

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE  
CITY OF ROGERS, ARKANSAS  
FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
JUNE 30, 2010 AND 2009  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** ("the Sewer Department"), a component unit of the City of Rogers, Arkansas, as of and for the year ended June 30, 2010 as shown in the table of contents. These financial statements are the responsibility of the City of Rogers, Arkansas Water Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Sewer Department as of and for the year ended June 30, 2009 were audited by other auditors whose report dated September 3, 2009 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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Rogers Water Utilities Sewer Department** as of June 30, 2010 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 15, 2010 on our consideration of the Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the **Rogers Water Utilities Sewer Department's** basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended June 30, 2010 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Rogers, Arkansas  
September 15, 2010

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

This management's discussion and analysis of the financial performance of the Rogers Water Utilities, Sewer Department ("the Sewer Department") provides an overview of the Sewer Department's financial activities for the years ended June 30, 2010 and 2009. Rogers Water Utilities is a component unit of the City of Rogers, Arkansas and is overseen by the Rogers Waterworks and Sewer Commission, an autonomous board of directors, created by the Rogers City Council. The Rogers Sewer Department is rate-funded, receiving no general tax revenue. The information presented should be read in conjunction with the basic financial statements and accompanying notes to the financial statements.

**Financial Highlights Discussion**

- The Sewer Department's net assets increased by approximately \$1,676,000 or 2% over fiscal year 2009 and approximately \$5,075,000 or 7% over 2008.
- The Sewer Department's operating revenues decreased by approximately \$48,000 or .5% in 2010 and decreased approximately \$394,000 or 4% in 2009.
- Operating expenses increased by approximately \$663,000 or 10% over 2009 and increased approximately \$628,000 or 10% over 2008.
- Income before capital contributions of approximately \$1,409,000 (including lawsuit expense of approximately \$565,000) was incurred in 2010 and approximately \$2,967,000 in 2009.

**Rogers Sewer Department Fiscal Year 2010 Highlights**

- Reached final agreement on the settlement of the illegal exaction lawsuit filed against Rogers Water Utilities and the City of Rogers. The total potential liability was reduced from \$10 million to \$.7 million. The Court approved the settlement in September 2010.
- Cooperated with the City of Rogers on emergency sewer replacements in the Poplar Street area.
- Moved into new administration building, which provided better employee working conditions, better customer service, and employee safety. A Commission room was dedicated for Commission meetings.
- Conducted a reduction in force as a cost cutting measure, and significantly reduced personnel. The overall reduction was 12%.

**ROGERS WATER UTILITIES  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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- Revised Sewer Department Capital Improvement Plan to include \$1,000,000 per year for ten years to perform necessary sewer rehab.
- Performed in house engineering for proposed purchase of a \$3,000,000 sludge dryer in Fiscal Year 2011.

**Rogers 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 with engineering design provided by in-house engineer.

**Using This Annual Report**

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

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

**Financial Highlights**

**Assets, Liabilities and Net Assets**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Assets</b>			
Total current assets	\$ 12,616,053	\$ 11,212,163	\$ 10,117,580
Restricted cash and investments	3,146,887	3,654,057	14,248,625
Other noncurrent assets	103,386,366	104,593,950	94,448,700
Total assets	<u>\$ 119,149,306</u>	<u>\$ 119,460,170</u>	<u>\$ 118,814,905</u>
<b>Liabilities</b>			
Total current liabilities	\$ 3,460,535	\$ 3,158,353	\$ 5,386,588
Liabilities payable from restricted assets	577,003	595,286	608,424
Noncurrent liabilities	37,521,449	39,792,356	41,981,066
Total liabilities	<u>\$ 41,558,987</u>	<u>\$ 43,545,995</u>	<u>\$ 47,976,078</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 62,761,880	\$ 61,786,895	\$ 61,654,336
Restricted	2,569,878	3,058,688	2,624,791
Unrestricted	12,258,561	11,068,592	6,559,700
Total net assets	<u>\$ 77,590,319</u>	<u>\$ 75,914,175</u>	<u>\$ 70,838,827</u>
<b>Operating Results and Changes in Net Assets</b>			
Operating revenues	<u>\$ 10,408,551</u>	<u>\$ 10,456,360</u>	<u>\$ 10,850,511</u>
<b>Operating expenses</b>			
Depreciation and amortization	3,148,885	2,472,281	2,174,971
Other operating expenses	4,381,965	4,395,997	4,065,351
Total operating expenses	<u>7,530,850</u>	<u>6,868,278</u>	<u>6,240,322</u>
Operating income	<u>2,877,701</u>	<u>3,588,082</u>	<u>4,610,189</u>
<b>Other revenues (expenses)</b>			
Interest expense	(1,666,671)	(992,526)	(1,483,191)
Other income	197,665	371,648	1,062,759
Total other revenues (expenses)	<u>(1,469,006)</u>	<u>(620,878)</u>	<u>(420,432)</u>
Changes in net assets before capital contributions	1,408,695	2,967,204	4,189,757
Capital Contributions	<u>267,449</u>	<u>2,108,144</u>	<u>3,190,619</u>
Change in Net Assets	1,676,144	5,075,348	7,380,376
Net Assets, Beginning of Year	<u>75,914,175</u>	<u>70,838,827</u>	<u>63,458,451</u>
Net Assets, End of Year	<u>\$ 77,590,319</u>	<u>\$ 75,914,175</u>	<u>\$ 70,838,827</u>

