499. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to interest expense over the life of the bonds using the straight-line method. The Water Department completed the advance refunding to reduce its total debt service payments over the next 18 years by \$610,822 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$480,287. As of June 30, 2013 and 2012, the outstanding principal was \$8,425,000 and \$8,505,000, respectively.

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

NOTE 10: BONDS PAYABLE – CONTINUED

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 2008 bond documents, as of June 30, 2013 and 2012 is 2.50 and 2.32, respectively. Total interest paid during the years ended June 30, 2013 and 2012 totaled \$1,051,950 and \$1,163,199, respectively. No interest was capitalized during the years ended June 30, 2013 and 2012.

The Water Department is required to establish rates sufficient to pay the expenses and operation and maintenance of the water system, making monthly deposits into bond funds for repayment obligations which will be due and payable in the forthcoming year, and to make deposits in an amount equal to 4% of gross water system revenues for the preceding month into the depreciation fund. The Water Department was in compliance with all debt covenants for the years ended June 30, 2013 and 2012.

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

Year Ending			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 710,000	\$ 1,022,880	\$ 1,732,880
2015	735,000	1,000,084	1,735,084
2016	760,000	975,499	1,735,499
2017	780,000	950,139	1,730,139
2018	815,000	923,319	1,738,319
2019-2023	4,585,000	4,185,028	8,770,028
2024-2028	5,630,000	3,302,429	8,932,429
2029-2033	6,705,000	2,166,923	8,871,923
2034-2037	<u>6,555,000</u>	<u>589,641</u>	<u>7,144,641</u>
Total	<u>\$ 27,275,000</u>	<u>\$ 15,115,942</u>	<u>\$ 42,390,942</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 Water Department did not record the amortization of bond issuance costs for the year ended June 30, 2013. Amortization expense amounted to \$29,068 for the year ended June 30, 2012.

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10: 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 2006	\$14,835,000	\$ -	\$ 155,000	\$ 14,680,000	\$ 160,000
Revenue Refunding Bonds, Series 2008	1,570,000	-	205,000	1,365,000	210,000
Revenue Refunding Bonds, Series 2008B	3,000,000	-	195,000	2,805,000	200,000
Revenue Refunding Bonds, Series 2012	8,505,000	-	80,000	8,425,000	140,000
Less discounts	(240,531)	-	(13,247)	(227,284)	-
Less refunding loss	(839,428)	-	(48,428)	(791,000)	-
Plus premiums	<u>44,543</u>	<u>-</u>	<u>2,878</u>	<u>41,665</u>	<u>-</u>
	<u>\$26,874,584</u>	<u>\$ -</u>	<u>\$ 576,203</u>	<u>\$ 26,298,381</u>	<u>\$ 710,000</u>

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Revenue Improvement Bonds, Series 2004	\$ 7,700,000	\$ -	\$ 7,700,000	\$ -	\$ -
Revenue Improvement Bonds, Series 2006	14,985,000	-	150,000	14,835,000	155,000
Revenue Refunding Bonds, Series 2008	1,765,000	-	195,000	1,570,000	205,000
Revenue Refunding Bonds, Series 2008B	3,190,000	-	190,000	3,000,000	195,000
Revenue Refunding Bonds, Series 2012	-	8,505,000	-	8,505,000	80,000
Less discounts	(253,777)	-	(13,246)	(240,531)	-
Less refunding loss	-	(847,499)	(8,071)	(839,428)	-
Plus premiums	<u>64,262</u>	<u>41,854</u>	<u>61,573</u>	<u>44,543</u>	<u>-</u>
	<u>\$27,450,485</u>	<u>\$ 7,699,355</u>	<u>\$(8,275,256)</u>	<u>\$ 26,874,584</u>	<u>\$ 635,000</u>

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

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

The Water 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.

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 Water 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 Water Department are established and may be amended only by state law. Water Department contributions for the years ended June 30, 2013, 2012 and 2011 totaled \$128,918, \$107,317, and \$101,950, respectively. Employee contributions for the years ended June 30, 2013, 2012 and 2011 totaled \$11,917, \$7,714, and \$6,703, respectively.

