

**ROGERS WATER UTILITIES
SEWER DEPARTMENT
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2014 AND 2013
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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, 2014 and 2013, 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 Sewer Department'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 Sewer Department as of June 30, 2014 and 2013, 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 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, 2014 and 2013. 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 15, 2014 on our consideration of the Sewer Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sewer Department's internal control over financial reporting and compliance.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 15, 2014

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014, 2013, AND 2012**

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, 2014, 2013, and 2012. Rogers Water Utilities is a component unit of the City of Rogers, Arkansas, and is overseen by the Rogers Waterworks and Sewer Commission, an autonomous board of directors, created by the Rogers City Council. The Rogers Sewer Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

Financial Highlights Discussion

- The Sewer Department's net position increased by \$3,145,000 or 3.7%, over fiscal year 2013. Net position increased by \$3,101,000 or 3.7% in 2013 over 2012.
- Sewer Department operating revenues increased by \$8,000, or 0.07% in 2014. Operating revenues increased \$260,000 or 2.4% in 2013 over 2012.
- Operating expenses increased by \$361,000, or 5.1% from 2013. Operating expenses increased by \$91,000 or 1.3% in 2013 over 2012.
- Net position increased by \$2,503,000 before capital contributions during fiscal year 2014. In fiscal year 2013, Net assets before capital contributions increased by \$2,715,000.

Rogers Sewer Department Fiscal Year 2014 Highlights

- Exceeded budgeted operating results by \$758,000. Fell short of matching prior year operating results.
- Participated with other local cities in an intergovernmental work group regarding phosphorus in the Illinois River.
- While the number of customer increased by 500 or 2.4% from the prior year, overall billed sewer consumption decreased by 1.5% for fiscal year 2014.
- Completed and placed in service the \$3.5 million sludge dryer in July 2013. The sludge earned a "Class A" certification and the Utility entered into a contract to sell dried sludge in fiscal year 2015.
- Hired an independent consultant to monitor the sewer collection system to identify potential sewer repair and rehabilitation sites.
- Focused on the Utility goal of debt-reduction by continuing to decrease outstanding debt. In November 2013, the 1996 ADFA bonds were paid off in their

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entirety. The bonds were paid off using sewer department reserves and resulted in significant savings in interest expense.

- Commenced the search for a new Utility Superintendent with the appointment of Earl Rausch. Rausch has over 15 years of service with RWU. He is a licensed Professional Engineer and has treatment and distribution licenses for both water and sewer with the State of Arkansas.
- Entered into a cost-sharing agreement with the City of Rogers for Human Resource Services.
- Appointed Deputy City Attorney, Chris Griffin, as attorney due to Deputy Attorney, Jim Clark's retirement from the City of Rogers.
- Conducted a professional wage comparison survey to ensure Utility wages are comparable to industry and area standards.

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 customer 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 performance testing remained to be completed, but the sludge dryer was placed in service in July 2013.
- The search for a new Utility Superintendent continues due to the retirement of the former superintendent after 28 years of service.
- 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 in the sewer department.

Rogers Sewer Department Fiscal Year 2012 Highlights

- Exceeded budgeted and prior year operating results with the help of a dry fall, spring and summer.

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- 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 1.6% from the prior year, overall billed sewer consumption increased by 4.4% for fiscal year 2012.
- Successfully engineered the arrival, and subsequently began the installation of the \$3.5 million dollar sludge dryer. Some construction remains to be completed, but the sludge dryer is expected to be placed in service in September 2012.
- 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.

Using This Annual Report

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

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Financial Highlights

Assets, Liabilities and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Total current assets	\$ 11,276,388	\$ 12,273,488	\$ 14,664,507
Restricted cash and investments	3,199,749	4,077,634	4,738,076
Other noncurrent assets	102,583,680	103,007,504	103,458,400
Total assets	<u>\$ 117,059,817</u>	<u>\$ 119,358,626</u>	<u>\$ 122,860,983</u>
Liabilities			
Total current liabilities	\$ 1,972,530	\$ 3,129,120	\$ 3,865,425
Liabilities payable from restricted assets	433,172	478,902	542,535
Noncurrent liabilities	25,573,789	29,815,519	35,618,973
Total liabilities	<u>\$ 27,979,491</u>	<u>\$ 33,423,541</u>	<u>\$ 40,026,933</u>
Net Position			
Invested in capital assets, net of related debt	\$ 75,879,494	\$ 71,254,519	\$ 65,177,065
Restricted	2,766,577	3,598,732	4,195,541
Unrestricted	10,434,255	11,081,834	13,461,444
Total net position	<u>\$ 89,080,326</u>	<u>\$ 85,935,085</u>	<u>\$ 82,834,050</u>

