

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

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
JUNE 30, 2011 AND 2010  
TABLE OF CONTENTS**

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS.....</b>	<b>3</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Assets .....	8
Statements of Revenues, Expenses and Changes in Net Assets .....	10
Statements of Cash Flows.....	11
Notes to Financial Statements.....	13
<b>SUPPLEMENTARY INFORMATION</b>	
Schedules of Operating Expenses.....	26
Schedules of Principal and Interest Payments:	
Water Revenue Improvement Bonds – Series 2004 .....	27
Water Revenue Improvement Bonds – Series 2006 .....	28
Water Revenue Refunding Bonds – Series 2008 .....	29
Water Revenue Refunding Bonds – Series 2008B .....	30
Schedules of Fixed Assets .....	31
Schedule of Water System Rates .....	33
Schedules of Water Customers .....	34
Schedules of Billable Gallons .....	35
<b>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.....</b>	<b>36</b>

## 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 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 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, 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 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 audits were 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. 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 WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010**

This management's discussion and analysis of the financial performance of the Rogers Water Utilities Water Department (Water Department) provides an overview of the Water Department's financial activities for the years ended June 30, 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 Water Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

**Financial Highlights Discussion**

- The Water Department's net assets increased by \$1,383,000 or 2.3%, over fiscal year 2010. Net assets increased by \$231,000 or .4% in fiscal year 2010 over 2009.
- Water Department operating revenues increased by \$489,000, or 5.9% over 2010. Operating Revenues increased \$560,000 or 7.2% in 2010 over 2009.
- Operating expenses decreased by \$142,000, or 1.9% from 2010. Operating Expenses increased \$407,000, or 5.6% in 2010 over 2009.
- Net Assets increased by \$180,000 before capital contributions during fiscal year 2011. In fiscal year 2010 Net Assets before capital contributions decreased by \$410,000 (including lawsuit expense of \$324,000).

**Rogers Water Department Fiscal Year 2011 Highlights**

- Issued \$224,000 of vouchers as required in the settlement of the class action lawsuit involving access and impact fee. These vouchers (credit memos) must be used to pay for access and impact fees by those members of the class action suit that met the qualifications to receive them, or the vouchers can be transferred to another party. The vouchers must be used within the next five years, or be forfeited. Also, finalized all other requirements of the class action lawsuit.
- Absorbed a \$.02/1000 gallons rate increase from Beaver Water District for bulk water purchases.
- Suffered the loss of a Commissioner from death and successful appointment of a qualified replacement.
- Reinstated the City Attorney for the City of Rogers Arkansas as the official legal representative for Rogers Water Utilities and the Water and Sewer Commission.
- Turned a budgeted loss of \$-172,000 to a profit of \$180,000 with the help of a dry fall and summer. Cost savings from the reduction in force in 2009 and other cost containment contributed as well. The last year the Water Department showed a profit was fiscal year 2008.

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

- In spite of Water Department funds increasing by \$671,000, there was a substantial decrease in revenue from investment earnings due to the significant decrease in interest rates.
- Revenue from access and impact fees, while not increasing significantly, was greater than budgeted and prior year results.
- While the number of customers increased by only 483 or 1.8% from the prior year, overall billed water consumption increased by 4.3%.

**Rogers Water 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.
- 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 26<sup>th</sup> 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%.
- 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 (TTHM's) in anticipation of April 1, 2012 compliance deadline.

**Using This annual Report**

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

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

**Financial Highlights**

**Assets, Liabilities and Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Total current assets	\$ 9,549,132	\$ 8,755,631	\$ 8,083,515
Restricted cash and investments	5,905,322	5,961,232	7,042,292
Other noncurrent assets	75,695,938	75,760,664	75,711,050
Total assets	<u>\$ 91,150,392</u>	<u>\$ 90,477,527</u>	<u>\$ 90,836,857</u>
<b>Liabilities</b>			
Total current liabilities	\$ 2,264,927	\$ 2,436,180	\$ 2,469,790
Liabilities payable from restricted assets	1,040,522	998,861	985,522
Noncurrent liabilities	26,860,485	27,441,035	28,011,584
Total liabilities	<u>\$ 30,165,934</u>	<u>\$ 30,876,076</u>	<u>\$ 31,466,896</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 47,591,901	\$ 47,026,616	\$ 46,602,232
Restricted	4,864,799	4,962,371	6,056,770
Unrestricted	8,527,758	7,612,464	6,710,959
Total net assets	<u>\$ 60,984,458</u>	<u>\$ 59,601,451</u>	<u>\$ 59,369,961</u>
<b>Operating Results and Changes in Net Assets</b>			
Operating revenues	<u>\$ 8,806,360</u>	<u>\$ 8,317,482</u>	<u>\$ 7,757,979</u>
<b>Operating expenses</b>			
Depreciation and amortization	2,073,025	1,994,306	1,879,847
Other operating expenses	5,471,490	5,692,239	5,399,960
Total operating expenses	<u>7,544,515</u>	<u>7,686,545</u>	<u>7,279,807</u>
Operating income	<u>1,261,845</u>	<u>630,937</u>	<u>478,172</u>
<b>Other revenues (expenses)</b>			
Interest expense	(1,199,567)	(1,216,822)	(1,236,111)
Other income	117,695	175,855	330,224
Total other revenues (expenses)	<u>(1,081,872)</u>	<u>(1,040,967)</u>	<u>(905,887)</u>
Change in net assets before capital contributions	179,973	(410,030)	(427,715)
Capital Contributions	<u>1,203,034</u>	<u>641,520</u>	<u>2,768,981</u>
Change in Net Assets	1,383,007	231,490	2,341,266
Net Assets, Beginning of Year	<u>59,601,451</u>	<u>59,369,961</u>	<u>57,028,695</u>
Net Assets, End of Year	<u>\$ 60,984,458</u>	<u>\$ 59,601,451</u>	<u>\$ 59,369,961</u>

