

**ROGERS WATER UTILITIES  
WATER DEPARTMENT  
A COMPONENT UNIT OF THE  
CITY OF ROGERS, ARKANSAS  
FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
JUNE 30, 2012 AND 2011  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Water Department** ("the Water Department"), a component unit of the City of Rogers, Arkansas, as of and for the years ended June 30, 2012 and 2011 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 audits 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 audits provide 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, 2012 and 2011 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 2, 2012 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 8 is not a required part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America as of and for the years ended June 30, 2012 and 2011. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Beall Barclay & Company, PLC*  
**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Rogers, Arkansas  
August 2, 2012

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011**

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, 2012 and 2011. 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 \$660,000 or 1.1%, over fiscal year 2011. Net assets increased by \$1,383,000 or 2.3% in fiscal year 2011 over 2010.
- Water Department operating revenues increased by \$641,000, or 7.3% over 2011. Operating Revenues increased \$489,000 or 5.9% in 2011 over 2010.
- Operating expenses increased by \$335,000, or 4.4% from 2011. Operating Expenses decreased \$142,000, or 1.9% in 2011 over 2010.
- Net Assets increased by \$460,000 before capital contributions during fiscal year 2012. In fiscal year 2011 net assets before capital contributions increased by \$180,000.

**Rogers Water Department Fiscal Year 2012 Highlights**

- Exceeded budgeted and prior year operating results with the help of a dry fall, spring and summer.
- Completed the remodeling of the old administration building which provided better employee working conditions, better customer service, and employee safety.
- Performed an internally prepared rate study which indicated a rate increase is necessary in the near future.
- While the number of customers increased by only 430 or 1.54% from the prior year, overall billed water consumption increased by 10.4% for fiscal year 2012.
- Refunded the 2004 Revenue Improvement Bonds and issued \$8,505,000 of 2012 Revenue Refunding Bonds. This resulted in a "insubstance defeasance" of the 2004 Bonds, and a net present value benefit of \$480,000.
- Began the search for a new Utility Superintendent due to the retirement of the former superintendent after 28 years of service.
- Revenue from access and impact fees fell below both the prior year and budgeted amounts. New construction in Rogers continues to be sluggish.
- Absorbed a \$.02/1000 gallons rate increase from Beaver Water District for bulk water purchases.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011**

**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.
- 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%.

**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, 2012, 2011, AND 2010**

**Financial Highlights**

**Assets, Liabilities and Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
Total current assets	\$ 10,312,314	\$ 9,549,132	\$ 8,755,631
Restricted cash and investments	5,980,201	5,905,322	5,961,232
Other noncurrent assets	74,840,026	75,695,938	75,760,664
Total assets	<u>\$ 91,132,541</u>	<u>\$ 91,150,392</u>	<u>\$ 90,477,527</u>
<b>Liabilities</b>			
Total current liabilities	\$ 2,187,204	\$ 2,264,927	\$ 2,436,180
Liabilities payable from restricted assets	1,061,042	1,040,522	998,861
Noncurrent liabilities	26,239,584	26,860,485	27,441,035
Total liabilities	<u>\$ 29,487,830</u>	<u>\$ 30,165,934</u>	<u>\$ 30,876,076</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 47,387,974	\$ 47,591,899	\$ 47,026,616
Restricted	4,919,159	4,864,800	4,962,371
Unrestricted	9,337,578	8,527,759	7,612,464
Total net assets	<u>\$ 61,644,711</u>	<u>\$ 60,984,458</u>	<u>\$ 59,601,451</u>
<b>Operating Results and Changes in Net Assets</b>			
Operating revenues	<u>\$ 9,447,017</u>	<u>\$ 8,806,360</u>	<u>\$ 8,317,482</u>
<b>Operating expenses</b>			
Depreciation and amortization	2,100,290	2,073,025	1,994,306
Other operating expenses	5,779,255	5,471,490	5,692,239
Total operating expenses	<u>7,879,545</u>	<u>7,544,515</u>	<u>7,686,545</u>
Operating income	<u>1,567,472</u>	<u>1,261,845</u>	<u>630,937</u>
<b>Other revenues (expenses)</b>			
Interest expense	(1,166,956)	(1,199,567)	(1,216,822)
Other income (expenses)	59,104	117,695	175,855
Total other revenues (expenses)	<u>(1,107,852)</u>	<u>(1,081,872)</u>	<u>(1,040,967)</u>
Change in net assets before capital contributions	459,620	179,973	(410,030)
Capital Contributions	<u>200,633</u>	<u>1,203,034</u>	<u>641,520</u>
Change in Net Assets	660,253	1,383,007	231,490
Net Assets, Beginning of Year	<u>60,984,458</u>	<u>59,601,451</u>	<u>59,369,961</u>
Net Assets, End of Year	<u>\$ 61,644,711</u>	<u>\$ 60,984,458</u>	<u>\$ 59,601,451</u>

