

**ROGERS WATER UTILITIES
SEWER DEPARTMENT
A COMPONENT UNIT OF THE
CITY OF ROGERS, ARKANSAS
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
JUNE 30, 2011 AND 2010
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** ("the Sewer Department"), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 2011 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Sewer 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 Sewer Department** and do not purport to, and do not, present fairly the financial position of the Rogers Water Utilities or the City of Rogers, Arkansas and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Rogers Water Utilities Sewer Department** as of June 30, 2011 and 2010 and the results of its operations and its cash flows for the years 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 August 5, 2011 on our consideration of the Sewer 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 9 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 audits were conducted for the purpose of forming an opinion on the **Rogers Water Utilities Sewer Department's** basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the years ended June 30, 2011 and 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
August 5, 2011

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011, 2010, AND 2009**

This management's discussion and analysis of the financial performance of the Rogers Water Utilities Sewer Department (Sewer Department) provides an overview of the Sewer Department's financial activities for the years ended June 30, 2011 and 2010. Rogers Water Utilities is a component unit of the City of Rogers, Arkansas, and is overseen by the Rogers Waterworks and Sewer Commission, an autonomous board of directors, created by the Rogers City Council. The Rogers Sewer Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

Financial Highlights Discussion

- The Sewer Department's net assets increased by \$3,258,000 or 4.2%, over fiscal year 2010. Net assets increased by \$1,676,000 or 2.2% over 2009.
- Sewer Department operating revenues increased by \$247,000, or 2.4% in 2011. Operating revenues decreased by \$48,000 or .5% in 2010 over 2009.
- Operating expenses decreased by \$701,000, or 9.3% from 2010. Operating expenses increased by \$663,000 or 9.6% in 2010 over 2009.
- Net assets increased by \$2,401,000 before capital contributions during fiscal year 2011. In fiscal year 2010 Net assets before capital contributions increased by \$1,409,000 (including lawsuit expense of \$565,000).

Rogers Sewer Department Fiscal Year 2011 Highlights

- Issued \$465,000 of vouchers as required in the settlement of the class action lawsuit involving access and impact fees. These vouchers (credit memos) must be used to pay for access and impact fees by those members of the class action suit that met the qualifications to receive them, or the vouchers can be transferred to another party. The vouchers must be used within the next five years, or be forfeited. Also, finalized all other requirements of the class action lawsuit.
- Suffered the loss of a Commissioner from death and successful appointment of a qualified replacement.
- Reinstated the City Attorney for the City of Rogers, Arkansas as the official legal representative for Rogers Water Utilities and the Water and Sewer Commission.
- Exceeded budgeted and prior year operating results with the help of a dry fall and summer. Cost savings from the reduction in force in 2009 and other cost containment contributed as well.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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- In spite of Sewer Department funds increasing by \$4,367,000 (including \$3.3 million from proceeds of a bond issue for the purchase of a sludge dryer), there was a substantial decrease in revenue from investment earnings due to the significant decrease in interest rates.
- Revenue from access and impact fees, while not increasing significantly, was greater than budgeted and prior year results.
- While the number of customer increased by only 406 or 2.1% from the prior year, overall billed sewer consumption increased by .4%.
- Issued Series 2010 Sewer Revenue Bonds for \$3,310,000 for the purchase of a sludge dryer. Engineering is complete for the sludge dryer and construction of the dryer is expected to be completed early in fiscal year 2013.
- Made the final payment on the Series 1991 Sewer Revenue Bonds fully retiring the issue.
- Made a seamless transition to a new manager at the Pollution Control Facility after the retirement of the previous manager.
- Encountered unprecedented hydraulic loading as the result of record rainfalls with no violations.
- Participated with other local cities in an intergovernmental work group regarding phosphorus in the Illinois River.

Rogers Sewer Department Fiscal Year 2010 Highlights

- Reached tentative 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.
- Cooperated with the City of Rogers on emergency sewer replacements in the Poplar Street area.
- 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%.
- Revised Sewer Department Capital Improvement Plan to include \$1,000,000 per year for ten years to perform necessary sewer rehab.
- Performed in house engineering for proposed purchase of a \$3,000,000 sludge dryer in Fiscal Year 2011.

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011, 2010, AND 2009**

Using This Annual Report

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

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Highlights

Assets, Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Total current assets	\$ 13,505,153	\$ 12,616,053	\$ 11,212,163
Restricted cash and investments	6,575,365	3,146,887	3,654,057
Other noncurrent assets	103,371,388	103,386,366	104,593,950
Total assets	<u>\$ 123,451,906</u>	<u>\$ 119,149,306</u>	<u>\$ 119,460,170</u>
Liabilities			
Total current liabilities	\$ 3,784,423	\$ 3,460,535	\$ 3,158,353
Liabilities payable from restricted assets	566,536	577,003	595,286
Noncurrent liabilities	38,252,599	37,521,449	39,792,356
Total liabilities	<u>\$ 42,603,558</u>	<u>\$ 41,558,987</u>	<u>\$ 43,545,995</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 61,782,558	\$ 62,761,880	\$ 61,786,895
Restricted	6,008,831	2,569,878	3,058,688
Unrestricted	13,056,959	12,258,561	11,068,592
Total net assets	<u>\$ 80,848,348</u>	<u>\$ 77,590,319</u>	<u>\$ 75,914,175</u>
Operating Results and Changes in Net Assets			
Operating revenues	<u>\$ 10,656,048</u>	<u>\$ 10,408,551</u>	<u>\$ 10,456,360</u>
Operating expenses			
Depreciation and amortization	3,202,523	3,148,885	2,472,281
Other operating expenses	3,627,238	4,381,965	4,395,997
Total operating expenses	<u>6,829,761</u>	<u>7,530,850</u>	<u>6,868,278</u>
Operating income	<u>3,826,287</u>	<u>2,877,701</u>	<u>3,588,082</u>
Other revenues (expenses)			
Interest expense	(1,585,834)	(1,666,671)	(992,526)
Other income	160,339	197,665	371,648
Total other revenues (expenses)	<u>(1,425,495)</u>	<u>(1,469,006)</u>	<u>(620,878)</u>
Changes in net assets before capital contributions	2,400,792	1,408,695	2,967,204
Capital Contributions	<u>857,237</u>	<u>267,449</u>	<u>2,108,144</u>
Change in Net Assets	3,258,029	1,676,144	5,075,348
Net Assets, Beginning of Year	<u>77,590,319</u>	<u>75,914,175</u>	<u>70,838,827</u>
Net Assets, End of Year	<u>\$ 80,848,348</u>	<u>\$ 77,590,319</u>	<u>\$ 75,914,175</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the Sewer Department's investment in capital assets was \$102,553,000 (net of accumulated depreciation). This investment of capital assets included land, buildings, improvements, machinery and equipment, and contributed property.