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

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2010, the Sewer Department's investment in capital assets was approximately \$102,524,000 (net of accumulated depreciation). This investment of capital assets included land, buildings, equipment, vehicles, contributed property and construction in progress.

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

- Construction costs of approximately \$1,096,000 were incurred on a variety of construction projects during 2010. Approximately \$1,812,000 of constructed assets were completed and placed in service, including the administration building, sewer main construction, and rehabilitation projects. In addition, approximately \$267,000 of drainage and sewer mains constructed by developers was contributed to the Sewer Department to own and maintain. This is recorded as a capital contribution in the statement of revenues, expenses and changes in net assets. In 2009, the Sewer Department had construction of approximately \$9,964,000 and contributed capital of approximately \$2,105,000, and in 2008 construction of approximately \$15,719,000 and contributed capital of approximately \$3,188,000.
- Capital expenditures for additions and improvements to the Sewer Department, in addition to the constructed assets, were approximately \$495,000 in 2010, as compared to approximately \$548,000 in 2009 and approximately \$417,000 in 2008.

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

**Long-Term Debt**

The Sewer Department had \$38,976,000 in revenue bonds outstanding as of June 30, 2010, which is a decrease of \$2,158,000 from 2009 due to scheduled principal payments. Revenue bonds outstanding as of June 30, 2009 were \$41,135,000 which was a decrease of \$1,829,000 from 2008 due to scheduled principal payments.



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

**Additional Management Comments**

By any standard or metric, the Sewer Department had another slow year. Water customers continue to conserve, and the milder, wetter than normal summer of 2010 indicates a no-growth scenario in terms of revenue, numbers of customers, growth of assets, etc. One large industrial user left town, further depressing the Sewer Department's economic outlook. However, the Sewer Department's revenues are projected to continue to be adequate for operations, maintenance, and capital expenditures. One moderately large capital improvement project, the sludge dryer, is anticipated to be financed by the Arkansas State Revolving Loan Fund. The sludge drier is anticipated to be the long-term answer to the City's sludge disposal issues.

Growth in net assets has continued to be slower than years past. Development has slowed considerably, as evidenced by the small numbers and small sizes of the "large-scale development" plans submitted to the Sewer Department for approval. Interest rates paid on Sewer Department reserves are down from the previous year. Net income for the Sewer Department is projected to decrease, due to lack of revenue and increase in interest expense associated with the recent wastewater treatment plant improvements.

The U.S. Environmental Protection Agency (EPA) announced plans to conduct a Total Maximum Daily Load (TMDL) study for the Illinois River watershed, which includes 80% of the City of Rogers, including the City's wastewater treatment plant. Bentonville and the Northwest Arkansas Conservation Authority's wastewater plant have been put on notice of a new, lower total phosphorus discharge limit. It is anticipated that EPA will use the results of the TMDL study to drive down the allowable phosphorus discharge from the Rogers facility, further destabilizing the sewer rate structure in Rogers, necessitating significant sewer rate increases. This situation is being monitored by the mayors of the major cities of Northwest Arkansas.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
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STATEMENTS OF NET ASSETS  
JUNE 30, 2010 AND 2009**

	<b>ASSETS</b>	
	<b>2010</b>	<b>2009</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,626,311	\$ 1,476,543
Investments	9,572,894	8,473,759
Accounts receivable, net of allowance for doubtful accounts of \$222,000 and \$172,500, respectively	1,136,473	1,144,393
Accrued interest receivable	53,648	-
Due from water department	125,911	-
Inventory	66,786	76,837
Prepaid expenses	34,030	40,631
	<hr/>	<hr/>
Total Current Assets	12,616,053	11,212,163
<b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	875,711	735,272
Investments	2,271,176	2,918,785
	<hr/>	<hr/>
Total Restricted Cash and Investments	3,146,887	3,654,057
<b>FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION</b>		
	<hr/>	<hr/>
	102,523,945	103,737,668
<b>OTHER ASSETS</b>		
Bond issuance costs, net of amortization of \$763,001 and \$685,420, respectively	778,701	856,282
Forbearance agreement receivable	83,720	-
	<hr/>	<hr/>
Total Other Assets	862,421	856,282
	<hr/>	<hr/>
Total Assets	\$ 119,149,306	\$ 119,460,170
	<hr/> <hr/>	<hr/> <hr/>

See Independent Auditors' Report and Notes to Financial Statements.

