

**CHERRY VALLEY WATER  
AND SEWER DEPARTMENT  
CITY OF CHERRY VALLEY, ARKANSAS  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

**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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INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
Cherry Valley, Arkansas 72324

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Cherry Valley Water and Sewer Department as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

*Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair

presentation of the financial statements 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 Department's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, 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 and Sewer Department as of June 30, 2017, 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.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 4 through 6 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 Information*

As discussed in Note A, the accompanying financial statements of the Cherry Valley Water and Sewer Department are intended to present the financial position, and the changes in financial position and the cash flows of the City that is attributable to the transactions of the Cherry Valley Water and Sewer Department. They do not purport to, and do not, present fairly the financial position of the City of Cherry Valley, Arkansas, as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of the Cherry Valley Water and Sewer Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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* in considering the Cherry Valley Water and Sewer Department's internal control over financial reporting and compliance.

Meyer & Ward

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

October 12, 2017

**CHERRY VALLEY WATER AND SEWER DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017**

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, 2017. 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 conditions 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, 2017**

**Financial Highlights:**

	2017	2016
Beginning Net Position	\$ 557,573	\$ 514,870
Increase (decrease) in Net Position	<u>30,603</u>	<u>42,703</u>
Ending Net Position	<u>\$ 588,176</u>	<u>\$ 557,573</u>

Assets, liabilities, and net position for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 112,955	\$ 95,454
Restricted assets	223,675	176,206
Capital Assets	1,294,265	1,353,445
Deferred Outflow	<u>10,527</u>	<u>5,300</u>
Total Assets	<u>\$ 1,641,422</u>	<u>\$ 1,630,405</u>
Current liabilities	\$ 99,405	\$ 98,105
Long-term liabilities	<u>951,851</u>	<u>971,110</u>
Total Liabilities	<u>1,051,256</u>	<u>1,069,215</u>
Deferred Inflows	<u>1,990</u>	<u>3,617</u>
Net Position		
Invested in capital assets	309,559	387,388
Restricted for debt service	64,013	49,645
Unrestricted	<u>214,604</u>	<u>120,540</u>
Total Net Position	<u>\$ 588,176</u>	<u>\$ 557,573</u>

The following schedule presents a summary of revenues and expenditures for the year ended June 30, 2017 and 2016.

	2017	2016
Operating Revenues	\$253,317	\$252,129
Operating Expenses	<u>175,914</u>	<u>160,576</u>
Operating Income	77,403	91,553
Other Income (Expenses)	<u>-46,800</u>	<u>-48,850</u>
Change in Net Position	<u>\$30,603</u>	<u>\$42,703</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)  
June 30, 2017**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At year end June 30, 2017, the Department had \$ 1,294,265 invested in capital assets. This represents a net decrease of \$ 59,180 which is the result of depreciation expense recognized for the year.

**Debt**

At year end, the Department had \$ 939,706 in outstanding notes payable. This represents a decrease of \$ 26,351 which is the result of principal payments made. No new debt was incurred during the year ended June 30, 2017.

**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, 2017

ASSETS

Current Assets	
Cash	\$ 33,135
Cash in Escrow	6,546
Certificates of Deposit	41,971
Accounts Receivable	27,629
Unbilled Receivables	2,896
Inventory	778
Total Current Assets	<u>112,955</u>
Restricted Assets	
Cash	196,465
Certificates of Deposit	27,210
Total Restricted Assets	<u>223,675</u>
Property, Plant and Equipment	
Land	55,709
Waterworks Improvement Project	636,744
Building	44,636
Water Plant	716,885
Sewer Plant	825,492
Equipment	272,326
	<u>2,551,792</u>
Less Accumulated Depreciation	<u>(1,257,527)</u>
Net Property, Plant and Equipment	<u>1,294,265</u>
Deferred Outflows	
Pension Plan	<u>10,527</u>
Total Assets	<u>\$ 1,641,422</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, 2017

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts Payable	\$ 7,327
Garbage and Mosquito Payable	4,680
Due to General Fund	33,983
Accrued Interest Payable	2,989
Current Maturities of Long Term Debt	27,696
	76,675
Payable From Restricted Assets	
Customer Meter Deposits	22,730
	22,730
Long Term Liabilities	
Net Pension Liability	39,841
Notes payable, less current portion	912,010
Total Long Term Liabilities	951,851
Total Liabilities	1,051,256
Deferred Inflows	
Pension Plan	1,990
	1,990
Net Position	
Net Investment in Capital Assets	309,559
Restricted for Debt Service	64,013
Unrestricted	214,604
Total Net Position	588,176
Total Liabilities and Net Position	\$ 1,641,422