Major capital asset events include the following:

- Construction costs of \$1,891,000 were incurred on a variety of construction projects during 2011. \$1,365,000 of constructed assets were completed and placed in service, consisting mostly of sewer main construction and rehabilitation projects. In addition, \$856,000 of drainage and sewer mains constructed by developers was contributed to the Sewer Department to own and maintain. This is recorded as a capital contribution in the Statements of Revenues, Expenses, and Changes in Net Assets. In 2010, the Sewer Department had construction of \$1,096,000 and contributed capital of \$267,000, and in 2009, construction of \$9,964,000 and contributed capital of \$2,105,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were \$410,000 in 2011, as compared to \$495,000 in 2010 and \$548,000 in 2009.

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

Long-Term Debt

The Sewer Department had \$40,046,000 in revenue bonds outstanding as of June 30, 2011, which is a increase of \$1,069,000 from 2010 due to the issuance of Series 2010 Revenue Bonds totaling \$3,310,000 and principal payments totaling \$2,241,000. Revenue bonds outstanding as of June 30, 2010 were \$38,976,000 which was a decrease of \$2,158,000 from 2009 due to scheduled principal payments.

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

**ROGERS WATER UTILITIES SEWER DEPARTMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011, 2010, AND 2009**

Additional Management Comments

The Rogers Sewer Department showed a financial rebound in FY 2011. The previous two years were wetter and cooler than normal, resulting to slow sales. FY 2010 was also impacted by the settlement of the illegal exaction lawsuit brought by the Northwest Arkansas Home Builder's Association and Bill Burkhart. The hot dry season in summer and fall of 2010 resulted in higher than anticipated sales for FY 2011. Net revenue in excess of expenses was higher than budgeted, owing mainly to increased sales and reduced expenses (reduction in force in FY 2010).

Despite the spike in demand last summer, sales continued to be rather slow as the malaise from the recession of 2008 lingered. The growth in the number of new customers was slow, with the slow growth coming in the number of residential and commercial meters. Industrial demand is steady; however, those few industries that remain continued to look for ways to cut expenses. Homebuilders are constructing new residential units, despite a glut of new homes. The availability of the "irrigation" (water only, no sewer) water services helped residential customers control sewer costs, while keeping the landscaping green, even during droughts.

The Rogers Waterworks and Sewer Commission took measures to ensure the continued health and vitality of the sewer collection system. Sewers were replaced in Poplar Street, Walnut Street, N.9th St., N. 10th St., Will Rogers St., and N. 11th St. Sewer collectors are being rehabilitated in S. 8th St. and Arkansas Street. New sewer mains were installed in S. 26th St and Price Lane in conjunction with street improvement projects. The capital required for these projects came from Sewer Department reserves.

The Rogers Sewer Department issued \$3.3 million in bonded indebtedness in FY 2011, for the construction of a new sludge drier at the Rogers Pollution Control Facility (RPCF). While the dryer will not be up and running until next spring, the staff at RPCF has made the necessary changes in its physical plant to haul dewatered sludge to farmland in southeast Kansas, at a considerable cost savings over landfill disposal. In 2013, dried sludge (Class A biosolids) will be available to those willing and able to take it and use it responsibly.

The Total Maximum Daily Load (TMDL) study being conducted by USEPA continued to concern the cities of Northwest Arkansas. The study, which should be completed this fall, will be used to impose serious total phosphorus restrictions on the discharge of the RPCF and the storm sewers of the City of Rogers.

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Implementation plans and waste load allocations necessitated by the TMDL, will reduce the amount of permitted phosphorus discharge from the RPCF, resulting in new discharge permits, Administrative Orders, and the like, to force compliance on the Cities of NWA. Improvements to the Publicly Owned Treatment Works (POTW's) in NWA will be paid for by user fees. The cost for the required treatment plant improvements is not definable now, nor is the timeline for compliance; however, the scale of the impact on the homes, businesses, and industries of NWA can hardly be overstated. Water quality issues could well define the continued economic health of the region for decades to come.