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

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2011, the Water Department's investment in capital assets was \$75,042,000 (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 \$635,000 were incurred on a variety of construction projects during 2011. \$998,000 of constructed assets were completed and placed in service, consisting mostly of water main construction and rehabilitation projects. In addition, \$1,133,000 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 2010 the Water Department had construction of \$945,000 and contributed capital of \$613,000, and in 2009 construction of \$4,934,000 and contributed capital of \$2,706,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were \$271,000 in 2011, as compared to \$282,000 in 2010 and \$341,000 in 2009.

Additional information regarding capital assets can be found on Note9 of this report.

**Long-Term Debt**

The Water Department had \$27,640,000 in revenue bonds outstanding as of June 30, 2011, which is a decrease of \$580,000 from 2010 due to scheduled principal payments. Revenue bonds outstanding as of June 30, 2010 were \$28,220,000, which was a decrease of \$560,000 from 2009 due to scheduled principal payments.

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

**Additional Management Comments**

Although most economists say the recession of 2008 is over, the lingering malaise continues at Rogers Water Utilities. Compared to the past twenty years, growth remains slow. Capital investments in Rogers by the private sector are limited to a few commercial developments. A few failed residential developments are being finished by



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

Perhaps the one bright economic point for the Water Utilities was the return of the dry hot weather in the summer and fall. The drought of 2010 turned the fortunes of the Rogers Water Utilities in FY 2011, as water sold in July, August, and September became revenue in the fall of the year. The Rogers Water Department booked a net profit in FY 2011, compared to net losses in FY 2010 and FY 2009. The improved bottom line is attributed to increased sales (drought) and control of expenses. The reduction in force in FY 2010 indicated decreased personnel expenses compared to the previous two fiscal years.

The Rogers Water Department funded capital improvements out of reserves in FY 2011, mainly in aid of City of Rogers street projects. Water mains were replaced, extended and improved in North "C" Street, downtown Rogers intersection improvements, and S. 26<sup>th</sup> St. last year. The Water Department paid for half of the costs associated with remodeling the old Rogers Water Utilities administration building. The Rogers Water Department issued no new debt in FY 2011.

Looking ahead, the source of water for all Northwest Arkansas, Beaver Lake, appears to be in good shape, with plenty of reserves after an extremely wet spring 2011. Our water wholesaler, Beaver Water District, is poised to meet the demand of RWU water customers for maximum daily demand twenty years hence. The distribution system, storage, and metering systems in Rogers are fairly up-to-date and able to meet anticipated demands. The water distribution system is able to deliver water in sufficient quantities to those who demand it. Financial reserves are adequate to enable the Rogers Waterworks and Sewer Commission and Rogers Water Utilities staff to meet most future contingencies.

Water quality issues continue to challenge Beaver Water District and the four cities of Northwest Arkansas. Phase II Total Trihalomethane (TTHM) and Total Haloacetic Acid (THAA) regulations become effective next year. Beaver Water District is planning changes in its disinfection processes to reduce the production of these pollutants in treated water. The individual cities of NWA will ultimately be responsible for adhering to all the regulations of the Safe Drinking Water Act.

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

	<b>ASSETS</b>	
	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,792,111	\$ 2,628,236
Investments	5,123,744	4,566,566
Accounts receivable, net of allowance for doubtful accounts of \$190,000 and \$174,500, respectively	1,374,375	1,320,294
Accrued interest receivable	6,914	10,865
Inventory	232,628	210,442
Prepaid expenses	19,360	19,228
	<hr/>	<hr/>
Total Current Assets	9,549,132	8,755,631
<b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	744,448	782,689
Investments	5,157,102	5,171,763
Accrued interest receivable	3,772	6,780
	<hr/>	<hr/>
Total Restricted Cash and Investments	5,905,322	5,961,232
<b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<hr/>	<hr/>
	75,042,384	75,047,651
<b>OTHER ASSETS</b>		
Bond issuance costs, net of amortization of \$121,421 and \$92,229, respectively	478,850	508,042
Forbearance agreement receivable	174,704	204,971
	<hr/>	<hr/>
Total Other Assets	653,554	713,013
	<hr/>	<hr/>
Total Assets	\$ 91,150,392	\$ 90,477,527

See Independent Auditors' Report and Notes to Financial Statements.

