

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE
CITY OF ROGERS, ARKANSAS
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2010 AND 2009
TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedules of Operating Expenses	26
Schedules of Principal and Interest Payments:	
Water Revenue Improvement Bonds – Series 2004	27
Water Revenue Improvement Bonds – Series 2006	28
Water Revenue Refunding Bonds – Series 2008	29
Water Revenue Refunding Bonds – Series 2008B	30
Schedules of Fixed Assets	31
Schedule of Water System Rates	33
Schedules of Water Customers	34
Schedules of Billable Gallons	35
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	36

INDEPENDENT AUDITORS' REPORT

To the 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 year ended June 30, 2010 as shown in the table of contents. These financial statements are the responsibility of the City of Rogers, Arkansas Water Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Water Department as of and for the year ended June 30, 2009 were audited by other auditors whose report dated September 3, 2009 expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described 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.

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, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010 on our consideration of the Water Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the **Rogers Water Utilities 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 but is required by the State of Arkansas. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended June 30, 2010 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
September 15, 2010

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

This management's discussion and analysis of the financial performance of the Rogers Water Utilities Water Department ("the Water Department") provides an overview of the Water Department's financial activities for the years ended June 30, 2010 and 2009. 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 approximately \$231,000 or .4% over fiscal year 2009 and approximately \$2,341,000 or 4% over 2008.
- The Water Department's operating revenues increased by approximately \$560,000 or 7% over 2009 and decreased approximately \$826,000 or 10% over 2008.
- Operating expenses increased by approximately \$407,000 or 6% over 2009 and decreased approximately \$119,000 or 2% over 2008.
- A loss before capital contributions of approximately \$410,000 (including lawsuit expense of approximately \$324,000) was incurred in 2010 and approximately \$428,000 in 2009.

Rogers Water Department Fiscal Year 2010 Highlights

- Reached final agreement on the settlement of the illegal exaction lawsuit filed against Rogers Water Utilities and the City of Rogers. The total potential liability was reduced from \$10 million to \$.7 million. The Court approved the settlement in September 2010.
- Extended a 24-inch water transmission main in the Southwest quadrant of the City of Rogers to force more water into the City's fastest growing area.
- Cooperated with the City of Rogers on water relocations and improvements in conjunction with street improvements in South 26th street and downtown Rogers.
- Moved into new administration building, which provided better employee working conditions, better customer service, and employee safety. A Commission room was dedicated for Commission meetings.
- Conducted a reduction in force as a cost cutting measure, and significantly reduced personnel. The overall reduction was 12%.

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

- Received permission from Rogers City Council to increase water rates by 6% effective October 2009.
- Budgeted to cover an anticipated 2% rate increase in bulk water rates from Beaver Water District effective October 1, 2010.
- Met or exceeded all drinking water criteria.
- Conducted quarterly tests for Phase II Total Trihalomethanes (TTHMs) in anticipation of April 1, 2012 compliance deadline.

Rogers Water Department Fiscal Year 2009 Highlights

- Provided water and fire protection infrastructure for the new hotel district on S. 52nd and points west.
- Absorbed a 2% rate increase from Beaver Water District for bulk water purchases.
- Substantially completed construction of a new two million gallon elevated tank. The new tank was placed in service early in fiscal year 2010, significantly increasing water storage capacity.
- Issued a Water Revenue Refunding Bond Series 2008B refunding Series 2003 totaling \$3,565,000 in September 2008.

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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

Financial Highlights

Assets, Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Total current assets	\$ 8,755,631	\$ 8,083,515	\$ 7,714,653
Restricted cash and investments	5,961,232	7,042,292	11,168,900
Other noncurrent assets	75,760,664	75,711,050	69,577,150
Total assets	<u>\$ 90,477,527</u>	<u>\$ 90,836,857</u>	<u>\$ 88,460,703</u>
Liabilities			
Total current liabilities	\$ 2,436,180	\$ 2,469,790	\$ 2,095,945
Liabilities payable from restricted assets	998,861	985,522	967,684
Noncurrent liabilities	27,441,035	28,011,584	28,368,379
Total liabilities	<u>\$ 30,876,076</u>	<u>\$ 31,466,896</u>	<u>\$ 31,432,008</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 47,026,616	\$ 46,602,232	\$ 47,221,045
Restricted	4,962,371	6,056,770	3,768,942
Unrestricted	7,612,464	6,710,959	6,038,708
Total net assets	<u>\$ 59,601,451</u>	<u>\$ 59,369,961</u>	<u>\$ 57,028,695</u>
Operating Results and Changes in Net Assets			
Operating revenues	<u>\$ 8,317,482</u>	<u>\$ 7,757,979</u>	<u>\$ 8,584,280</u>
Operating expenses			
Depreciation and amortization	1,994,306	1,879,847	1,789,874
Other operating expenses	5,692,239	5,399,960	5,608,749
Total operating expenses	<u>7,686,545</u>	<u>7,279,807</u>	<u>7,398,623</u>
Operating income	<u>630,937</u>	<u>478,172</u>	<u>1,185,657</u>
Other revenues (expenses)			
Interest expense	(1,216,822)	(1,236,111)	(1,281,135)
Other income	175,855	330,224	680,077
Total other revenues (expenses)	<u>(1,040,967)</u>	<u>(905,887)</u>	<u>(601,058)</u>
Change in net assets before capital contributions	(410,030)	(427,715)	584,599
Capital Contributions	<u>641,520</u>	<u>2,768,981</u>	<u>2,902,042</u>
Change in Net Assets	231,490	2,341,266	3,486,641
Net Assets, Beginning of Year	<u>59,369,961</u>	<u>57,028,695</u>	<u>53,542,054</u>
Net Assets, End of Year	<u>\$ 59,601,451</u>	<u>\$ 59,369,961</u>	<u>\$ 57,028,695</u>