With the exception of the above referenced threat, Rogers Water Utilities Sewer Department is in enviable condition. The collection system and treatment facilities are current and have adequate capacity for the foreseeable future. Reserves are adequate to respond to future challenges. The cities of NWA have combined resources to see that the sewer customers of the region are protected from unfunded mandates from Washington, D. C.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,895,735	\$ 1,626,311
Investments	10,231,695	9,572,894
Accounts receivable, net of allowance for doubtful accounts of \$240,000 and \$222,000, respectively	1,184,555	1,136,473
Accrued interest receivable	16,457	53,648
Due from water department	75,513	125,911
Inventory	70,388	66,786
Prepaid expenses	<u>30,810</u>	<u>34,030</u>
 Total Current Assets	 <u>13,505,153</u>	 <u>12,616,053</u>
RESTRICTED CASH AND INVESTMENTS		
Restricted cash and cash equivalents	798,177	875,711
Investments	<u>5,777,188</u>	<u>2,271,176</u>
 Total Restricted Cash and Investments	 <u>6,575,365</u>	 <u>3,146,887</u>
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION		
	<u>102,553,054</u>	<u>102,523,945</u>
OTHER ASSETS		
Bond issuance costs, net of amortization of \$836,958 and \$763,001, respectively	746,976	778,701
Forbearance agreement receivable	<u>71,358</u>	<u>83,720</u>
 Total Other Assets	 <u>818,334</u>	 <u>862,421</u>
 Total Assets	 <u><u>\$ 123,451,906</u></u>	 <u><u>\$ 119,149,306</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts payable - trade	\$ 171,859	\$ 283,267
Accounts payable to construction contractors	456,781	88,036
Accrued expenses	359,676	383,806
Accrued vouchers	278,211	464,810
Current portion of bonds payable	<u>2,517,896</u>	<u>2,240,616</u>
 Total Current Liabilities	 <u>3,784,423</u>	 <u>3,460,535</u>
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest payable	<u>566,536</u>	<u>577,003</u>
 Total Liabilities Payable From Restricted Assets	 <u>566,536</u>	 <u>577,003</u>
 BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS	 <u>38,252,599</u>	 <u>37,521,449</u>
 NET ASSETS		
Invested in capital assets, net of related debt	61,782,558	62,761,880
Restricted	6,008,831	2,569,878
Unrestricted	<u>13,056,959</u>	<u>12,258,561</u>
 Total Net Assets	 <u>80,848,348</u>	 <u>77,590,319</u>
 Total Liabilities and Net Assets	 <u>\$ 123,451,906</u>	 <u>\$ 119,149,306</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Residential sewer	\$ 5,947,347	\$ 5,832,445
Commercial sewer	1,674,720	1,663,282
Industrial sewer	1,877,812	1,870,808
Penalties	133,699	141,405
Access, impact and new customer fees	939,390	821,620
Other operating revenue	83,080	78,991
	<u>10,656,048</u>	<u>10,408,551</u>
OPERATING EXPENSES		
Pollution control facility and field expense	2,525,102	2,624,803
General and administrative	1,102,136	1,757,162
Depreciation and amortization	3,202,523	3,148,885
	<u>6,829,761</u>	<u>7,530,850</u>
OPERATING INCOME	<u>3,826,287</u>	<u>2,877,701</u>
OTHER REVENUES (EXPENSES)		
Interest income	139,451	201,560
Gain on disposal of fixed assets	27,888	3,105
Interest expense	(1,585,834)	(1,666,671)
Trustee fees	(7,000)	(7,000)
	<u>(1,425,495)</u>	<u>(1,469,006)</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	2,400,792	1,408,695
CAPITAL CONTRIBUTIONS	<u>857,237</u>	<u>267,449</u>
CHANGE IN NET ASSETS	3,258,029	1,676,144
NET ASSETS, BEGINNING OF YEAR	<u>77,590,319</u>	<u>75,914,175</u>
NET ASSETS, END OF YEAR	<u>\$ 80,848,348</u>	<u>\$ 77,590,319</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,451,797	\$ 9,374,455
Cash received from access, impact and new customer fees	752,791	821,620
Cash received from penalties and other operating revenue	216,779	220,396
Payments for salaries and benefits	(1,727,274)	(1,867,090)
Payments to suppliers for goods and services	<u>(1,985,486)</u>	<u>(2,404,151)</u>
Net Cash From Operating Activities	<u>6,708,607</u>	<u>6,145,230</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(1,931,694)	(1,681,058)
Cash received from sale of fixed assets	27,888	3,558
Cash received from bond issuance	3,278,419	-
Payment of issuance costs	(42,231)	-
Principal payments on bonds	(2,240,618)	(2,158,416)
Interest and paying agent fees, net of capitalized interest	(1,632,672)	(1,722,246)
Collection of forbearance agreement	<u>12,362</u>	<u>6,753</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,528,546)</u>	<u>(5,551,409)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	176,642	147,912
Net change in investments	(658,801)	(1,099,135)
Net change in restricted investments	<u>(3,506,012)</u>	<u>647,609</u>
Net Cash (Used for) Investing Activities	<u>(3,988,171)</u>	<u>(303,614)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	191,890	290,207
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,502,022</u>	<u>2,211,815</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,693,912</u>	<u>\$ 2,502,022</u>
CASH AND CASH EQUIVALENTS	\$ 1,895,735	\$ 1,626,311
RESTRICTED CASH AND CASH EQUIVALENTS	<u>798,177</u>	<u>875,711</u>
	<u>\$ 2,693,912</u>	<u>\$ 2,502,022</u>

See Independent Auditors' Report and Notes to Financial Statements.

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

	2011	2010
Operating Income	<u>\$ 3,826,287</u>	<u>\$ 2,877,701</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	3,202,523	3,148,885
Allowance for doubtful accounts	18,000	49,500
Redeemed vouchers	(186,599)	-
Changes in assets and liabilities:		
Accounts receivable	(66,082)	(41,580)
Inventory	(3,602)	10,051
Prepaid expenses	3,220	6,601
Accounts payable	(111,408)	(75,071)
Accrued expenses	(24,130)	3,447
Accrued vouchers	-	464,810
Due to or from water department	<u>50,398</u>	<u>(299,114)</u>
Total adjustments	<u>2,882,320</u>	<u>3,267,529</u>
Net Cash From Operating Activities	<u>\$ 6,708,607</u>	<u>\$ 6,145,230</u>
NONCASH TRANSACTIONS		
Capital contributions	<u>\$ 857,237</u>	<u>\$ 267,449</u>
Issuance of forbearance agreement	<u>\$ -</u>	<u>\$ 90,473</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Rogers, Arkansas was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. Rogers Water Utilities (the Utilities) is a blended component unit of the City of Rogers, Arkansas and is governed by the Waterworks and Sewer Commission, which is appointed by the City Council. The Utilities operate through two separate departments – the Water Department and the Sewer Department. The Sewer Department provides sewer services to the City of Rogers and certain surrounding areas. The City Council approves the rate changes of the Utility. The debt of the Utilities is maintained in the name of the City of Rogers, Arkansas.

Fund Type

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

Basis of Accounting

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

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

The Sewer Department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) of accounting pronouncements issues on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market. Inventory consists of construction and maintenance supplies related to the sewer system.

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At June 30, 2011 and 2010, the Sewer Department had no cash equivalents.