## LIABILITIES AND NET ASSETS

	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 439,508	\$ 492,365
Accounts payable to construction contractors	86,859	57,525
Accounts payable - other	663,240	669,596
Accrued expenses	267,307	286,646
Current portion of bonds payable	590,000	580,000
Accrued vouchers	142,500	224,137
Due to sewer department	75,513	125,911
	<hr/>	<hr/>
Total Current Liabilities	2,264,927	2,436,180
	<hr/>	<hr/>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer meter deposits	833,053	788,107
Accrued interest payable	207,469	210,754
	<hr/>	<hr/>
Total Liabilities Payable From Restricted Assets	1,040,522	998,861
	<hr/>	<hr/>
<b>BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS</b>	26,860,485	27,441,035
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	47,591,901	47,026,616
Restricted	4,864,799	4,962,371
Unrestricted	8,527,758	7,612,464
	<hr/>	<hr/>
Total Net Assets	60,984,458	59,601,451
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 91,150,392	\$ 90,477,527
	<hr/> <hr/>	<hr/> <hr/>

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, 2011 AND 2010**

	2011	2010
<b>OPERATING REVENUES</b>		
Residential water	\$ 4,634,468	\$ 4,309,389
Commercial water	1,840,504	1,761,363
Industrial water	1,083,348	1,070,950
Sprinkler service / hydrant	35,971	35,388
Service charges and penalties	436,820	425,983
Access / impact / new customer fees	507,135	461,150
Other operating revenue	268,114	253,259
	<u>8,806,360</u>	<u>8,317,482</u>
<b>OPERATING EXPENSES</b>		
Water purchased	3,689,090	3,421,727
Plant operations and distribution	1,016,254	1,103,660
General and administrative	766,146	1,166,852
Depreciation and amortization	2,073,025	1,994,306
	<u>7,544,515</u>	<u>7,686,545</u>
<b>OPERATING INCOME</b>	<u>1,261,845</u>	<u>630,937</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	116,913	187,105
Gain (loss) on sale of capital assets	11,582	(450)
Interest expense	(1,199,567)	(1,216,822)
Trustee fees	(10,800)	(10,800)
	<u>(1,081,872)</u>	<u>(1,040,967)</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	179,973	(410,030)
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,203,034</u>	<u>641,520</u>
<b>CHANGE IN NET ASSETS</b>	1,383,007	231,490
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>59,601,451</u>	<u>59,369,961</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 60,984,458</u>	<u>\$ 59,601,451</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, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 7,540,210	\$ 7,065,710
Cash received from access, impact and new customer fees	425,498	461,150
Cash received from service charges, penalties and other operating revenue	749,880	695,683
Payments for water	(3,642,040)	(3,403,234)
Payments for salaries and benefits	(1,179,119)	(1,283,236)
Payments to suppliers for goods and services	(801,599)	(288,051)
Net Cash From Operating Activities	<u>3,092,830</u>	<u>3,248,022</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(806,198)	(2,020,539)
Cash received from sale of capital assets	11,582	-
Principal payments on bonds	(580,000)	(560,000)
Interest and paying agent fees, net of capitalized interest	(1,204,202)	(1,221,273)
Collections of forbearance agreement	30,267	16,530
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,548,551)</u>	<u>(3,785,282)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	123,872	181,076
Net change in investments	(557,178)	(87,355)
Net change in restricted investments	14,661	1,541,195
Net Cash From (Used for) Investing Activities	<u>(418,645)</u>	<u>1,634,916</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	125,634	1,097,656
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,410,925</u>	<u>2,313,269</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,536,559</u>	<u>\$ 3,410,925</u>
<b>CASH AND CASH EQUIVALENTS</b>	\$ 2,792,111	\$ 2,628,236
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	744,448	782,689
	<u>\$ 3,536,559</u>	<u>\$ 3,410,925</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>\$ 1,261,845</u>	<u>\$ 630,937</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	2,073,025	1,994,306
Allowance for doubtful accounts	15,500	37,500
Redeemed vouchers	(81,637)	-
Changes in assets and liabilities:		
Accounts receivable	(69,581)	(148,880)
Inventory	(22,186)	(6,902)
Prepaid expenses	(132)	3,868
Accounts payable	(59,213)	186,069
Accrued expenses	25,607	27,873
Accrued vouchers	-	224,137
Due to or from sewer department	<u>(50,398)</u>	<u>299,114</u>
Total adjustments	<u>1,830,985</u>	<u>2,617,085</u>
Net Cash From Operating Activities	<u>\$ 3,092,830</u>	<u>\$ 3,248,022</u>
<b>NONCASH TRANSACTIONS</b>		
Capital contributions	<u>\$ 1,203,034</u>	<u>\$ 641,520</u>
Issuance of forbearance agreement	<u>\$ -</u>	<u>\$ 221,501</u>

**ROGERS WATER UTILITIES WATER 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 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.