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010, the Water Department's investment in capital assets was approximately \$75,048,000 (net of accumulated depreciation). This investment of capital assets included land, buildings, equipment, vehicles, contributed property and construction in progress.

Major capital asset events include the following:

- Construction costs of approximately \$945,000 were incurred on a variety of construction projects during 2010. Approximately \$6,074,000 of constructed assets were completed and placed in service, including a new two million gallon elevated tank, the administration building, and water main construction and rehabilitation projects. In addition, approximately \$613,000 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 2009, the Water Department had construction of approximately \$4,934,000 and contributed capital of approximately \$2,706,000, and in 2008 construction of approximately \$2,575,000 and contributed capital of approximately \$2,761,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were approximately \$282,000 in 2010, as compared to approximately \$341,000 in 2009 and approximately \$460,000 in 2008.

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

Long-Term Debt

The Water Department had \$28,220,000 in revenue bonds outstanding as of June 30, 2010, which is a decrease of \$560,000 from 2009 due to scheduled principal payments. Revenue bonds outstanding as of June 30, 2009 were \$28,780,000 which was a decrease of \$190,000 from 2008 due to the issuance of revenue refunding bonds Series 2008B totaling \$3,565,000 and principal payments totaling \$3,755,000.

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

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

Additional Management Comments

Fiscal Year 2010 marked the second full year of the current recession. The continued slow growth rate in the number of new residential customers and the drop in the number of industrial customers indicate that the overall economic outlook is less than robust. However, builders are beginning to pull permits on lots in subdivisions that were developed years ago. The current oversupply of new homes and building lots is expected to continue, according to the University of Arkansas. Customers continue to conserve water, and the summer weather continues to be milder and wetter than normal. Therefore, revenue growth for the Water Department is not indicated for Fiscal Year 2011. A small deficit is predicted for the Water Department for fiscal year 2011. The settlement of the illegal exaction lawsuit is expected. A liability of approximately \$324,000 for the Water Department is expected to cover the settlement costs.

Capital outlay for Fiscal Year 2011 for the Water Department is predicted to be less, as the 2006 water revenue bond proceeds are spent, and the City's street, parks, and drainage program awaits another plebiscite to continue. Water Department reserves are adequate for projected needs. No new water revenue bonds are projected for Fiscal Year 2011.

Northwest Arkansas cities must meet the Phase II Total Trihalomethanes and Haloacetic Acids (HAAs) levels set by the Safe Drinking Water Act, effective April 1, 2012. Preliminary testing revealed some areas in the distribution system exceeded Operation Evaluation Levels (OELs). Rogers Water Utilities continues to rely on Beaver Water District for assistance to keep the levels of TTHM and HAA below the action levels.

