CITY OF DAMASCUS WATER DEPARTMENT

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

CITY OF DAMASCUS WATER DEPARTMENT

DECEMBER 31, 2024 AND 2023

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ARKANSAS ACCOUNTING
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INDEPENDENT AUDITORS' REPORT

City Council
City of Damascus Water Department
Damascus, Arkansas

Opinions

We have audited the accompanying financial statements of the business-type activities of the City of Damascus Water Department for the City of Damascus, Arkansas as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the City's basic 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 respective financial position of the business-type activities of the City of Damascus Water Department for the City of Damascus, Arkansas, as of December 31, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flow thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 City of Damascus Water Department for the City of Damascus, 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 opinions.

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 City of Damascus Water Department for the City of Damascus, Arkansas'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 Responsibility 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 City of Damascus Water Department for the City of Damascus, Arkansas'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 City of Damascus Water Department for the City of Damascus, Arkansas'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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the City of Damascus Water Department for the City of Damascus, Arkansas, are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the City of Damascus, Arkansas as of December 31, 2024 and 2023, 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. Our opinion is not modified with respect to this matter.

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 4 - 7 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Damascus Water Department's basic financial statements. The accompanying supplemental information as indicated in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2025, on our consideration of the City of Damascus Water Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Damascus Water 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 City of Damascus Water Department's internal control over financial reporting and compliance.

Arkansas Accounting

July 29, 2025
Conway, Arkansas

CITY OF DAMASCUS WATER DEPARTMENT
P.O. Box 309
Damascus, Arkansas 72039
Management's Discussion and Analysis
For the year ended December 31, 2024

The City of Damascus Water Department discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Water Department's financial activity, (c) identify changes in the Water Department's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

Overview of the Financial Statements

The financial statements report information about the Water Department using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the Water Department's overall financial status. The basic financial statements are comprised of only two components: 1) enterprise or proprietary fund financial statements and 2) notes to the financial statements.

The Statements of Net Position present information comprising all of the Water Department's assets and liabilities with the difference being the fund balances, reported as net position. The Statements of Net Position provide for a way to measure the financial health of the Water Department by providing a basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the entity.

The Statements of Revenues, Expenses, and Changes in Net Position report information regarding the change in net position during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operating, investing and financing activities. The Statements of Cash Flows explain how cash is managed, received and used.

The notes to the financial statements are essential to developing a full understanding of the data provided in the financial statements.

Financial Analysis of the Water Department

The assets of the Water Department exceeded its liabilities as of December 31, 2024 by $2,759,392 (net position).

Total assets amounted to $3,613,266, consisting primarily of fixed assets in the amount of $3,034,119. Total assets increased during 2024 by $108,097, primarily as a result of depreciation of fixed assets amounting to $293,165, and netted with a decrease in restricted cash amounting to $251,357.

Total liabilities amounted to $853,874 consisting primarily of outstanding debt obligations of $527,901 and outstanding capital lease obligations of $145,038. The Water Department's total debt decreased $58,941 during 2024.

Financial Analysis of the Water Department (Continued)

Total net position amounted to $2,759,392 consisting of net assets invested in capital assets, net of related debt amounting to $2,361,180. The Water Department's total net position increased $167,038 during 2024.

The Water Department's total revenues were $1,217,656 amounting to an increase of $219,060 or 21.94% increase from the prior year. Operating expenses amounted to $1,013,263, which was an increase of $103,245 or 11.35% increase from the prior year. Other income and expenses amounted to a net expense of $37,355 consisting of mostly interest expense amounting to $42,768, netted by interest income of $5,413. Other income and expense had a decrease of the net expenses of $8,127 or 27.81% from the prior year. The overall change in net position for the year was an increase of $167,038. This amounts to an increase of $107,688 or 181.45% increase from the prior year. This results in an ending net position of $2,759,392.

Economic Factors

The operating revenues and expenditures for the year ended December 31, 2024, were consistent with the prior year and met management's expectations. As a result, no extraordinary economic factors were noted.

Requests for Information

This financial report is designed to provide a general overview of the City of Damascus Water Department's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to:

City of Damascus Water Department
P.O. Box 309
Damascus, Arkansas 72039

CITY OF DAMASCUS WATER DEPARTMENT
P.O. Box 309
Damascus, Arkansas 72039
Management's Discussion and Analysis
For the year ended December 31, 2023

The City of Damascus Water Department discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Water Department's financial activity, (c) identify changes in the Water Department's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

Overview of the Financial Statements

The financial statements report information about the Water Department using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the Water Department's overall financial status. The basic financial statements are comprised of only two components: 1) enterprise or proprietary fund financial statements and 2) notes to the financial statements.