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

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Annual Pension Cost

For the years ended June 30, 2013 and 2012, the Water Department's annual pension cost of \$128,918 and \$107,317, respectively, for APERS was equal to the Water 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)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b - a)
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

Actuarial Valuation Date	Annual Funded Ratio (a/b)	Covered Payroll (c)	UAL as of % of Covered Payroll ((b-a)/c)
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%

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 101,950	100%	\$ -
June 30, 2012	107,317	100%	-
June 30, 2013	128,918	100%	-

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

NOTE 12: 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. Water Department employee contributions for the years ended June 30, 2013 and 2012 were \$33,315 and \$25,046, 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 Water 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 \$6,410 and \$37,220, respectively. At June 30, 2013 and 2012, there were five and seven employees participating in the plan, respectively.

NOTE 13: COMMITMENTS AND CONCENTRATION

The Water Department is committed to several construction contracts in process at year-end totaling \$443,166. As of June 30, 2013, \$441,666 had been incurred in connection with these contracts.

During the years ended June 30, 2013 and 2012, the Water Department had an industrial customer who made up 2.75% and 3.82%, respectively, of accounts receivable. For the years ended June 30, 2013 and 2012, this customer also accounted for 10.77% and 10.46%, respectively, of total consumption.

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

ROGERS WATER UTILITIES WATER 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, 2012, 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 Water Department had accrued \$224,137 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 \$48,768 and \$60,597, respectively, and represents vouchers not yet redeemed.

The vouchers were allocated to the Water Department or the Sewer 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. See Note 3.

SUPPLEMENTARY INFORMATION

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
WATER PURCHASED	<u>\$ 4,004,682</u>	<u>\$ 4,045,239</u>
PLANT OPERATIONS AND DISTRIBUTION		
Employee benefits	187,301	174,234
Insurance	15,842	15,967
Operating supplies and other	54,924	54,106
Payroll taxes	38,528	37,823
Repairs and maintenance	143,542	116,654
Salaries	528,850	515,316
Utilities	<u>60,277</u>	<u>56,057</u>
	<u>1,029,264</u>	<u>970,157</u>
GENERAL AND ADMINISTRATIVE		
Bad debts	22,530	28,828
Employee benefits	137,500	125,826
Insurance	9,649	9,358
Office supplies and postage	86,181	81,632
Other	101,425	77,921
Payroll taxes	29,723	31,595
Professional fees	33,273	34,780
Salaries	273,549	265,900
Salaries - commissioners	848	899
Taxes and fees	90,461	83,646
Utilities	<u>22,456</u>	<u>23,474</u>
	<u>807,595</u>	<u>763,859</u>
DEPRECIATION	<u>2,074,703</u>	<u>2,100,290</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 7,916,244</u></u>	<u><u>\$ 7,879,545</u></u>

See Independent Auditors' Report.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
WATER REVENUE IMPROVEMENT BONDS - SERIES 2006
JUNE 30, 2013

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2014	\$ 160,000	4.00%	\$ 628,381	\$ 788,381
2015	170,000	5.00%	620,931	790,931
2016	175,000	4.00%	613,181	788,181
2017	180,000	4.00%	606,081	786,081
2018	195,000	4.00%	598,581	793,581
2019	200,000	4.00%	590,681	790,681
2020	210,000	4.00%	582,481	792,481
2021	215,000	4.00%	573,981	788,981
2022	225,000	4.125%	565,041	790,041
2023	235,000	4.25%	555,406	790,406
2024	245,000	4.25%	545,206	790,206
2025	255,000	4.25%	534,581	789,581
2026	265,000	4.25%	523,531	788,531
2027	275,000	4.25%	512,056	787,056
2028	290,000	4.25%	500,050	790,050
2029	300,000	4.25%	487,513	787,513
2030	315,000	4.25%	474,444	789,444
2031	1,345,000	4.25%	439,169	1,784,169
2032	1,405,000	4.25%	380,731	1,785,731
2033	1,465,000	4.375%	318,828	1,783,828
2034	1,530,000	4.375%	253,313	1,783,313
2035	1,600,000	4.375%	184,844	1,784,844
2036	1,675,000	4.375%	113,203	1,788,203
2037	<u>1,750,000</u>	4.375%	<u>38,281</u>	<u>1,788,281</u>
Balance, June 30, 2013	<u>\$ 14,680,000</u>		<u>\$ 11,240,495</u>	<u>\$ 25,920,495</u>