Operating Results and Changes in Net Position

Operating revenues	<u>\$ 11,138,627</u>	<u>\$ 11,131,042</u>	<u>\$ 10,871,326</u>
Operating expenses			
Depreciation	3,419,532	3,182,515	3,215,704
Other operating expenses	4,024,983	3,901,314	3,777,356
Total operating expenses	<u>7,444,515</u>	<u>7,083,829</u>	<u>6,993,060</u>
Operating income	<u>3,694,112</u>	<u>4,047,213</u>	<u>3,878,266</u>
Other revenues (expenses)			
Interest expense	(1,212,771)	(1,394,674)	(1,502,145)
Other income (expenses)	21,234	62,773	69,016
Total other revenues (expenses)	<u>(1,191,537)</u>	<u>(1,331,901)</u>	<u>(1,433,129)</u>
Changes in net position before capital contributions	2,502,575	2,715,312	2,445,137
Capital Contributions	<u>642,666</u>	<u>385,723</u>	<u>216,440</u>
Change in Net Position	3,145,241	3,101,035	2,661,577
Net Position, Beginning of Year	<u>85,935,085</u>	<u>82,834,050</u>	<u>80,172,473</u>
Net Position, End of Year	<u>\$ 89,080,326</u>	<u>\$ 85,935,085</u>	<u>\$ 82,834,050</u>

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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the Sewer Department's investment in capital assets was \$102,558,000 (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 \$1,634,000 during fiscal year 2014 were incurred on a variety of sewer system and sewer rehab projects. \$4,457,000 of constructed assets were completed and placed in service. This includes completion of the sludge dryer for \$3,480,000 and sewer rehab and replacements. In addition, \$639,000 of drainage and sewer mains constructed by developers was contributed to the Sewer Department to own and maintain. This is recorded as a capital contribution in the Statements of Revenues, Expenses, and Changes in Net Position. In 2013, the Sewer Department had construction of \$1,497,000 and contributed capital of \$384,000, and in 2012, construction of \$3,347,000 and contributed capital of \$216,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$739,000 in 2014, as compared to \$868,000 in 2013 and \$431,000 in 2012.

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

Long-Term Debt

The Sewer Department had \$26,040,000 in revenue bonds outstanding as of June 30, 2014, which is a decrease of \$5,004,000 from 2013 resulting from principal payments. This includes paying off the 1996 ADFA bonds early, in their entirety. Revenue bonds outstanding as of June 30, 2013 were \$31,044,000 which is a decrease of \$6,484,000 from 2012 resulting from principal payments and paying off the 1995 ADFA bonds early.

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

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Additional Management Comments

Sewer usage in fiscal year 2014 was 1.5% less than the previous year. Wet weather was the major contributor to the overall decrease in sewer usage. This, of course has impacted the bottom line, resulting in operating income less than fiscal year 2013, while still exceeding the budget. The focus on controlling expenses continues.

Also of significance to the Rogers Sewer Department during fiscal year 2014 was the appointment of Earl Rausch, Utility Engineer, as the Utility Superintendent. Mr. Rausch served as Interim Superintendent since July 2013 and was appointed as the permanent position by the Waterworks and Sewer Commission in March 2014.

The Rogers Sewer Department funded most capital improvements out of reserves in fiscal year 2014. However, the sludge dryer project was substantially paid for by proceeds from a 2010 bond issue for that purpose. Completed capital projects included the sludge dryer, Phase 3 Sewer Rehab, and sewer replacements. The total cost of the sludge dryer was about \$3.5 million. It was placed in service in July 2013. Projects in process at the end of the year included Monte Ne Road improvements and Price Lane replacements. Major projects expected in fiscal year 2015 include sewer main projects for City of Rogers street projects and phase 4 sewer rehab.

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 of the previous few years 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 are 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 1996 ADFA bonds were paid off early in November 2013 in their entirety. 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.