**LIABILITIES AND NET ASSETS**

	<b>2010</b>	<b>2009</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 283,267	\$ 233,241
Accounts payable to construction contractors	88,036	213,133
Accrued expenses	383,806	380,359
Accrued vouchers	464,810	-
Current portion of bonds payable	2,240,616	2,158,417
Due to water department	-	173,203
	<hr/>	<hr/>
Total Current Liabilities	3,460,535	3,158,353
 <b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accrued interest payable	577,003	595,286
	<hr/>	<hr/>
Total Liabilities Payable From Restricted Assets	577,003	595,286
 <b>BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS</b>		
	<hr/>	<hr/>
	37,521,449	39,792,356
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	62,761,880	61,786,895
Restricted	2,569,878	3,058,688
Unrestricted	12,258,561	11,068,592
	<hr/>	<hr/>
Total Net Assets	77,590,319	75,914,175
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 119,149,306	\$ 119,460,170
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See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>OPERATING REVENUES</b>		
Residential sewer	\$ 5,832,445	\$ 5,772,594
Commercial sewer	1,663,282	1,673,584
Industrial sewer	1,870,808	1,995,304
Penalties	141,405	146,861
Access, impact and new customer fees	821,620	772,120
Other operating revenue	<u>78,991</u>	<u>95,897</u>
 Total Operating Revenues	 <u>10,408,551</u>	 <u>10,456,360</u>
<b>OPERATING EXPENSES</b>		
Pollution control facility and field expense	2,624,803	3,156,155
General and administrative	1,757,162	1,239,842
Depreciation and amortization	<u>3,148,885</u>	<u>2,472,281</u>
 Total Operating Expenses	 <u>7,530,850</u>	 <u>6,868,278</u>
<b>OPERATING INCOME</b>	<u>2,877,701</u>	<u>3,588,082</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Interest income	201,560	365,583
Gain on disposal of fixed assets	3,105	13,065
Interest expense	(1,666,671)	(992,526)
Trustee fees	<u>(7,000)</u>	<u>(7,000)</u>
 Total Other Revenues (Expenses)	 <u>(1,469,006)</u>	 <u>(620,878)</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	 1,408,695	 2,967,204
<b>CAPITAL CONTRIBUTIONS</b>	<u>267,449</u>	<u>2,108,144</u>
<b>CHANGE IN NET ASSETS</b>	1,676,144	5,075,348
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>75,914,175</u>	<u>70,838,827</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 77,590,319</u></u>	<u><u>\$ 75,914,175</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
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STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,374,455	\$ 9,601,187
Cash received from access, impact and new customer fees	821,620	772,120
Cash received from penalties and other operating revenue	220,396	242,758
Payments for salaries and benefits	(1,867,090)	(2,061,463)
Payments to suppliers for goods and services	<u>(2,404,151)</u>	<u>(2,105,277)</u>
Net Cash From Operating Activities	<u>6,145,230</u>	<u>6,449,325</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(1,681,058)	(13,265,720)
Cash received from sale of fixed assets	3,558	13,065
Principal payments on bonds	(2,158,416)	(1,828,709)
Interest and paying agent fees, net of capitalized interest	(1,722,246)	(1,035,956)
Collection of forbearance agreement	<u>6,753</u>	<u>-</u>
Net Cash Used for Capital and Related Financing Activities	<u>(5,551,409)</u>	<u>(16,117,320)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	147,912	418,420
Net change in investments	(1,099,135)	(885,554)
Net change in restricted investments	<u>647,609</u>	<u>10,664,716</u>
Net Cash From (Used for) Investing Activities	<u>(303,614)</u>	<u>10,197,582</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	290,207	529,587
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,211,815</u>	<u>1,682,228</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,502,022</u>	<u>\$ 2,211,815</u>
<b>CASH AND CASH EQUIVALENTS RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,626,311</u>	<u>\$ 1,476,543</u>
	<u>875,711</u>	<u>735,272</u>
	<u>\$ 2,502,022</u>	<u>\$ 2,211,815</u>

See Independent Auditors' Report and Notes to Financial Statements.

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

	<b>2010</b>	<b>2009</b>
Operating Income	<u>\$ 2,877,701</u>	<u>\$ 3,588,082</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	3,148,885	2,472,281
Allowance for doubtful accounts	49,500	24,550
Changes in assets and liabilities:		
Accounts receivable	(41,580)	135,155
Inventory	10,051	(5,699)
Prepaid expenses	6,601	(9,768)
Accounts payable	(75,071)	65,272
Accrued expenses	3,447	(53,151)
Accrued vouchers	464,810	-
Due to or from water department	<u>(299,114)</u>	<u>232,603</u>
Total adjustments	<u>3,267,529</u>	<u>2,861,243</u>
Net Cash From Operating Activities	<u><u>\$ 6,145,230</u></u>	<u><u>\$ 6,449,325</u></u>
<b>NONCASH TRANSACTIONS</b>		
Capital contributions	<u><u>\$ 267,449</u></u>	<u><u>\$ 2,108,144</u></u>
Issuance of forbearance agreement	<u><u>\$ 90,473</u></u>	<u><u>\$ -</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Reporting Entity***