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

	ASSETS	
	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,628,236	\$ 1,989,521
Investments	4,566,566	4,479,211
Accounts receivable, net of allowance for doubtful accounts of \$174,500 and \$137,000, respectively	1,320,294	1,208,914
Accrued interest receivable	10,865	6,030
Due from sewer department	-	173,203
Inventory	210,442	203,540
Prepaid expenses	19,228	23,096
	<hr/>	<hr/>
Total Current Assets	8,755,631	8,083,515
RESTRICTED CASH AND INVESTMENTS		
Restricted cash and cash equivalents	782,689	323,748
Investments	5,171,763	6,712,958
Accrued interest receivable	6,780	5,586
	<hr/>	<hr/>
Total Restricted Cash and Investments	5,961,232	7,042,292
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION		
	<hr/>	<hr/>
	75,047,651	75,173,816
OTHER ASSETS		
Bond issuance costs, net of amortization of \$92,229 and \$63,037, respectively	508,042	537,234
Forbearance agreement receivable	204,971	-
	<hr/>	<hr/>
Total Other Assets	713,013	537,234
	<hr/>	<hr/>
Total Assets	\$ 90,477,527	\$ 90,836,857
	<hr/> <hr/>	<hr/> <hr/>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts payable - trade	\$ 492,365	\$ 375,722
Accounts payable to construction contractors	57,525	658,684
Accounts payable - other	669,596	600,170
Accrued expenses	286,646	275,214
Current portion of bonds payable	580,000	560,000
Accrued vouchers	224,137	-
Due to sewer department	125,911	-
	<u>2,436,180</u>	<u>2,469,790</u>
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer meter deposits	788,107	771,666
Accrued interest payable	210,754	213,856
	<u>998,861</u>	<u>985,522</u>
 BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS		
	<u>27,441,035</u>	<u>28,011,584</u>
 NET ASSETS		
Invested in capital assets, net of related debt	47,026,616	46,602,232
Restricted	4,962,371	6,056,770
Unrestricted	7,612,464	6,710,959
	<u>59,601,451</u>	<u>59,369,961</u>
 Total Liabilities and Net Assets	<u>\$ 90,477,527</u>	<u>\$ 90,836,857</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, 2010 AND 2009

	2010	2009
OPERATING REVENUES		
Residential water	\$ 4,309,389	\$ 3,947,506
Commercial water	1,761,363	1,649,738
Industrial water	1,070,950	1,103,603
Sprinkler service / hydrant	35,388	33,369
Service charges and penalties	425,983	399,829
Access / impact / new customer fees	461,150	377,675
Other operating revenue	<u>253,259</u>	<u>246,259</u>
 Total Operating Revenues	 <u>8,317,482</u>	 <u>7,757,979</u>
OPERATING EXPENSES		
Water purchased	3,421,727	3,389,460
Plant operations and distribution	1,103,660	1,125,587
General and administrative	1,166,852	884,913
Depreciation and amortization	<u>1,994,306</u>	<u>1,879,847</u>
 Total Operating Expenses	 <u>7,686,545</u>	 <u>7,279,807</u>
OPERATING INCOME	 <u>630,937</u>	 <u>478,172</u>
OTHER REVENUES (EXPENSES)		
Interest income	187,105	335,273
Gain (loss) on sale of capital assets	(450)	4,751
Interest expense	(1,216,822)	(1,236,111)
Trustee fees	<u>(10,800)</u>	<u>(9,800)</u>
 Total Other Revenues (Expenses)	 <u>(1,040,967)</u>	 <u>(905,887)</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	 (410,030)	 (427,715)
CAPITAL CONTRIBUTIONS	 <u>641,520</u>	 <u>2,768,981</u>
CHANGE IN NET ASSETS	 231,490	 2,341,266
NET ASSETS, BEGINNING OF YEAR	 <u>59,369,961</u>	 <u>57,028,695</u>
NET ASSETS, END OF YEAR	 <u>\$ 59,601,451</u>	 <u>\$ 59,369,961</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, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 7,065,710	\$ 6,776,340
Cash received from access, impact and new customer fees	461,150	377,675
Cash received from service charges, penalties and other operating revenue	695,683	703,359
Payments for water	(3,403,234)	(3,372,413)
Payments for salaries and benefits	(1,283,236)	(1,298,630)
Payments to suppliers for goods and services	<u>(288,051)</u>	<u>(865,433)</u>
 Net Cash From Operating Activities	 <u>3,248,022</u>	 <u>2,320,898</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(2,020,539)	(5,006,381)
Cash received from sale of capital assets	-	4,751
Proceeds from bond issuance, net	-	3,489,198
Principal payments on bonds	(560,000)	(3,755,000)
Interest and paying agent fees, net of capitalized interest	(1,221,273)	(1,226,661)
Collections of forbearance agreement	<u>16,530</u>	<u>-</u>
 Net Cash Used for Capital and Related Financing Activities	 <u>(3,785,282)</u>	 <u>(6,494,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	181,076	387,944
Net change in investments	(87,355)	182,802
Net change in restricted investments	<u>1,541,195</u>	<u>3,891,033</u>
 Net Cash From Investing Activities	 <u>1,634,916</u>	 <u>4,461,779</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,097,656	288,584
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,313,269</u>	<u>2,024,685</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,410,925</u>	<u>\$ 2,313,269</u>
 CASH AND CASH EQUIVALENTS	 <u>\$ 2,628,236</u>	 <u>\$ 1,989,521</u>
RESTRICTED CASH AND CASH EQUIVALENTS	<u>782,689</u>	<u>323,748</u>
	<u>\$ 3,410,925</u>	<u>\$ 2,313,269</u>

See Independent Auditors' Report and Notes to Financial Statements.