Investments

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

Accounts Receivable

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

Subsequent Events

Subsequent events are evaluated through the end of the audit period, which is the date of the Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 Sewer Department's reported earnings, financial position or results of operations.

Contributed Capital

The Sewer Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contributions in the Statements of Revenues, Expenses and Changes in Net Assets and depreciate these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of sewer lines and related infrastructure. At June 30, 2011 and 2010, cumulative contributed capital fixed assets amounted to approximately \$30,041,000 and \$29,185,000, respectively.

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Structures	5 - 40 years
Mains and hydrants	50 years
Control facility	50 years
Sewer service lines	50 years
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 Sewer Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Sewer Department at June 30, 2011 and 2010 amounted to approximately \$4,400,000 and \$4,600,000, respectively.

Amortization of Bond Premiums and Discounts

Bond premiums and discounts are amortized over the lives of the related bond issues. Net amortization expense of \$29,372 and \$30,292 is included as a component of interest expense for the years ended June 30, 2011 and 2010, respectively.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 \$73,956 and \$77,581 for the years ended June 30, 2011 and 2010, respectively.

Compensated Absences

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

Current Accounting Developments

In December 2010, the GASB issued Statement Number 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. GASB 62 is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements.

In June 2011, the GASB issued Statement Number 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

Management does not expect the implementation of GASB 62 and 63 to significantly impact the financial statements of the Sewer Department.

Net Assets Classifications

Net assets are classified and displayed in the following three components:

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

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

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

**ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets Classifications – Continued

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

NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the Sewer Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2011, the Sewer Department had approximately \$3,584,500 in deposit balances, of which approximately \$800,574 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities' name. Cash and cash equivalents includes \$150 in petty cash.

NOTE 3: DUE FROM WATER DEPARTMENT

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Rogers Water Utilities. Rogers Water Utilities sends a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. The balances as of June 30, 2011 and 2010 are shown in the Statements of Net Assets under the caption Due from water department.

NOTE 4: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2011 and 2010 as follows:

	2011	2010
Construction	\$ 3,000,171	\$ 38,542
Debt service reserve	2,390,841	1,928,132
Depreciation reserve for additional replacements to the sewer system	1,122,639	1,093,802
New customer fees collected for Additions of fixed assets	61,675	86,405
Accrued interest	<u>39</u>	<u>6</u>
	<u>\$ 6,575,365</u>	<u>\$ 3,146,887</u>

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5: RELATED PARTIES

The Sewer Department maintains deposits and certificates of deposit with banks whose officers serve on the Commission of the Rogers Water Utilities. At June 30, 2011 and 2010, these deposits amounted to approximately \$6,859,000 and \$9,327,000, respectively.

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 \$71,358 and \$83,720 reported in the Statement of Net Assets as of June 30, 2011 and 2010, respectively, represents the Sewer Department's share of the forbearance agreement receivable.

NOTE 7: RISK MANAGEMENT

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

NOTE 8: INVESTMENTS

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

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Sewer Department's policy to minimize credit risk losses due to default of security issuers or backers by limiting investments to the safest types of securities. The Sewer Department's investments consist of certificates of deposit with original maturities of greater than ninety days and less than one year and securities issued by the United States Government.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 8: INVESTMENTS – CONTINUED

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Sewer Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2011, investments of the Sewer Department were fully collateralized or insured.

At June 30, 2011 and 2010, the Sewer Department's investments consisted of \$11,053,721 and \$10,385,544, respectively, held in certificates of deposit and \$4,955,162 and \$1,458,526, respectively, held in United States Government securities. All investments at June 30, 2011 and 2010 had maturities of less than one year.

NOTE 9: CHANGES IN FIXED ASSETS

	<u>Balance June 30, 2010</u>	<u>Transfers/ Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2011</u>
Land	\$ 1,791,953	\$ 3,800	\$ -	\$ 1,795,753
Buildings	51,668,073	155,290	269,387)	51,553,976
Equipment	44,461,912	1,616,449	(69,758)	46,008,603
Vehicles	1,031,268	282	(125,803)	905,747
Contributed property	29,185,344	856,034	-	30,041,378
Construction in progress	<u>92,460</u>	<u>1,891,069</u>	<u>(1,365,251)</u>	<u>618,278</u>
	128,231,010	4,522,924	(1,830,199)	130,923,735
Accumulated depreciation	<u>(25,707,065)</u>	<u>(3,128,567)</u>	<u>464,951</u>	<u>(28,370,681)</u>
	<u>\$ 102,523,945</u>	<u>\$ 1,394,357</u>	<u>\$ (1,365,248)</u>	<u>\$102,553,054</u>
	<u>Balance June 30, 2009</u>	<u>Transfers/ Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2010</u>
Land	\$ 1,791,953	\$ -	\$ -	\$ 1,791,953
Buildings	50,705,184	962,889	-	51,668,073
Equipment	43,182,683	1,344,649	(65,420)	44,461,912
Vehicles	1,048,900	-	(17,632)	1,031,268
Contributed property	28,918,493	266,851	-	29,185,344
Construction in progress	<u>808,815</u>	<u>1,096,105</u>	<u>(1,812,460)</u>	<u>92,460</u>
	126,456,028	3,670,494	(1,895,512)	128,231,010
Accumulated depreciation	<u>(22,718,360)</u>	<u>(3,071,305)</u>	<u>82,600</u>	<u>(25,707,065)</u>
	<u>\$ 103,737,668</u>	<u>\$ 599,189</u>	<u>\$ (1,812,912)</u>	<u>\$102,523,945</u>

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 10: BONDS PAYABLE

Series 1991 Revenue Refunding Bonds

In July 1991, the Sewer Department issued \$5,180,000 in Revenue Refunding Bonds (Series 1991) at an interest rate of 4.0% to advance refund a portion (\$4,165,000) of the 1986 Series bonds. Proceeds from this refunding were placed in an irrevocable trust to provide for all future debt service on this portion of the 1986 Series bonds. The bond matured in 2011.

Series 1995 Revenue Improvement Bonds

In August 1995, the Sewer Department issued \$13,000,000 in Revenue Improvement Bonds (Series 1995) at an average rate of 3.0% to provide for the cost of constructing extensions, betterments, and improvements to the sewer system. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2011 and 2010, the outstanding principal was \$5,393,020 and \$6,106,282, respectively.