**ROGERS WATER UTILITIES WATER DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011**

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2012, the Water Department's investment in capital assets was \$74,263,000 (net of accumulated depreciation). This investment in capital assets included land, buildings, improvements, machinery and equipment, and contributed property.

**Major capital asset events include the following:**

- Construction costs of \$899,000 were incurred on a variety of construction projects during 2012. \$873,000 of constructed assets were completed and placed in service, consisting mostly of water main construction and rehabilitation projects and completion of the remodeling of the old Administration building. In addition, \$161,000 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 2011 the Water Department had construction of \$635,000 and contributed capital of \$1,133,000, and in 2010 construction of \$945,000 and contributed capital of \$613,000.
- Capital expenditures for additions and improvements to the Water Department, in addition to the constructed assets, were \$232,000 in 2012, as compared to \$271,000 in 2011 and \$282,000 in 2010.

Additional information regarding capital assets can be found in Note 9 of the notes to the financial statements.

**Long-Term Debt**

The Water Department had \$27,910,000 in revenue bonds outstanding as of June 30, 2012, which is an increase of \$270,000 from 2011. The increase is due to the issuance of \$8,505,000 of 2012 Refunding Bonds that refunded \$7,700,000 of 2004 Water Revenue bonds, and other scheduled principal payments of \$535,000. Revenue bonds outstanding as of June 30, 2011 were \$27,640,000 which was a decrease of \$580,000 from 2010 due to scheduled principal payments.

Additional information regarding long-term debt can be found at Note 10 of the notes to the financial statements.



**ROGERS WATER UTILITIES WATER DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011**

**Additional Management Comments**

The drought which began in 2010 and continues through the summer of 2012 has impacted the financial position of the Rogers Water Department quite favorably. Water consumption in July, August, September and then again in the spring during May and June surpassed the previous year, resulting in a 10.4% overall increase in water consumption in fiscal year 2012. The focus on controlling expenses continues as well, including working with a reduced workforce. This of course has impacted the bottom line, resulting in improved operating income that exceeds both the prior year, and the budget.

During fiscal year 2012 the 2004 Revenue Improvement Bonds were refunded as a cost saving measure. The 2004 Bonds were "in-substance defeased", and replaced by the 2012 Water Revenue Refunding Bonds. While the face value of the outstanding bonds has increased, the overall debt service cost is less due to the reduced interest rate on the 2012 Bonds. Morgan Keegan calculated a net present value benefit of \$480,000 from the refunding.

Also of significance to the Rogers Water Department during fiscal year 2012 was the retirement in April of long time Utility Superintendent, Tom McAlister. Mr. McAlister was the Superintendent of the Utility for the past 28 years. An interim superintendent was appointed at the end of March, and the Rogers Waterworks and Sewer Commission is currently in the process of hiring a new Superintendent. Several well qualified candidates have applied for the position, and a new Superintendent should be in place soon.

The Rogers Water Department funded capital improvements out of reserves in fiscal year 2012. Completed projects included Hwy 94/Lake Atlanta and Price Lane water main projects, and the remodeling of the Utility Administration Building. Projects in process at the end of the year include 21<sup>st</sup> and 24<sup>th</sup> Street water main projects. Also, the remodel of the Utility Training Center facility is expected to proceed in early fiscal year 2013. Other projects expected in fiscal year 2013 include water main projects to aid the City of Rogers street projects, and the purchase of mixing equipment and painting of water storage facilities.

