

**Sewer Department
Rogers Water Utilities**

A Component Unit of the City of Rogers, Arkansas
Accountants' Report and Financial Statements

Years Ended June 30, 2009 and 2008



Independent Accountants' Report

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

We have audited the accompanying statement of net assets of the Sewer Department of Rogers Water Utilities, a component unit of the City of Rogers, Arkansas, as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Sewer Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Sewer Department as of and for the year ended June 30, 2008, were audited by other accountants whose report dated August 22, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Sewer Department and do not purport to, and do not, present fairly the financial position of Rogers Water Utilities or of the City of Rogers, Arkansas and the changes in their financial position, or, where applicable, their cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Department as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2009, on our consideration of the Sewer Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the 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.

To the Waterworks and Sewer Commission
Rogers Water Utilities
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The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sewer Department's basic financial statements. The accompanying supplemental information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

September 3, 2009

BKD, LLP

**Sewer Department
Rogers Water Utilities
June 30, 2009 and 2008**

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**Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Management's Discussion and Analysis
June 30, 2009 and 2008**

This management's discussion and analysis of the financial performance of the Rogers Water Utilities, Sewer Department (Sewer Department) provides an overview of the Water Department's financial activities for the years ended June 30, 2009 and 2008. 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 Sewer Department of the Rogers Water Utilities 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

- Total assets grew \$645,265 or 1% over 2008, and \$8,126,472 or 7% over 2007.
- Current assets grew by \$1,094,583, or 11% over 2008 and increased \$2,174,313 or 27% over 2007.
- Current liabilities were decreased \$2,228,235 or 42% over 2008, and increased \$2,849,898 or 112% over 2007.
- Net assets grew by \$5,075,348, or 7% over 2008, and \$7,380,376 or 12% over 2007.
- Operating income decreased by \$991,815 over fiscal year 2008, and increased \$1,028,766 over 2007.
- Total operating expenses grew \$597,664, or 10% over the previous year and \$387,233 or 6% over 2007.
- Income before capital contributions decreased to \$2,967,204 in 2009 and was significantly less than budgeted income of \$3,868,905, due largely to decreases in operating revenues. Income before capital contributions was \$4,189,757 in 2008.

Rogers Sewer Department Fiscal Year 2009 Highlights

- Relocated sewer facilities to aid the City of Rogers in its street improvement program.
- Completed a \$26 million expansion to the Rogers Pollution Control Facility.
- Successfully improved sewer infrastructure to provide for the growth of the City of Rogers.
- Contracted for and completed sewer rehabilitation services in two older sections of Rogers, engineering design provided by in-house engineers.

Using This Annual Report

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

Sewer Department
Rogers Water Utilities
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Financial Highlights

Assets, Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Total current assets	\$ 11,212,163	\$ 10,117,580	\$ 7,943,267
Investments and long-term receivables	3,654,057	14,248,625	25,503,766
Other noncurrent assets	104,593,950	94,448,700	77,241,400
Total Assets	<u>\$ 119,460,170</u>	<u>\$ 118,814,905</u>	<u>\$ 110,688,433</u>
Liabilities			
Total current liabilities	\$ 3,158,353	\$ 5,386,588	\$ 2,536,690
Liabilities payable from restricted assets	595,286	608,424	620,267
Noncurrent liabilities	39,792,356	41,981,066	44,073,025
Total Liabilities	<u>\$ 43,545,995</u>	<u>\$ 47,976,078</u>	<u>\$ 47,229,982</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 62,928,663	\$ 61,654,336	\$ 53,637,187
Restricted	2,773,285	2,624,791	2,433,290
Unrestricted	10,212,227	6,559,700	7,387,974
Total Net Assets	<u>\$ 75,914,175</u>	<u>\$ 70,838,827</u>	<u>\$ 63,458,451</u>
Operating Results and Changes in Net Assets			
Operating Revenues	<u>\$ 10,456,360</u>	<u>\$ 10,850,511</u>	<u>\$ 9,434,512</u>
Operating Expenses			
Depreciation and amortization	2,441,989	2,174,971	2,020,276
Other operating expenses	4,395,997	4,065,351	3,832,813
Total Operating Expenses	<u>6,837,986</u>	<u>6,240,322</u>	<u>5,853,089</u>
Operating Income	<u>3,618,374</u>	<u>4,610,189</u>	<u>3,581,423</u>
Other Revenues (Expenses)			
Interest expenses	(1,022,818)	(1,483,191)	(1,282,369)
Other income	371,648	1,062,759	787,053
Total Other Revenues (Expenses)	<u>(651,170)</u>	<u>(420,432)</u>	<u>(495,316)</u>
Income Before Capital Contributions	2,967,204	4,189,757	3,086,107
Capital Contributions	<u>2,108,144</u>	<u>3,190,619</u>	<u>7,817,041</u>
Change in Net Assets	5,075,348	7,380,376	10,903,148
Net Assets, Beginning of Year	<u>70,838,827</u>	<u>63,458,451</u>	<u>52,555,303</u>
Net Assets, End of Year	<u>\$ 75,914,175</u>	<u>\$ 70,838,827</u>	<u>\$ 63,458,451</u>

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Management's Discussion and Analysis
June 30, 2009 and 2008

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the Sewer Department's investment in capital assets was \$103,737,668 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and contributed property.

