

**KNOXVILLE WATER DEPARTMENT**

**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

December 31, 2023 and 2022

KNOXVILLE WATER DEPARTMENT  
Table of Contents  
December 31, 2023 and 2022

	<u>Page</u>
Independent Auditors' Report.....	1
Statements of Net Position.....	3
Statements of Revenues, Expenses, and Changes in Net Position .....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	8

# King & Jacobs & Lorfing

King Jacobs & Lorfing, CPAs, A Professional Association • Since 1958

Adele King Jacobs, CPA  
Rhonda B. Lorfing, CPA

1216 South Rogers  
Clarksville, AR 72830

T: 479.754.2478  
F: 479.754.2473

## INDEPENDENT AUDITORS' REPORT

To the City Council of Knoxville  
Knoxville Water Department  
Knoxville, Arkansas

### Opinion

We have audited the accompanying financial statements of the Knoxville Water Department, an enterprise fund of the City of Knoxville, Arkansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knoxville Water Department of the City of Knoxville, Arkansas, as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Knoxville Water Department of the City of Knoxville, Arkansas 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.

### Emphasis of Matter

As discussed in Note 1, the financial statements present only the Knoxville Water Department and do not purport to, and do not, present fairly the financial position of the City of Knoxville, Arkansas, as of December 31, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years 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 these 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.

## **Auditors' 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 opinion. 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 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, 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 Knoxville Water Departments' 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.

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**

Management has elected to omit the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

*King Jacobs & Lorfing, CPAs, PA*

King Jacobs & Lorfing, CPAs, PA  
Clarksville, Arkansas  
January 17, 2025

## KNOXVILLE WATER DEPARTMENT

## Statements of Net Position

December 31, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current Assets		
Cash & Cash Equivalents	\$ 283,780	\$ 272,547
Accounts receivable, net of allowance for doubtful accounts of \$6,755 and \$6,755 respectively	35,336	31,938
Unbilled Accounts Receivable	20,457	20,055
Inventory	34,081	37,818
Prepaid Insurance	2,125	2,060
Total Current Assets	<u>375,779</u>	<u>364,418</u>
Restricted Assets		
Cash	417,735	390,345
Total Restricted Assets	<u>417,735</u>	<u>390,345</u>
Plant, Property and Equipment		
Land	2,476	2,476
Office Equipment	13,334	28,508
Maintenance Equipment	60,152	69,283
Water Distribution System	1,772,908	1,772,908
Sewer Distribution System	1,620,515	1,620,515
Building	50,448	38,698
Total Property, Plant, and Equipment	<u>3,519,833</u>	<u>3,532,388</u>
Less: Accumulated Depreciation	<u>2,639,766</u>	<u>2,540,306</u>
Total Property, Plant, and Equipment, Net	<u>880,067</u>	<u>992,082</u>
Total Assets	<u>\$ 1,673,581</u>	<u>\$ 1,746,845</u>

See accompanying notes to financial statements.

KNOXVILLE WATER DEPARTMENT  
Statements of Net Position  
December 31, 2023 and 2022

LIABILITIES AND NET POSITION

	<u>2023</u>	<u>2022</u>
Current Liabilities		
Accounts Payable	\$ 35,307	\$ 29,357
Payroll Taxes Payable	3,071	2,780
Sales Tax Payable	1,934	1,923
Accrued Interest Expense	880	906
Other Accrued Expenses	17,356	18,643
Current Due on Long-Term Debt	12,514	11,964
Total Current Liabilities	<u>71,062</u>	<u>65,573</u>
Other Liabilities (Payable from Restricted Assets)		
Meter Deposits	<u>39,400</u>	<u>36,615</u>
Long-Term Liabilities		
Long-Term Debt, Net of Current Maturities	383,863	396,379
Total Long-Term Liabilities	<u>383,863</u>	<u>396,379</u>
Total Liabilities	<u>494,325</u>	<u>498,567</u>
Net Position		
Invested in Capital Assets, Net of Related Debt	483,690	583,739
Restricted	417,735	390,345
Unrestricted	277,831	274,194
Total Net Position	<u>1,179,256</u>	<u>1,248,278</u>
Total Liabilities and Net Position	<u>\$ 1,673,581</u>	<u>\$ 1,746,845</u>

See accompanying notes to financial statements.