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, 2017**

Operating Revenues:	
Water Sales	\$ 172,386
City Water Sales Tax	26,596
Sewer Sales	53,958
Miscellaneous	377
Total Operating Revenues	<u>253,317</u>
Operating Expenses:	
Auto and Truck	1,654
Depreciation	59,180
Insurance	13,984
Labor and Fringe Benefits	49,005
Materials and supplies	30,108
Miscellaneous	2,489
Postage	1,351
Professional fees and dues	8,249
Utilities	9,894
Total Operating Expense	<u>175,914</u>
OPERATING INCOME (LOSS)	<u>77,403</u>
Non-operating Revenues (Expenses):	
Interest Income	548
Interest Expense	<u>(47,348)</u>
Total Non-operating Revenues (Expenses)	<u>(46,800)</u>
Change in Net Position	<u>30,603</u>
Beginning Net Position	<u>557,573</u>
Ending Net Position	<u>\$ 588,176</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, 2017**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 251,312
Payments to suppliers	(65,423)
Payments to employees	<u>(49,005)</u>
Net cash provided by (used in) operating activities	<u>136,884</u>
 <b>Cash Flows From Capital and Related Financing Activities</b>	
Principal paid on capital debt	(26,351)
Interest paid on capital debt	(47,427)
Net cash provided by (used in) capital and related activities	<u>(73,778)</u>
 <b>Cash Flows from Investing Activities</b>	
Interest income	548
Certificates of Deposit (purchases) maturities	(168)
Transfers to cash in escrow	(16)
Net transfers (to) from restricted accounts	<u>(47,469)</u>
Net cash provided by (used in) investing activities	<u>(47,105)</u>
Increase (Decrease) in cash and cash equivalents	16,001
Cash and cash equivalents, beginning of year	<u>17,134</u>
Cash and cash equivalents, end of year	<u>\$ 33,135</u>

(statement continued on next page)

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, 2017**

Reconciliation of Operating Income to Net Cash  
 Provided by Operating Activities

Operating Income (Loss)	\$ 77,403
Depreciation	59,180
Net change in pension liability	1,583
(Increase) Decrease in:	
Accounts Receivable	(1,213)
Unbilled Receivables	(103)
	-
Increase (Decrease) in:	
Accounts Payable	851
Garbage and Mosquito Payable	(128)
Customer Meter Deposits	(689)
Net Cash Provided (Used by) Operating Activities	<u>\$ 136,884</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, 2017

**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, 2017

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, 2017

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

Deferred Inflows and Outflows of Resources –

Deferred outflows represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. The Cherry Valley Water and Sewer Department deferred outflows are the result of accounting for pension liabilities see Note J.

Deferred Inflows represent an acquisition of net assets that applies to future periods and will not be recognized as a liability until then. The Cherry Valley Water and Sewer Department deferred inflows are the result of accounting for pension liabilities see Note J.

**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, 2017, cash deposits categorized by level of risk are as follows:

carrying amount	category		
	1	2	3
\$ 305,327	\$ 305,327	\$ -	



**CHERRY VALLEY WATER AND SEWER DEPARTMENT**  
**CITY OF CHERRY VALLEY, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE C- PROPERTY AND EQUIPMENT**

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

	June 30 2016	Additions	Deletions	June 30 2017
Land	\$ 55,709	\$ -	\$ -	\$ 55,709
Construction in Progress	-			-
Waterworks Improvement	636,744			636,744
Building	44,636			44,636
Water Plant	716,885	-		716,885
Sewer Plant	825,492	-		825,492
Equipment	272,326	-		272,326
	<u>\$ 2,551,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,551,792</u>

CHERRY VALLEY WATER AND SEWER DEPARTMENT  
CITY OF CHERRY VALLEY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE D- NOTES PAYABLE

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

3.5 % Bond Payable to ANRC due in semiannual installments of \$ 19,579 through 2035, secured by pledge of future revenues and water and sewer system	\$ 550,858
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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	388,848
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	<u>\$ 939,706</u>
Less Current Maturities	<u>(27,696)</u>
	<u>\$ 912,010</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT**  
**CITY OF CHERRY VALLEY, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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

A summary of future payments required at June 30, 2017 is as follows:

