

**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>
Assets			
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>
Liabilities			
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>
Net Assets			
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>
Operating Results and Changes in Net Assets			
Operating revenues	<u>\$ 9,447,017</u>	<u>\$ 8,806,360</u>	<u>\$ 8,317,482</u>
Operating expenses			
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>
Other revenues (expenses)			
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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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 21st and 24th 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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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 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

	2012	2011
ASSETS		
CURRENT ASSETS		
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
RESTRICTED CASH AND INVESTMENTS		
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
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	<hr/>	<hr/>
	74,262,558	75,042,384
OTHER ASSETS		
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
Total Assets	<hr/> \$ 91,132,541 <hr/>	<hr/> \$ 91,150,392 <hr/>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
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/>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
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/>
BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS AND DISCOUNTS	26,239,584	26,860,485
	<hr/>	<hr/>
NET ASSETS		
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
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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
OPERATING REVENUES		
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>
OPERATING EXPENSES		
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>
OPERATING INCOME	<u>1,567,472</u>	<u>1,261,845</u>
OTHER REVENUES (EXPENSES)		
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>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	459,620	179,973
CAPITAL CONTRIBUTIONS	<u>200,633</u>	<u>1,203,034</u>
CHANGE IN NET ASSETS	660,253	1,383,007
NET ASSETS, BEGINNING OF YEAR	<u>60,984,458</u>	<u>59,601,451</u>
NET ASSETS, END OF YEAR	<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
CASH FLOWS FROM OPERATING ACTIVITIES		
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>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
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>
CASH FLOWS FROM INVESTING ACTIVITIES		
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>
CHANGE IN CASH AND CASH EQUIVALENTS	(762,258)	125,634
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,536,559</u>	<u>3,410,925</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,774,301</u>	<u>\$ 3,536,559</u>
CASH AND CASH EQUIVALENTS RESTRICTED CASH AND CASH EQUIVALENTS	<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
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
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>
OTHER NONCASH TRANSACTIONS		
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.

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 – CONTINUED

Use of Estimates

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

Inventory

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

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At June 30, 2012 and 2011, 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.

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

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

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, 2012 and 2011, cumulative contributed capital fixed assets amounted to approximately \$32,576,000 and \$32,415,000, 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, 2012 and 2011 amounted to approximately \$2,608,000 and \$2,583,000, respectively.

Amortization of Bond Discounts and Premiums

Bond discounts and premiums are amortized over the lives of the related bond issues. Amortization expense of \$9,602 and \$9,450, respectively, for the years ended June 30, 2012 and 2011 is included as a component of interest expense.

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Amortization of Deferred Refunding Loss

The deferred refunding loss associated with the 2012 Water Revenue Refunding Bonds is amortized over the life of the related bond issue (See Note 10). Amortization expense of \$8,071 for the year ended June 30, 2012 is included as a component of interest expense.

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 \$29,068 and \$29,192, respectively, for the years ended June 30, 2012 and 2011. In addition, \$81,371 in unamortized bond issuance costs related to the Series 2004 Revenue Improvement Bonds was written off (See Note 10).

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.

In March 2012, the GASB issued Statement Number 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement Number 66 (GASB 66), *Technical Corrections – 2012*, effective for periods beginning after December 15, 2012. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB 62.

Management does not expect the implementation of these statements to significantly impact the financial statements of the Water Department.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Net Assets Classifications

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

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

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

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

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

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, 2012, the Water Department had approximately \$2,752,000 in deposit balances reported as cash and cash equivalents in the Statements of Net Assets, of which approximately \$500,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities' name. Additionally, the Water Department had approximately \$10,268,000 in certificates of deposit reported as investments in the Statements of Net Assets, of which approximately \$9,319,900 were FDIC insured and the remaining balances were collateralized by securities held by the bank in the Utilities' name.

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3: DUE TO/FROM SEWER DEPARTMENT

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Rogers Water Utilities. Rogers Water Utilities sends a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. In addition, see Note 14 for details regarding the impact of voucher redemptions on the due to/due from Sewer Department balance. The balances as of June 30, 2012 and 2011 are shown in the Statements of Net Assets under the caption Due to sewer department and Due from sewer department.

