

**CHERRY VALLEY WATER
AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
FINANCIAL STATEMENTS
JUNE 30, 2023**

**MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396**

CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS

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MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
Cherry Valley, Arkansas 72324

Opinions

We have audited the accompanying financial statements of the business-type activities of the Cherry Valley Water & Sewer Department as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Cherry Valley Water & Sewer Department's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Cherry Valley Water & Sewer Department, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cherry Valley Water & Sewer Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. As more fully described in Note I, to the financial statements, for the year ended June 30, 2023, the Entity has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which requires the cost of employee pension to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure on the financial statements is not practicable.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Cherry Valley Water and Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Cherry Valley, AR as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cherry Valley Water & Sewer Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cherry Valley Water & Sewer Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-7 and 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2024 on our consideration of the Cherry Valley Water & 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 solely 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 effectiveness of the Cherry Valley Water & Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* in considering Cherry Valley Water & Sewer Department's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

February 6, 2024

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Within this section of the Cherry Valley Water and Sewer Department's financial report, the Department's management provides narrative discussion and analysis of the financial activities of the Department for the year ended June 30, 2023. The Department's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Department as a whole and present a longer term view of the Department's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Cherry Valley Water and Sewer Department as a whole

Our analysis of the Department as a whole follows in the next section. The Department operates as a business-type activity providing water utilities to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Department's finances is "Is the Department as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Department as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Department's net position and changes in them. You can think of the Department's net position (the difference between assets and liabilities) as one way to measure the Department's financial health. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the water and sewer system, to assess the overall health of the Department.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
June 30, 2023**

Financial Highlights:

	<u>2023</u>	<u>2022</u>
Beginning Net Position	\$ 824,014	\$ 780,690
Increase (decrease) in Net Position	<u>15,397</u>	<u>43,324</u>
Ending Net Position	<u><u>\$ 839,411</u></u>	<u><u>\$ 824,014</u></u>

Assets, liabilities, and net position for 2023, and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Current assets	\$ 121,117	\$ 128,568
Restricted assets	175,397	157,426
Capital Assets	<u>1,298,781</u>	<u>1,354,774</u>
Total Assets	<u><u>1,595,295</u></u>	<u><u>1,640,768</u></u>
Current liabilities	\$ 120,012	\$ 116,347
Long-term liabilities	<u>635,872</u>	<u>700,407</u>
Total Liabilities	<u><u>755,884</u></u>	<u><u>816,754</u></u>
Net Position		
Invested in capital assets	614,549	607,750
Restricted for debt service	44,499	36,894
Unrestricted	<u>180,363</u>	<u>179,370</u>
Total Net Position	<u><u>\$ 839,411</u></u>	<u><u>\$ 824,014</u></u>

The following schedule presents a summary of revenues and expenditures for the year ended June 30, 2023, and 2022.

	<u>2023</u>	<u>2022</u>
Operating Revenues	\$ 234,563	\$ 239,094
Operating Expenses	<u>201,585</u>	<u>224,082</u>
Operating Income	32,978	15,012
Other Income (Expenses)	<u>(17,581)</u>	<u>28,312</u>
Change in Net Position	<u><u>\$ 15,397</u></u>	<u><u>\$ 43,324</u></u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
June 30, 2023**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end June 30, 2023, the Department had \$1,298,781 invested in capital assets. This represents a net decrease of \$55,994 which is the result of depreciation expense of \$74,744 recognized for the year and additions of \$18,750.

Debt

At year end June 30, 2023, the Department had \$684,232 in outstanding notes payable. This represents a decrease of \$62,792 which is the result of the principal payments made in the amount of \$62,792.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Department has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Adam Love, Cherry Valley Mayor 870-588-3323.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
STATEMENT OF NET POSITION
JUNE 30, 2023**

ASSETS

Current Assets	
Cash	\$ 35,918
Cash in Escrow	7,508
Certificates of Deposit	44,039
Accounts Receivable	33,652
Total Current Assets	<u>121,117</u>
Restricted Assets	
Cash	147,784
Certificates of Deposit	27,613
Total Restricted Assets	<u>175,397</u>
Property, Plant and Equipment	
Land	55,709
Waterworks Improvement Project	636,744
Building	44,636
Water Plant	824,028
Sewer Plant	1,069,083
Equipment	271,830
	<u>2,902,030</u>
Less Accumulated Depreciation	<u>(1,603,249)</u>
Net Property, Plant and Equipment	<u>1,298,781</u>
Total Assets	<u>\$ 1,595,295</u>