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

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STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	ASSETS	
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,305,248	\$ 2,123,506
Investments	7,685,134	8,735,274
Accounts receivable, net of allowance for doubtful accounts of \$244,500 and \$250,500, respectively	1,168,992	1,307,709
Accrued interest receivable	-	2,410
Inventory	78,463	68,046
Prepaid expenses	<u>38,551</u>	<u>36,543</u>
 Total Current Assets	 <u>11,276,388</u>	 <u>12,273,488</u>
 RESTRICTED CASH AND INVESTMENTS		
Restricted cash and cash equivalents	682,549	737,496
Investments	2,517,141	3,340,049
Accrued interest receivable	<u>59</u>	<u>89</u>
 Total Restricted Cash and Investments	 <u>3,199,749</u>	 <u>4,077,634</u>
 FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION		
	<u>102,558,283</u>	<u>102,965,889</u>
 OTHER ASSETS		
Forbearance agreement receivable	<u>25,397</u>	<u>41,615</u>
 Total Assets	 <u><u>\$ 117,059,817</u></u>	 <u><u>\$ 119,358,626</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET POSITION

	2014	2013
CURRENT LIABILITIES		
Accounts payable - trade	\$ 240,990	\$ 188,950
Accounts payable to construction contractors	72,713	535,859
Accrued expenses	374,944	362,586
Accrued vouchers	88,333	108,797
Due to water department	90,550	37,077
Current portion of bonds payable	<u>1,105,000</u>	<u>1,895,851</u>
 Total Current Liabilities	 <u>1,972,530</u>	 <u>3,129,120</u>
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest payable	<u>433,172</u>	<u>478,902</u>
 Total Liabilities Payable From Restricted Assets	 <u>433,172</u>	 <u>478,902</u>
 BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS	 <u>25,573,789</u>	 <u>29,815,519</u>
 NET POSITION		
Invested in capital assets, net of related debt	75,879,494	71,254,519
Restricted	2,766,577	3,598,732
Unrestricted	<u>10,434,255</u>	<u>11,081,834</u>
 Total Net Position	 <u>89,080,326</u>	 <u>85,935,085</u>
 Total Liabilities and Net Position	 <u>\$ 117,059,817</u>	 <u>\$ 119,358,626</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Residential sewer	\$ 6,355,850	\$ 6,263,740
Commercial sewer	1,857,124	1,866,145
Industrial sewer	1,568,129	1,708,667
Penalties	137,438	138,716
Access, impact and new customer fees	1,116,584	1,051,751
Other operating revenue	<u>103,502</u>	<u>102,023</u>
 Total Operating Revenues	 <u>11,138,627</u>	 <u>11,131,042</u>
OPERATING EXPENSES		
Pollution control facility and field expense	2,796,147	2,690,426
General and administrative	1,228,836	1,210,888
Depreciation	<u>3,419,532</u>	<u>3,182,515</u>
 Total Operating Expenses	 <u>7,444,515</u>	 <u>7,083,829</u>
OPERATING INCOME	<u>3,694,112</u>	<u>4,047,213</u>
OTHER REVENUES (EXPENSES)		
Interest income	31,234	45,156
Gain on disposal of fixed assets	-	27,617
Interest expense	(1,212,771)	(1,394,674)
Trustee fees	<u>(10,000)</u>	<u>(10,000)</u>
 Total Other Revenues (Expenses)	 <u>(1,191,537)</u>	 <u>(1,331,901)</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	 2,502,575	 2,715,312
CAPITAL CONTRIBUTIONS	<u>642,666</u>	<u>385,723</u>
CHANGE IN NET POSITION	3,145,241	3,101,035
NET POSITION, BEGINNING OF YEAR	<u>85,935,085</u>	<u>82,834,050</u>
NET POSITION, END OF YEAR	<u><u>\$ 89,080,326</u></u>	<u><u>\$ 85,935,085</u></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, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,919,820	\$ 9,868,587
Cash received from access, impact and new customer fees	1,096,707	1,030,542
Cash received from penalties and other operating revenue	240,940	240,739
Payments for salaries and benefits	(2,141,750)	(1,931,511)
Payments to suppliers for goods and services	<u>(1,778,374)</u>	<u>(2,067,527)</u>
Net Cash From Operating Activities	<u>7,337,343</u>	<u>7,140,830</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(2,832,406)	(2,278,154)
Cash received from sale of fixed assets	-	28,927
Principal payments on bonds	(5,003,868)	(6,483,802)
Interest and paying agent fees, net of capitalized interest	(1,297,214)	(1,497,021)
Collection of forbearance agreement	<u>16,218</u>	<u>15,834</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(9,117,270)</u>	<u>(10,214,216)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	33,644	48,478
Net change in investments	1,050,140	2,069,014
Net change in restricted investments	<u>822,938</u>	<u>353,281</u>
Net Cash From Investing Activities	<u>1,906,722</u>	<u>2,470,773</u>
CHANGE IN CASH AND CASH EQUIVALENTS	126,795	(602,613)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,861,002</u>	<u>3,463,615</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,987,797</u>	<u>\$ 2,861,002</u>
CASH AND CASH EQUIVALENTS	\$ 2,305,248	\$ 2,123,506
RESTRICTED CASH AND CASH EQUIVALENTS	<u>682,549</u>	<u>737,496</u>
	<u>\$ 2,987,797</u>	<u>\$ 2,861,002</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating Income	<u>\$ 3,694,112</u>	<u>\$ 4,047,213</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	3,419,532	3,182,515
Allowance for doubtful accounts	(6,000)	1,000
Redeemed vouchers	(19,877)	(21,209)
Changes in assets and liabilities:		
Accounts receivable	144,717	29,035
Inventory	(10,417)	(2,209)
Prepaid expenses	(2,008)	(4,595)
Accounts payable	52,040	64,223
Accrued expenses	12,358	(19,496)
Due to/from water department	<u>52,886</u>	<u>(135,647)</u>
Total adjustments	<u>3,643,231</u>	<u>3,093,617</u>
Net Cash From Operating Activities	<u>\$ 7,337,343</u>	<u>\$ 7,140,830</u>
NONCASH TRANSACTIONS		
Capital contributions	<u>\$ 642,666</u>	<u>\$ 385,273</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - Sewer Department