NOTE 4: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments are held for specific purposes at June 30, 2012 and 2011 as follows:

	2012	2011
Meter deposits	\$ 934,522	\$ 931,925
Debt service reserve	1,068,034	1,055,488
Depreciation reserve for additional replacements to the water system	3,850,950	3,805,075
Construction	63,356	62,858
New customer fees collected for additions of fixed assets	63,119	46,204
Accrued interest	<u>220</u>	<u>3,772</u>
	<u>\$ 5,980,201</u>	<u>\$ 5,905,322</u>

NOTE 5: RELATED PARTIES

The Water Department maintains deposits and certificates of deposit with banks whose officers serve on the Commission of the Rogers Water Utilities. At June 30, 2012 and 2011, these deposits amounted to approximately \$8,912,000 and \$9,051,000, respectively.

NOTE 6: 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.

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7: 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 \$198,100 due July 1, 2012. In June 2012 Rogers Water Utilities and the developer entered into an extension agreement for payment of the \$198,100 lump sum. The extension agreement provides for monthly installments of \$5,000, bearing interest at 3½% and amortized to December 2015. The balance of \$140,651 and \$174,704, reported in the Statements of Net Assets as of June 30, 2012 and 2011, respectively, represents the Water Department's share of the forbearance agreement receivable.

NOTE 8: INVESTMENTS

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

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

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Water Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2012, investments of the Water Department were fully collateralized or insured.

At June 30, 2012 and 2011, the Water Department's investments consisted of \$10,268,426 and \$9,179,154, respectively, held in certificates of deposit and \$1,131,153 and \$1,101,692, respectively, held in United States Government securities. All investments at June 30, 2012 and 2011 had maturities of less than one year.

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

NOTE 9: CHANGES IN FIXED ASSETS

	<u>Balance June 30, 2011</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2012</u>
Land	\$ 593,060	\$ 12,450	\$ -	\$ 605,510
Buildings	1,387,174	191,495	(33,233)	1,545,436
Equipment	59,158,325	880,814	(107,279)	59,931,860
Vehicles	376,327	19,710	(430)	395,607
Contributed property	32,415,012	160,698	-	32,575,710
Construction in progress	<u>18,822</u>	<u>899,098</u>	<u>(872,869)</u>	<u>45,051</u>
	93,948,720	2,164,265	(1,013,811)	95,099,174
Accumulated depreciation	<u>(18,906,336)</u>	<u>(2,071,222)</u>	<u>140,942</u>	<u>(20,836,616)</u>
	<u>\$ 75,042,384</u>	<u>\$ 93,043</u>	<u>\$ (872,869)</u>	<u>\$ 74,262,558</u>
	<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>

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

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, the outstanding principal was \$7,700,000. In 2012, these bonds were refunded with the Water Revenue Refunding Bonds, Series 2012. Accordingly, the trust assets and the liability for the refunded bonds are not included in the Department's financial statements for the year ended June 30, 2012.

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, 2012 and 2011, the outstanding principal was \$14,835,000 and \$14,985,000, 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, 2012 and 2011, the outstanding principal was \$1,570,000 and \$1,765,000, 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, 2012 and 2011, the outstanding principal was \$3,000,000 and \$3,190,000, respectively.

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

NOTE 10: BONDS PAYABLE – CONTINUED

Series 2012 Water Revenue Refunding Bonds

On April 18, 2012, the Water Department issued \$8,505,000 in Water Revenue Refunding Bonds (Series 2012) with an average interest rate of 3.13% to advance refund \$7,645,000 of outstanding Water Revenue Improvement Bonds, Series 2004 with an average interest rate of 4.75%. The net proceeds of \$8,456,998 (after payment of bond issuance costs and other costs) were deposited in an irrevocable trust with an escrow agent and were used to purchase U.S. government securities. The trust will provide for all future debt service payments on the 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Water Department's Statements of Net Assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$847,499. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations over the life of the bonds using the straight-line method. The Water Department completed the advance refunding to reduce its total debt service payments over the next 18 years by \$610,822 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$480,287.