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

***Fund Type***

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

***Basis of Accounting***

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

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

***Use of Estimates***

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

***Inventory***

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

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Recent Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The Codification is intended to reorganize, rather than change, existing accounting principles generally accepted in the United States of America. The Sewer Department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Codification of accounting principles for pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Accordingly, all references to currently existing accounting principles generally accepted in the United States of America have been removed and replaced with references to the applicable FASB Codification Topic. The adoption of the Codification did not have a material impact on the Sewer Department's financial position or results of operations.

***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, 2010 and 2009, cash equivalents consisted of certificates of deposit.

***Investments***

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

***Accounts Receivable***

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

***Reclassifications***

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. These reclassifications had no effect on the changes in net assets.



**ROGERS WATER UTILITIES SEWER DEPARTMENT  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Subsequent Events***

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

***Long-Lived Assets***

FASB Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Sewer Department's reported earnings, financial position or results of operations.

***Fixed Assets***

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

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

The Sewer Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by the Sewer Department at June 30, 2010 amounted to approximately \$4,600,000.

***Contributed Capital***

The Sewer Department records all contributed fixed assets at their estimated fair market value at date of contribution as capital contributions in the Statements of Revenues, Expenses and Changes in Net Assets and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of sewer lines and related infrastructure. At June 30, 2010 and 2009, cumulative contributed capital fixed assets amounted to approximately \$29,185,000 and \$28,918,000, respectively.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Amortization of Bond Premiums***

Bond premiums are amortized over the lives of the related bond issues. Amortization expense of \$30,292 is included as a component of interest expense for each of the years ended June 30, 2010 and 2009.

***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 \$77,581 for each of the years ended June 30, 2010 and 2009.

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

***Compensated Absences***

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

***Current Accounting Development***

In February 2009, the GASB issued Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010. GASB 54 eliminates the requirement to report governmental fund balances as reserve, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances. GASB 54 also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. Management does not expect implementation of GASB 54 to significantly impact the financial statements of the Sewer Department.

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**NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS**

Deposits in financial institutions are financial instruments that could potentially subject the Sewer Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At June 30, 2010, the Sewer Department had approximately \$1,967,800 in deposit balances, of which approximately \$1,936,617 were FDIC insured and the remaining balances collateralized by securities held by the bank in the Utilities' name. Cash and cash equivalents includes \$150 in petty cash.

**NOTE 3: DUE TO / FROM WATER DEPARTMENT**

The Sewer Department and the Water Department of the City of Rogers, Arkansas constitute the Rogers Water Utilities. Rogers Water Utilities sends a monthly billing statement containing both water and sewer fees to each customer. All monies are received by the Water Department, which then transfers sewer collections to the Sewer Department. Additionally, all operating expenses are paid from one bank account and allocated to the appropriate department. These transactions give rise to receivables and payables between the departments. The balances as of June 30, 2010 and 2009 are shown in the Statements of Net Assets under the captions Due from water department and Due to water department.

**NOTE 4: RESTRICTED CASH AND INVESTMENTS**

Restricted cash and investments are held for specific purposes at June 30, 2010 and 2009 as follows:

	<b>2010</b>	<b>2009</b>
Construction	\$ 38,542	\$ 285,486
Debt service reserve	1,928,132	1,917,057
Depreciation reserve for additional replacements to the sewer system	1,093,802	1,450,981
New customer fees collected for Additions of fixed assets	86,405	450
Accrued interest	<u>6</u>	<u>83</u>
	<b><u>\$ 3,146,887</u></b>	<b><u>\$ 3,654,057</u></b>

**NOTE 5: RELATED PARTIES**

The Sewer Department maintains deposits and certificates of deposit with banks whose officers serve on the Commission of the Rogers Water Utilities. At June 30, 2010 and 2009, these deposits amounted to approximately \$9,327,000 and \$5,191,000, respectively.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 6: FORBEARANCE AGREEMENT RECEIVABLE**

In September of 2006, the Rogers Water Utilities and a commercial developer entered into a cost sharing agreement for the construction of water and sewer mains to a commercial development. During the year ended June 30, 2010, the Rogers Water Utilities entered into a forbearance agreement with the developer. Under the terms of the agreement, the developer will pay \$311,974 of cost sharing, in monthly installments of \$5,000, bearing interest at 5% per year, with a lump sum of \$198,099 due July 1, 2012. The balance of \$83,720 reported in the Statement of Net Assets as of June 30, 2010 represents the Sewer Department's share of the forbearance agreement receivable.