The Water 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 issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**ROGERS WATER UTILITIES WATER 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.

***Subsequent Events***

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

***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 Water Department had no cash equivalents.

***Investments***

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

***Accounts Receivable***

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

***Inventory***

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



**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 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 Water Department's reported earnings, financial position or results of operations.

***Contributed Capital***

The Water Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contributions in the Statements of Revenues, Expenses and Changes in Net Assets and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of water lines and related infrastructure. At June 30, 2011 and 2010, cumulative contributed capital fixed assets amounted to approximately \$32,415,000 and \$31,282,000, respectively.

***Fixed Assets***

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

Structures	5 - 40 years
Mains and hydrants	50 years
Water towers	10 - 50 years
Water service lines	33 years
Water meters	25 years
Shop equipment and machinery	3 - 10 years
Transportation equipment	3 - 10 years
Two-way radio system	5 - 15 years
Field equipment	1 - 20 years
Office equipment	3 - 10 years

The Water Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Water Department at June 30, 2011 and 2010 amounted to approximately \$2,583,000 and \$2,487,000, 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, 2011 and 2010 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, 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 \$29,192 for each of the years ended June 30, 2011 and 2010.

***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.

***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 WATER 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 and unrestricted net assets are available, the Water Department's policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

**NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS**

Deposits in financial institutions are financial instruments that could potentially subject the Water Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2011, the Water Department had approximately \$4,124,900 in deposit balances, of which approximately \$750,000 were FDIC insured and the remaining balances 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 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, 2011 and 2010 are shown in the Statements of Net Assets under the caption Due to sewer 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
Meter deposits	\$ 931,925	\$ 1,126,263
Debt service reserve	1,055,488	1,034,776
Depreciation reserve for additional replacements to the water system	3,805,075	3,601,256
Construction	62,858	153,805
New customer fees collected for additions of fixed assets	46,204	38,352
Accrued interest	<u>3,772</u>	<u>6,780</u>
	<u>\$ 5,905,322</u>	<u>\$ 5,961,232</u>

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

**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, 2011 and 2010, these deposits amounted to approximately \$9,051,000 and \$9,433,000, 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 \$174,704 and \$204,971, reported in the Statement of Net Assets as of June 30, 2011 and 2010, respectively, represents the Water Department's share of the forbearance agreement receivable.

**NOTE 7: RISK MANAGEMENT**

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

**NOTE 8: INVESTMENTS**

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

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

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

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**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 Water Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2011, investments of the Water Department were fully collateralized or insured.

At June 30, 2011 and 2010, the Water Department's investments consisted of \$9,179,154 and \$8,573,443, respectively, held in certificates of deposit and \$1,101,692 and \$1,164,886, 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>Transfers/ Disposals</u>	<u>Balance June 30, 2011</u>
Land	\$ 589,260	\$ 3,800	\$ -	\$ 593,060
Buildings	1,317,708	69,466	-	1,387,174
Equipment	58,047,254	1,193,872	(82,801)	59,158,325
Vehicles	434,554	1,373	(59,600)	376,327
Contributed property	31,282,283	1,132,729	-	32,415,012
Construction in progress	<u>381,498</u>	<u>635,239</u>	<u>(997,915)</u>	<u>18,822</u>
	92,052,557	3,036,479	(1,140,316)	93,948,720
			-	
Accumulated depreciation	<u>(17,004,906)</u>	<u>(2,043,833)</u>	<u>142,403</u>	<u>(18,906,336)</u>
	<u>\$ 75,047,651</u>	<u>\$ 992,646</u>	<u>\$ (997,913)</u>	<u>\$ 75,042,384</u>
	<u>Balance June 30, 2009</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2010</u>
Land	\$ 584,040	\$ 5,220	\$ -	\$ 589,260
Buildings	546,488	771,220	-	1,317,708
Equipment	52,558,914	5,579,070	(90,730)	58,047,254
Vehicles	434,554	-	-	434,554
Contributed property	30,669,512	612,771	-	31,282,283
Construction in progress	<u>5,510,379</u>	<u>944,975</u>	<u>(6,073,856)</u>	<u>381,498</u>
	90,303,887	7,913,256	(6,164,586)	92,052,557
Accumulated depreciation	<u>(15,130,071)</u>	<u>(1,965,115)</u>	<u>90,280</u>	<u>(17,004,906)</u>
	<u>\$ 75,173,816</u>	<u>\$ 5,948,141</u>	<u>\$ (6,074,306)</u>	<u>\$ 75,047,651</u>