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.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, the Sewer Department had no cash equivalents.

Investments

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

Accounts Receivable

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

Subsequent Events

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

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, 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 Position and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of sewer lines and related infrastructure. At June 30, 2014 and 2013, cumulative contributed capital fixed assets amounted to approximately \$31,280,000 and \$30,641,000, 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, 2014 and 2013 amounted to approximately \$3,856,000 and \$4,100,000, 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, 2014 and 2013.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013.

Current Accounting Developments

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.

In April 2013, the GASB issued Statement Number 70 (GASB 70), Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for periods beginning after June 15, 2013. GASB 70 requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

In November 2013, the GASB issued Statement Number 71 (GASB 71), Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68, effective for fiscal years beginning after June 15, 2014. GASB 71 is intended to improve the accounting and financial reporting for public employee pensions by state and local governments. GASB 71 amends GASB Statement No. 68 as it relates to initial recognition of deferred inflows of resources and deferred outflows of resources related to pension plans.

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.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position Classifications

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

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

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

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

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

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, 2014, the Sewer Department had approximately \$2,988,000 in deposit balances reported as cash and cash equivalents in the Statements of Net Position, of which approximately \$683,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities’ name. Additionally, the Sewer Department had approximately \$8,085,000 in certificates of deposit reported as investments in the Statements of Net Position, of which all were FDIC insured.

NOTE 3: DUE TO/FROM WATER DEPARTMENT

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Utilities. The 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 13 for details regarding the impact of voucher redemptions on the due to/due from Water Department balance. The balances as of June 30, 2014 and 2013 are shown in the Statements of Net Position under the caption “Due to water department.”

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2014 and 2013 as follows:

	2014	2013
Construction	\$ -	\$ 405,212
Debt service reserve	1,937,994	2,164,487
Depreciation reserve for additional replacements to the sewer system	1,082,674	1,323,328
New customer fees collected for additions of fixed assets	179,022	184,518
Accrued interest	<u>59</u>	<u>89</u>
	<u><u>\$ 3,199,749</u></u>	<u><u>\$ 4,077,634</u></u>

NOTE 5: FORBEARANCE AGREEMENT RECEIVABLE

In September of 2006, the 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 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, 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 \$25,397 and \$41,615 reported in the Statements of Net Position as of June 30, 2014 and 2013, respectively, represents the Sewer Department's share of the forbearance agreement receivable.