**ROGERS WATER UTILITIES WATER DEPARTMENT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011**

Looking ahead, the source of water for all Northwest Arkansas, Beaver Lake, appears to be in good shape, with reserves adequate to meet the needs of the current drought. Our water wholesaler, Beaver Water District, is poised to meet the demand of Rogers Water Utility water customers for maximum daily demand twenty years hence. Beaver Water District has implemented a series of rate increases which have not been passed along to our customers. An internal rate study was completed by Utility personal during fiscal year 2012. It indicated a rate increase is necessary in the near future. The drought conditions have helped delay a rate increase for the time being.

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. New construction in Rogers, although somewhat sluggish, seems to be picking up. Financial reserves appear to be sufficient 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 that are their customers. Disinfection By-products Rule Phase II Total Trihalomethane (TTHM) and Total Haloacetic Acid (THAA) regulations become effective January 1, 2013. Beaver Water District has construction underway to change its process to Chlorine Dioxide pre-treatment to reduce the production of these pollutants during the treatment process. The individual cities of NWA will ultimately be responsible for adhering to a these regulations and all provisions of the Safe Drinking Water Act. The Arkansas Department of Health is providing classes for continuing education and training to assist the Cities in compliance with these standards.

Also on the horizon are new requirements regarding the replacement of brass water meters to comply with the "Reduction of Lead in Drinking Water Act." Effective January 1, 2014 brass meters will no longer be allowed to be placed in the ground. Brass meters already in service will be allowed to continue in service, but, if they are physically removed for any purpose they cannot be reinstalled. They must be replaced with composite or no lead brass meters. Over the next eight to ten years Rogers Water Department plans to change out all non compliant meters in our system.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2012 AND 2011**

	<b>ASSETS</b>	
	<b>2012</b>	<b>2011</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,535,202	\$ 2,792,111
Investments	5,658,697	5,123,744
Accounts receivable, net of allowance for doubtful accounts of \$193,000 and \$190,000, respectively	1,685,000	1,374,375
Accrued interest receivable	1,920	6,914
Due from sewer department	169,819	-
Inventory	242,413	232,628
Prepaid expenses	19,263	19,360
	<hr/>	<hr/>
Total Current Assets	10,312,314	9,549,132
<b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	239,099	744,448
Investments	5,740,882	5,157,102
Accrued interest receivable	220	3,772
	<hr/>	<hr/>
Total Restricted Cash and Investments	5,980,201	5,905,322
<b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<hr/>	<hr/>
	74,262,558	75,042,384
<b>OTHER ASSETS</b>		
Bond issuance costs, net of amortization of \$116,005 and \$121,421, respectively	436,817	478,850
Forbearance agreement receivable	140,651	174,704
	<hr/>	<hr/>
Total Other Assets	577,468	653,554
	<hr/>	<hr/>
Total Assets	\$ 91,132,541	\$ 91,150,392

See Independent Auditors' Report and Notes to Financial Statements.

## LIABILITIES AND NET ASSETS

	2012	2011
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 471,862	\$ 439,508
Accounts payable to construction contractors	63,951	86,859
Accounts payable - other	703,912	663,240
Accrued expenses	251,882	267,307
Current portion of bonds payable	635,000	590,000
Accrued vouchers	60,597	142,500
Due to sewer department	-	75,513
	<hr/>	<hr/>
Total Current Liabilities	2,187,204	2,264,927
	<hr/>	<hr/>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer meter deposits	867,489	833,053
Accrued interest payable	193,553	207,469
	<hr/>	<hr/>
Total Liabilities Payable From Restricted Assets	1,061,042	1,040,522
	<hr/>	<hr/>
<b>BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS</b>	26,239,584	26,860,485
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	47,387,974	47,591,899
Restricted	4,919,159	4,864,800
Unrestricted	9,337,578	8,527,759
	<hr/>	<hr/>
Total Net Assets	61,644,711	60,984,458
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 91,132,541	\$ 91,150,392
	<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, 2012 AND 2011**