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

**NOTE 10: BONDS PAYABLE**

***Series 2004 Revenue Improvement Bonds***

In December 2004, the Water Department issued \$8,000,000 in Revenue Improvement Bonds (Series 2004) at an average rate of 4.75% to finance general improvements to the water system and related infrastructure and to purchase a portion of a commonly owned transmission line shared with the City of Bentonville, Arkansas. The bond matures in fiscal year 2030 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2011 and 2010, the outstanding principal was \$7,700,000 and \$7,750,000, respectively.

***Series 2006 Revenue Improvement Bonds***

In November 2006, the Water Department issued \$15,525,000 in Revenue Improvement Bonds (Series 2006) at an average rate of 4.3% to finance general improvements to the water system and related infrastructure. The bond matures in fiscal year 2037 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2011 and 2010, the outstanding principal was \$14,985,000 and \$15,130,000, respectively.

***Series 2008 Revenue Refunding Bonds***

In May 2008, the Water Department issued \$2,220,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Water Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$79,791. The bond matures in fiscal year 2019 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2011 and 2010, the outstanding principal was \$1,765,000 and \$1,960,000, respectively.

***Series 2008B Revenue Refunding Bonds***

In September 2008, the Water Department issued \$3,565,000 in Revenue Refunding Bonds (Series 2008B) at an average rate of 3.48% to finance the cost of refunding the Water Revenue Improvement Bonds, Series 2003. This transaction resulted in an economic gain of \$91,933. The bond matures in fiscal year 2024 with principal and interest payments due in April and October of each year. As of June 30, 2011 and 2010, the outstanding principal was \$3,190,000 and \$3,380,000, respectively.

***All Bond Issues***

System revenues and all assets are pledged to the bonds outstanding. The debt service coverage ratio, calculated as described in the Series 2008 bond documents, as of June 30, 2011 and 2010 is 2.63 and 1.89, respectively. Total interest paid during the years ended June 30, 2011 and 2010 totaled \$1,193,402 and \$1,210,474, respectively.

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

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

**NOTE 10: BONDS PAYABLE – CONTINUED**

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

<b>Year Ending</b>		<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30,</b>				
2012	\$	590,000	\$ 1,175,256	\$ 1,765,256
2013		615,000	1,155,798	1,770,798
2014		635,000	1,135,036	1,770,036
2015		655,000	1,112,153	1,767,153
2016		680,000	1,087,667	1,767,667
2017-2021		3,855,000	5,024,704	8,879,704
2022-2026		5,025,000	4,059,743	9,084,743
2027-2031		6,160,000	2,768,885	8,928,885
2032-2036		7,675,000	1,250,919	8,925,919
2037		<u>1,750,000</u>	<u>38,281</u>	<u>1,788,281</u>
<b>Total</b>	<b>\$</b>	<b><u>27,640,000</u></b>	<b><u>18,808,442</u></b>	<b><u>46,448,442</u></b>

Following is a summary of changes in bonds payable:

	<b>Balance June 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2011</b>	<b>Amounts Due Within One Year</b>
Revenue Improvement Bonds, Series 2004	\$ 7,750,000	\$ -	\$ 50,000	\$ 7,700,000	\$ 55,000
Revenue Improvement Bonds, Series 2006	15,130,000	-	145,000	14,985,000	150,000
Revenue Refunding Bonds, Series 2008	1,960,000	-	195,000	1,765,000	195,000
Revenue Refunding Bonds, Series 2008B	3,380,000	-	190,000	3,190,000	190,000
Less discounts	(267,025)	-	(13,248)	(253,777)	-
Plus premiums	<u>68,060</u>	<u>-</u>	<u>3,798</u>	<u>64,262</u>	<u>-</u>
	<b><u>\$28,021,035</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 570,550</u></b>	<b><u>\$ 27,450,485</u></b>	<b><u>\$ 590,000</u></b>

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**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 Improvement Bonds, Series 2004	\$ 7,800,000	\$ -	\$ 50,000	\$ 7,750,000	\$ 50,000
Revenue Improvement Bonds, Series 2006	15,270,000	-	140,000	15,130,000	145,000
Revenue Refunding Bonds, Series 2008	2,145,000	-	185,000	1,960,000	195,000
Revenue Refunding Bonds, Series 2008B	3,565,000	-	185,000	3,380,000	190,000
Less discounts	(280,272)	-	(13,247)	(267,025)	-
Plus premiums	<u>71,857</u>	<u>-</u>	<u>3,797</u>	<u>68,060</u>	<u>-</u>
	<u>\$28,571,585</u>	<u>\$ -</u>	<u>\$ 550,550</u>	<u>\$ 28,021,035</u>	<u>\$ 580,000</u>