Major capital asset events include the following:

- Construction of \$9,964,035 was made to a variety of construction projects including an administration building, and rehabilitation projects for existing sewer mains. In addition, \$2,105,591 of drainage and sewer mains constructed by developers were contributed to the Sewer Department to own and maintain. This is recorded as a capital contribution in the statement of revenues, expenses and changes in net assets. In 2008, the Sewer Department had construction of \$15,719,077 and contributed capital of \$3,188,017 and in 2007, construction of \$2,682,735 and contributed capital of \$7,795,152.
- Capital expenditures for additions and improvements to the Sewer Department's sewer system were \$27,011,994 as compared to \$997,893 in 2008 and \$5,714,513 in 2007.

Additional information regarding capital assets can be found on Note 5 of this report.

Long-term Debt

The Sewer Department had \$41,134,600 in revenue bonds outstanding as of June 30, 2009, which is a decrease of \$1,828,708 from 2008. The decrease is due to payments of scheduled principal. Revenue bonds outstanding as of June 30, 2008 were \$42,963,308, which is a decrease of \$2,226,397 from 2007 which is due to the issuance of revenue refunding bonds Series 2008, totaling \$4,820,000 and principal payments totaling \$7,046,397.

Additional information regarding long-term debt can be found at Note 6 of this report.

Additional Management Comments

By any standard or metric, the Rogers Sewer Department had an off year. The sewer rates created sufficient revenue to operate and maintain the Sewer Department, as well as provide adequate capital for financing and growth. Adequate reserves are on hand for emergencies. A slower than anticipated growth in reserves indicates that the activities of the Sewer Department over the fiscal year have been successful, although much slower than years past. The growth in expenses reflected increased depreciation and

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interest expense related to the wastewater treatment plant expansion for the last quarter of the year after the plant was completed.

Growth in net assets has slowed over the past year, as well as capital contributions. This slow growth is indicative of an overall economic malaise. The cool, wet spring and summer of 2009 had a negative affect on sewer sales, since sewer revenue is directly linked to the amount of water sold. The number and scope of construction plans submitted for review by our engineering staff has diminished significantly. Collections for impact and access fees are down over the previous year. Costs for sludge disposal continue to escalate. Interest rates have decreased significantly resulting in decreases in earnings on Sewer Department reserves. The fiscal year 2010 budget has significant increases in interest expense and depreciation resulting from the completion of the plant expansion, resulting in significantly reduced budgeted net income for fiscal year 2010. These trends, as well as the looming state and federal regulations relating to Illinois River water quality, must be monitored closely, and Sewer Department expenses must be closely controlled. Tighter restrictions on sludge (biosolids) disposal will ultimately lead to energy intensive drying options, further impacting the Sewer Department negatively.

Sewer Department
Rogers Water Utilities
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Statements of Net Assets
June 30, 2009 and 2008

Assets

	2009	2008
Current Assets		
Cash and cash equivalents	\$ 1,476,543	\$ 1,037,757
Investments	8,473,759	7,588,205
Accounts receivable, net of allowance; 2009 - \$172,500, 2008 - \$147,950	1,144,393	1,304,098
Accrued interest receivable	-	26,119
Due from Water Department	-	59,400
Inventories	76,837	71,138
Prepaid expenses and other	40,631	30,863
	<hr/>	<hr/>
Total current assets	11,212,163	10,117,580
	<hr/>	<hr/>
Investments and Long-term Receivables		
Restricted cash and cash equivalents	735,272	644,471
Investments	2,918,702	13,583,418
Accrued interest receivable	83	20,736
	<hr/>	<hr/>
Total restricted cash and investments	3,654,057	14,248,625
	<hr/>	<hr/>
Property and Equipment, At Cost		
Land	1,791,953	1,785,953
Buildings	50,705,184	24,893,534
Machinery and equipment	72,506,361	69,346,928
Furniture and fixtures	643,715	649,313
Construction in progress	808,815	17,308,868
	<hr/>	<hr/>
	126,456,028	113,984,596
Less accumulated depreciation and amortization	22,718,360	20,469,759
	<hr/>	<hr/>
Total capital assets	103,737,668	93,514,837
	<hr/>	<hr/>
Other Assets		
Other assets	856,282	933,863
	<hr/>	<hr/>
Total assets	\$ 119,460,170	\$ 118,814,905
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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Residential sewer	\$ 5,772,594	\$ 5,400,879
Commercial sewer	1,673,584	1,609,690
Industrial sewer	1,995,304	2,015,275
Penalties	146,861	123,387
Access / impact / new customer fees	772,120	1,596,230
Other operating revenue	<u>95,897</u>	<u>105,050</u>
Total operating revenues	<u>10,456,360</u>	<u>10,850,511</u>
Operating Expenses		
Pollution control facility and field expense	3,156,155	2,810,866
General and administrative	1,239,842	1,254,485
Depreciation and amortization	<u>2,441,989</u>	<u>2,174,971</u>
Total operating expenses	<u>6,837,986</u>	<u>6,240,322</u>
Operating Income	<u>3,618,374</u>	<u>4,610,189</u>
Other Revenue (Expense)		
Interest income	365,583	1,061,972
Gain on disposal of capital assets	13,065	4,787
Interest expense	(1,022,818)	(1,483,191)
Trust fees	<u>(7,000)</u>	<u>(4,000)</u>
Total other revenue (expense)	<u>(651,170)</u>	<u>(420,432)</u>
Income Before Capital Contributions	2,967,204	4,189,757
Capital Contributions	<u>2,108,144</u>	<u>3,190,619</u>
Change in Net Assets	5,075,348	7,380,376
Net Assets, Beginning of Year	<u>70,838,827</u>	<u>63,458,451</u>
Net Assets, End of Year	<u>\$ 75,914,175</u>	<u>\$ 70,838,827</u>