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, 2012 and 2011 is 2.32 and 2.63, respectively. Total interest paid during the years ended June 30, 2012 and 2011 totaled \$1,163,199 and \$1,193,402, 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, 2012 and 2011.

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10: BONDS PAYABLE – CONTINUED

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

Year Ending			
June 30,	Principal	Interest	Total
2013	\$ 635,000	\$ 1,051,949	\$ 1,686,949
2014	710,000	1,022,880	1,732,880
2015	735,000	1,000,084	1,735,084
2016	760,000	975,499	1,735,499
2017	780,000	950,139	1,730,139
2018-2022	4,420,000	4,332,755	8,752,755
2023-2027	5,435,000	3,496,858	8,931,858
2028-2032	6,415,000	2,429,258	8,844,258
2033-2037	<u>8,020,000</u>	<u>908,469</u>	<u>8,928,469</u>
Total	<u>\$ 27,910,000</u>	<u>\$ 16,167,891</u>	<u>\$ 44,077,891</u>

Following is a summary of changes in bonds payable:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Revenue Improvement Bonds, Series 2004	\$ 7,700,000	\$ -	\$ 7,700,000	\$ -	\$ -
Revenue Improvement Bonds, Series 2006	14,985,000	-	150,000	14,835,000	155,000
Revenue Refunding Bonds, Series 2008	1,765,000	-	195,000	1,570,000	205,000
Revenue Refunding Bonds, Series 2008B	3,190,000	-	190,000	3,000,000	195,000
Revenue Refunding Bonds, Series 2012	-	8,505,000	-	8,505,000	80,000
Less discounts	(253,777)	-	(13,246)	(240,531)	-
Less refunding loss	-	(847,499)	(8,071)	(839,428)	-
Plus premiums	<u>64,262</u>	<u>41,854</u>	<u>61,573</u>	<u>44,543</u>	<u>-</u>
	<u>\$27,450,485</u>	<u>\$ 7,699,355</u>	<u>\$ (8,275,256)</u>	<u>\$ 26,874,584</u>	<u>\$ 635,000</u>

ROGERS WATER UTILITIES WATER DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10: BONDS PAYABLE – CONTINUED

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
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>
	<u>\$28,021,035</u>	<u>\$ -</u>	<u>\$ 570,550</u>	<u>\$ 27,450,485</u>	<u>\$ 590,000</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
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Plan Description - 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.

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, 2012 and 2011, the rate is 13.47% and 12.46%, 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, 2012, 2011 and 2010 totaled \$107,317, \$101,950, and \$94,380, respectively. Employee contributions for the years ended June 30, 2012, 2011 and 2010 totaled \$7,714, \$6,703, and \$6,280, respectively.

Annual Pension Cost

For the years ended June 30, 2012 and 2011, the Water Department's annual pension cost of \$107,317 and \$101,950, 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, 2010 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, 2010 was 30 years.

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

NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

Schedule of Funding Progress (\$ Millions)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (b)</u>	<u>Unfunded Accrued Liability (UAL) (b - a)</u>
June 30, 2008	\$ 5,866	\$ 6,543	\$ 677
June 30, 2009	5,413	6,938	1,525
June 30, 2010	5,409	7,304	1,895

<u>Actuarial Valuation Date</u>	<u>Annual Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAL as of % of Covered Payroll ((b-a)/c)</u>
June 30, 2008	89.7%	\$ 1,380	49.1%
June 30, 2009	78.0%	1,434	106.3%
June 30, 2010	74.1%	1,523	124.4%

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, 2010	\$ 94,380	100%	\$ -
June 30, 2011	101,950	100%	-
June 30, 2012	107,317	100%	-

NOTE 12: EMPLOYEE BENEFIT PLANS

Flexible Benefit Plan

The City of Rogers, Arkansas offers all active full-time employees and elected City officials who receive a W-2 form the option to participate in a flexible benefit plan administered by the Rogers Water Utilities. The flexible benefit plan has been established as a cafeteria plan as permitted under Section 125 of the Internal Revenue Code (IRC) of 1954, as amended, to provide for group medical/dental assistance for its eligible employees and dependents. The plan is funded solely by salary redirections as elected on a voluntary basis by participants. Water Department employee contributions for the years ended June 30, 2012 and 2011 were \$25,046 and \$23,682, respectively.