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**Plan Description**

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

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

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

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



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

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

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

**Funding Policy**

The plan, which applies to all persons hired after December 31, 1997, originally did not allow employee contributions. Arkansas Act 2084 of 2005 requires participants who joined after July 1, 2005 to contribute 5% of their gross wages. The Water Department is required to contribute at an actuarially determined rate. For the years ended June 30, 2011 and 2010, the rate is 12.46% and 11.00%, respectively, of annual covered payroll. The contribution requirements of plan members and the Water Department are established and may be amended only by state law. Water Department contributions for the years ended June 30, 2011, 2010 and 2009 totaled \$101,950, \$94,380, and \$103,691, respectively. Employee contributions for the years ended June 30, 2011, 2010 and 2009 totaled \$6,703, \$6,280, and \$7,429, respectively.

**Three-Year Trend Information**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 103,691	100%	\$ -
June 30, 2010	94,380	100%	-
June 30, 2011	101,950	100%	-

**Annual Pension Cost**

For the year ended June 30, 2011 and 2010, the Water Department's annual pension cost of \$101,950 and \$94,380, respectively, for APERS was equal to the Water Department's required and actual contributions. The required contribution was determined as part of the June 30, 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.

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

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Schedule of Funding Progress (\$ Millions)**

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

**Schedule of Funding Progress – Continued**

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

**NOTE 12: EMPLOYEE BENEFIT PLANS**

**Flexible Benefit Plan**

The City of Rogers, Arkansas offers all active full-time employees and elected City officials who receive a W-2 form the option to participate in a flexible benefit plan administered by the Rogers Water Utilities. The flexible benefit plan has been established as a cafeteria plan as permitted under Section 125 of the Internal Revenue Code (IRC) of 1954, as amended, to provide for group medical/dental assistance for its eligible employees and dependents. The plan is funded solely by salary redirections as elected on a voluntary basis by participants. Water Department employee contributions for the years ended June 30, 2011 and 2010 were \$23,682 and \$25,611, respectively.

**Deferred Compensation Plan**

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

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

**NOTE 12: EMPLOYEE BENEFIT PLANS – CONTINUED**

**Deferred Compensation Plan – Continued**

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 \$16,310 and \$16,715, respectively. At June 30, 2011 and 2010, there were seven and ten employees participating in the plan, respectively.

**NOTE 13: COMMITMENTS AND CONCENTRATION**

The Water Department is committed to several construction contracts in process at year - end totaling \$264,686. As of June 30, 2011, \$119,249 had been incurred in connection with these contracts.

The Water Department has an industrial customer who, as of June 30, 2011, made up 4.55% of accounts receivable. This customer also accounted for 11.33% of total consumption for the year ended June 30, 2011.

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

**NOTE 14: LITIGATION**

In April 2008, a lawsuit was filed against the Rogers Water Utilities in Benton County Circuit Court claiming violations of law, including illegal exaction of development impact fees and access fees. 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 Water 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 Water Department had accrued \$224,137 in vouchers payable at June 30, 2010, representing the claims filed and approved by the court. The remaining balance of \$142,500 as of June 30, 2011 represents vouchers not yet redeemed.

**SUPPLEMENTARY INFORMATION**

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

	2011	2010
<b>WATER PURCHASED</b>	<u>\$ 3,689,090</u>	<u>\$ 3,421,727</u>
<b>PLANT OPERATIONS AND DISTRIBUTION</b>		
Salaries	520,447	571,000
Payroll taxes	38,415	43,064
Employee benefits	175,987	189,037
Insurance	15,101	17,514
Repairs and maintenance	131,121	183,351
Utilities	51,382	42,817
Operating supplies and other	83,801	56,877
	<u>1,016,254</u>	<u>1,103,660</u>
<b>GENERAL AND ADMINISTRATIVE</b>		
Salaries	291,121	312,160
Salaries - commissioners	748	898
Payroll taxes	32,584	44,034
Employee benefits	119,817	123,043
Office supplies and postage	78,103	78,525
Insurance	8,735	10,293
Taxes and fees	83,646	83,646
Utilities	22,190	20,743
Professional fees	32,063	46,453
Bad debts	38,164	56,755
Costs of settlement agreement	-	324,137
Other	58,975	66,165
	<u>766,146</u>	<u>1,166,852</u>
<b>DEPRECIATION AND AMORTIZATION</b>	<u>2,073,025</u>	<u>1,994,306</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 7,544,515</u></u>	<u><u>\$ 7,686,545</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
WATER REVENUE IMPROVEMENT BONDS - SERIES 2004  
JUNE 30, 2011**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 55,000	3.25%	\$ 362,669	\$ 417,669
2013	60,000	3.25%	360,800	420,800
2014	65,000	3.50%	358,688	423,688
2015	60,000	3.50%	356,500	416,500
2016	70,000	4.00%	354,050	424,050
2017	70,000	4.00%	351,250	421,250
2018	70,000	4.00%	348,450	418,450
2019	80,000	4.00%	345,450	425,450
2020	355,000	4.00%	336,750	691,750
2021	375,000	5.00%	320,275	695,275
2022	390,000	5.00%	301,150	691,150
2023	410,000	5.00%	281,150	691,150
2024	435,000	5.00%	260,025	695,025
2025	765,000	5.00%	230,025	995,025
2026	805,000	4.75%	191,781	996,781
2027	845,000	4.75%	152,594	997,594
2028	885,000	4.75%	111,503	996,503
2029	930,000	4.75%	68,400	998,400
2030	<u>975,000</u>	4.75%	<u>23,156</u>	<u>998,156</u>
Balance, June 30, 2011	<u>\$ 7,700,000</u>		<u>\$ 5,114,666</u>	<u>\$ 12,814,666</u>