**NOTE 7: RISK MANAGEMENT**

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

**NOTE 8: INVESTMENTS**

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

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

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

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Sewer Department will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2010, investments of the Sewer Department were fully collateralized or insured.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 8: INVESTMENTS – CONTINUED**

At June 30, 2010 and 2009, the Sewer Department's investments consisted of \$10,385,544 and \$9,785,848, respectively, held in certificates of deposit and \$1,458,526 and \$1,606,696, respectively, held in United States Government securities. All investments at June 30, 2010 and 2009 had maturities of less than one year.

**NOTE 9: CHANGES IN FIXED ASSETS**

	<u>Balance June 30, 2009</u>	<u>Transfers/ Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2010</u>
Land	\$ 1,791,953	\$ -	\$ -	\$ 1,791,953
Buildings	50,705,184	962,889	-	51,668,073
Equipment	43,182,683	1,344,649	(65,420)	44,461,912
Vehicles	1,048,900	-	(17,632)	1,031,268
Contributed property	28,918,493	266,851	-	29,185,344
Construction in progress	<u>808,815</u>	<u>1,096,105</u>	<u>(1,812,460)</u>	<u>92,460</u>
	126,456,028	3,670,494	(1,895,512)	128,231,010
Accumulated depreciation	<u>(22,718,360)</u>	<u>(3,071,305)</u>	<u>82,600</u>	<u>(25,707,065)</u>
	<u>\$ 103,737,668</u>	<u>\$ 599,189</u>	<u>\$ (1,812,912)</u>	<u>\$102,523,945</u>

	<u>Balance June 30, 2008</u>	<u>Transfers/ Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2009</u>
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	<u>17,308,868</u>	<u>9,964,035</u>	<u>(26,464,088)</u>	<u>808,815</u>
	113,984,596	39,081,620	(26,610,188)	126,456,028
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>

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 10: BONDS PAYABLE**

***Series 1991 Revenue Refunding Bonds***

In July 1991, the Sewer Department issued \$5,180,000 in Revenue Refunding Bonds (Series 1991) at an interest rate of 4.0% to advance refund a portion (\$4,165,000) of the 1986 Series bonds. Proceeds from this refunding were placed in an irrevocable trust to provide for all future debt service on this portion of the 1986 Series bonds. The bond matures in 2011 with principal and interest payments due in October and April of each year. As of June 30, 2010 and 2009, the outstanding principal was \$367,652 and \$721,027, respectively.

***Series 1995 Revenue Improvement Bonds***

In August 1995, the Sewer Department issued \$13,000,000 in Revenue Improvement Bonds (Series 1995) at an average rate of 3.0% to provide for the cost of constructing extensions, betterments, and improvements to the sewer system. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2010 and 2009, the outstanding principal was \$6,106,282 and \$6,791,846, respectively.

***Series 1996 Revenue Improvement Bonds***

In April 1996, the Sewer Department issued \$13,600,000 in Revenue Improvement Bonds (Series 1996) at an average rate of 2.5% to finance the planning, design and construction of wastewater treatment facilities. The bond matures in fiscal year 2018 with principal and interest payments due in October and April of each year. As of June 30, 2010 and 2009, the outstanding principal was \$6,227,250 and \$6,941,727, respectively.

***Series 2007 Revenue Improvement Bonds***

In February 2007, the Sewer Department issued \$22,000,000 in Revenue Improvement Bonds (Series 2007) at an average rate of 4.6% to finance general improvements to the sewer system and related infrastructure. The bond matures in 2037 with principal payments due in February and interest payments due in February and August of each year. As of June 30, 2010 and 2009, the outstanding principal was \$22,000,000.

***Series 2008 Revenue Refunding Bonds***

In May 2008, the Sewer Department issued \$4,820,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 3.2% to finance the cost of refunding the Sewer Revenue Improvement Bonds, Series 1998. This transaction resulted in an economic gain of \$189,430. The bond matures in fiscal year 2019 with principal payments due in November and interest payments due in November and May of each year. As of June 30, 2010 and 2009, the outstanding principal was \$4,275,000 and \$4,680,000, respectively.

***All Bond Issues***

System revenues and all assets are pledged to the bonds outstanding. The debt service coverage ratio, calculated as described in the Series 2007 and 2008 bond documents, as of June 30, 2010 is 1.64. Total interest paid during the years ended June 30, 2010 and 2009 totaled \$1,715,246 and \$1,776,108, respectively.