	2012	2011
<b>OPERATING REVENUES</b>		
Residential water	\$ 5,139,524	\$ 4,634,468
Commercial water	2,068,275	1,840,504
Industrial water	1,079,651	1,083,348
Sprinkler service / hydrant	37,248	35,971
Service charges and penalties	446,968	436,820
Access / impact / new customer fees	426,550	507,135
Other operating revenue	248,801	268,114
	<u>9,447,017</u>	<u>8,806,360</u>
<b>OPERATING EXPENSES</b>		
Water purchased	4,045,239	3,689,090
Plant operations and distribution	970,013	1,016,254
General and administrative	764,003	766,146
Depreciation and amortization	2,100,290	2,073,025
	<u>7,879,545</u>	<u>7,544,515</u>
<b>OPERATING INCOME</b>	<u>1,567,472</u>	<u>1,261,845</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	63,586	116,913
Gain on disposal of fixed assets	6,318	11,582
Interest expense	(1,166,956)	(1,199,567)
Trustee fees	(10,800)	(10,800)
	<u>(1,107,852)</u>	<u>(1,081,872)</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	459,620	179,973
<b>CAPITAL CONTRIBUTIONS</b>	<u>200,633</u>	<u>1,203,034</u>
<b>CHANGE IN NET ASSETS</b>	660,253	1,383,007
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>60,984,458</u>	<u>59,601,451</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 61,644,711</u>	<u>\$ 60,984,458</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, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 8,014,073	\$ 7,540,210
Cash received from access, impact and new customer fees	350,647	425,498
Cash received from service charges, penalties and other operating revenue	730,205	749,880
Payments for water	(3,987,762)	(3,642,040)
Payments for salaries and benefits	(1,151,593)	(1,179,119)
Payments to suppliers for goods and services	<u>(843,319)</u>	<u>(801,599)</u>
Net Cash From Operating Activities	<u>3,112,251</u>	<u>3,092,830</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(1,113,670)	(806,198)
Cash received from sale of fixed assets	6,318	11,582
Cash received from bond issuance	8,546,854	-
Payment of issuance costs	(68,406)	-
Principal payments on bonds	(590,000)	(580,000)
Payment to trust for bond defeasance	(8,469,058)	-
Interest and paying agent fees	(1,173,999)	(1,204,202)
Collections of forbearance agreement	<u>34,053</u>	<u>30,267</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,827,908)</u>	<u>(2,548,551)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	72,132	123,872
Net change in investments	(534,953)	(557,178)
Net change in restricted investments	<u>(583,780)</u>	<u>14,661</u>
Net Cash (Used for) Investing Activities	<u>(1,046,601)</u>	<u>(418,645)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(762,258)	125,634
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,536,559</u>	<u>3,410,925</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,774,301</u>	<u>\$ 3,536,559</u>
<b>CASH AND CASH EQUIVALENTS RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>\$ 2,535,202</u>	<u>\$ 2,792,111</u>
	<u>239,099</u>	<u>744,448</u>
	<u>\$ 2,774,301</u>	<u>\$ 3,536,559</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2012	2011
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating Income	<u>\$ 1,567,472</u>	<u>\$ 1,261,845</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	2,100,290	2,073,025
Allowance for doubtful accounts	3,000	15,500
Redeemed vouchers	(75,903)	(81,637)
Changes in assets and liabilities:		
Accounts receivable	(313,625)	(69,581)
Inventory	(9,785)	(22,186)
Prepaid expenses	97	(132)
Accounts payable - trade and other	73,026	(59,213)
Accrued expenses	19,011	25,607
Due to/from sewer department	<u>(251,332)</u>	<u>(50,398)</u>
Total adjustments	<u>1,544,779</u>	<u>1,830,985</u>
Net Cash From Operating Activities	<u>\$ 3,112,251</u>	<u>\$ 3,092,830</u>
<b>OTHER NONCASH TRANSACTIONS</b>		
Capital contributions	<u>\$ 200,633</u>	<u>\$ 1,203,034</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES WATER DEPARTMENT**  
**A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**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.