Dated: December 1, 2004

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS**  
**WATER REVENUE IMPROVEMENT BONDS - SERIES 2006**  
**JUNE 30, 2011**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2012	\$ 150,000	4.00%	\$ 640,780	\$ 790,780
2013	155,000	4.00%	634,681	789,681
2014	160,000	4.00%	628,381	788,381
2015	170,000	5.00%	620,931	790,931
2016	175,000	4.00%	613,181	788,181
2017	180,000	4.00%	606,081	786,081
2018	195,000	4.00%	598,581	793,581
2019	200,000	4.00%	590,681	790,681
2020	210,000	4.00%	582,481	792,481
2021	215,000	4.00%	573,981	788,981
2022	225,000	4.125%	565,041	790,041
2023	235,000	4.25%	555,406	790,406
2024	245,000	4.25%	545,206	790,206
2025	255,000	4.25%	534,581	789,581
2026	265,000	4.25%	523,531	788,531
2027	275,000	4.25%	512,056	787,056
2028	290,000	4.25%	500,050	790,050
2029	300,000	4.25%	487,513	787,513
2030	315,000	4.25%	474,444	789,444
2031	1,345,000	4.25%	439,169	1,784,169
2032	1,405,000	4.25%	380,731	1,785,731
2033	1,465,000	4.375%	318,828	1,783,828
2034	1,530,000	4.375%	253,313	1,783,313
2035	1,600,000	4.375%	184,844	1,784,844
2036	1,675,000	4.375%	113,203	1,788,203
2037	1,750,000	4.375%	38,281	1,788,281
Balance, June 30, 2011	<u>\$ 14,985,000</u>		<u>\$ 12,515,956</u>	<u>\$ 27,500,956</u>

Dated: November 1, 2006

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

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

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 195,000	3.00%	\$ 54,027	\$ 249,027
2013	205,000	3.00%	48,027	253,027
2014	210,000	3.00%	41,802	251,802
2015	220,000	3.10%	35,242	255,242
2016	220,000	3.25%	28,257	248,257
2017	230,000	3.35%	20,829	250,829
2018	240,000	3.45%	12,836	252,836
2019	<u>245,000</u>	3.55%	<u>4,349</u>	<u>249,349</u>
Balance, June 30, 2011	<u>\$ 1,765,000</u>		<u>\$ 245,369</u>	<u>\$ 2,010,369</u>

Dated: May 1, 2008

Principal Payment Date: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.



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

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 190,000	2.70%	\$ 117,780	\$ 307,780
2013	195,000	3.00%	112,290	307,290
2014	200,000	3.20%	106,165	306,165
2015	205,000	3.40%	99,480	304,480
2016	215,000	3.55%	92,179	307,179
2017	220,000	3.65%	84,347	304,347
2018	230,000	3.75%	76,020	306,020
2019	240,000	3.85%	67,088	307,088
2020	245,000	3.95%	57,629	302,629
2021	255,000	4.05%	47,626	302,626
2022	270,000	4.15%	36,860	306,860
2023	280,000	4.25%	25,308	305,308
2024	445,000	4.35%	9,679	454,679
Balance, June 30, 2011	<u>\$ 3,190,000</u>		<u>\$ 932,451</u>	<u>\$ 4,122,451</u>

Dated: September 30, 2008

Principal and Interest Payment Dates: April 1 and October 1

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

See Independent Auditors' Report.