Dated: November 1, 2006

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
WATER 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	\$ 210,000	3.00%	\$ 41,803	\$ 251,803
2015	220,000	3.10%	35,242	255,242
2016	220,000	3.25%	28,258	248,258
2017	230,000	3.35%	20,830	250,830
2018	240,000	3.45%	12,837	252,837
2019	245,000	3.55%	4,349	249,349
Balance, June 30, 2013	<u>\$ 1,365,000</u>		<u>\$ 143,319</u>	<u>\$ 1,508,319</u>

Dated: May 1, 2008

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
WATER REVENUE REFUNDING BONDS - SERIES 2008B
JUNE 30, 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2014	\$ 200,000	3.20%	\$ 106,165	\$ 306,165
2015	205,000	3.40%	99,480	304,480
2016	215,000	3.55%	92,179	307,179
2017	220,000	3.65%	84,347	304,347
2018	230,000	3.75%	76,020	306,020
2019	240,000	3.85%	67,088	307,088
2020	245,000	3.95%	57,629	302,629
2021	255,000	4.05%	47,626	302,626
2022	270,000	4.15%	36,860	306,860
2023	280,000	4.25%	25,308	305,308
2024	445,000	4.35%	9,679	454,679
Balance, June 30, 2013	<u>\$ 2,805,000</u>		<u>\$ 702,381</u>	<u>\$ 3,507,381</u>

Dated: September 30, 2008

Principal and Interest Payment Dates: April 1 and October 1

Payable to: Simmons First Trust Company; Pine Bluff, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
WATER REVENUE REFUNDING BONDS - SERIES 2012
JUNE 30, 2013

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2014	\$ 140,000	1.50%	\$ 246,531	\$ 386,531
2015	140,000	1.50%	244,431	384,431
2016	150,000	2.00%	241,881	391,881
2017	150,000	2.00%	238,881	388,881
2018	150,000	2.00%	235,881	385,881
2019	160,000	2.00%	232,781	392,781
2020	435,000	2.00%	226,831	661,831
2021	450,000	2.25%	217,419	667,419
2022	455,000	2.50%	206,669	661,669
2023	465,000	2.625%	194,878	659,878
2024	480,000	2.75%	182,175	662,175
2025	805,000	3.00%	163,500	968,500
2026	830,000	3.00%	138,975	968,975
2027	855,000	3.50%	111,563	966,563
2028	885,000	3.50%	81,113	966,113
2029	920,000	3.50%	49,525	969,525
2030	<u>955,000</u>	3.50%	<u>16,713</u>	<u>971,713</u>
Balance, June 30, 2013	<u>\$ 8,425,000</u>		<u>\$ 3,029,747</u>	<u>\$ 11,454,747</u>

Dated: April 18, 2012

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES WATER 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</u> <u>June 30, 2012</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	615,651	77,544	(90,259)	602,936
Vehicles	395,607	17,084	(27,864)	384,827
Shop equipment	65,491	-	(494)	64,997
Field equipment	698,989	59,208	(9,690)	748,507
Radio equipment	46,990	5,620	(1,369)	51,241
Pumping equipment	46,143	44,592	-	90,735
Water meters	2,294,213	98,142	-	2,392,355
Water services	1,375,111	3,519	-	1,378,630
Water tower	11,316,982	4,539	-	11,321,521
Main line	43,472,290	632,238	-	44,104,528
Water supply facility	-	-	-	-
Structures and parking lots	1,545,436	134,263	-	1,679,699
Easements	331,890	-	-	331,890
Contributed water main	32,575,710	726,820	-	33,302,530
	<u>95,054,123</u>	<u>1,803,569</u>	<u>(129,676)</u>	<u>96,728,016</u>
Construction in progress	<u>45,051</u>	<u>672,803</u>	<u>(711,035)</u>	<u>6,819</u>
	<u>\$ 95,099,174</u>	<u>\$ 2,476,372</u>	<u>\$ (840,711)</u>	<u>\$ 96,734,835</u>

