

**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%.

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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
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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>
Assets			
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>
Liabilities			
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>
Net Assets			
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>
Operating Results and Changes in Net Assets			
Operating revenues	<u>\$ 10,408,551</u>	<u>\$ 10,456,360</u>	<u>\$ 10,850,511</u>
Operating expenses			
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>
Other revenues (expenses)			
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
SEWER DEPARTMENT
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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.

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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**

	ASSETS	
	2010	2009
CURRENT ASSETS		
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
RESTRICTED CASH AND INVESTMENTS		
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
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION		
	<hr/>	<hr/>
	102,523,945	103,737,668
OTHER ASSETS		
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

	2010	2009
CURRENT LIABILITIES		
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
	<u>3,460,535</u>	<u>3,158,353</u>
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest payable	<u>577,003</u>	<u>595,286</u>
	<u>577,003</u>	<u>595,286</u>
 BONDS PAYABLE, NET OF UNAMORTIZED PREMIUMS		
	<u>37,521,449</u>	<u>39,792,356</u>
 NET ASSETS		
Invested in capital assets, net of related debt	62,761,880	61,786,895
Restricted	2,569,878	3,058,688
Unrestricted	<u>12,258,561</u>	<u>11,068,592</u>
	<u>77,590,319</u>	<u>75,914,175</u>
	<u>\$ 119,149,306</u>	<u>\$ 119,460,170</u>

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
OPERATING REVENUES		
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>
OPERATING EXPENSES		
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>
OPERATING INCOME	<u>2,877,701</u>	<u>3,588,082</u>
OTHER REVENUES (EXPENSES)		
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>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	 1,408,695	 2,967,204
CAPITAL CONTRIBUTIONS	<u>267,449</u>	<u>2,108,144</u>
CHANGE IN NET ASSETS	1,676,144	5,075,348
NET ASSETS, BEGINNING OF YEAR	<u>75,914,175</u>	<u>70,838,827</u>
NET ASSETS, END OF YEAR	<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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
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>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
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>
CASH FLOWS FROM INVESTING ACTIVITIES		
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>
CHANGE IN CASH AND CASH EQUIVALENTS	290,207	529,587
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,211,815</u>	<u>1,682,228</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,502,022</u>	<u>\$ 2,211,815</u>
CASH AND CASH EQUIVALENTS RESTRICTED CASH AND CASH EQUIVALENTS	<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:**

	2010	2009
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>
NONCASH TRANSACTIONS		
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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
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
A COMPONENT UNIT OF THE CITY OF ROGERS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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.

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

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.

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

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:

	2010	2009
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>
	<u>\$ 3,146,887</u>	<u>\$ 3,654,057</u>

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.