NOTE 6: RISK MANAGEMENT

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

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7: 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, 2014, investments of the Sewer Department were fully collateralized or insured.

At June 30, 2014 and 2013, the Sewer Department's investments consisted of \$8,085,259 and \$9,564,658, respectively, held in certificates of deposit and \$2,117,016 and \$2,510,665, respectively, held in United States government securities. All investments at June 30, 2014 and 2013 had maturities of less than one year.

NOTE 8: COMMITMENTS AND CONCENTRATIONS

The Sewer Department is committed to several construction contracts in process at June 30, 2014 totaling \$990,614. As of June 30, 2014, \$752,674 had been incurred in connection with these contracts.

During the years ended June 30, 2014 and 2013, the Sewer Department had an industrial customer who made up 0% and 5.67%, respectively, of accounts receivable. For the years ended June 30, 2014 and 2013, this customer also accounted for 12.40% and 14.26%, respectively, of total usage.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 9: CHANGES IN FIXED ASSETS

	Balance June 30, 2013	Transfers/ Additions	Disposals	Balance June 30, 2014
Land	\$ 1,795,753	\$ -	\$ -	\$ 1,795,753
Buildings	51,682,659	3,587,224	(175,628)	55,094,255
Equipment	48,072,326	1,609,254	(639,208)	49,042,372
Vehicles	1,111,060	-	-	1,111,060
Contributed property	30,641,040	639,190	-	31,280,230
Construction in progress	3,603,331	1,633,660	(4,457,403)	779,588
	<u>136,906,169</u>	<u>7,469,328</u>	<u>(5,272,239)</u>	<u>139,103,258</u>
Accumulated depreciation	<u>(33,940,280)</u>	<u>(3,419,532)</u>	<u>814,837</u>	<u>(36,544,975)</u>
	<u>\$ 102,965,889</u>	<u>\$ 4,049,796</u>	<u>\$ (4,457,402)</u>	<u>\$ 102,558,283</u>
	Balance June 30, 2012	Transfers/ Additions	Disposals	Balance June 30, 2013
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	3,634,108	1,497,213	(1,527,990)	3,603,331
	<u>134,498,971</u>	<u>4,276,753</u>	<u>(1,869,555)</u>	<u>136,906,169</u>
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>

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10: 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.

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. During the year ended June 30, 2014, the Department paid the outstanding balance in full. As of June 30, 2013, the outstanding principal was \$3,928,868.

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, 2014 and 2013, the outstanding principal was \$20,600,000 and \$21,085,000, 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, 2014 and 2013, the outstanding principal was \$2,515,000 and \$2,975,000, respectively.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10: 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, 2014 and 2013, the outstanding principal was \$2,925,000 and \$3,055,000, 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, 2014 and 2013, is 3.16 and 2.26, respectively. Total interest paid during the years ended June 30, 2014 and 2013 totaled \$1,287,214 and \$1,591,521, respectively. Total interest capitalized during the years ended June 30, 2014 and 2013 totaled \$-0- and \$104,500, 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, 2014 and 2013.

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,105,000	\$ 1,160,999	\$ 2,265,999
2016	1,120,000	1,123,132	2,243,132
2017	1,195,000	1,082,167	2,277,167
2018	1,260,000	1,037,644	2,297,644
2019	1,300,000	990,846	2,290,846
2020-2024	4,345,000	4,397,562	8,742,562
2025-2029	5,440,000	3,297,542	8,737,542
2030-2034	6,145,000	1,903,174	8,048,174
2035-2037	4,130,000	419,754	4,549,754
Total	<u>\$26,040,000</u>	<u>\$ 15,412,820</u>	<u>\$41,452,820</u>

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10: BONDS PAYABLE – CONTINUED