The accompanying notes are an integral part of the financial statements.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
STATEMENT OF NET POSITION
JUNE 30, 2023**

LIABILITIES AND NET POSITION

Current Liabilities

Accounts Payable	\$ 4,825
Garbage Payable	5,030
Due to General Fund	33,864
Accrued Interest Payable	1,516
Current Maturities of Long Term Debt	48,360
	<u>93,595</u>

Payable From Restricted Assets

Customer Meter Deposits	<u>26,417</u>
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Long Term Liabilities

Notes payable, less current portion	635,872
Total Long Term Liabilities	<u>635,872</u>

Total Liabilities	<u>755,884</u>
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Net Position

Net Investment in Capital Assets	614,549
Restricted for Debt Service	44,499
Unrestricted	180,363

Total Net Position	<u>839,411</u>
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Total Liabilities and Net Position	<u><u>\$ 1,595,295</u></u>
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The accompanying notes are an integral part of the financial statements.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023**

Operating Revenues:	
Water Sales	\$ 176,100
Sewer Sales	55,760
Miscellaneous	2,703
Total Operating Revenues	<u>234,563</u>
Operating Expenses:	
Contract Services	38,400
Depreciation	74,744
Dues and fees	1,540
Education	4,463
Fuel	3,043
Insurance	14,450
Labor and Fringe Benefits	29,695
Operating Maintenance and Supplies	8,222
Miscellaneous	5,931
Postage	1,173
Professional fees and dues	6,370
Utilities	13,554
Total Operating Expense	<u>201,585</u>
OPERATING INCOME (LOSS)	<u>32,978</u>
Non-operating Revenues (Expenses):	
Interest Income	2,198
Insurance Proceeds	8,200
Interest Expense	(27,979)
Total Non-operating Revenues (Expenses)	<u>(17,581)</u>
Change in Net Position	<u>15,397</u>
Beginning Net Position	<u>824,014</u>
Ending Net Position	<u><u>\$ 839,411</u></u>

The accompanying notes are an integral part of the financial statements.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023**

Cash Flows From Operating Activities	
Receipts from customers	\$ 237,608
Payments to suppliers	(97,057)
Payments to employees	(29,695)
Net cash provided by (used for) operating activities	<u>110,856</u>
Cash Flows from noncapital financing activities	
Transfers to cash in escrow	(432)
Net transfers (to) from restricted accounts	(17,971)
Net cash provided by (used for) noncapital financing activities	<u>(18,403)</u>
Cash Flows From Capital and Related Financing Activities	
Principal paid on capital debt	(62,792)
Purchase of equipment	(18,750)
Interest paid on capital debt	(28,083)
Proceeds from Insurance	8,200
Net cash provided by (used in) capital and related activities	<u>(101,425)</u>
Cash Flows from Investing Activities	
Interest income	2,198
Certificates of Deposit (purchases) maturities	(569)
Net cash provided by (used in) investing activities	<u>1,629</u>
Increase (Decrease) in cash and cash equivalents	(7,343)
Cash and cash equivalents, beginning of year	43,261
Cash and cash equivalents, end of year	<u><u>\$ 35,918</u></u>

The accompanying notes are an integral part of the financial statements.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023**

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

Operating Income (Loss)	\$ 32,978
Depreciation	74,744
(Increase) Decrease in:	
Accounts Receivable	1,108
Increase (Decrease) in:	
Accounts Payable	(186)
Garbage Payable	275
Customer Meter Deposit	1,937
	<u>\$ 110,856</u>

The accompanying notes are an integral part of the financial statements.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Financial Reporting Department – Cherry Valley Water and Sewer Department is a department of the City of Cherry Valley, Arkansas. The accompanying financial statements present only the Cherry Valley Water and Sewer Department and do not include all funds, account groups, and programs controlled by the City of Cherry Valley. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit.

Activities of the Cherry Valley Water and Sewer Department are governed by the Mayor and members of the City Council. The Water and Sewer Department serves the City of Cherry Valley and the rural residents of the surrounding area.

Basis of accounting – The Cherry Valley Water and Sewer Department uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents – The Cherry Valley Water and Sewer Department considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted are excluded from Cash Equivalents.