**RECONCILIATION OF OPERATING INCOME TO NET
CASH FROM OPERATING ACTIVITIES:**

	2010	2009
Operating Income	<u>\$ 630,937</u>	<u>\$ 478,172</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,994,306	1,879,847
Allowance for doubtful accounts	37,500	26,015
Changes in assets and liabilities:		
Accounts receivable	(148,880)	49,478
Inventory	(6,902)	9,935
Prepaid expenses	3,868	2,550
Accounts payable	186,069	51,548
Accrued expenses	27,873	55,956
Accrued vouchers	224,137	-
Due to or from sewer department	<u>299,114</u>	<u>(232,603)</u>
Total adjustments	<u>2,617,085</u>	<u>1,842,726</u>
Net Cash From Operating Activities	<u>\$ 3,248,022</u>	<u>\$ 2,320,898</u>
NONCASH TRANSACTIONS		
Capital contributions	<u>\$ 641,520</u>	<u>\$ 2,768,981</u>
Issuance of forbearance agreement	<u>\$ 221,501</u>	<u>\$ -</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, 2010 AND 2009

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 revenues (expenses) 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.

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.

Subsequent Events

Subsequent events are evaluated through the end of the audit period, 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, 2010 AND 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The Codification is intended to reorganize, rather than change, existing accounting principles generally accepted in the United States of America. The Water Department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Codification of accounting principles for pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Accordingly, all references to currently existing accounting principles generally accepted in the United States of America have been removed and replaced with references to the applicable FASB Codification Topic. The adoption of the Codification did not have a material impact on the Water Department's financial position or results of operations.

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, 2010 and 2009, cash equivalents consisted of certificates of deposit.

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.

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.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Lived Assets

FASB Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Water Department's reported earnings, financial position or results of operations.

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, 2010 amounted to approximately \$2,487,000.

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, 2010 and 2009, cumulative contributed capital fixed assets amounted to approximately \$31,282,000 and \$30,670,000, respectively.

Amortization of Bond Discounts and Premiums

Bond discounts and premiums are amortized over the lives of the related bond issues. Amortization expense of \$9,450 for each of the years ended June 30, 2010 and 2009 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, 2010 AND 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Bond Issuance Costs

Bond issuance costs are costs incurred in connection with the issuance of various bonds and are being amortized on the straight-line method over the lives of the related bond issues. Amortization expense amounted to \$29,192 and \$28,033, respectively, for the years ended June 30, 2010 and 2009.

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.

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 the Statement of Net Assets date.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. These reclassifications had no effect on the changes in net assets.

Current Accounting Development

In February 2009, the GASB issued Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010. GASB 54 eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances. GASB 54 also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. Management does not expect implementation of GASB 54 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, 2010 AND 2009

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, 2010, the Water Department had approximately \$3,461,600 in deposit balances, of which approximately \$2,926,700 were FDIC insured, and the remaining balances are collateralized by securities held by the bank in the Utilities' name. Cash and cash equivalents include \$1,725 of petty cash.

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. The balances as of June 30, 2010 and 2009 are shown in the Statements of Net Assets under the captions Due to sewer department and Due from sewer department.

NOTE 4: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2010 and 2009 as follows:

	2010	2009
Meter deposits	\$ 1,126,263	\$ 944,179
Debt service reserve	1,034,776	1,015,511
Depreciation reserve for additional replacements to the water system	3,601,256	3,244,650
Construction	153,805	1,819,872
New customer fees collected for additions of fixed assets	38,352	12,494
Accrued interest	<u>6,780</u>	<u>5,586</u>
	<u>\$ 5,961,232</u>	<u>\$ 7,042,292</u>

NOTE 5: RELATED PARTIES

The Water Department maintains deposits and certificates of deposit with banks whose officers serve on the Commission of the Rogers Water Utilities. At June 30, 2010 and 2009, these deposits amounted to approximately \$9,433,000 and \$6,340,000, respectively.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 6: FORBEARANCE AGREEMENT RECEIVABLE

In September of 2006, the Rogers Water Utilities and a commercial developer entered into a cost sharing agreement for the construction of water and sewer mains to a commercial development. During the year ended June 30, 2010, the Rogers Water Utilities entered into a forbearance agreement with the developer. Under the terms of the agreement, the developer will pay \$311,974 of cost sharing, in monthly installments of \$5,000, bearing interest at 5% per year, with a lump sum of \$198,099 due July 1, 2012. The balance of \$204,971 reported in the Statement of Net Assets as of June 30, 2010 represents the Water Department's share of the forbearance agreement receivable.