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 10: BONDS PAYABLE – CONTINUED**

**All Bond Issues - Continued**

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

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

**Year Ending**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,240,616	\$ 1,634,356	\$ 3,874,972
2012	2,392,896	1,555,533	3,948,429
2013	2,474,914	1,467,316	3,942,230
2014	2,569,099	1,375,956	3,945,055
2015	2,655,530	1,259,122	3,914,652
2016-2020	9,453,129	5,017,347	14,470,476
2021-2025	3,695,000	3,893,530	7,588,530
2026-2030	4,695,000	2,890,155	7,585,155
2031-2035	5,980,000	1,607,593	7,587,593
2036-2037	<u>2,820,000</u>	<u>213,254</u>	<u>3,033,254</u>
Total	<u>\$ 38,976,184</u>	<u>\$ 20,914,162</u>	<u>\$ 59,890,346</u>

Following is a summary of changes in bonds payable:

	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Revenue Refunding Bonds, Series 1991	\$ 721,027	\$ -	\$ 353,375	\$ 367,652	\$ 367,652
Revenue Improvement Bonds, Series 1995	6,791,846	-	685,564	6,106,282	713,261
Revenue Improvement Bonds, Series 1996	6,941,727	-	714,477	6,227,250	739,703
Revenue Improvement Bonds, Series 1997	22,000,000	-	-	22,000,000	-
Revenue Refunding Bonds, Series 2008	4,680,000	-	405,000	4,275,000	420,000
Plus premiums	<u>816,173</u>	<u>-</u>	<u>30,292</u>	<u>785,881</u>	<u>-</u>
	<u>\$41,950,773</u>	<u>\$</u>	<u>\$ 2,188,708</u>	<u>\$ 39,762,065</u>	<u>\$ 2,240,616</u>

**ROGERS WATER UTILITIES SEWER DEPARTMENT  
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**NOTE 10: BONDS PAYABLE – CONTINUED**

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
Revenue Refunding Bonds, Series 1991	\$ 1,060,680	\$ -	\$ 339,653	\$ 721,027	\$ 353,375
Revenue Improvement Bonds, Series 1995	7,450,788	-	658,942	6,791,846	685,564
Revenue Improvement Bonds, Series 1996	7,631,840	-	690,113	6,941,727	714,478
Revenue Improvement Bonds, Series 1997	22,000,000	-	-	22,000,000	-
Revenue Refunding Bonds, Series 2008	4,820,000	-	140,000	4,680,000	405,000
Plus premiums	<u>846,465</u>	<u>-</u>	<u>30,292</u>	<u>816,173</u>	<u>-</u>
	<u>\$43,809,773</u>	<u>\$ -</u>	<u>\$ 1,859,000</u>	<u>\$ 41,950,773</u>	<u>\$ 2,158,417</u>

**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**Plan Description**

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

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

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

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



**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

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

**Funding Policy**

The plan, which applies to all persons hired after December 31, 1997, originally did not allow employee contributions. Arkansas Act 2084 of 2005 requires participants who joined after July 1, 2005 to contribute 5% of their gross wages. The Sewer Department is required to contribute at an actuarially determined rate. For the years ended June 30, 2010 and 2009, the rate is 11% and 11.01%, respectively, of annual covered payroll. The contribution requirements of plan members and the Sewer Department are established and may be amended only by state law. Sewer Department contributions for the years ended June 30, 2010, 2009 and 2008 totaled \$155,588, \$181,859 and \$199,530, respectively. Employee contributions for the years ended June 30, 2010, 2009 and 2008 totaled \$16,578, \$19,236 and \$14,910, respectively.

**Annual Pension Cost**

For the year ended June 30, 2010, the Sewer Department's annual pension cost of \$155,588 for APERS was equal to the Sewer Department's required and actual contributions. The required contribution was determined as part of the June 30, 2008 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 2000 Group Annuity Mortality table set forward two years for men and set forward one year for women, 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 December 31, 2008 was 13.7 years.

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Entry Age Actuarial Accrued Liability (b)</b>	<b>Unfunded Accrued Liability (UAL) (b - a)</b>
June 30, 2006	\$ 4,949,000	\$ 5,936,000	\$ 987,000
June 30, 2007	5,498,000	6,174,000	676,000
June 30, 2008	5,866,000	6,543,000	677,000

**ROGERS WATER UTILITIES SEWER DEPARTMENT**  
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**NOTE 11: PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED**

**Schedule of Funding Progress - Continued**

<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	83.0%	\$ 1,267,000	77.9%
June 30, 2009	89.0%	1,303,000	51.9%
June 30, 2010	90.0%	1,380,000	49.1%

**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, 2008	\$ 199,530	100%	\$ -
June 30, 2009	181,859	100%	-
June 30, 2010	155,588	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. Sewer Department employee contributions for the years ended June 30, 2010 and 2009 were \$31,046 and \$33,960, respectively.

**Deferred Compensation Plan**

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

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

**Deferred Compensation Plan - Continued**

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

Deferred compensation remitted for investment during the years ended June 30, 2010 and 2009 was \$19,840 and \$34,173, respectively. At June 30, 2010 and 2009, there were twelve and fifteen employees participating in the plan, respectively.