Series 1996 Revenue Improvement Bonds

In April 1996, the Sewer Department issued \$13,600,000 in Revenue Improvement Bonds (Series 1996) at an average rate of 2.5% to finance the planning, design and construction of wastewater treatment facilities. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2011 and 2010, the outstanding principal was \$5,487,547 and \$6,227,250, respectively.

Series 2007 Revenue Improvement Bonds

In February 2007, the Sewer Department issued \$22,000,000 in Revenue Improvement Bonds (Series 2007) at an average rate of 4.6% to finance general improvements to the sewer system and related infrastructure. The bond matures in 2037 with principal payments due in February beginning in 2012 and interest payments due in February and August of each year. As of June 30, 2011 and 2010, the outstanding principal was \$22,000,000.

Series 2008 Revenue Refunding Bonds

In May 2008, the Sewer Department issued \$4,820,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Sewer Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$189,430. The bond matures in fiscal year 2019 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2011 and 2010, the outstanding principal was \$3,855,000 and \$4,275,000, respectively.

Series 2010 Revenue Bonds

In December 2010, the Sewer Department issued \$3,310,000 in Revenue Bonds (Series 2010) at an average rate of 3.6% to finance the purchase and installation of a sludge dryer for the processing of solid waste. The bond matures in fiscal year 2031 with principal payments due in December and interest payments due in December and June of each year. As of June 30, 2011, the outstanding principal was \$3,310,000.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 10: BONDS PAYABLE – CONTINUED

All Bond Issues

System revenues and all assets are pledged to the bonds outstanding. The debt service coverage ratio, calculated as described in the Series 2007 and 2008 bond documents, as of June 30, 2011 and 2010, is 1.93 and 1.64, respectively. Total interest paid during the years ended June 30, 2011 and 2010 totaled \$1,686,243 and \$1,715,246, respectively. Total interest capitalized during the year ended June 30, 2011 totaled \$60,571. No interest was capitalized during the year ended June 31, 2010.

The Sewer Department is required to establish rates sufficient to pay the expenses and operation and maintenance of the sewer system, making monthly deposits into bond funds for repayment obligations which will be due and payable in the forthcoming year, and to make deposits in an amount equal to 4% of gross sewer system revenues for the preceding month into the depreciation fund. The Sewer Department was in compliance with all debt covenants for the years ended June 30, 2011 and 2010.

Following is a summary of changes in bonds payable:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
Revenue Refunding Bonds, Series 1991	\$ 367,652	\$ -	\$ 367,652	\$ -	\$ -
Revenue Improvement Bonds, Series 1995	6,106,282	-	713,262	5,393,020	742,077
Revenue Improvement Bonds, Series 1996	6,227,250	-	739,703	5,487,547	765,819
Revenue Improvement Bonds, Series 2007	22,000,000	-	-	22,000,000	450,000
Revenue Refunding Bonds, Series 2008	4,275,000	-	420,000	3,855,000	435,000
Revenue Bonds, Series 2010	-	3,310,000	-	3,310,000	125,000
Plus premiums	785,881	-	30,293	755,588	-
Less discounts	-	(31,581)	(921)	(30,660)	-
	<u>\$39,762,065</u>	<u>\$ 3,278,419</u>	<u>\$ 2,269,989</u>	<u>\$ 40,770,495</u>	<u>\$ 2,517,896</u>

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 10: BONDS PAYABLE – CONTINUED

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
Revenue Refunding Bonds, Series 1991	\$ 721,027	\$ -	\$ 353,375	\$ 367,652	\$ 367,652
Revenue Improvement Bonds, Series 1995	6,791,846	-	685,564	6,106,282	713,261
Revenue Improvement Bonds, Series 1996	6,941,727	-	714,477	6,227,250	739,703
Revenue Improvement Bonds, Series 2007	22,000,000	-	-	22,000,000	-
Revenue Refunding Bonds, Series 2008	4,680,000	-	405,000	4,275,000	420,000
Plus premiums	<u>816,173</u>	<u>-</u>	<u>30,292</u>	<u>785,881</u>	<u>-</u>
	<u>\$41,950,773</u>	<u>\$ -</u>	<u>\$ 2,188,708</u>	<u>\$ 39,762,065</u>	<u>\$ 2,240,616</u>

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,517,896	\$ 1,661,371	\$ 4,179,267
2013	2,604,913	1,570,604	4,175,517
2014	2,699,098	1,476,644	4,175,742
2015	2,790,529	1,377,160	4,167,689
2016	2,869,296	1,275,526	4,144,822
2017-2021	8,133,835	5,079,740	13,213,575
2022-2026	4,740,000	4,002,418	8,742,418
2027-2031	5,975,000	2,761,911	8,736,911
2032-2036	6,270,000	1,316,062	7,586,062
2037	<u>1,445,000</u>	<u>72,254</u>	<u>1,517,254</u>
Total	<u>\$ 40,045,567</u>	<u>\$ 20,593,690</u>	<u>\$ 60,639,257</u>

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

The Sewer Department contributes to the Arkansas Public Employees Retirement System (APERS), a statewide cost-sharing multiple-employer defined benefit pension plan administered by the State of Arkansas. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

All employees who work a minimum of eighty hours per month for more than ninety consecutive calendar days receive coverage under the plan. Contribution and benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. General administration and responsibility for the operation of the system is vested in a nine member Board of Trustees.

Members are eligible for full retirement benefits (1) at age 65 with five years of actual service, (2) at any age with twenty-eight years of actual service, or (3) at age 55 with thirty-five years of service. The member's final average salary and number of years of service determines the normal retirement benefit which is paid on a monthly basis.

A member may retire with a reduced benefit, provided they have at least ten years of actual service, if the member is within ten years of their normal retirement age. The plan also provides for disability and survivor benefits.