Sewer Department
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Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Cash received from customers	\$ 9,601,187	\$ 8,793,031
Cash received from access / impact / and new customer fees	772,120	1,596,230
Cash received from other charges	475,361	228,437
Payments for salaries and benefits	(2,061,463)	(2,002,715)
Payments to suppliers for goods and services	<u>(2,337,880)</u>	<u>(1,930,055)</u>
Net cash provided by operating activities	<u>6,449,325</u>	<u>6,684,928</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(13,265,720)	(13,207,859)
Cash received from sale of capital assets	13,065	4,952
Proceeds from bond issuance, net	-	4,743,801
Principal payments on bonds	(1,828,709)	(7,046,397)
Interest and paying agent fees, net of capitalized interest	<u>(1,035,956)</u>	<u>(1,499,034)</u>
Net cash used in capital and related financing activities	<u>(16,117,320)</u>	<u>(17,004,537)</u>
Cash Flows From Investing Activities		
Investment income	418,420	1,125,232
Increase in investments	(885,554)	(2,362,811)
Decrease in restricted investments	<u>10,664,716</u>	<u>11,120,240</u>
Net cash provided by investing activities	<u>10,197,582</u>	<u>9,882,661</u>
Increase (Decrease) in Cash and Cash Equivalents	529,587	(436,948)
Cash and Cash Equivalents, Beginning of Year	<u>1,682,228</u>	<u>2,119,176</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,211,815</u>	<u>\$ 1,682,228</u>
Presented on the Statement of Net Assets		
Current assets - cash and cash equivalents	\$ 1,476,543	\$ 1,037,757
Noncurrent assets - restricted cash and cash equivalents	<u>735,272</u>	<u>644,471</u>
	<u>\$ 2,211,815</u>	<u>\$ 1,682,228</u>

See Notes to Financial Statements

	2009	2008
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 3,618,374	\$ 4,610,189
Adjustments		
Depreciation and amortization	2,441,989	2,174,971
Changes in		
Accounts receivable	159,705	(171,510)
Inventories	(5,699)	(7,617)
Prepays	(9,768)	2,318
Other assets	59,400	-
Accounts payable	65,272	51,106
Accrued liabilities	(53,151)	25,471
Other liabilities	173,203	-
	<u>6,449,325</u>	<u>6,684,928</u>
Net Cash Provided by Operating Activities	\$ 6,449,325	\$ 6,684,928
 Non-Cash Transactions		
Contributed capital	\$ 2,108,144	\$ 3,190,619

Sewer Department
Rogers Water Utilities
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Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies

Nature of Business

The City of Rogers, Arkansas operates under a Mayor – Council form of government. Rogers Water Utilities (the Utility) 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 Utility operates through two separate departments – the Water Department and the Sewer Department. The Sewer Department provides sewer services to the City of Rogers and certain surrounding areas. The City Council approves the rates changes of the Utility. The debt of the Utility is maintained in the name of the City of Rogers, Arkansas.

Basis of Accounting

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

The Sewer Department prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Department has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Sewer Department considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted of certificates of deposit.

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Customer Accounts Receivable

Customer accounts receivable are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of past due accounts. The allowance for uncollectible accounts at June 30, 2009 and 2008, was \$172,500 and \$147,950, respectively.

Inventory

Inventory, which consists of construction and maintenance supplies related to the sewer system, is valued at the lower of cost or market value. Cost is determined on the first-in, first-out (FIFO) basis.

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. Governmental securities are recorded at fair market value based on quoted market prices; income related to investments is recorded when earned.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Assets	Years
Structures	5 – 40
Mains	50
Control facility	50
Sewer service lines	33
Meters	25
Shop equipment and machinery	3 – 10
Transportation equipment	3 – 10
Two-way radio system	5 – 15
Field equipment	1 – 20
Office equipment	3 – 10

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Contributed Capital

The Sewer Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contribution in the statement 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 sewer lines and related system infrastructure. At June 30, 2009 and 2008, cumulative contributed capital amounted to \$28,918,493 and \$26,812,902, respectively.

Net Assets Classifications

Net assets is 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 the use either by external groups such as creditors, grantors, contributors or laws or 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.”

Compensated Absences

The Sewer Department’s policies permit employees to earn time off benefits. Expense and the related liability are recognized as time off benefits and are 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 balance sheet date.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the change in net assets.

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Note 2: Deposits and Investments

Deposits

The financial institutions holding the Sewer Department's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At June 30, 2009, the Sewer Department's interest-bearing cash accounts were within federally insured limits.

State law requires collateralization of all deposits with federal insurance and other acceptable collateral in specific amounts.

Investments

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

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

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Sewer Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside part. As of June 30, 2009 and 2008 the Utility was fully collateralized.