Accounts Receivable - Accounts receivable arise from sales of water and sewer services to local customers. Accounts receivable are presented at estimated net realizable value. The direct charge-off method is used to record bad debt expense. No material difference results from use of the direct charge-off method rather than the allowance method as required by generally accepted accounting principles.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

**NOTE A- ORGANIZATION AND SUMMARY OF SIGNFICANT
ACCOUNTING POLICIES (CONT'D)**

Property and Equipment – Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 5 years for computer and transportation equipment to 50 years for water and sewer system.

Restricted Assets - The Cherry Valley Water and Sewer Department is required under the terms of various bond ordinances to establish and maintain prescribed cash balances that can only be used for specific purposes.

Risk Management - The Cherry Valley Water and Sewer Department minimizes risk of loss through purchase of commercial insurance coverage.

Compensated Absences - No accrual has been made for compensated absences because the amounts would not be material.

Operating Revenues and Expenses – Operating Revenues and Expenses consists of those revenues that result from ongoing operations, and are primarily charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary services. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Department's policy to apply those expenses to restricted net assets to the extent such as are available and then to unrestricted net assets.

Sales Tax – The Cherry Valley Water and Sewer Department collects sales taxes on water sold, and remits taxes collected monthly to the State of Arkansas Department of Finance and Administration. Water fees are presented in the accompanying financial statements net of sales taxes.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Department's policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The Department's deposits are categorized to give an indication of the level of risk assumed by the Department. The categories are described as follows:

Category 1- Insured or collateralized by the Department or by its agent in the Department's name.

Category 2- Collateralized with securities held by the pledging financial institution's trust department or by its agent in the Department's name.

Category 3- Uncollateralized.

At June 30, 2023, cash deposits categorized by level of risk are as follows:

Carrying Amount	Category		
	1	2	3
<u>\$ 262,862</u>	<u>\$ 262,862</u>	<u> </u>	<u> </u>

NOTE C- PROPERTY AND EQUIPMENT

A summary of property, plant and equipment for the Department is presented below:

	June 30 2022	Additions	Deletions	June 30 2023
Land	\$ 55,709			\$ 55,709
Waterworks Improvement	636,744			636,744
Building	44,636			44,636
Water Plant	818,528	\$ 5,500		824,028
Sewer Plant	1,055,833	13,250		1,069,083
Equipment	271,830			271,830
	<u>\$ 2,883,280</u>	<u>\$ 18,750</u>	<u>\$ -</u>	<u>\$ 2,902,030</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE D- NOTES PAYABLE

The following is a summary of the Cherry Valley Water Department's Notes Payable:

2.75 % Bond Payable to ANRC due in semiannual installments of \$ 19,579 through 2035, secured by pledge of future revenues and water and sewer system	\$ 395,390
5.25% Note Payable to USDA Rural Development due in monthly payments of \$ 2,885, through 2034, secured by pledge of future revenue and water and sewer system	288,842
	<hr/> \$ 684,232
Less Current Maturities	(48,360)
	<hr/> <u>\$ 635,872</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE D- LONG -TERM LIABILITIES (CONT'D)

A summary of future payments required at June 30, 2023 is as follows:

For the years ending June 30,	Principal	Interest	Total
2024	\$ 48,360	\$ 27,161	\$ 75,521
2025	50,259	25,418	75,677
2026	52,198	23,519	75,717
2027	54,220	21,580	75,800
2028	56,303	19,558	75,861
For the five year periods ending June 30,			
2033	316,617	64,301	380,918
2038	106,275	8,869	115,144
	<u>\$ 684,232</u>	<u>\$ 190,406</u>	<u>\$ 874,638</u>

A summary of long-term debt activity is as follows:

Balance 7/1/2022	Additions	Reductions	Balance 6/30/2023
<u>\$ 747,024</u>	<u>\$ -</u>	<u>\$ 62,792</u>	<u>\$ 684,232</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE E – RESTRICTED ACCOUNTS

The Debt Service Reserve and Depreciation Reserve cash accounts have been established pursuant to agreements with U.S. Rural Development. These accounts are to maintain monthly transfers as defined by loan agreements and are restricted for retirement of long-term debt, and repairs.

Restricted Accounts at June 30, 2023 consists of the following:

CASH:

Current meter deposits	\$ 50,326
Revenue Sinking	34,082
Water Sales Tax	1,803
Depreciation reserve	51,156
Sewer debt reserve	10,417
	<u>147,784</u>
CERTIFICATES OF DEPOSIT	
Depreciation reserve	<u>27,613</u>
 Total Restricted Accounts	 <u><u>\$ 175,397</u></u>

NOTE F – ACCUMULATED DEPRECIATION

At June 30, 2023 accumulated depreciation balances by type of property, plant and equipment are as follows:

Building	\$ 24,513
Water Plant	603,268
Waterworks Improvement	140,084
Sewer Plant	605,050
Equipment	230,334
	<u><u>\$ 1,603,249</u></u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE G - GARBAGE AND MOSQUITO PAYABLE

Garbage and Mosquito Control Revenues are collected and billed by the Cherry Valley Water and Sewer Department on behalf of the City of Cherry Valley. Transfers are made monthly to the City of Cherry Valley General Fund.

