

**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
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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%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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- 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
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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
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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.

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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

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
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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.