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Notes to Financial Statements
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At June 30, 2009, Sewer Department investments consisted of the following:

	Fair Value	Maturities in Years			
		Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of Deposit	\$ 9,785,765	\$ 9,785,765	\$ -	\$ -	\$ -
U.S. Treasury Obligations	1,606,696	1,606,696	-	-	-
	<u>\$ 11,392,461</u>	<u>\$ 11,392,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At June 30, 2008, Sewer Department investments consisted of the following:

	Fair Value	Maturities in Years			
		Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of Deposit	\$ 8,858,980	\$ 8,858,980	\$ -	\$ -	\$ -
U.S. Treasury Obligations	12,312,643	12,312,643	-	-	-
	<u>\$ 21,171,623</u>	<u>\$ 21,171,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	2009	2008
Current Assets		
Investments	\$ 8,473,759	\$ 7,588,205
Noncurrent Assets		
Investments	<u>2,918,702</u>	<u>13,583,418</u>
	<u>\$ 11,392,461</u>	<u>\$ 21,171,623</u>

**Sewer Department
Rogers Water Utilities
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Notes to Financial Statements
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Note 3: Due To / From Water Department

The Sewer Department and Water Department of the City of Rogers, Arkansas constitutes the Rogers Water Utilities. Rogers Water Utilities sends a monthly billing statement containing both water and sewer fees to each customer. All moneys are received by the Water Department, which then transfers sewer collections to the Sewer Department. These transactions give rise to receivables / payables between departments. At June 30, 2009 and 2008, amounts due from the Water Department to the Sewer Department were \$0 and \$59,400, respectively. At June 30, 2009 and 2008, amounts due to the Water Department from the Sewer Department were \$173,203 and \$0, respectively.

Note 4: Restricted Assets

Restricted assets are held for specific purposes as follows:

	<u>2009</u>	<u>2008</u>
Construction	\$ 285,486	\$ 11,015,410
Debt service reserve	1,917,057	1,672,119
Depreciation reserve for additional replacements to the sewer system	1,450,981	1,320,974
New customer fees collected for additions of property and equipment	450	219,386
Accrued interest	<u>83</u>	<u>20,736</u>
	<u>\$ 3,654,057</u>	<u>\$ 14,248,625</u>

Sewer Department
Rogers Water Utilities
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Notes to Financial Statements
June 30, 2009 and 2008

Note 5: Capital Assets

A summary of the changes in capital assets for the years ended June 30, 2009 and 2008, consisted of the following:

	Balance June 30, 2008	Transfers / Additions	Transfers / Disposals	Balance June 30, 2009
Land	\$ 1,785,953	\$ 6,000	\$ -	\$ 1,791,953
Buildings	24,893,534	25,818,173	(6,523)	50,705,184
Equipment	42,122,004	1,136,686	(76,007)	43,182,683
Vehicles	1,061,335	51,135	(63,570)	1,048,900
Contributed property	26,812,902	2,105,591	-	28,918,493
Construction in progress	17,308,868	9,964,035	(26,464,088)	808,815
	<u>113,984,596</u>	<u>39,081,620</u>	<u>(26,610,188)</u>	<u>126,456,028</u>
Less: accumulated depreciation	<u>20,469,759</u>	<u>2,394,701</u>	<u>146,100</u>	<u>22,718,360</u>
	<u>\$ 93,514,837</u>	<u>\$ 36,686,919</u>	<u>\$ (26,464,088)</u>	<u>\$ 103,737,668</u>

	Balance June 30, 2007	Transfers / Additions	Transfers / Disposals	Balance June 30, 2008
Land	\$ 1,785,953	\$ -	\$ -	\$ 1,785,953
Buildings	24,755,530	140,393	(2,389)	24,893,534
Equipment	41,353,738	807,798	(39,532)	42,122,004
Vehicles	1,052,741	49,702	(41,108)	1,061,335
Contributed property	23,624,885	3,188,017	-	26,812,902
Construction in progress	2,170,293	15,719,077	(580,502)	17,308,868
	<u>94,743,140</u>	<u>19,904,987</u>	<u>(663,531)</u>	<u>113,984,596</u>
Less: accumulated depreciation	<u>18,418,803</u>	<u>2,133,820</u>	<u>82,864</u>	<u>20,469,759</u>
	<u>\$ 76,324,337</u>	<u>\$ 17,771,167</u>	<u>\$ (580,667)</u>	<u>\$ 93,514,837</u>

**Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Notes to Financial Statements
June 30, 2009 and 2008**

Note 6: Long-term Liabilities

Changes in long-term liabilities for the years ended June 30, 2009 and 2008, consisted of the following:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year	Amounts Due Greater Than One Year
Revenue bonds	\$ 42,963,308	\$ -	\$ (1,828,708)	\$ 41,134,600	\$ 2,158,417	\$ 38,976,183
Add premiums	846,466	-	(30,293)	816,173	-	816,173
Bonds payable, net	<u>\$ 43,809,774</u>	<u>\$ -</u>	<u>\$ (1,859,001)</u>	<u>\$ 41,950,773</u>	<u>\$ 2,158,417</u>	<u>\$ 39,792,356</u>

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year	Amounts Due Greater Than One Year
Revenue bonds	\$ 45,189,705	\$ 4,820,000	\$ (7,046,397)	\$ 42,963,308	\$ 1,828,708	\$ 41,134,600
Add premiums	864,717	11,156	(29,407)	846,466	-	846,466
Bonds payable, net	<u>\$ 46,054,422</u>	<u>\$ 4,831,156</u>	<u>\$ (7,075,804)</u>	<u>\$ 43,809,774</u>	<u>\$ 1,828,708</u>	<u>\$ 41,981,066</u>

Series 1991 Revenue Refunding Bonds

In July 1991, the Sewer Department issued \$5,180,000 in Revenue Refunding Bonds (Series 1991) at an interest rate of 4.0% to advance refund a portion (\$4,165,000) of the 1986 Series bonds. Proceeds from this refunding were placed in an irrevocable trust to provide for all future debt service on this portion of the 1986 Series bonds. The bond matures in 2011 with principal and interest payments due in October and April of each year. As of June 30, 2009 and 2008 the outstanding principal is \$721,027 and \$1,060,680, respectively.