NOTE H - CONCENTRATION OF CREDIT RISK

Accounts Receivable arise from water and sewer sales to residents of the City of Cherry Valley. The Department maintains cash deposits from customers to collateralize Accounts Receivable.

NOTE I - RETIREMENT PLAN

All eligible employees participate in the Arkansas Employees Retirement System (APERS), a statewide cost-sharing multiple employer pension plan established by the authority of the Arkansas General Assembly. APERS provides retirement, disability, and survivor benefits for eligible employees and elected officials of state and local governmental entities in Arkansas. Contribution requirements are set forth by Arkansas Statute, and the Entity is required to contribute at an actuarially determined rate. For the years ended June 30, 2023, the Entity's contributions were \$ 2,838.

Because the plan is a multi-employer defined benefit pension plan, accounting principles generally accepted in the United States of America require the cost of employee's pensions to be recognized over the employee's respective service periods and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of assets. APERS has provided the necessary information for the entire City of Cherry Valley. We were unable to determine the specific amounts allocable to the Cherry Valley Water and Sewer Department.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report, no items were noted which would require disclosure.

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

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

To the City Council
Cherry Valley, Arkansas

We have audited, in accordance with the 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, the business-type activities as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Cherry Valley, Arkansas Water and Sewer Department's basic financial statements and have issued our report thereon dated February 6, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cherry Valley, Arkansas Water and Sewer Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cherry Valley, Arkansas Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cherry Valley, Arkansas Water and Sewer Department's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (#2023-01)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cherry Valley, Arkansas Water and Sewer Department's financial statements are free from 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*.

Cherry Valley, Arkansas Water and Sewer Department's Response to Findings

Cherry Valley, Arkansas Water and Sewer Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cherry Valley, Arkansas Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

February 6, 2024

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
SCHEDULE OF FINDINGS**

June 30, 2023

#2023-01 Segregation of duties

CONDITION: The Cherry Valley Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal control.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the transaction process. Adequate segregation of duties is an essential part of effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Department's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Department's management should review all transactions, and accounting records, and reconciliations, in order to compensate for the limited number of employees. Such review should be performed at least monthly and documented.

RESPONSE: Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, all employees are supervised by management, and financial records reviewed monthly by the council.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT
CITY OF CHERRY VALLEY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2023**

	Budget	Actual	Variance
Operating Revenues:			
Water Sales	\$ 275,600	\$ 176,100	\$ (99,500)
Sewer Sales	-	55,760	55,760
Miscellaneous	-	2,703	2,703
Total Revenues	<u>275,600</u>	<u>234,563</u>	<u>(41,037)</u>
Operating Expenses:			
Contract Services	38,400	38,400	-
Depreciation	-	74,744	(74,744)
Dues and fees	137	1,540	(1,403)
Education	3,462	4,463	(1,001)
Fuel	4,102	3,043	1,059
Garbage Collections	59,500	-	59,500
Insurance	17,158	14,450	2,708
IT Management Services	2,958	-	2,958
Labor and Fringe Benefits	46,508	29,695	16,813
Operating Maintenance and Supplies	35,624	8,222	27,402
Miscellaneous	6,152	5,931	221
Postage	1,142	1,173	(31)
Professional fees and dues	6,500	6,370	130
Regions - ARNC Loan	39,658	-	39,658
Utilities	14,299	13,554	745
Total Operating Expense	<u>275,600</u>	<u>201,585</u>	<u>74,015</u>
			-
Operating Income (Loss)	<u>-</u>	<u>32,978</u>	<u>32,978</u>
Non-operating Revenues (Expenses):			
Interest Income	-	2,198	2,198
Insurance Proceeds	-	8,200	8,200
Interest Expense	-	(27,979)	(27,979)
Total Non-op Revenues (Expenses)	<u>-</u>	<u>(17,581)</u>	<u>(17,581)</u>
Change in Net Position	<u>\$ -</u>	<u>\$ 15,397</u>	<u>\$ 15,397</u>