**NOTE 13: COMMITMENTS**

The Sewer Department is committed to several construction contracts in process at year-end totaling \$491,927. As of June 30, 2010, \$380,083 had been incurred in connection with these contracts. Additionally, the Sewer Department had approximately \$131,700 due in connection with a contract. This balance is expected to be offset by liquidating damages provided for in the contract and, accordingly, no provision is made in the financial statements of the Sewer Department at June 30, 2010. Subsequent to year end, the Rogers Water Utilities signed a contract for \$85,000 for remodeling and repairs due to flood damages of a portion of the offices. The Sewer Department will pay half of this contract and the Water Department will pay the other.

**NOTE 14: LITIGATION**

In April 2008, a lawsuit was filed against the Rogers Water Utilities in Benton County Circuit Court claiming violations of law, including illegal exaction of development impact fees and access fees. The plaintiffs contend that these fees violate various provisions of Arkansas law and are therefore illegal exactions. Management of the Rogers Water Utilities and the plaintiffs have reached a settlement agreement. Under the terms of the settlement, the Rogers Water Utilities will issue vouchers for 53% of the fees collected between June 27, 2008 and August 31, 2010. The vouchers will be issued to the person or entities filing a valid claim with the Utilities by September 7, 2010. The vouchers are redeemable against future access, impact or hookup fees, are transferable and expire in five years. In addition, the Utilities will pay \$200,000 of legal fees of the plaintiffs. The court has tentatively approved the terms of the settlement. On September 9, 2010, the Utilities presented the list of claims filed and vouchers to be issued to the court and received final approval of the settlement. The plaintiffs have thirty days to appeal. If no appeal is filed, the case will be dismissed with prejudice. The Sewer Department has accrued \$100,000 of the legal costs at June 30, 2010, which are included in accounts payable on the Statement of Net Assets. Additionally, the Sewer Department has accrued \$464,810 in vouchers payable at June 30, 2010, representing the claims filed and approved by the court.

## **SUPPLEMENTARY INFORMATION**

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>POLLUTION CONTROL FACILITY AND FIELD EXPENSE</b>		
Salaries	\$ 953,846	\$ 1,083,305
Payroll taxes	69,038	80,691
Employee benefits	279,262	309,254
Insurance	46,570	43,015
Repairs and maintenance	216,426	227,579
Utilities	274,002	299,250
Supplies and postage	196,961	136,842
Sludge disposal costs	469,889	759,458
Operating supplies and other	118,809	216,761
	<u>2,624,803</u>	<u>3,156,155</u>
 <b>GENERAL AND ADMINISTRATIVE</b>		
Salaries	368,462	323,315
Salaries - commissioners	2,097	2,097
Payroll taxes	43,248	50,677
Employee benefits	151,137	158,973
Office supplies and postage	78,476	83,538
Professional fees	51,588	46,747
Consulting services - stream assessment	19,039	112,000
Insurance	2,347	2,468
Utilities	20,375	16,712
Bad debts	83,739	54,912
Franchise taxes / use taxes	315,620	315,133
Costs of settlement agreement	564,810	-
Other	56,224	73,270
	<u>1,757,162</u>	<u>1,239,842</u>
 <b>DEPRECIATION AND AMORTIZATION</b>	 <u>3,148,885</u>	 <u>2,472,281</u>
 <b>TOTAL OPERATING EXPENSES</b>	 <u><u>\$ 7,530,850</u></u>	 <u><u>\$ 6,868,278</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE REFUNDING BONDS - SERIES 1991  
JUNE 30, 2010**

<u>MONTH, YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
October, 2011	\$ 182,006	4.00%	\$ 7,353	\$ 189,359
April, 2011	<u>185,646</u>	4.00%	<u>3,713</u>	<u>189,359</u>
Balance, June 30, 2010	<u>\$ 367,652</u>		<u>\$ 11,066</u>	<u>\$ 378,718</u>

Dated: July 8, 1991

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE IMPROVEMENT BONDS - SERIES 1995  
JUNE 30, 2010**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
October, 2011	\$ 353,100	3.00%	\$ 122,125	\$ 475,225
April, 2011	360,161	3.00%	115,064	475,225
October, 2012	367,365	3.00%	107,860	475,225
April, 2012	374,712	3.00%	100,513	475,225
October, 2013	382,206	3.00%	93,019	475,225
April, 2013	389,850	3.00%	85,375	475,225
October, 2014	397,648	3.00%	77,577	475,225
April, 2014	405,600	3.00%	69,625	475,225
October, 2015	413,712	3.00%	61,513	475,225
April, 2015	421,986	3.00%	53,239	475,225
October, 2016	430,426	3.00%	44,799	475,225
April, 2016	439,034	3.00%	36,191	475,225
October, 2017	447,816	3.00%	27,409	475,225
April, 2017	456,772	3.00%	18,453	475,225
October, 2018	<u>465,894</u>	3.00%	<u>9,316</u>	<u>475,210</u>
Balance, June 30, 2010	<u>\$ 6,106,282</u>		<u>\$ 1,022,078</u>	<u>\$ 7,128,360</u>