Following is a summary of changes in bonds payable:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Amounts Due Within One Year
Revenue Improvement Bonds, Series 1996	\$ 3,928,868	\$ -	\$ 3,928,869	\$ -	\$ -
Revenue Improvement Bonds, Series 2007	21,085,000	-	485,000	20,600,000	500,000
Revenue Refunding Bonds, Series 2008	2,975,000	-	460,000	2,515,000	470,000
Revenue Bonds Series 2010	3,055,000	-	130,000	2,925,000	135,000
Bonds payable, gross	31,043,868	-	5,003,869	26,040,000	1,105,000
Plus premiums	695,004	-	30,292	664,712	-
Less discounts	(27,502)	-	(1,579)	(25,923)	-
	<u>\$ 31,711,370</u>	<u>\$ -</u>	<u>\$ 5,032,582</u>	<u>\$ 26,678,789</u>	<u>\$ 1,105,000</u>

	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
Bonds payable, gross	37,527,671	-	6,483,803	31,043,868	1,895,851
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>

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11: 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.

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, 2014 and 2013, the rates were 14.88% and 14.24%, respectively, of annual covered payroll. Effective July 1, 2014, the rate changed to 14.76% 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, 2014, 2013 and 2012 totaled \$232,723, \$193,831 and \$178,948, respectively. Employee contributions for the years ended June 30, 2014, 2013 and 2012 totaled \$30,879, \$22,118 and \$18,922, respectively.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Annual Pension Cost

For the years ended June 30, 2014 and 2013, the Sewer Department's annual pension cost of \$232,723 and \$193,831, 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, 2013 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, 2013 was 30 years.

Schedule of Funding Progress (\$Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)
June 30, 2011	\$ 5,467	\$ 7,734	\$ 2,267
June 30, 2012	5,625	8,163	2,538
June 30, 2013	6,159	8,284	2,125

Actuarial Valuation Date	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2011	70.7%	\$ 1,623	139.7%
June 30, 2012	68.9%	1,686	150.5%
June 30, 2013	74.3%	1,693	125.5%

Three-Year Trend Information

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 178,948	100%	\$ -
June 30, 2013	193,831	100%	-
June 30, 2014	232,723	100%	-

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
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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. Sewer Department employee contributions for the years ended June 30, 2014 and 2013 were \$61,102 and \$48,980, respectively.

Deferred Compensation Plan

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

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

Deferred compensation remitted for investment during the years ended June 30, 2014 and 2013 was \$24,260 and \$23,075, respectively. At June 30, 2014 and 2013, there were six and five employees participating in the plan, respectively.

NOTE 13: ACCRUED VOUCHERS

In April 2008, a lawsuit was filed against the 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 Utilities and the plaintiffs reached a settlement agreement. Under the terms of the settlement, the 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, 2014 and 2013 was \$88,333 and \$108,797, respectively, and represents vouchers not yet redeemed.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 13: ACCRUED VOUCHERS – CONTINUED

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, 2014, \$587 of vouchers accrued by the Sewer Department were redeemed by the Water 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, 2014 AND 2013**

	2014	2013
POLLUTION CONTROL FACILITY AND FIELD EXPENSE		
Employee benefits	\$ 385,609	\$ 359,361
Insurance	43,546	40,792
Operating supplies and other	174,188	172,027
Payroll taxes	77,833	70,699
Repairs and maintenance	187,595	224,379
Salaries	1,077,674	964,073
Sludge disposal costs	350,186	381,721
Supplies and postage	95,944	74,737
Utilities	<u>403,572</u>	<u>402,637</u>
	<u>2,796,147</u>	<u>2,690,426</u>
 GENERAL AND ADMINISTRATIVE		
Bad debts	47,221	46,413
Consulting services - stream assessment	20,500	48,189
Employee benefits	154,557	136,887
Franchise taxes / use taxes	341,426	340,328
Insurance	2,484	2,384
Office supplies and postage	95,011	85,997
Other	27,418	96,882
Payroll taxes	37,541	35,066
Professional fees	59,097	50,659
Salaries	420,894	343,882
Salaries - commissioners	-	2,047
Utilities	<u>22,687</u>	<u>22,154</u>
	<u>1,228,836</u>	<u>1,210,888</u>
 DEPRECIATION	 <u>3,419,532</u>	 <u>3,182,515</u>
 TOTAL OPERATING EXPENSES	 <u><u>\$ 7,444,515</u></u>	 <u><u>\$ 7,083,829</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 2007
JUNE 30, 2014 AND 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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	<u>1,445,000</u>	5.000%	<u>72,254</u>	<u>1,517,254</u>
Balance, June 30, 2014	<u>\$20,600,000</u>		<u>\$14,187,271</u>	<u>\$ 34,787,271</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, 2014 AND 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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	<u>535,000</u>	3.550%	<u>9,496</u>	<u>544,496</u>
Balance, June 30, 2014	<u>\$ 2,515,000</u>		<u>\$ 221,479</u>	<u>\$ 2,736,479</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, 2014 AND 2013**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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	<u>225,000</u>	4.000%	<u>4,500</u>	<u>229,500</u>
Balance, June 30, 2014	<u>\$ 2,925,000</u>		<u>\$ 1,004,070</u>	<u>\$ 3,929,070</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, 2014 AND 2013