KNOXVILLE WATER DEPARTMENT  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenue		
Water Sales	\$ 423,600	\$ 404,102
Sewer Sales	45,505	45,485
Connection Fees and Service Charges	20,290	18,833
Total Operating Revenues	<u>489,395</u>	<u>468,420</u>
Operating Expenses		
Depreciation	129,368	131,666
Insurance	14,966	16,425
Labor	3,249	2,516
Licenses, Dues, Subscriptions	7,700	8,428
Repairs & Maintenance	5,805	3,889
Miscellaneous expense	3,568	2,432
Office Supplies and Postage	6,171	7,033
Pipe and Supplies	15,331	13,099
Professional Fees	9,554	7,985
Salaries	120,669	116,703
Service to City	2,008	2,128
Taxes - payroll	9,231	8,927
Transportation Expense	5,404	7,202
Utilities	10,005	9,820
Water Purchases and Sewer Treatment	203,059	200,563
Total Operating Expenses	<u>546,088</u>	<u>538,816</u>
Income (Loss) from Operations	(56,693)	(70,396)
Non-Operating Revenues (Expenses)		
Other Income	4,890	7,450
Contributions from City	-	9,759
Interest Income	884	698
Interest Expense	(18,103)	(18,630)
Total Non-Operating Revenues (Expenses)	<u>(12,329)</u>	<u>(723)</u>
Change in Net Position	(69,022)	(71,119)
Net Position - Beginning of Year	1,248,278	1,319,397
Net Position - End of year	<u>\$ 1,179,256</u>	<u>\$ 1,248,278</u>

See accompanying notes to financial statements.

KNOXVILLE WATER DEPARTMENT  
Statements of Cash Flows  
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 485,594	\$ 465,890
Cash Paid to Suppliers and Payment of Other Operating Expenses	(277,185)	(277,117)
Cash Paid to Employees and Payroll Taxes	(130,896)	(126,431)
Net Cash Provided by Operating Activities	<u>77,513</u>	<u>62,342</u>
Cash Flows from Non-Capital Financing Activities:		
Increase (Decrease) in Meter Deposits	2,785	1,775
Other Non-Operating Income	4,890	5,450
Net Cash Provided by Non-Capital Financing Activities	<u>7,675</u>	<u>7,225</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(11,966)	(11,441)
Interest Payments on Debt Obligations	(18,130)	(18,658)
Net Cash Used by Capital and Related & Financing Activities	<u>(30,096)</u>	<u>(30,099)</u>
Cash Flows from Investing Activities:		
Cash Payments for the Purchase of Fixed Assets	(17,353)	(12,800)
Cash Receipts from the Sale of Fixed Assets	-	2,000
Cash Receipts from the City of Knoxville	-	1,218
Interest Income	884	698
Net Cash Used by Investing Activities	<u>(16,469)</u>	<u>(8,884)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	38,623	30,584
Cash and Cash Equivalents, Beginning of Year	<u>662,892</u>	<u>632,308</u>
Cash and Cash Equivalents, End of Year	<u>\$ 701,515</u>	<u>\$ 662,892</u>
Reconciliation of Total Cash and Cash Equivalents:		
Current Assets - Cash and Cash Equivalents	\$ 283,780	\$ 272,547
Restricted Assets - Cash	<u>417,735</u>	<u>390,345</u>
Total Cash and Cash Equivalents	<u>\$ 701,515</u>	<u>\$ 662,892</u>
Noncash Investing, Capital, and Financing Activities:		
Capital assets included in accounts payable	\$ -	\$ -

See accompanying notes to financial statements.



KNOXVILLE WATER DEPARTMENT  
Statements of Cash Flows (continued)  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	\$ (56,693)	\$ (70,396)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	129,368	131,666
Inventory provided by city	-	8,541
(Increase) Decrease in Accounts Receivable	(3,398)	167
(Increase) Decrease in Unbilled Receivables	(402)	(2,697)
(Increase) Decrease in Inventory	3,737	(9,708)
(Increase) Decrease in Prepaid Insurance	(65)	259
Increase (Decrease) in Accounts Payable	5,950	5,287
Increase (Decrease) in Payroll Taxes Payable	291	252
Increase (Decrease) in Sales Taxes Payable	11	23
Increase (Decrease) in Accrued Liabilities	(1,287)	(1,053)
Net Cash Provided by Operating Activities	<u>\$ 77,513</u>	<u>\$ 62,342</u>

See accompanying notes to financial statements.