Accumulated Depreciation

Office equipment	\$ 481,889	\$ 51,650	\$ (90,259)	\$ 443,280
Vehicles	364,679	16,124	(27,864)	352,939
Shop equipment	61,977	869	(494)	62,352
Field equipment	549,845	42,675	(9,690)	582,830
Radio equipment	46,244	876	(1,369)	45,751
Pumping equipment	43,890	2,847	-	46,737
Water meters	1,196,044	84,726	-	1,280,770
Water services	1,063,180	30,867	-	1,094,047
Water tower	2,801,904	218,609	-	3,020,513
Main line	9,815,995	895,995	-	10,711,990
Water supply facility	-	-	-	-
Structures and parking lots	587,260	73,154	-	660,414
Contributed water main	3,823,709	656,311	-	4,480,020
	<u>\$ 20,836,616</u>	<u>\$ 2,074,703</u>	<u>\$ (129,676)</u>	<u>\$ 22,781,643</u>

See Independent Auditors' Report.

ROGERS WATER UTILITIES WATER 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	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	627,151	41,679	(53,179)	615,651
Vehicles	376,327	19,710	(430)	395,607
Shop equipment	64,514	977	-	65,491
Field equipment	716,534	4,286	(21,831)	698,989
Radio equipment	47,309	-	(319)	46,990
Pumping equipment	46,143	-	-	46,143
Water meters	2,237,259	88,904	(31,950)	2,294,213
Water services	1,375,111	-	-	1,375,111
Water tower	11,297,366	19,616	-	11,316,982
Main line	42,746,938	725,352	-	43,472,290
Water supply facility	33,233	-	(33,233)	-
Structures and parking lots	1,353,941	191,495	-	1,545,436
Easements	319,440	12,450	-	331,890
Contributed water main	32,415,012	160,698	-	32,575,710
	93,929,898	1,265,167	(140,942)	95,054,123
Construction in progress	18,822	899,098	(872,869)	45,051
	<u>\$ 93,948,720</u>	<u>\$ 2,164,265</u>	<u>\$ (1,013,811)</u>	<u>\$ 95,099,174</u>

Accumulated Depreciation

Office equipment	\$ 479,586	\$ 55,482	\$ (53,179)	\$ 481,889
Vehicles	349,204	15,905	(430)	364,679
Shop equipment	61,090	887	-	61,977
Field equipment	527,093	44,582	(21,830)	549,845
Radio equipment	46,342	221	(319)	46,244
Pumping equipment	40,991	2,899	-	43,890
Water meters	1,146,122	81,873	(31,951)	1,196,044
Water services	1,031,640	31,540	-	1,063,180
Water tower	2,583,585	218,319	-	2,801,904
Main line	8,913,909	902,086	-	9,815,995
Water supply facility	33,233	-	(33,233)	-
Structures and parking lots	519,393	67,867	-	587,260
Contributed water main	3,174,148	649,561	-	3,823,709
	<u>\$ 18,906,336</u>	<u>\$ 2,071,222</u>	<u>\$ (140,942)</u>	<u>\$ 20,836,616</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT
 A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
 SCHEDULE OF WATER SYSTEM RATES
 JUNE 30, 2013**

<u>MONTHLY WATER RATE FOR CUSTOMERS</u>	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>
First 1,500 gallons or portion thereof	\$5.94 minimum	\$7.72 minimum
Next 98,500 gallons	\$2.54 / thousand	\$3.31 / thousand
Next 400,000 gallons	\$2.25 / thousand	\$2.93 / thousand
Next 500,000 gallons	\$2.06 / thousand	\$2.67 / thousand
All in excess of 1,000,000 gallons	\$1.95 / thousand	\$2.53 / thousand

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF WATER CUSTOMERS
YEARS ENDED JUNE 30, 2013 AND 2012**

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2013</u>	<u>2012</u>
Residential customers	26,479	25,940
Commerical customers	2,501	2,404
Industrial customers	46	46
	<u>29,026</u>	<u>28,390</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER 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	1,596,864,500	1,605,464,500
Commerical customers	742,435,600	711,533,900
Industrial customers	<u>467,236,100</u>	<u>517,623,700</u>
	<u>2,806,536,200</u>	<u>2,834,622,100</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 Water Department
Rogers, Arkansas

We have audited the accompanying financial statements of the **Rogers Water Utilities Water Department** ("the Water Department"), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 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 Water Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water 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 Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water 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 Water 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 Water Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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