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

Funding Policy

The plan, which applies to all persons hired after December 31, 1997, originally did not allow employee contributions. Arkansas Act 2084 of 2005 requires participants who joined after July 1, 2005 to contribute 5% of their gross wages. The Sewer Department is required to contribute at an actuarially determined rate. For the years ended June 30, 2011 and 2010, the rate is 12.46% and 11.00%, respectively, of annual covered payroll. The contribution requirements of plan members and the Sewer Department are established and may be amended only by state law. Sewer Department contributions for the years ended June 30, 2011, 2010 and 2009 totaled \$164,836, \$155,588 and \$181,859, respectively. Employee contributions for the years ended June 30, 2011, 2010 and 2009 totaled \$17,938, \$16,578 and \$19,236, respectively.

ROGERS WATER UTILITIES SEWER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Annual Pension Cost

For the year ended June 30, 2011, the Sewer Department's annual pension cost of \$164,836 for APERS was equal to the Sewer Department's required and actual contributions. The required contribution was determined as part of the June 30, 2009 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on present and future assets of 8% per year, compounded annually, (b) projected salary increase of 4% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 4.7% to 10.6% per year, attributable to seniority/merit, (d) pre- and post-retirement mortality based on the RP-2000 Combined Mortality table set forward two years for men, and (e) annual compounded post-retirement increases of 3% per year. Present assets (cash and investments) are valued on a market related basis in which differences between actual and assumed returns are phased in over a four year period. The unfunded actuarial accrued liabilities are being amortized to produce contribution amounts (principal and interest) which are a level percent of payroll contributions. The amortization period as of June 30, 2009 was 30 years.

Schedule of Funding Progress (\$ Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b - a)
June 30, 2007	\$ 5,498	\$ 6,174	\$ 676
June 30, 2008	5,866	6,543	677
June 30, 2009	5,413	6,938	1,525

Actuarial Valuation Date	Annual Funded Ratio (a/b)	Covered Payroll (c)	UAL as of % of Covered Payroll ((b-a)/c)
June 30, 2007	89.0%	\$ 1,303	51.9%
June 30, 2008	90.0%	1,380	49.1%
June 30, 2009	78.0%	1,434	106.3%

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$ 181,859	100%	\$ -
June 30, 2010	155,588	100%	-
June 30, 2011	164,836	100%	-

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 12: EMPLOYEE BENEFIT PLANS

Flexible Benefit Plan

The City of Rogers, Arkansas offers all active full-time employees and elected City officials who receive a W-2 form the option to participate in a flexible benefit plan administered by the Rogers Water Utilities. The flexible benefit plan has been established as a cafeteria plan as permitted under Section 125 of the Internal Revenue Code (IRC) of 1954, as amended, to provide for group medical/dental assistance for its eligible employees and dependents. The plan is funded solely by salary redirections as elected on a voluntary basis by participants. Sewer Department employee contributions for the years ended June 30, 2011 and 2010 were \$30,772 and \$31,046, respectively.

Deferred Compensation Plan

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

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

Deferred compensation remitted for investment during the years ended June 30, 2011 and 2010 was \$9,310 and \$19,840, respectively. At June 30, 2011 and 2010, there were seven and twelve employees participating in the plan, respectively.

NOTE 13: COMMITMENTS AND CONCENTRATIONS

The Sewer Department is committed to several construction contracts in process at year-end totaling \$4,724,912. As of June 30, 2011, \$539,329 had been incurred in connection with these contracts.

The Sewer Department has an industrial customer who, as of June 30, 2011, made up 10.27% of accounts receivable. This customer also accounted for 16.42% of total consumption for the year ended June 30, 2011.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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. During the year ended June 30, 2011, management of the Rogers Water Utilities and the plaintiffs reached a settlement agreement. Under the terms of the settlement, the Rogers Water Utilities issued vouchers for 53% of the fees collected between June 27, 2008 and August 31, 2010. The vouchers were issued to the person or entities filing a valid claim with the Utilities by September 7, 2010. The vouchers are redeemable against future access, impact or hookup fees, are transferable and expire in five years. In addition, the Utilities agreed to pay \$200,000 of legal fees of the plaintiffs. The Sewer Department had accrued \$100,000 of the legal costs at June 30, 2010, which were included in accounts payable on the Statement of Net Assets and were paid during the year ended June 30, 2011. Additionally, the Sewer Department had accrued \$464,810 in vouchers payable at June 30, 2010, representing the claims filed and approved by the court. The remaining balance of \$278,211 as of June 30, 2011 represents vouchers not yet redeemed.

SUPPLEMENTARY INFORMATION

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
POLLUTION CONTROL FACILITY AND FIELD EXPENSE		
Salaries	\$ 879,069	\$ 953,846
Payroll taxes	67,538	69,038
Employee benefits	296,001	279,262
Insurance	36,949	46,570
Repairs and maintenance	249,147	216,426
Utilities	335,276	274,002
Supplies and postage	98,148	196,961
Sludge disposal costs	424,990	469,889
Operating supplies and other	137,984	118,809
	<u>2,525,102</u>	<u>2,624,803</u>
 GENERAL AND ADMINISTRATIVE		
Salaries	320,168	368,462
Salaries - commissioners	2,097	2,097
Payroll taxes	35,266	43,248
Employee benefits	127,135	151,137
Office supplies and postage	80,305	78,476
Professional fees	34,885	51,588
Consulting services - stream assessment	30,634	19,039
Insurance	2,056	2,347
Utilities	21,240	20,375
Bad debts	54,425	83,739
Franchise taxes / use taxes	320,628	315,620
Costs of settlement agreement	-	564,810
Other	73,297	56,224
	<u>1,102,136</u>	<u>1,757,162</u>
 DEPRECIATION AND AMORTIZATION	 <u>3,202,523</u>	 <u>3,148,885</u>
 TOTAL OPERATING EXPENSES	 <u><u>\$ 6,829,761</u></u>	 <u><u>\$ 7,530,850</u></u>

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE IMPROVEMENT BONDS - SERIES 1995
JUNE 30, 2011