KNOXVILLE WATER DEPARTMENT  
Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Knoxville Water Department is an enterprise fund of the City of Knoxville, Arkansas. The Department is governed by the mayor and the city council, and is responsible for the operation and maintenance of their water and sewer system.

Basis of Accounting

The Department is operated as an enterprise fund which is considered a proprietary fund type. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The accounting and financial reporting of the Department is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred, regardless of the timing of the related cash flows.

The Department's financial statements are prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash equivalents include checking accounts, savings accounts and certificates of deposits, and short-term investments with maturities of less than three months in which the Department can effectively deposit or withdraw cash at any time without significant prior notice or penalty.

Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to the allowance based on its assessment of the current status of individual accounts.

Inventory Valuation

Material and supplies inventories are stated at lower of cost (computed on a first-in, first-out basis) or market.

Capital Assets & Depreciation

Property and equipment are recorded at cost when placed in service. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from these accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repair is charged to income as incurred; significant renewals and improvements are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Rates used for computing depreciation are as follows:

KNOXVILLE WATER DEPARTMENT  
Notes to Financial Statements  
December 31, 2023 and 2022

<u>Asset</u>	<u>Rate</u>
Water and Sewer Systems	2.00 - 5.00%
Maintenance Equipment	10.00 - 20.00%
Office Equipment	10.00 - 20.00%
Buildings	2.50 - 6.66%

Equity Classifications

The Department classifies Net Position into the following three components:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Consists of amounts which have external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations imposed by law.

Unrestricted Net Position – Consists of Net Position that do not meet the definition of “Invested in Capital Assets, Net of Related Debt”, or “Restricted Net Position”.

Operating Revenues and Expenses

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

Use of Estimates

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

Income Taxes

As a municipally owned utility, the Department is exempt from federal and state income taxes.

**NOTE 2 - CASH AND CUSTODIAL CREDIT RISK**

The Department’s policy is that deposits and investments be collateralized at a minimum of 100% of the deposits and investments fair value. At December 31, 2023, the cash book balance of the Department was \$701,515 and the bank balance was \$704,491. Of the bank balance, \$359,352 was covered by federal depository insurance and the remainder was covered by pledged collateral. At December 31, 2023, there were no of uncollateralized deposits

# KNOXVILLE WATER DEPARTMENT

## Notes to Financial Statements

December 31, 2023 and 2022

### **NOTE 3 - RESTRICTED ASSETS**

When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use unrestricted resources first and to transfer restricted funds as needed. For projects funded by tax-exempt debt proceeds, the debt proceeds are used first. Certain resources of the Department are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited.

#### Debt Reserve Funds

The 2003 bond indenture requires bond funds and depreciation funds with a minimum reserve of \$30,096 and \$2,000 respectively. The balance in the bond fund account as of December 31, 2023 and 2022 were \$43,209 and \$42,966. The balance in the depreciation fund account as of December 31, 2023 and 2022 were \$343,690 and \$319,537.

#### Customer Deposits

The Department requires a security deposit of \$75 per homeowner and \$100 per renter to insure collection of its water charges. The balance in the Meter Fund on December 31, 2023 and 2022 was \$28,486 and \$25,872.

#### Construction Account

Accounts were established for the purpose of tracking construction expenditures. The balance in the accounts on December 31, 2023 and 2022 was \$2,350 and \$2,150 respectively.

Total restricted assets as of December 31, 2023 and 2022 are as follows:

	2023	2022
Bond Fund Account	\$ 43,209	\$ 42,966
Depreciation Account	28,486	319,357
Meter Fund Account	343,690	25,872
Water/Sewer Construction Account	2,350	2,150
	<u>\$417,735</u>	<u>\$390,345</u>

### **NOTE 4 - ACCOUNTS RECEIVABLE, MAJOR CUSTOMERS, AND ASSOCIATED RISKS**

#### Accounts Receivable

The amounts estimated as uncollectible were \$6,755 for 2023 and \$6,755 for 2022.