NOTE 7: 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.

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, 2010, investments of the Water Department were fully collateralized or insured.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 8: INVESTMENTS – CONTINUED

At June 30, 2010 and 2009 the Water Department's investments consisted of \$8,573,443 and \$8,405,142, respectively, held in certificates of deposit and \$1,164,886 and \$2,787,027, respectively, held in United States Government securities. All investments at June 30, 2010 and 2009 had maturities of less than one year.

NOTE 9: CHANGES IN FIXED ASSETS

	<u>Balance June 30, 2009</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2010</u>
Land	\$ 584,040	\$ 5,220	\$ -	\$ 589,260
Buildings	546,488	771,220	-	1,317,708
Equipment	52,558,914	5,579,070	(90,730)	58,047,254
Vehicles	434,554	-	-	434,554
Contributed property	30,669,512	612,771	-	31,282,283
Construction in progress	<u>5,510,379</u>	<u>944,975</u>	<u>(6,073,856)</u>	<u>381,498</u>
	90,303,887	7,913,256	(6,164,586)	92,052,557
			-	
Accumulated depreciation	<u>(15,130,071)</u>	<u>(1,965,115)</u>	<u>90,280</u>	<u>(17,004,906)</u>
	<u>\$ 75,173,816</u>	<u>\$ 5,948,141</u>	<u>\$ (6,074,306)</u>	<u>\$ 75,047,651</u>
	<u>Balance June 30, 2008</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2009</u>
Land	\$ 569,018	\$ 15,022	\$ -	\$ 584,040
Buildings	544,368	2,120	-	546,488
Equipment	51,459,790	1,171,074	(71,950)	52,558,914
Vehicles	448,543	38,219	(52,208)	434,554
Contributed property	27,963,582	2,705,930	-	30,669,512
Construction in progress	<u>1,462,494</u>	<u>4,933,519</u>	<u>(885,634)</u>	<u>5,510,379</u>
	82,447,795	8,865,884	(1,009,792)	90,303,887
Accumulated depreciation	<u>(13,402,415)</u>	<u>(1,851,814)</u>	<u>124,158</u>	<u>(15,130,071)</u>
	<u>\$ 69,045,380</u>	<u>\$ 7,014,070</u>	<u>\$ (885,634)</u>	<u>\$ 75,173,816</u>

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 10: BONDS PAYABLE

Series 2004 Revenue Improvement Bonds

In December 2004, the Water Department issued \$8,000,000 in Revenue Improvement Bonds (Series 2004) at an average rate of 4.75% to finance general improvements to the water system and related infrastructure and to purchase a portion of a commonly owned transmission line shared with the City of Bentonville, Arkansas. The bond matures in fiscal year 2030 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2010 and 2009, the outstanding principal was \$7,750,000 and \$7,800,000, respectively.

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, 2010 and 2009, the outstanding principal was \$15,130,000 and \$15,270,000, respectively.

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, 2010 and 2009, the outstanding principal was \$1,960,000 and \$2,145,000, 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, 2010 and 2009, the outstanding principal was \$3,380,000 and \$3,565,000, 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 2008 bond documents, as of June 30, 2010 is 1.89. Total interest paid during the years ended June 30, 2010 and 2009 totaled \$1,210,474 and \$1,232,725, respectively.

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 year ended June 30, 2010.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 10: BONDS PAYABLE – CONTINUED

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

Year Ending			
June 30,	Principal	Interest	Total
2011	\$ 580,000	\$ 1,193,404	\$ 1,773,404
2012	590,000	1,175,256	1,765,256
2013	615,000	1,155,798	1,770,798
2014	635,000	1,135,036	1,770,036
2015	655,000	1,112,153	1,767,153
2016-2020	3,690,000	5,170,489	8,860,489
2021-2025	4,800,000	4,286,313	9,086,313
2026-2030	5,885,000	3,045,028	8,930,028
2031-2035	7,345,000	1,576,885	8,921,885
2036-2037	<u>3,425,000</u>	<u>151,484</u>	<u>3,576,484</u>
Total	<u>\$ 28,220,000</u>	<u>\$ 20,001,846</u>	<u>\$ 48,221,846</u>

Following is a summary of changes in bonds payable:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
Revenue Improvement Bonds, Series 2004	\$ 7,800,000	\$ -	\$ 50,000	\$ 7,750,000	\$ 50,000
Revenue Improvement Bonds, Series 2006	15,270,000	-	140,000	15,130,000	145,000
Revenue Refunding Bonds, Series 2008	2,145,000	-	185,000	1,960,000	195,000
Revenue Refunding Bonds, Series 2008B	3,565,000	-	185,000	3,380,000	190,000
Less discounts	(280,273)	-	(13,248)	(267,025)	-
Plus premiums	<u>71,857</u>	<u>-</u>	<u>3,797</u>	<u>68,060</u>	<u>-</u>
	<u>\$28,571,584</u>	<u>\$ -</u>	<u>\$ 550,549</u>	<u>\$ 28,021,035</u>	<u>\$ 580,000</u>