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
October, 2011	\$ 367,365	3.00%	\$ 107,860	\$ 475,225
April, 2012	374,712	3.00%	100,513	475,225
October, 2012	382,206	3.00%	93,019	475,225
April, 2013	389,850	3.00%	85,375	475,225
October, 2013	397,648	3.00%	77,577	475,225
April, 2014	405,600	3.00%	69,625	475,225
October, 2014	413,712	3.00%	61,513	475,225
April, 2015	421,986	3.00%	53,239	475,225
October, 2015	430,426	3.00%	44,799	475,225
April, 2016	439,034	3.00%	36,191	475,225
October, 2016	447,816	3.00%	27,409	475,225
April, 2017	456,772	3.00%	18,453	475,225
October, 2017	<u>465,893</u>	3.00%	<u>9,316</u>	<u>475,209</u>
Balance, June 30, 2011	<u>\$ 5,393,020</u>		<u>\$ 784,889</u>	<u>\$ 6,177,909</u>

Dated: August 9, 1995

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE IMPROVEMENT BONDS - SERIES 1996
JUNE 30, 2011

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
October, 2011	\$ 379,588	2.50%	\$ 96,032	\$ 475,620
April, 2012	386,231	2.50%	89,389	475,620
October, 2012	392,990	2.50%	82,630	475,620
April, 2013	399,867	2.50%	75,753	475,620
October, 2013	406,865	2.50%	68,755	475,620
April, 2014	413,985	2.50%	61,635	475,620
October, 2014	421,230	2.50%	54,390	475,620
April, 2015	428,601	2.50%	47,019	475,620
October, 2015	436,102	2.50%	39,518	475,620
April, 2016	443,734	2.50%	31,886	475,620
October, 2016	451,499	2.50%	24,121	475,620
April, 2017	459,400	2.50%	16,220	475,620
October, 2017	<u>467,455</u>	2.50%	<u>8,179</u>	<u>475,634</u>
Balance, June 30, 2011	<u>\$ 5,487,547</u>		<u>\$ 695,527</u>	<u>\$ 6,183,074</u>

Dated: April 3, 1996

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE IMPROVEMENT BONDS - SERIES 2007
JUNE 30, 2011

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 450,000	4.000%	\$ 1,043,881	\$ 1,493,881
2013	465,000	4.000%	1,025,881	1,490,881
2014	485,000	4.375%	1,007,281	1,492,281
2015	500,000	4.000%	986,063	1,486,063
2016	500,000	4.375%	966,063	1,466,063
2017	550,000	4.375%	944,188	1,494,188
2018	595,000	4.000%	920,125	1,515,125
2019	620,000	4.250%	896,325	1,516,325
2020	645,000	4.250%	869,975	1,514,975
2021	675,000	4.250%	842,562	1,517,562
2022	705,000	4.375%	813,875	1,518,875
2023	735,000	5.000%	783,031	1,518,031
2024	770,000	5.000%	746,281	1,516,281
2025	810,000	5.000%	707,781	1,517,781
2026	850,000	5.000%	667,281	1,517,281
2027	890,000	5.000%	624,781	1,514,781
2028	935,000	5.000%	580,281	1,515,281
2029	985,000	5.000%	533,531	1,518,531
2030	1,035,000	5.000%	484,281	1,519,281
2031	1,085,000	5.000%	432,531	1,517,531
2032	1,140,000	5.000%	378,281	1,518,281
2033	1,195,000	4.375%	321,281	1,516,281
2034	1,250,000	5.000%	269,000	1,519,000
2035	1,310,000	5.000%	206,500	1,516,500
2036	1,375,000	5.000%	141,000	1,516,000
2037	1,445,000	5.000%	72,254	1,517,254
Balance, June 30, 2011	<u>\$ 22,000,000</u>		<u>\$ 17,264,314</u>	<u>\$ 39,264,314</u>

Dated: February 1, 2007

Payment Dates: February 1

Interest Payment Dates: February 1 and August 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE REFUNDING BONDS - SERIES 2008
JUNE 30, 2011

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 435,000	3.000%	\$ 117,858	\$ 552,858
2013	445,000	3.000%	104,658	549,658
2014	460,000	3.000%	91,083	551,083
2015	470,000	3.100%	76,898	546,898
2016	485,000	3.250%	61,731	546,731
2017	505,000	3.350%	45,391	550,391
2018	520,000	3.450%	27,963	547,963
2019	<u>535,000</u>	3.550%	<u>9,494</u>	<u>544,494</u>
Balance, June 30, 2011	<u>\$ 3,855,000</u>		<u>\$ 535,076</u>	<u>\$ 4,390,076</u>

Dated: May 1, 2008

Payment Dates: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
SEWER REVENUE BONDS - SERIES 2010
JUNE 30, 2011

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2012	\$ 125,000	2.000%	\$ 105,838	\$ 230,838
2013	130,000	2.000%	103,288	233,288
2014	130,000	2.000%	100,688	230,688
2015	135,000	2.000%	98,038	233,038
2016	135,000	2.000%	95,338	230,338
2017	140,000	2.000%	92,588	232,588
2018	145,000	2.250%	89,556	234,556
2019	145,000	4.000%	85,025	230,025
2020	150,000	4.000%	79,125	229,125
2021	160,000	3.000%	73,725	233,725
2022	160,000	3.250%	68,725	228,725
2023	170,000	3.500%	63,150	233,150
2024	175,000	3.500%	57,113	232,113
2025	180,000	3.500%	50,900	230,900
2026	185,000	3.750%	44,281	229,281
2027	195,000	3.750%	37,156	232,156
2028	200,000	3.750%	29,750	229,750
2029	210,000	4.000%	21,800	231,800
2030	215,000	4.000%	13,300	228,300
2031	<u>225,000</u>	4.000%	<u>4,500</u>	<u>229,500</u>
Balance, June 30, 2011	<u>\$ 3,310,000</u>		<u>\$ 1,313,884</u>	<u>\$ 4,623,884</u>

Dated: December 1, 2010

Payment Dates: December 1

Interest Payment Dates: June 1 and December 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF FIXED ASSETS
YEAR ENDED JUNE 30, 2011