Sewer Department
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June 30, 2009 and 2008

Series 1995 Revenue Bonds

In August 1995, the Sewer Department issued \$13,000,000 in Revenue Improvement Bonds (Series 1995) at an average rate of 3.0% to provide for the costs of constructing extensions, betterments, and improvements to the sewer system. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2009 and 2008 the outstanding principal is \$6,791,846 and \$7,450,788 respectively.

Series 1996 Revenue Bonds

In April 1996, the Sewer Department issued \$13,600,000 in Revenue Improvement Bonds (Series 1996) at an average rate of 2.5% to finance the planning, design and construction of wastewater treatment facilities. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2009 and 2008 the outstanding principal is \$6,941,727 and \$7,631,840 respectively.

Series 2007 Revenue Bonds

In February 2007, the Sewer Department issued \$22,000,000 in Revenue Improvement Bonds (Series 2007) at an average rate of 4.6% to finance general improvements to the sewer system and related infrastructure. The bond matures in 2037 with principal payments due in February and interest payments due in February and August of each year. As of June 30, 2009 and 2008 the outstanding principal is \$22,000,000 and \$22,000,000 respectively.

Series 2008 Revenue Refunding Bonds

In May 2008, the Sewer Department issued \$4,820,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Sewer Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$189,430. The bond matures in fiscal year 2019 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2009 and 2008 the outstanding principal is \$4,680,000 and \$4,820,000 respectively.

System revenues and all assets are pledged to the bonds outstanding.

The Sewer Department is required to establish rates sufficient to pay the expenses of operation and maintenance of the water system, make 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 Sewer Department was in compliance with all debt covenants for the years ended June 30, 2009.

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

Year Ending June 30	Principal	Interest	Total
2010	\$ 2,158,417	\$ 1,713,930	\$ 3,872,347
2011	2,240,617	1,634,355	3,874,972
2012	2,392,896	1,555,533	3,948,429
2013	2,474,914	1,467,316	3,942,230
2014	2,569,098	1,375,956	3,945,054
2015-2019	11,463,658	5,406,493	16,870,151
2020-2024	3,530,000	4,055,724	7,585,724
2025-2029	4,470,000	3,113,655	7,583,655
2030-2034	5,705,000	1,885,374	7,590,374
2035-2037	<u>4,130,000</u>	<u>419,754</u>	<u>4,549,754</u>
	<u>\$ 41,134,600</u>	<u>\$ 22,628,090</u>	<u>\$ 63,762,690</u>

Total interest expense for the years ended June 30, 2009 and 2008 were \$1,022,818 and \$1,483,191. An additional \$740,151 and \$401,204 in interest was capitalized for the years ended June 30, 2009 and 2008, respectively.

Note 7: Public Employees Retirement System (A Defined Benefit Plan)

Plan Description

The Sewer Department is a participant in the Arkansas Public Employees Retirement System (APERS), a statewide cost-sharing multiple-employer retirement system established by the authority of the Arkansas General Assembly. 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 the number of years of service determine the normal retirement benefit which is paid on a monthly basis.

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June 30, 2009 and 2008

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.

APERS issues a report which includes financial statements and all required supplementary information. The report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-3777.

Funding Policy

The plan, which applies to all persons hired after December 31, 1997, originally did not allow employee contributions. However, Arkansas Act 2084 of 2005 requires that new members of APERS, those becoming members on or after July 1, 2005, contribute 5% of their earnings to the retirement system. The Act also provided an opportunity for those non-contributory members of the System to elect to be contributory provided they did so by December 31, 2005. The Sewer Department is required to contribute amounts necessary to provide benefits to its employees as provided by state law.

Contributions Required and Contributions Made

For 2009 and 2008, the Sewer Department was required by state law to contribute 11.01% in 2009 and 12.54% in 2008 of the gross salaries of the employees participating in the System. Sewer Department contributions for the years ended June 30, 2009, 2008 and 2007 were \$181,859, \$199,530 and \$196,816, respectively. Employee contributions for the years ended June 30, 2009 and 2008 were \$19,236 and \$14,910, respectively.

Note 8: Flexible Benefit Plan

The City offers all active full-time employees and elected city officials who receive a federal W-2 form the option to participate in a flexible benefit plan administered by the Rogers Water Utilities. This plan was established as a cafeteria plan under Section 125 of the Internal Revenue Code of 1954, as amended, to provide for group medical and dental assistance for its eligible employees and dependents. The plan is funded solely by salary reductions as elected on a voluntary basis by participants. Sewer Department employee contributions for the years ended June 30, 2009 and 2008 were \$33,960 and \$34,402, respectively.

Sewer Department
Rogers Water Utilities
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Notes to Financial Statements
June 30, 2009 and 2008

Note 9: Deferred Compensation Plan

The Rogers Water Utilities offers as a benefit to its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan, which is available to all employees, permits them 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.

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, 2009 and 2008 was \$34,173 and \$51,281, respectively.

At June 30, 2009 and 2008, there were fifteen and fourteen employees participating in the plan.