2014

Fixed Assets

	<u>Balance June 30, 2013</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2014</u>
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office equipment	617,736	49,589	(54,954)	612,371
Vehicles	1,111,060	-	-	1,111,060
Shop equipment	94,245	13,374	(26,294)	81,325
Field equipment	1,570,826	115,284	(539,024)	1,147,086
Radio equipment	71,369	6,870	(18,936)	59,303
Water meters	1,493,550	200,958	-	1,694,508
Sewer system	44,224,600	1,223,179	-	45,447,779
Pollution control facility	49,967,867	3,587,224	(169,217)	53,385,874
Structures and parking lots	1,714,792	-	(6,411)	1,708,381
Easements	1,132,499	-	-	1,132,499
Contributed sewer system	<u>30,641,040</u>	<u>639,190</u>	<u>-</u>	<u>31,280,230</u>
	133,302,838	5,835,668	(814,836)	138,323,670
Construction in progress	<u>3,603,331</u>	<u>1,633,660</u>	<u>(4,457,403)</u>	<u>779,588</u>
	<u>\$ 136,906,169</u>	<u>\$ 7,469,328</u>	<u>\$ (5,272,239)</u>	<u>\$ 139,103,258</u>

Accumulated Depreciation

Office equipment	\$ 458,113	\$ 55,158	\$ (54,954)	\$ 458,317
Vehicles	659,820	79,363	-	739,183
Shop equipment	90,591	2,288	(26,294)	66,585
Field equipment	1,327,070	68,993	(539,024)	857,039
Radio equipment	61,197	4,254	(18,936)	46,515
Water meters	617,962	65,105	-	683,067
Sewer system	11,751,488	878,800	-	12,630,288
Pollution control facility	14,081,573	1,570,703	(169,218)	15,483,058
Structures and parking lots	659,171	72,871	(6,411)	725,631
Contributed sewer system	<u>4,233,295</u>	<u>621,997</u>	<u>-</u>	<u>4,855,292</u>
	<u>\$ 33,940,280</u>	<u>\$ 3,419,532</u>	<u>\$ (814,837)</u>	<u>\$ 36,544,975</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, 2014 AND 2013

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	\$ 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
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	<u>30,257,220</u>	<u>383,820</u>	<u>-</u>	<u>30,641,040</u>
	130,864,863	2,779,540	(341,565)	133,302,838
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
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	<u>3,626,071</u>	<u>607,224</u>	<u>-</u>	<u>4,233,295</u>
	<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 SEWER SYSTEM RATES
JUNE 30, 2014 AND 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
JUNE 30, 2014 AND 2013**

<u>SEWER CUSTOMER CLASSIFICATIONS</u>	NUMBER OF CUSTOMERS	
	<u>2014</u>	<u>2013</u>
Residential customers	19,686	19,199
Commerical customers	1,635	1,623
Industrial customers	<u>35</u>	<u>34</u>
Total	<u><u>21,356</u></u>	<u><u>20,856</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF BILLABLE GALLONS
YEARS ENDED JUNE 30, 2014 AND 2013**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2014</u>	<u>2013</u>
Residential customers	965,362,600	961,576,900
Commerical customers	429,748,600	431,852,800
Industrial customers	<u>416,361,700</u>	<u>445,718,200</u>
Total	<u><u>1,811,472,900</u></u>	<u><u>1,839,147,900</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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Rogers Water Utilities Sewer Department** (“the Sewer Department”), a component unit of the City of Rogers, Arkansas, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated August 15, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 15, 2014