For the years ending June 30,	Principal	Interest	Total
2018	27,697	\$ 46,081	\$ 73,778
2019	29,111	44,667	73,778
2020	30,548	43,230	73,778
2021	32,159	41,619	73,778
2022	33,802	39,976	73,778
For the five year periods ending June 30,			
2027	196,714	172,176	368,890
2032	252,428	116,462	368,890
2037	212,303	53,155	265,458
2042	124,944	12,150	137,094
	<u>\$ 939,706</u>	<u>\$ 569,516</u>	<u>\$1,509,222</u>

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

Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017
<u>\$ 966,057</u>	<u>\$ -</u>	<u>\$ 26,351</u>	<u>\$ 939,706</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT  
CITY OF CHERRY VALLEY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**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, 2017 consists of the following:

CASH:	
Current meter deposits	\$ 50,010
Revenue Sinking	46,517
Water Sales Tax	48,851
Depreciation reserve	33,590
Sewer debt reserve	17,496
	<u>196,464</u>
CERTIFICATES OF DEPOSIT	
Depreciation reserve	<u>27,210</u>
 Total Restricted Accounts	 <u>\$ 223,674</u>

**NOTE F – ACCUMULATED DEPRECIATION**

At June 30, 2017 accumulated depreciation balances by type of property, plant and equipment are as follows:

Building	\$ 18,594
Water Plant	483,383
Waterworks Improvement	63,674
Sewer Plant	468,700
Equipment	223,176
	<u>\$ 1,257,527</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT  
CITY OF CHERRY VALLEY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE G – INVENTORY**

Supplies and materials are stated at the lower of cost or market. Cost is determined on the first in, first out basis.

**NOTE H - 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 I – 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 J – RETIREMENT PLAN**

**Plan Description**

All employees participate in the Arkansas Public Employees Retirement Plan (the Plan), a multi-employer, cost sharing, derived benefit plan, qualified under Section 401(a) of the Internal Revenue Code. The administration and control of the Plan is vested in the Board of Trustees of Arkansas Public Employees Retirement System (APERS). The Plan issues a publicly available financial report that includes financial statements and supplementary information for the plan, which is available on the APERS website, [www.apers.org](http://www.apers.org).

**Benefits Provided**

The plan provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Current retirement law provides for three percent cost of living adjustment to all APERS retirees who have been retired or participated in the Deferred Retirement Option Plan (DROP) for at least twelve months on July 1, of each year. Benefit provisions are established by state law and may be amended by the state legislature.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT  
CITY OF CHERRY VALLEY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE J – RETIREMENT PLAN –(cont'd)**

**Contributions**

The Plan was established as contributory. Act 793 of 1977 allowed existing and previous members to become noncontributory members. Anyone joining after January 1, 1978 was automatically enrolled as a noncontributory member. Act 2084 of 2005 established a new contributory requirement for all covered employees first hired on or after July 1, 2005. Employees hired prior to this date have the option to become a contributory member at any time. As of June 30, 2017, the Department's required contribution rate was 14.50% of annual covered payroll. The contribution requirements of plan members and the Department are established by law and may be amended by the Arkansas Legislature with concurrence of the Governor. The Department made contributions of \$ 4,673 to the plan for the year ended June 30, 2017.

**Pension Liabilities, Pension Expense, and Deferred Inflows of Resources  
Related to Pensions**

At June 30, 2017, the Department reported a liability of \$ 39.841 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date. The Department's proportion of the net pension liability was based on the projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Department's proportion was .00333204%.

CHERRY VALLEY WATER AND SEWER DEPARTMENT  
 CITY OF CHERRY VALLEY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE J – RETIREMENT PLAN – (cont'd)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions**

Deferred outflows of resources and deferred inflows of resources related to pensions related to the Cherry Valley Water and Sewer Department are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38	\$ 1,429
Changes of assumptions	3,053	
Changes in proportion and difference between employer contributions and proportionate share	480	561
Net difference between projected and actual earnings on pension plan investments	6,956	
	\$ 10,527	\$ 1,990

In accordance with GASB Statement No. 68, the recognition period for the outflows and inflows from the net difference between projected earnings on pension plan investments was 5 years. All other deferred outflows and inflows of resources related to pensions were amortized over the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan. For Fiscal year 2016, it was 4.4487 years.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT**  
**CITY OF CHERRY VALLEY, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE J – RETIREMENT PLAN – (cont'd)**

**Actuarial Assumptions**

The total pension liability, net pension liability, and certain sensitivity information was determined by actuarial valuation as of June 30, 2016. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

Actuarial cost method	Entry Age Normal
Discount rate	7.50%
Inflation rate	2.50%
Salary increases	3.95%- 9.85%
Investment rate of return	7.50% (net of investment and administrative expenses)
Mortality rate table	RP-2000 Combined Healthy. Projected to 2020 using projection scale BB, set forward two years for males and one year for females.