Note 10: Risk Management

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

Note 11: Related Parties

The Sewer Department maintains deposits with banks whose officers serve on the Commission of the Rogers Water Utilities. At June 30, 2009 and 2008, these deposits amounted to \$5,191,050 and \$4,733,719 respectively.

Sewer Department
Rogers Water Utilities
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Notes to Financial Statements
June 30, 2009 and 2008

Note 12: Significant Estimated and Concentrations

Current Economic Conditions

The current economic environment presents governmental entities with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Sewer Department.

Current economic conditions and financial market conditions could adversely affect the Sewer Department's results of operations in future periods. The current instability in the financial markets may make it difficult for certain Sewer Department customers to honor their sewer bills, which may significantly impact the volume of future revenues which could have an adverse impact on the Sewer Department's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively affect the Sewer Department's ability to meet debt covenants or maintain sufficient liquidity.

Litigation

In April 2008, a lawsuit was filed against the Utilities in Benton County Circuit Court claiming violations of law including illegal exaction of development impact fees and access fees. The Plaintiffs contend that these fees violate various provisions of Arkansas law and are therefore illegal exactions. Management of the Utilities has and will continue to vigorously defend this action.

Significant Commitments

The Sewer Department is committed to several construction and supply contracts totaling \$464,712 as of June 30, 2009. These commitments arose in the normal course of business and are for maintenance, expansion, and office furniture for the newly constructed administration building. All commitments are expected to be paid in full within one year.

Note 13: Contingent Liabilities

The Utility is subject to various administrative orders issued by the Environmental Protection Agency (EPA) in regards to the Utilities sanitary sewer system. A recent proposed order requires a reduction of phosphorous levels by 90% for all wastewater treatment plants which flow into the Illinois River, which included the Utilities' wastewater treatment plant. The Arkansas Department

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of Environmental Quality has questioned the proposed regulation. The requirements of any final order, if so issued, and the costs of complying with any such order cannot be determined at this time.

Supplemental Information

**Sewer Department
Rogers Water Utilities**
A Component Unit of the City of Rogers, Arkansas
Schedule of Operating Expenses
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Pollution Control Facility and Field Expenses		
Salaries	\$ 1,083,305	\$ 1,075,347
Payroll taxes	80,691	78,299
Employee benefits	309,254	321,468
Insurance	43,015	34,661
Repairs and maintenance	227,579	135,584
Utilities	299,250	304,384
Supplies and postage	136,842	215,464
Sludge disposal costs	759,458	376,423
Other	216,761	269,236
	<u>3,156,155</u>	<u>2,810,866</u>
General and Administrative		
Salaries	323,315	351,593
Salaries - commissioners	2,097	2,122
Payroll taxes	50,677	45,762
Employee benefits	158,973	153,595
Office supplies and postage	83,538	86,902
Professional fees	46,747	43,547
Consulting services - stream assessment	112,000	123,629
Insurance	2,468	2,413
Utilities	16,712	14,243
Bad debts	54,912	42,999
Franchise taxes / use taxes	315,133	297,269
Other	73,270	90,411
	<u>1,239,842</u>	<u>1,254,485</u>
Depreciation and Amortization	<u>2,441,989</u>	<u>2,174,971</u>
Total operating expenses	<u>\$ 6,837,986</u>	<u>\$ 6,240,322</u>

**Sewer Department
Rogers Water Utilities**
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Sewer Revenue Refunding Bonds – Series 1991
June 30, 2009 and 2008

Year	Principal Payments		Interest Payments		Total
	October 15,	April 15,	October 15,	April 15,	
2010	\$ 174,938	\$ 178,437	\$ 14,421	\$ 10,922	\$ 378,718
2011	182,006	185,646	7,353	3,712	378,717
	<u>\$ 356,944</u>	<u>\$ 364,083</u>	<u>\$ 21,774</u>	<u>\$ 14,634</u>	<u>\$ 757,435</u>
Balance June 30, 2009		<u>\$ 721,027</u>			

Dated: July 8, 1991

Payment Dates: October 15 and April 15

Interest Rate: 4.0%

Payable to: Arkansas Development Finance Authority

**Sewer Department
Rogers Water Utilities**
A Component Unit of the City of Rogers, Arkansas
Sewer Revenue Bonds – Series 1995
June 30, 2009 and 2008

Year	Principal Payments		Interest and Service Payments		Total
	October 15,	April 15,	October 15,	April 15,	
2010	\$ 339,388	\$ 346,176	\$ 135,837	\$ 129,049	\$ 950,450
2011	353,100	360,161	122,125	115,064	950,450
2012	367,365	374,712	107,860	100,513	950,450
2013	382,206	389,850	93,019	85,375	950,450
2014	397,648	405,600	77,577	69,625	950,450
2015	413,712	421,986	61,513	53,239	950,450
2016	430,426	439,034	44,799	36,191	950,450
2017	447,816	456,772	27,409	18,453	950,450
2018	465,894	-	9,316	-	475,210
	<u>\$ 3,597,555</u>	<u>\$ 3,194,291</u>	<u>\$ 679,455</u>	<u>\$ 607,509</u>	<u>\$ 8,078,810</u>