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 10: BONDS PAYABLE – CONTINUED

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
Revenue Improvement Bonds, Series 2003	\$ 3,500,000	\$ -	\$ 3,500,000	\$ -	\$ -
Revenue Improvement Bonds, Series 2004	7,850,000	-	50,000	7,800,000	50,000
Revenue Improvement Bonds, Series 2006	15,400,000	-	130,000	15,270,000	140,000
Revenue Refunding Bonds, Series 2008	2,220,000	-	75,000	2,145,000	185,000
Revenue Refunding Bonds, Series 2008B	-	3,565,000	-	3,565,000	185,000
Less discounts	(257,276)	(93,801)	(70,804)	(280,273)	-
Plus premiums	<u>75,655</u>	<u>-</u>	<u>3,798</u>	<u>71,857</u>	<u>-</u>
	<u>\$28,788,379</u>	<u>\$ 3,471,199</u>	<u>\$ 3,687,994</u>	<u>\$ 28,571,584</u>	<u>\$ 560,000</u>

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.

**ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

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

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, 2010 and 2009, the rate is 11% and 11.01%, respectively, 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, 2010, 2009 and 2008 totaled \$94,380, \$103,691 and \$116,173, respectively. Employee contributions for the years ended June 30, 2010, 2009 and 2008 totaled \$6,280, \$7,429 and \$5,738, respectively.

Annual Pension Cost

For the year ended June 30, 2010, the Water Department's annual pension cost of \$94,380 for APERS was equal to the Water Department's required and actual contributions. The required contribution was determined as part of the June 30, 2008 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 2000 Group Annuity Mortality table set forward two years for men and set forward one year for women, 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 December 31, 2008 was 13.7 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b - a)
June 30, 2006	\$ 4,949,000	\$ 5,936,000	\$ 987,000
June 30, 2007	5,498,000	6,174,000	676,000
June 30, 2008	5,866,000	6,543,000	677,000

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Schedule of Funding Progress – Continued

<u>Actuarial Valuation Date</u>	<u>Annual Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAL as of % of Covered Payroll ((b-a)/c)</u>
June 30, 2008	83.0%	\$ 1,267,000	77.9%
June 30, 2009	89.0%	1,303,000	51.9%
June 30, 2010	90.0%	1,380,000	49.1%

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 116,173	100%	\$ -
June 30, 2009	103,691	100%	-
June 30, 2010	94,380	100%	-

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, 2010 and 2009 were \$25,611 and \$28,662, 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.

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 12: EMPLOYEE BENEFIT PLANS - CONTINUED

Deferred compensation remitted for investment during the years ended June 30, 2010 and 2009 was \$16,715 and \$18,625, respectively. At June 30, 2010 and 2009, there were ten employees participating in the plan.

NOTE 13: COMMITMENTS AND CONCENTRATION

The Water Department is committed to several construction contracts in process at year-end totaling \$606,469. As of June 30, 2010, \$477,642 had been incurred in connection with these contracts. Additionally, the Water Department had approximately \$131,700 due in connection with a contract. This balance is expected to be offset by liquidating damages provided for in the contract and, accordingly, no provision is made in the financial statements of the Water Department at June 30, 2010. Subsequent to year-end, the Rogers Water Utilities signed a contract for \$85,000 for remodeling and repairs due to flood damages of a portion of the offices. The Water Department will pay half of this contract and the Sewer Department will pay the other.

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

NOTE 14: LITIGATION

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. The plaintiffs contend that these fees violate various provisions of Arkansas law and are therefore illegal exactions. Management of the Rogers Water Utilities and the plaintiffs have reached a settlement agreement. Under the terms of the settlement, the Rogers Water Utilities will issue vouchers for 53% of the fees collected between June 27, 2008 and August 31, 2010. The vouchers will be 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. In addition, the Utilities will pay \$200,000 of legal fees of the plaintiffs. The court has tentatively approved the terms of the settlement. On September 9, 2010, the Utilities presented the list of claims filed and vouchers to be issued to the court and received final approval of the settlement. The plaintiffs have thirty days to appeal. If no appeal is filed, the case will be dismissed with prejudice. The Water Department has accrued \$100,000 of the legal costs at June 30, 2010, which are included in accounts payable on the Statement of Net Assets. Additionally, the Water Department has accrued \$224,137 in vouchers payable at June 30, 2010, representing the claims filed and approved by the court.