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

NOTE 12: EMPLOYEE BENEFIT PLANS – CONTINUED

Deferred Compensation Plan

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

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

Deferred compensation remitted for investment during the years ended June 30, 2012 and 2011 was \$37,220 and \$16,310, respectively. At June 30, 2012 and 2011, there were seven employees participating in the plan.

NOTE 13: COMMITMENTS AND CONCENTRATION

The Water Department is committed to several construction contracts in process at year - end totaling \$533,126. As of June 30, 2012, \$36,640 had been incurred in connection with these contracts.

During the years ended June 30, 2012 and 2011, the Water Department had an industrial customer who made up 3.82% and 4.55%, respectively, of accounts receivable. For the years ended June 30, 2012 and 2011, this customer also accounted for 10.46% and 11.33%, respectively, of total consumption.

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

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

NOTE 14: ACCRUED VOUCHERS

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. 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 at June 30, 2012 and 2011 was \$60,597 and \$142,500, respectively, and represents vouchers not yet redeemed.

The vouchers were allocated to the Water Department or the Sewer Department based on which department originally received the impact and access fees. The vouchers can be redeemed by either department which results in an intercompany transaction between the two departments. During the year ended June 30, 2012, \$6,000 of vouchers accrued by the Water Department were redeemed by the Sewer Department. See Note 3.

SUPPLEMENTARY INFORMATION

ROGERS WATER UTILITIES WATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
WATER PURCHASED	<u>\$ 4,045,239</u>	<u>\$ 3,689,090</u>
PLANT OPERATIONS AND DISTRIBUTION		
Salaries	515,316	520,447
Payroll taxes	37,823	38,415
Employee benefits	174,234	175,987
Insurance	15,967	15,101
Repairs and maintenance	116,654	131,121
Utilities	56,057	51,382
Operating supplies and other	<u>53,962</u>	<u>83,801</u>
	<u>970,013</u>	<u>1,016,254</u>
GENERAL AND ADMINISTRATIVE		
Salaries	265,900	291,121
Salaries - commissioners	899	748
Payroll taxes	31,595	32,584
Employee benefits	125,826	119,817
Office supplies and postage	81,632	78,103
Insurance	9,358	8,735
Taxes and fees	83,646	83,646
Utilities	23,474	22,190
Professional fees	34,780	32,063
Bad debts	28,828	38,164
Other	<u>78,065</u>	<u>58,975</u>
	<u>764,003</u>	<u>766,146</u>
DEPRECIATION AND AMORTIZATION	<u>2,100,290</u>	<u>2,073,025</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 7,879,545</u></u>	<u><u>\$ 7,544,515</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 2006
JUNE 30, 2012

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2012	<u>\$ 14,835,000</u>		<u>\$ 11,875,176</u>	<u>\$ 26,710,176</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, 2012**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2013	\$ 205,000	3.00%	\$ 48,027	\$ 253,027
2014	210,000	3.00%	41,803	251,803
2015	220,000	3.10%	35,242	255,242
2016	220,000	3.25%	28,258	248,258
2017	230,000	3.35%	20,830	250,830
2018	240,000	3.45%	12,837	252,837
2019	<u>245,000</u>	3.55%	<u>4,349</u>	<u>249,349</u>
Balance, June 30, 2012	<u>\$ 1,570,000</u>		<u>\$ 191,346</u>	<u>\$ 1,761,346</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, 2012

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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, 2012	<u>\$ 3,000,000</u>		<u>\$ 814,671</u>	<u>\$ 3,814,671</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 PRINCIPAL AND INTEREST PAYMENTS
WATER REVENUE REFUNDING BONDS - SERIES 2012
JUNE 30, 2012