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

**Fixed Assets**

	<u>Balance</u> <u>June 30, 2010</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	623,739	43,692	(40,280)	627,151
Vehicles	434,554	1,373	(59,600)	376,327
Shop equipment	65,813	303	(1,602)	64,514
Field equipment	739,531	15,267	(38,264)	716,534
Radio equipment	49,144	820	(2,655)	47,309
Pumping equipment	46,143	-	-	46,143
Water meters	2,147,361	89,898	-	2,237,259
Water services	1,370,315	4,796	-	1,375,111
Water tower	11,293,616	3,750	-	11,297,366
Main line	41,711,592	1,035,346	-	42,746,938
Water supply facility	33,233	-	-	33,233
Structures and parking lots	1,284,475	69,466	-	1,353,941
Easements	315,640	3,800	-	319,440
Contributed water main	<u>31,282,283</u>	<u>1,132,729</u>	<u>-</u>	<u>32,415,012</u>
	91,671,059	2,401,240	(142,401)	93,929,898
Construction in progress	<u>381,498</u>	<u>635,239</u>	<u>(997,915)</u>	<u>18,822</u>
	<u>\$ 92,052,557</u>	<u>\$ 3,036,479</u>	<u>\$ (1,140,316)</u>	<u>\$ 93,948,720</u>

**Accumulated Depreciation**

Office equipment	\$ 461,585	\$ 58,282	\$ (40,281)	\$ 479,586
Vehicles	386,128	22,676	(59,600)	349,204
Shop equipment	61,775	917	(1,602)	61,090
Field equipment	516,207	49,151	(38,265)	527,093
Radio equipment	48,900	97	(2,655)	46,342
Pumping equipment	37,479	3,512	-	40,991
Water meters	1,067,536	78,586	-	1,146,122
Water services	999,295	32,345	-	1,031,640
Water tower	2,366,447	217,138	-	2,583,585
Main line	8,028,913	884,996	-	8,913,909
Water supply facility	33,233	-	-	33,233
Structures and parking lots	461,042	58,351	-	519,393
Contributed water main	<u>2,536,366</u>	<u>637,782</u>	<u>-</u>	<u>3,174,148</u>
	<u>\$ 17,004,906</u>	<u>\$ 2,043,833</u>	<u>\$ (142,403)</u>	<u>\$ 18,906,336</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**SCHEDULE OF FIXED ASSETS**  
**YEAR ENDED JUNE 30, 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	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	603,791	83,689	(63,741)	623,739
Vehicles	434,554	-	-	434,554
Shop equipment	64,991	822	-	65,813
Field equipment	708,769	57,751	(26,989)	739,531
Radio equipment	48,862	282	-	49,144
Pumping equipment	46,143	-	-	46,143
Water meters	2,100,617	46,744	-	2,147,361
Water services	1,367,615	2,700	-	1,370,315
Water tower	7,485,830	3,807,786	-	11,293,616
Main line	40,132,296	1,579,296	-	41,711,592
Water supply facility	33,233	-	-	33,233
Structures and parking lots	513,255	771,220	-	1,284,475
Easements	310,420	5,220	-	315,640
Contributed water main	30,669,512	612,771	-	31,282,283
	84,793,508	6,968,281	(90,730)	91,671,059
Construction in progress	5,510,379	944,975	(6,073,856)	381,498
	<u>\$ 90,303,887</u>	<u>\$ 7,913,256</u>	<u>\$ (6,164,586)</u>	<u>\$ 92,052,557</u>
<b>Accumulated Depreciation</b>				
Office equipment	\$ 467,091	\$ 57,785	\$ (63,291)	\$ 461,585
Vehicles	356,831	29,297	-	386,128
Shop equipment	60,896	879	-	61,775
Field equipment	488,803	54,393	(26,989)	516,207
Radio equipment	48,820	80	-	48,900
Pumping equipment	33,827	3,652	-	37,479
Water meters	991,066	76,470	-	1,067,536
Water services	966,375	32,920	-	999,295
Water tower	2,168,711	197,736	-	2,366,447
Main line	7,169,158	859,755	-	8,028,913
Water supply facility	33,233	-	-	33,233
Structures and parking lots	430,277	30,765	-	461,042
Contributed water main	1,914,983	621,383	-	2,536,366
	<u>\$ 15,130,071</u>	<u>\$ 1,965,115</u>	<u>\$ (90,280)</u>	<u>\$ 17,004,906</u>

See Independent Auditors' Report.

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

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

**See Independent Auditors' Report.**

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

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2011</u>	<u>2010</u>
Residential customers	25,550	25,080
Commerical customers	2,364	2,351
Industrial customers	<u>46</u>	<u>46</u>
	<u>27,960</u>	<u>27,477</u>

See Independent Auditors' Report.

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

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2011</u>	<u>2010</u>
Residential customers	1,433,109,400	1,346,353,100
Commerical customers	621,448,400	596,379,200
Industrial customers	<u>513,916,800</u>	<u>520,282,800</u>
	<u>2,568,474,600</u>	<u>2,463,015,100</u>

See Independent Auditors' Report.

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

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Water Department** ("the Water 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 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 audits, we considered the Water Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Department's internal control over financial reporting.

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

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

**Compliance and Other Matters**

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

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



**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Rogers, Arkansas  
August 5, 2011