SUPPLEMENTARY INFORMATION

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
WATER PURCHASED	<u>\$ 3,421,727</u>	<u>\$ 3,389,460</u>
PLANT OPERATIONS AND DISTRIBUTION		
Salaries	571,000	612,547
Payroll taxes	43,064	42,865
Employee benefits	189,037	178,918
Insurance	17,514	18,487
Repairs and maintenance	183,351	160,247
Utilities	42,817	45,154
Operating supplies and other	<u>56,877</u>	<u>67,369</u>
	<u>1,103,660</u>	<u>1,125,587</u>
GENERAL AND ADMINISTRATIVE		
Salaries	312,160	320,280
Salaries - commissioners	898	898
Payroll taxes	44,034	42,301
Employee benefits	123,043	132,875
Office supplies and postage	78,525	83,804
Insurance	10,293	12,081
Taxes and fees	83,646	83,081
Utilities	20,743	17,497
Professional fees	46,453	47,748
Bad debts	56,755	47,538
Costs of settlement agreement	324,137	-
Other	<u>66,165</u>	<u>96,810</u>
	<u>1,166,852</u>	<u>884,913</u>
DEPRECIATION AND AMORTIZATION	<u>1,994,306</u>	<u>1,879,847</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 7,686,545</u></u>	<u><u>\$ 7,279,807</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 2004
JUNE 30, 2010**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2011	\$ 50,000	3.00%	\$ 364,313	\$ 414,313
2012	55,000	3.25%	362,669	417,669
2013	60,000	3.25%	360,800	420,800
2014	65,000	3.50%	358,688	423,688
2015	60,000	3.50%	356,500	416,500
2016	70,000	4.00%	354,050	424,050
2017	70,000	4.00%	351,250	421,250
2018	70,000	4.00%	348,450	418,450
2019	80,000	4.00%	345,450	425,450
2020	355,000	4.00%	336,750	691,750
2021	375,000	5.00%	320,275	695,275
2022	390,000	5.00%	301,150	691,150
2023	410,000	5.00%	281,150	691,150
2024	435,000	5.00%	260,025	695,025
2025	765,000	5.00%	230,025	995,025
2026	805,000	4.75%	191,781	996,781
2027	845,000	4.75%	152,594	997,594
2028	885,000	4.75%	111,503	996,503
2029	930,000	4.75%	68,400	998,400
2030	975,000	4.75%	23,156	998,156
Balance, June 30, 2010	<u>\$ 7,750,000</u>		<u>\$ 5,478,979</u>	<u>\$ 13,228,979</u>

Dated: December 1, 2004

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 IMPROVEMENT BONDS - SERIES 2006
JUNE 30, 2010**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2011	\$ 145,000	4.00%	\$ 646,681	\$ 791,681
2012	150,000	4.00%	640,780	790,780
2013	155,000	4.00%	634,681	789,681
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	1,750,000	4.375%	38,281	1,788,281
Balance, June 30, 2010	<u>\$ 15,130,000</u>		<u>\$ 13,162,637</u>	<u>\$ 28,292,637</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, 2010**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$ 195,000	3.00%	\$ 59,880	\$ 254,880
2012	195,000	3.00%	54,027	249,027
2013	205,000	3.00%	48,027	253,027
2014	210,000	3.00%	41,802	251,802
2015	220,000	3.10%	35,242	255,242
2016	220,000	3.25%	28,257	248,257
2017	230,000	3.35%	20,829	250,829
2018	240,000	3.45%	12,836	252,836
2019	<u>245,000</u>	3.55%	<u>4,349</u>	<u>249,349</u>
Balance, June 30, 2010	<u>\$ 1,960,000</u>		<u>\$ 305,249</u>	<u>\$ 2,265,249</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, 2010**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$ 190,000	2.30%	\$ 122,530	\$ 312,530
2012	190,000	2.70%	117,780	307,780
2013	195,000	3.00%	112,290	307,290
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, 2010	<u>\$ 3,380,000</u>		<u>\$ 1,054,981</u>	<u>\$ 4,434,981</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 FIXED ASSETS
YEAR ENDED JUNE 30, 2010