Dated: August 9, 1995

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE IMPROVEMENT BONDS - SERIES 1996  
JUNE 30, 2010**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
October, 2011	\$ 366,644	2.50%	\$ 108,977	\$ 475,621
April, 2011	373,060	2.50%	102,560	475,620
October, 2012	379,588	2.50%	96,032	475,620
April, 2012	386,231	2.50%	89,389	475,620
October, 2013	392,990	2.50%	82,630	475,620
April, 2013	399,868	2.50%	75,753	475,621
October, 2014	406,865	2.50%	68,755	475,620
April, 2014	413,985	2.50%	61,635	475,620
October, 2015	421,230	2.50%	54,390	475,620
April, 2015	428,602	2.50%	47,019	475,621
October, 2016	436,102	2.50%	39,518	475,620
April, 2016	443,735	2.50%	31,886	475,621
October, 2017	451,499	2.50%	24,121	475,620
April, 2017	459,400	2.50%	16,220	475,620
October, 2018	467,451	2.50%	8,179	475,630
Balance, June 30, 2010	<u>\$ 6,227,250</u>		<u>\$ 907,064</u>	<u>\$ 7,134,314</u>

Dated: April 3, 1996

Payment Dates: October 15 and April 15

Payable to: Arkansas Development Finance Authority

See Independent Auditors' Report.



**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE IMPROVEMENT BONDS - SERIES 2007  
JUNE 30, 2010**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$ -	4.000%	\$ 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, 2010	<u>\$ 22,000,000</u>		<u>\$ 18,308,195</u>	<u>\$ 40,308,195</u>

Dated: February 1, 2007

Payment Dates: February 1

Interest Payment Dates: February 1 and August 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS  
SEWER REVENUE REFUNDING BONDS - SERIES 2008  
JUNE 30, 2010**

YEAR	PRINCIPAL	INTEREST RATE	INTEREST	TOTAL
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	535,000	3.550%	9,494	544,494
Balance, June 30, 2010	<u>\$ 4,275,000</u>		<u>\$ 665,759</u>	<u>\$ 4,940,759</u>

Dated: May 1, 2008

Payment Dates: November 1

Interest Payment Dates: November 1 and May 1

Payable to: Regions Bank; Little Rock, Arkansas

See Independent Auditors' Report.

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

**Fixed Assets**

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

**Accumulated Depreciation**

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

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF FIXED ASSETS  
YEAR ENDED JUNE 30, 2009**

**Fixed Assets**

	<u>Balance June 30, 2008</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance June 30, 2009</u>
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	<u>26,812,902</u>	<u>2,105,591</u>	<u>-</u>	<u>28,918,493</u>
	96,675,728	29,117,585	(146,100)	125,647,213
Construction in progress	<u>17,308,868</u>	<u>9,964,035</u>	<u>(26,464,088)</u>	<u>808,815</u>
	<u>\$ 113,984,596</u>	<u>\$ 39,081,620</u>	<u>\$ (26,610,188)</u>	<u>\$ 126,456,028</u>

**Accumulated Depreciation**

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	<u>1,293,250</u>	<u>557,839</u>	<u>-</u>	<u>1,851,089</u>
	<u>\$ 20,469,759</u>	<u>\$ 2,394,701</u>	<u>\$ (146,100)</u>	<u>\$ 22,718,360</u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULE OF SEWER SYSTEM RATES  
JUNE 30, 2010**

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

**See Independent Auditors' Report.**

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF SEWER CUSTOMERS  
YEARS ENDED JUNE 30, 2010 AND 2009**

<u>SEWER CUSTOMER CLASSIFICATIONS</u>	<u>NUMBER OF CUSTOMERS</u>	
	<u>2010</u>	<u>2009</u>
Residential customers	18,071	17,757
Commerical customers	1,552	1,557
Industrial customers	<u>35</u>	<u>38</u>
Total	<u><u>19,658</u></u>	<u><u>19,352</u></u>

See Independent Auditors' Report.

**ROGERS WATER UTILITIES  
SEWER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS  
SCHEDULES OF BILLABLE GALLONS  
YEARS ENDED JUNE 30, 2010 AND 2009**

<u>BILLABLE GALLONS CLASSIFICATIONS</u>	<u>NUMBER OF BILLABLE GALLONS</u>	
	<u>2010</u>	<u>2009</u>
Residential customers	889,928,800	871,792,600
Commerical customers	381,767,400	380,593,200
Industrial customers	<u>492,455,300</u>	<u>529,674,500</u>
Total	<u><u>1,764,151,500</u></u>	<u><u>1,782,060,300</u></u>

**See Independent Auditors' Report.**

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

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

We have audited the accompanying financial statements of the **Rogers Water Utilities Sewer Department** ("the Sewer Department"), a component unit of the City of Rogers, Arkansas, as of and for the year ended June 30, 2010 as shown in the table of contents and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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



**Compliance and Other Matters**

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

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

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

Rogers, Arkansas  
September 15, 2010