Balance June 30, 2009 \$ 6,791,846

Dated: August 9, 1995

Payment Dates: October 15 and April 15

Interest Rate: 3.0%

Payable to: Arkansas Development Finance Authority

**Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Sewer Revenue Bonds – Series 1996
June 30, 2009 and 2008**

Year	Principal Payments		Interest and Service Payments		Total
	October 15,	April 15,	October 15,	April 15,	
2010	\$ 354,140	\$ 360,338	\$ 121,480	\$ 115,282	\$ 951,240
2011	366,644	373,060	108,977	102,560	951,241
2012	379,588	386,231	96,032	89,389	951,240
2013	392,990	399,868	82,630	75,753	951,241
2014	406,865	413,985	68,755	61,635	951,240
2015	421,230	428,602	54,390	47,019	951,241
2016	436,102	443,735	39,518	31,886	951,241
2017	451,499	459,400	24,121	16,220	951,240
2018	467,450	-	8,179	-	475,629
	<u>\$ 3,676,508</u>	<u>\$ 3,265,219</u>	<u>\$ 604,082</u>	<u>\$ 539,744</u>	<u>\$ 8,085,553</u>

Balance June 30, 2009 \$ 6,941,727

Dated: April 3, 1996

Payment Dates: October 15 and April 15

Interest Rate: 2.5%

Payable to: Arkansas Development Finance Authority

**Sewer Department
Rogers Water Utilities**
A Component Unit of the City of Rogers, Arkansas
Sewer Revenue Improvement Bonds – Series 2007
June 30, 2009 and 2008

Year	Principal	Interest Rate	Interest	Total
2010	\$ -	\$ -	\$ 1,043,881	\$ 1,043,881
2011	-	-	1,043,881	1,043,881
2012	450,000	4.000%	1,043,881	1,493,881
2013	465,000	4.000%	1,025,881	1,490,881
2014	485,000	4.375%	1,007,281	1,492,281
2015	500,000	4.000%	966,063	1,466,063
2016	500,000	4.375%	986,063	1,486,063
2017	550,000	4.375%	944,188	1,494,188
2018	595,000	4.000%	920,125	1,515,125
2019	620,000	4.250%	896,325	1,516,325
2020	645,000	4.250%	869,975	1,514,975
2021	675,000	4.250%	842,562	1,517,562
2022	705,000	4.375%	813,875	1,518,875
2023	735,000	5.000%	783,031	1,518,031
2024	770,000	5.000%	746,281	1,516,281
2025	810,000	5.000%	707,781	1,517,781
2026	850,000	5.000%	667,281	1,517,281
2027	890,000	5.000%	624,781	1,514,781
2028	935,000	5.000%	580,281	1,515,281
2029	985,000	5.000%	533,531	1,518,531
2030	1,035,000	5.000%	484,281	1,519,281
2031	1,085,000	5.000%	432,531	1,517,531
2032	1,140,000	5.000%	378,281	1,518,281
2033	1,195,000	4.375%	321,281	1,516,281
2034	1,250,000	5.000%	269,000	1,519,000
2035	1,310,000	5.000%	206,500	1,516,500
2036	1,375,000	5.000%	141,000	1,516,000
2037	<u>1,445,000</u>	5.000%	<u>72,254</u>	<u>1,517,254</u>
Balance June 30, 2009	<u>\$ 22,000,000</u>		<u>\$ 19,352,076</u>	<u>\$ 41,352,076</u>

Dated: February 1, 2007

Payment Dates: February 1

Interest Payment Dates: February 1 and August 1

Payable to: Regions Bank, Little Rock, Arkansas

**Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Sewer Revenue Refunding Bonds – Series 2008
June 30, 2009 and 2008**

Year	Principal	Interest Rate	Interest	Total
2010	\$ 405,000	3.000%	\$ 143,058	\$ 548,058
2011	420,000	3.000%	130,683	550,683
2012	435,000	3.000%	117,858	552,858
2013	445,000	3.000%	104,658	549,658
2014	460,000	3.000%	91,083	551,083
2015	470,000	3.100%	76,898	546,898
2016	485,000	3.250%	61,731	546,731
2017	505,000	3.350%	45,391	550,391
2018	520,000	3.450%	27,963	547,963
2019	<u>535,000</u>	3.550%	<u>9,493</u>	<u>544,493</u>
Balance June 30, 2009	<u>\$ 4,680,000</u>		<u>\$ 808,816</u>	<u>\$ 5,488,816</u>

Dated: May 1, 2008

Payment Dates: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank, Little Rock, Arkansas

Sewer Department Rogers Water Utilities

A Component Unit of the City of Rogers, Arkansas
Property, Plant, Equipment and Accumulated Depreciation
June 30, 2009 and 2008

Fixed Assets

Description	Balance June 30, 2008	Transfers / Additions	Transfers / Disposals	Balance June 30, 2009
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office Equipment	649,313	69,099	(74,697)	643,715
Vehicles	1,061,335	51,135	(63,570)	1,048,900
Shop Equipment	92,059	2,276	(1,310)	93,025
Field Equipment	1,333,502	173,536	-	1,507,038
Radio Equipment	62,380	201	-	62,581
Water Meters	1,122,800	48,978	-	1,171,778
Laboratory Equipment	38,627	-	-	38,627
Sewer System	38,823,323	842,596	-	39,665,919
Pollution Control Facility	24,381,868	25,803,790	(6,523)	50,179,135
Structures and Parking Lots	511,666	14,383	-	526,049
Easements	1,122,699	6,000	-	1,128,699
Contributed Sewer System	26,812,902	2,105,591	-	28,918,493
	96,675,728	29,117,585	(146,100)	125,647,213
Construction in Progress	17,308,868	9,964,035	(26,464,088)	808,815
	<u>\$ 113,984,596</u>	<u>\$ 39,081,620</u>	<u>\$ (26,610,188)</u>	<u>\$ 126,456,028</u>