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
2013	\$ 80,000	1.00%	\$ 256,951	\$ 336,951
2014	140,000	1.50%	246,531	386,531
2015	140,000	1.50%	244,431	384,431
2016	150,000	2.00%	241,881	391,881
2017	150,000	2.00%	238,881	388,881
2018	150,000	2.00%	235,881	385,881
2019	160,000	2.00%	232,781	392,781
2020	435,000	2.00%	226,831	661,831
2021	450,000	2.25%	217,419	667,419
2022	455,000	2.50%	206,669	661,669
2023	465,000	2.625%	194,878	659,878
2024	480,000	2.75%	182,175	662,175
2025	805,000	3.00%	163,500	968,500
2026	830,000	3.00%	138,975	968,975
2027	855,000	3.50%	111,563	966,563
2028	885,000	3.50%	81,113	966,113
2029	920,000	3.50%	49,525	969,525
2030	955,000	3.50%	16,713	971,713
Balance, June 30, 2012	<u>\$ 8,505,000</u>		<u>\$ 3,286,698</u>	<u>\$ 11,791,698</u>

Dated: April 18, 2012

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 FIXED ASSETS
YEAR ENDED JUNE 30, 2012

Fixed Assets

	<u>Balance</u> <u>June 30, 2011</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Land	\$ 273,620	\$ -	\$ -	\$ 273,620
Office equipment	627,151	41,679	(53,179)	615,651
Vehicles	376,327	19,710	(430)	395,607
Shop equipment	64,514	977	-	65,491
Field equipment	716,534	4,286	(21,831)	698,989
Radio equipment	47,309	-	(319)	46,990
Pumping equipment	46,143	-	-	46,143
Water meters	2,237,259	88,904	(31,950)	2,294,213
Water services	1,375,111	-	-	1,375,111
Water tower	11,297,366	19,616	-	11,316,982
Main line	42,746,938	725,352	-	43,472,290
Water supply facility	33,233	-	(33,233)	-
Structures and parking lots	1,353,941	191,495	-	1,545,436
Easements	319,440	12,450	-	331,890
Contributed water main	32,415,012	160,698	-	32,575,710
	93,929,898	1,265,167	(140,942)	95,054,123
Construction in progress	18,822	899,098	(872,869)	45,051
	<u>\$ 93,948,720</u>	<u>\$ 2,164,265</u>	<u>\$ (1,013,811)</u>	<u>\$ 95,099,174</u>

Accumulated Depreciation

Office equipment	\$ 479,586	\$ 55,482	\$ (53,179)	\$ 481,889
Vehicles	349,204	15,905	(430)	364,679
Shop equipment	61,090	887	-	61,977
Field equipment	527,093	44,582	(21,830)	549,845
Radio equipment	46,342	221	(319)	46,244
Pumping equipment	40,991	2,899	-	43,890
Water meters	1,146,122	81,873	(31,951)	1,196,044
Water services	1,031,640	31,540	-	1,063,180
Water tower	2,583,585	218,319	-	2,801,904
Main line	8,913,909	902,086	-	9,815,995
Water supply facility	33,233	-	(33,233)	-
Structures and parking lots	519,393	67,867	-	587,260
Contributed water main	3,174,148	649,561	-	3,823,709
	<u>\$ 18,906,336</u>	<u>\$ 2,071,222</u>	<u>\$ (140,942)</u>	<u>\$ 20,836,616</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, 2011

Fixed Assets

	<u>Balance</u> <u>June 30, 2010</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Land	\$ 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	31,282,283	1,132,729	-	32,415,012
	<u>91,671,059</u>	<u>2,401,240</u>	<u>(142,401)</u>	<u>93,929,898</u>
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	2,536,366	637,782	-	3,174,148
	<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 WATER SYSTEM RATES
JUNE 30, 2012

<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, 2012 AND 2011**

<u>WATER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2012</u>	<u>2011</u>
Residential customers	25,940	25,550
Commerical customers	2,404	2,364
Industrial customers	46	46
	<u>28,390</u>	<u>27,960</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, 2012 AND 2011**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2012</u>	<u>2011</u>
Residential customers	1,605,464,500	1,433,109,400
Commerical customers	711,533,900	621,448,400
Industrial customers	<u>517,623,700</u>	<u>513,916,800</u>
	<u>2,834,622,100</u>	<u>2,568,474,600</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, 2012 as shown in the table of contents and have issued our report thereon dated August 2, 2012. 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

Management of the Water Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Department's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

Rogers, Arkansas
August 2, 2012