Fixed Assets

	<u>Balance June 30, 2009</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2010</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	603,791	83,689	(63,741)	623,739
Vehicles	434,554	-	-	434,554
Shop equipment	64,991	822	-	65,813
Field equipment	708,769	57,751	(26,989)	739,531
Radio equipment	48,862	282	-	49,144
Pumping equipment	46,143	-	-	46,143
Water meters	2,100,617	46,744	-	2,147,361
Water services	1,367,615	2,700	-	1,370,315
Water tower	7,485,830	3,807,786	-	11,293,616
Main line	40,132,296	1,579,296	-	41,711,592
Water supply facility	33,233	-	-	33,233
Structures and parking lots	513,255	771,220	-	1,284,475
Easements	310,420	5,220	-	315,640
Contributed water main	30,669,512	612,771	-	31,282,283
	<u>84,793,508</u>	<u>6,968,281</u>	<u>(90,730)</u>	<u>91,671,059</u>
Construction in progress	<u>5,510,379</u>	<u>944,975</u>	<u>(6,073,856)</u>	<u>381,498</u>
	<u>\$ 90,303,887</u>	<u>\$ 7,913,256</u>	<u>\$ (6,164,586)</u>	<u>\$ 92,052,557</u>

Accumulated Depreciation

Office equipment	\$ 467,091	\$ 57,785	\$ (63,291)	\$ 461,585
Vehicles	356,831	29,297	-	386,128
Shop equipment	60,896	879	-	61,775
Field equipment	488,803	54,393	(26,989)	516,207
Radio equipment	48,820	80	-	48,900
Pumping equipment	33,827	3,652	-	37,479
Water meters	991,066	76,470	-	1,067,536
Water services	966,375	32,920	-	999,295
Water tower	2,168,711	197,736	-	2,366,447
Main line	7,169,158	859,755	-	8,028,913
Water supply facility	33,233	-	-	33,233
Structures and parking lots	430,277	30,765	-	461,042
Contributed water main	1,914,983	621,383	-	2,536,366
	<u>\$ 15,130,071</u>	<u>\$ 1,965,115</u>	<u>\$ (90,280)</u>	<u>\$ 17,004,906</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES
WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF FIXED ASSETS
YEAR ENDED JUNE 30, 2009**

Fixed Assets

	<u>Balance June 30, 2008</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2009</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	609,219	65,213	(70,641)	603,791
Vehicles	448,543	38,219	(52,208)	434,554
Shop equipment	64,225	2,075	(1,309)	64,991
Field equipment	630,572	78,197	-	708,769
Radio equipment	48,862	-	-	48,862
Pumping equipment	46,143	-	-	46,143
Water meters	2,032,623	67,994	-	2,100,617
Water services	1,367,615	-	-	1,367,615
Water tower	7,485,830	-	-	7,485,830
Main line	39,174,701	957,595	-	40,132,296
Water supply facility	33,233	-	-	33,233
Structures and parking lots	511,135	2,120	-	513,255
Easements	295,398	15,022	-	310,420
Contributed water main	27,963,582	2,705,930	-	30,669,512
	<u>80,985,301</u>	<u>3,932,365</u>	<u>(124,158)</u>	<u>84,793,508</u>
Construction in progress	<u>1,462,494</u>	<u>4,933,519</u>	<u>(885,634)</u>	<u>5,510,379</u>
	<u>\$ 82,447,795</u>	<u>\$ 8,865,884</u>	<u>\$ (1,009,792)</u>	<u>\$ 90,303,887</u>

Accumulated Depreciation

Office equipment	\$ 472,889	\$ 64,843	\$ (70,641)	\$ 467,091
Vehicles	375,874	33,165	(52,208)	356,831
Shop equipment	61,197	1,008	(1,309)	60,896
Field equipment	435,511	53,292	-	488,803
Radio equipment	48,118	702	-	48,820
Pumping equipment	30,175	3,652	-	33,827
Water meters	915,637	75,429	-	991,066
Water services	932,923	33,452	-	966,375
Water tower	2,027,614	141,097	-	2,168,711
Main line	6,335,807	833,351	-	7,169,158
Water supply facility	33,233	-	-	33,233
Structures and parking lots	410,307	19,970	-	430,277
Contributed water main	1,323,130	591,853	-	1,914,983
	<u>\$ 13,402,415</u>	<u>\$ 1,851,814</u>	<u>\$ (124,158)</u>	<u>\$ 15,130,071</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, 2010

<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, 2010 AND 2009**

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2010</u>	<u>2009</u>
Residential customers	25,080	24,621
Commerical customers	2,351	2,361
Industrial customers	46	49
	<u>27,477</u>	<u>27,031</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, 2010 AND 2009**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS 2010</u>	<u>2009</u>
Residential customers	1,346,353,100	1,273,209,300
Commerical customers	596,379,200	576,456,200
Industrial customers	<u>520,282,800</u>	<u>567,664,500</u>
	<u>2,463,015,100</u>	<u>2,417,330,000</u>

See Independent Auditors' Report.

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

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** ("the Water Department"), a component unit of the City of Rogers, Arkansas, as of and for the year ended June 30, 2010 as shown in the table of contents and have issued our report thereon dated September 15, 2010. 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

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
September 15, 2010