	1/1/2022	12/31/2022	12/31/2023
Accounts Receivable balances are as follows:	\$32,105	\$31,938	\$35,366

KNOXVILLE WATER DEPARTMENT  
Notes to Financial Statements  
December 31, 2023 and 2022

Credit Risk & Concentration of Credit Risk

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable from customers. The Department provides water & sewer services to customers within the city of Knoxville, Arkansas. The Department requires a security deposit to offset any credit risk. These deposits are kept in a separate bank account. Concentration of credit risk consists primarily of accounts receivable from customers who operate poultry farms. For the years ended December 31, 2023 and 2022 the four largest customers accounted for 11.14% and 11.16% of water sales, respectively. The Department does not have a stated policy regarding concentration of credit risk,

**NOTE 5 - FIXED ASSETS AND CONSTRUCTION IN PROGRESS**

Description	Balance 12/31/2022	Additions	Deletions	Balance 12/31/2023
Non-Depreciable Assets				
Land	\$ 2,476	\$ -	\$ -	\$ 2,476
	<u>2,476</u>			<u>2,476</u>
Depreciable Assets				
Office Equipment	28,508	2,952	(18,125)	13,335
Maintenance Equipment	69,283	-	(9,131)	60,152
Buildings	38,696	14,402	(2,653)	50,445
Water Distribution System	1,772,908	-	-	1,772,908
Sewer Distribution System	1,620,515	-	-	1,620,515
	<u>3,529,910</u>	<u>17,354</u>	<u>(29,909)</u>	<u>3,517,355</u>
Totals Property, Plant, and Equipment	3,532,386	17,354	(29,909)	3,519,831
Less: Accumulated Depreciation	<u>(2,540,306)</u>	<u>(129,368)</u>	<u>29,909</u>	<u>(2,639,765)</u>
Totals Property, Plant, and Equipment, Net	<u>\$ 992,080</u>	<u>\$ (112,014)</u>	<u>\$ -</u>	<u>\$ 880,066</u>

Depreciation expense was \$129,368 for 2023 and \$131,666 for 2022.

There was no construction in progress at December 31, 2023.

KNOXVILLE WATER DEPARTMENT  
Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 6 – LONG-TERM DEBT**

Long-term debt of the Knoxville Water Department consists of the following:

Description	Balance 12/31/2022	Additions	Payments	Balance 12/31/2023
Loan payable to USDA, collateralized by the distribution system, is payable in monthly installments of \$2,508, including interest of 4.5%, ending January 13, 2044.	\$ 408,343	\$ -	\$(11,966)	\$ 396,377
	<u>\$ 408,343</u>	<u>\$ -</u>	<u>\$(11,966)</u>	<u>\$ 396,377</u>
Current due on long-term debt	\$ 11,964			\$ 12,514
Long-term debt net of current due	396,379			383,863
Total debt	<u>\$ 408,343</u>			<u>\$ 396,377</u>

Interest costs incurred and expensed for 2023 and 2022 was \$18,103 and \$18,630, respectively.

Long-term debt maturing in the next five years and after (in five-year increments) consists of:

Calendar Year Ending December 31	Principal	Interest
2024	\$ 12,514	\$ 17,582
2025	13,089	17,007
2026	13,690	16,406
2027	14,319	15,777
2028	14,977	15,119
2029 - 2033	85,860	64,620
2034 - 2038	107,479	43,001
2039 - 2043	134,449	15,937
	<u>\$ 396,377</u>	<u>\$205,449</u>

Long-term debt payable to the United States Department of Agriculture requires debt service reserves and depreciation reserves to be maintained. These requirements are being met.

KNOXVILLE WATER DEPARTMENT  
Notes to Financial Statements  
December 31, 2023 and 2022

**NOTE 7 - APERS**

The City of Knoxville participates APERS (Arkansas Public Employees Retirement System), a multi-employer defined benefit plan that covers municipal employees whose municipalities have elected coverage. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. Participation in APERS is mandatory upon employment with the City of Knoxville (including the Knoxville Water Department). As a contributory member of APERS employees must contribute 5.50% (5.25% before July 1, 2023) of their pre-tax earnings into the system. Employer contributions are based on a certain percentage of wages each month. This rate is subject to change by the APERS board of trustees. Employer contributions for Knoxville Water Department employees are paid by the City of Knoxville, Arkansas.

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

**NOTE 8 - SUBSEQUENT EVENTS**

Subsequent events were evaluated through January 17, 2025, which is the date the financial statements were available to be issued. There were no material events to be disclosed.