Fixed Assets

	<u>Balance</u> <u>June 30, 2010</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office equipment	688,439	42,783	(42,009)	689,213
Vehicles	1,031,268	282	(125,803)	905,747
Shop equipment	93,530	303	(3,449)	90,384
Field equipment	1,535,950	34,273	(24,300)	1,545,923
Radio equipment	71,511	820	-	72,331
Water meters	1,225,397	79,830	-	1,305,227
Laboratory equipment	38,627	-	-	38,627
Sewer system	40,808,458	1,458,440	-	42,266,898
Pollution control facility	50,371,008	70,524	(269,387)	50,172,145
Structures and parking lots	1,297,065	84,766	-	1,381,831
Easements	1,128,699	3,800	-	1,132,499
Contributed sewer system	29,185,344	856,034	-	30,041,378
	<u>128,138,550</u>	<u>2,631,855</u>	<u>(464,948)</u>	<u>130,305,457</u>
Construction in progress	<u>92,460</u>	<u>1,891,069</u>	<u>(1,365,251)</u>	<u>618,278</u>
	<u>\$ 128,231,010</u>	<u>\$ 4,522,924</u>	<u>(1,830,199)</u>	<u>\$ 130,923,735</u>

Accumulated Depreciation

Office equipment	\$ 525,294	\$ 57,116	(42,010)	\$ 540,400
Vehicles	823,289	54,536	(125,804)	752,021
Shop equipment	89,883	1,117	(3,449)	87,551
Field equipment	1,223,890	69,633	(24,300)	1,269,223
Radio equipment	62,876	1,867	-	64,743
Water meters	454,458	50,878	-	505,336
Laboratory equipment	38,627	-	-	38,627
Sewer system	9,257,666	813,222	-	10,070,888
Pollution control facility	10,351,746	1,427,096	(269,388)	11,509,454
Structures and parking lots	446,578	62,142	-	508,720
Contributed sewer system	2,432,758	590,960	-	3,023,718
	<u>\$ 25,707,065</u>	<u>\$ 3,128,567</u>	<u>(464,951)</u>	<u>\$ 28,370,681</u>

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF FIXED ASSETS
YEAR ENDED JUNE 30, 2010

Fixed Assets

	<u>Balance</u> <u>June 30, 2009</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2010</u>
Land	\$ 663,254	\$ -	-	\$ 663,254
Office equipment	643,715	83,154	(38,430)	688,439
Vehicles	1,048,900	-	(17,632)	1,031,268
Shop equipment	93,025	505	-	93,530
Field equipment	1,507,038	55,902	(26,990)	1,535,950
Radio equipment	62,581	8,930	-	71,511
Water meters	1,171,778	53,619	-	1,225,397
Laboratory equipment	38,627	-	-	38,627
Sewer system	39,665,919	1,142,539	-	40,808,458
Pollution control facility	50,179,135	191,873	-	50,371,008
Structures and parking lots	526,049	771,016	-	1,297,065
Easements	1,128,699	-	-	1,128,699
Contributed sewer system	28,918,493	266,851	-	29,185,344
	<u>125,647,213</u>	<u>2,574,389</u>	<u>(83,052)</u>	<u>128,138,550</u>
Construction in progress	<u>808,815</u>	<u>1,096,105</u>	<u>(1,812,460)</u>	<u>92,460</u>
	<u><u>\$ 126,456,028</u></u>	<u><u>\$ 3,670,494</u></u>	<u><u>(1,895,512)</u></u>	<u><u>\$ 128,231,010</u></u>

Accumulated Depreciation

Office equipment	\$ 506,027	\$ 57,247	(37,980)	\$ 525,294
Vehicles	782,804	58,116	(17,631)	823,289
Shop equipment	88,784	1,099	-	89,883
Field equipment	1,174,132	76,747	(26,989)	1,223,890
Radio equipment	61,927	949	-	62,876
Water meters	406,335	48,123	-	454,458
Laboratory equipment	38,627	-	-	38,627
Sewer system	8,470,687	786,979	-	9,257,666
Pollution control facility	8,924,804	1,426,942	-	10,351,746
Structures and parking lots	413,144	33,434	-	446,578
Contributed sewer system	1,851,089	581,669	-	2,432,758
	<u><u>\$ 22,718,360</u></u>	<u><u>\$ 3,071,305</u></u>	<u><u>(82,600)</u></u>	<u><u>\$ 25,707,065</u></u>

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULE OF SEWER SYSTEM RATES
JUNE 30, 2011

<u>MONTHLY SEWER RATES FOR CUSTOMERS</u>	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>	<u>LOWELL, ARKANSAS</u>
Flat rate of	\$ 11.10	\$ 14.50	\$ 13.32
In addition to (up to 100,000)	\$ 3.86 / thousand	\$ 5.03 / thousand	\$ 4.63 / thousand
All over 100,000	\$ 3.81 / thousand	\$ 5.03 / thousand	\$ 4.57 / thousand

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF SEWER CUSTOMERS
YEARS ENDED JUNE 30, 2011 AND 2010

<u>SEWER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2011</u>	<u>2010</u>
Residential customers	18,466	18,071
Commerical customers	1,563	1,552
Industrial customers	<u>35</u>	<u>35</u>
Total	<u><u>20,064</u></u>	<u><u>19,658</u></u>

See Independent Auditors' Report.

ROGERS WATER UTILITIES SEWER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF BILLABLE GALLONS
YEARS ENDED JUNE 30, 2011 AND 2010

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2011</u>	<u>2010</u>
Residential customers	902,075,400	889,928,800
Commerical customers	384,195,500	381,767,400
Industrial customers	<u>485,741,800</u>	<u>492,455,300</u>
Total	<u><u>1,772,012,700</u></u>	<u><u>1,764,151,500</u></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 Sewer Department
Rogers, Arkansas

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** ("the Sewer Department"), a component unit of the City of Rogers, Arkansas, as of and for the year ended June 30, 2011 as shown in the table of contents and have issued our report thereon dated August 5, 2011. 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 Sewer Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sewer Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Sewer Department's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, the Mayor, the Waterworks and Sewer Commission, and applicable bonding agencies and is not intended to be and should not be used by anyone other than these specified parties.


BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 5, 2011