All other actuarial assumptions used in the June 30, 2016, valuation were based on results of the actuarial experience study for the period from July 1, 2007 through June 30, 2012, and were applied to all prior periods included in the measurement.



**CHERRY VALLEY WATER AND SEWER DEPARTMENT  
CITY OF CHERRY VALLEY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE J – RETIREMENT PLAN – (cont'd)**

**Investment rate of return**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	38%	6.82%
International Equity	24%	6.88%
Real Estate	16%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	17%	0.83%
	<hr style="width: 50%; margin: 0 auto;"/> 100%	

**Discount Rate**

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CHERRY VALLEY WATER AND SEWER DEPARTMENT**  
**CITY OF CHERRY VALLEY, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE J – RETIREMENT PLAN – (cont'd)**

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.50 %, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50 %) than the current rate:

<b>Sensitivity of Discount Rate</b>		
1% Lower 6.50%	Discount Rate 7.50%	1% Higher 8.5 %
<u>\$ 60,253</u>	<u>\$ 39,804</u>	<u>\$ 22,785</u>

**NOTE K – 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, 2017, and the related notes to the financial statements, which collectively comprise the Cherry Valley, Arkansas Water Department's basic financial statements and have issued our report thereon dated October 12, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cherry Valley, Arkansas Water 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cherry Valley, Arkansas Water 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. (#2017-01)

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cherry Valley, Arkansas Water 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 Department's Response to Findings

Cherry Valley, Arkansas Water 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 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

October 12, 2017

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

June 30, 2017

# 17-01 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, 2017**

	Budget	Actual	Variance
<b>Revenues:</b>			
Water	\$ 206,200	\$ 253,317	\$ 47,117
Interest	-	548	548
<b>Total Revenues</b>	<u>206,200</u>	<u>253,865</u>	<u>47,665</u>
<b>Expenses:</b>			
Depreciation		59,180	59,180
Interest		47,348	47,348
Labor and Fringe	39,425	49,005	9,580
Water Materials	5,121	30,108	24,987
Utilities	10,627	9,894	(733)
Garbage Collection	53,290		(53,290)
Sales Tax	17,469		(17,469)
Insurance	5,740	13,984	8,244
Water Education	290		(290)
Fuel	2,006	1,654	(352)
Legal	40,739	8,249	(32,490)
Miscellaneous	10,189	2,489	(7,700)
Public Authority	137		(137)
Uniforms	2,361	-	(2,361)
Postage	1,219	1,351	132
Reimbursement	8,052		(8,052)
Payroll Tax	2,998		(2,998)
Retirement	4,660		(4,660)
Unemployment	336		(336)
<b>Total Expenses</b>	<u>204,659</u>	<u>223,262</u>	<u>18,603</u>
<b>Change in Net Assets</b>	<u>\$ 1,541</u>	<u>\$ 30,603</u>	<u>\$ 29,062</u>

**CHERRY VALLEY WATER AND SEWER DEPARTMENT**  
**CITY OF CHERRY VALLEY, ARKANSAS**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS**  
**JUNE 30, 2017**

Year ended	Proportion of the Net Pension Liability	Proportionate share of the Net Pension Liability	Actual Covered Member Payroll	Net Pension Liability as a Percentage of Covered Payroll
6/30/2015	0.0016%	\$ 23,072	\$ 32,798	70%
6/30/2016	0.0017%	31,404	30,254	76%
6/30/2017	0.0017%	39,841	32,228	124%

Note: this schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data in this schedule is based as of the measurement date of APERS net pension liability, which is the beginning of the water and sewer department's fiscal year.

**CITY OF CHERRY VALLEY, ARKANSAS  
SCHEDULE OF EMPLOYER CONTRIBUTION  
JUNE 30, 2017**

Year Ending	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess (Deficiency) (Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	\$ 4,841	\$ 4,841	\$ -	\$ 32,798	14.76%
6/30/2016	4,466	4,466		30,254	14.76%
6/30/2017	4,673	4,673		32,228	14.50%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.