Accumulated Depreciation

Description	Balance June 30, 2008	Transfers / Additions	Transfers / Disposals	Balance June 30, 2009
Office Equipment	\$ 514,610	\$ 66,114	\$ (74,697)	\$ 506,027
Vehicles	784,241	62,133	(63,570)	782,804
Shop Equipment	88,914	1,180	(1,310)	88,784
Field Equipment	1,096,025	78,107	-	1,174,132
Radio Equipment	59,635	2,292	-	61,927
Water Meters	360,280	46,055	-	406,335
Laboratory Equipment	38,627	-	-	38,627
Sewer System	7,707,186	763,501	-	8,470,687
Pollution Control Facility	8,135,874	795,453	(6,523)	8,924,804
Structures and Parking Lots	391,117	22,027	-	413,144
Contributed Sewer System	1,293,250	557,839	-	1,851,089
	<u>\$ 20,469,759</u>	<u>\$ 2,394,701</u>	<u>\$ (146,100)</u>	<u>\$ 22,718,360</u>

Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Property, Plant, Equipment and Accumulated Depreciation
June 30, 2009 and 2008

Fixed Assets

Description	Balance June 30, 2007	Transfers / Additions	Transfers / Disposals	Balance June 30, 2008
Land	\$ 663,254	\$ -	\$ -	\$ 663,254
Office Equipment	633,414	37,643	(21,744)	649,313
Vehicles	1,052,741	49,702	(41,108)	1,061,335
Shop Equipment	91,588	471	-	92,059
Field Equipment	1,287,475	63,815	(17,788)	1,333,502
Radio Equipment	62,380	-	-	62,380
Water Meters	1,091,793	31,007	-	1,122,800
Laboratory Equipment	38,627	-	-	38,627
Sewer System	38,148,461	674,862	-	38,823,323
Pollution Control Facility	24,256,476	127,781	(2,389)	24,381,868
Structures and Parking Lots	499,054	12,612	-	511,666
Easements	1,122,699	-	-	1,122,699
Contributed Sewer System	23,624,885	3,188,017	-	26,812,902
	92,572,847	4,185,910	(83,029)	96,675,728
Construction in Progress	2,170,293	15,719,077	(580,502)	17,308,868
	<u>\$ 94,743,140</u>	<u>\$ 19,904,987</u>	<u>\$ (663,531)</u>	<u>\$ 113,984,596</u>

Accumulated Depreciation

Description	Balance June 30, 2007	Transfers / Additions	Transfers / Disposals	Balance June 30, 2008
Office Equipment	\$ 468,307	\$ 68,047	\$ (21,744)	\$ 514,610
Vehicles	756,666	68,683	(41,108)	784,241
Shop Equipment	88,091	823	-	88,914
Field Equipment	1,041,278	72,535	(17,788)	1,096,025
Radio Equipment	54,252	5,383	-	59,635
Water Meters	315,885	44,395	-	360,280
Laboratory Equipment	38,627	-	-	38,627
Sewer System	6,945,023	762,163	-	7,707,186
Pollution Control Facility	7,563,060	575,038	(2,224)	8,135,874
Structures and Parking Lots	369,507	21,610	-	391,117
Contributed Sewer System	778,107	515,143	-	1,293,250
	<u>\$ 18,418,803</u>	<u>\$ 2,133,820</u>	<u>\$ (82,864)</u>	<u>\$ 20,469,759</u>

**Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Schedule of Sewer System Rates
Years Ended June 30, 2009 and 2008**

Monthly Sewer Rates for Customers	Inside City	Outside City	Lowell, Arkansas
Flat rate of	\$ 11.10	\$ 14.50	\$ 13.32
In addition to (up to 100,000)	\$ 3.86 / thousand	\$ 5.03 / thousand	\$ 4.63 / thousand
All over 100,000	\$ 3.81 / thousand	\$ 5.03 / thousand	\$ 4.57 / thousand

**Sewer Department
Rogers Water Utilities**
A Component Unit of the City of Rogers, Arkansas
Schedule of Sewer Customers
Years Ended June 30, 2009 and 2008

Sewer Customer Classifications	2009	2008
Residential customers	17,757	17,685
Commercial customers	1,557	1,560
Industrial customers	<u>38</u>	<u>37</u>
Total	<u><u>19,352</u></u>	<u><u>19,282</u></u>

Sewer Department
Rogers Water Utilities
A Component Unit of the City of Rogers, Arkansas
Schedule of Billable Gallons
Years Ended June 30, 2009 and 2008

Billable Gallons Classifications	2009	2008
Residential customers	871,792,600	873,377,400
Commercial customers	380,593,200	397,999,700
Industrial customers	<u>529,674,500</u>	<u>553,954,200</u>
Total	<u><u>1,782,060,300</u></u>	<u><u>1,825,331,300</u></u>

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited the basic financial statements of the Sewer Department of the Rogers Water Utilities a component Unit of the City of Rogers, Arkansas as of and for the year ended June 30, 2009, and have issued our report September 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Sewer Department's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Sewer Department's financial statements that is more than inconsequential will not be prevented or detected by the Sewer Department's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Sewer Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

To the Waterworks and Sewer Commission
Rogers Water Utilities
Page 2

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, Waterworks and Sewer Commission, and others within the Sewer Department and is not intended and should not be used by anyone other than these specified parties.

September 3, 2009

BKD, LLP