The Statements of Net Position present information comprising all of the Water Department's assets and liabilities with the difference being the fund balances, reported as net position. The Statements of Net Position provide for a way to measure the financial health of the Water Department by providing a basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the entity.

The Statements of Revenues, Expenses, and Changes in Net Position report information regarding the change in net position during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operating, investing and financing activities. The Statements of Cash Flows explain how cash is managed, received and used.

The notes to the financial statements are essential to developing a full understanding of the data provided in the financial statements.

Financial Analysis of the Water Department

The assets of the Water Department exceeded its liabilities as of December 31, 2023 by $2,592,354 (net position). Of this amount, $107,528 (unrestricted fund balance) may be used to meet the system's ongoing obligations to customers and creditors.

Total assets amounted to $3,505,169, consisting primarily of fixed assets in the amount of $2,740,954. Total assets increased during 2023 by $119,859, primarily as a result of depreciation of fixed assets amounting to $45,172, and netted with an increase in restricted cash amounting to $33,078.

Total liabilities amounted to $912,815 consisting primarily of outstanding debt obligations of $565,846 and outstanding capital lease obligations of $163,037. The Water Department's total debt decreased $61,168 during 2023.

Financial Analysis of the Water Department (Continued)

Total net position amounted to $2,592,354 consisting of net assets invested in capital assets, net of related debt amounting to $2,012,071 and unrestricted net assets amounting to $107,528. The Water Department's total net position increased $181,027 during 2023.

The Water Department's total revenues were $998,596 amounting to an increase of $99,168 or 11.03% increase from the prior year. Operating expenses amounted to $910,018, which was an increase of $46,519 or 5.39% increase from the prior year. Other income and expenses amounted to a net expense of $29,228 consisting of mostly interest expense amounting to $35,615, netted by interest income of $6,387. Other income and expense had an decrease of the net expenses of $7,546 or 20.52% decrease from the prior year. The overall change in net position for the year was a increase of $59,350. This amounts to an increase of $60,195 or 71.24% increase from the prior year deficit. This results in an ending net position of $2,592,354.

Economic Factors

The operating revenues and expenditures for the year ended December 31, 2023, were consistent with the prior year and met management's expectations. As a result, no extraordinary economic factors were noted.

Requests for Information

This financial report is designed to provide a general overview of the City of Damascus Water Department's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to:

City of Damascus Water Department
P.O. Box 309
Damascus, Arkansas 72039

FINANCIAL STATEMENTS

CITY OF DAMASCUS WATER DEPARTMENT

STATEMENTS OF NET POSITION

DECEMBER 31, 2024 AND 2023

ASSETS

	2024		2023	
Current Assets:				
Cash and cash equivalents	$	165,846	$	124,412
Accounts receivable - trade - net of allowance for doubtful accounts of $1,862 and $16,589, respectively		106,003		80,570
Accounts receivable - USDA RD		1,832		1,832
Accrued interest receivable		2,145		1,609
Inventory		81,923		83,037
Total Current Assets		357,749		291,460
Restricted Assets - Note 3:				
Cash and cash equivalents		221,398		472,755
Total Restricted Assets		221,398		472,755
Capital Assets - Note 4:				
Building		45,000		45,000
Water system		5,040,814		4,653,356
Equipment		238,113		238,113
		5,323,927		4,936,469
Less: Accumulated depreciation		(2,289,808)		(2,195,515)
Total Capital Assets		3,034,119		2,740,954
Total Assets	$	3,613,266	$	3,505,169

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

CITY OF DAMASCUS WATER DEPARTMENT

STATEMENTS OF NET POSITION

DECEMBER 31, 2024 AND 2023

LIABILITIES AND NET POSITION

	2024	2023
Current Liabilities:		
Accounts payable	$ 31,270	$ 38,044
Accrued interest payable	1,804	2,195
Accrued taxes payable	4,074	4,957
Current maturities of long-term debt	51,516	56,036
Total Current Liabilities	88,664	101,232
Long-Term Debt:		
Long-term debt - Note 6	527,901	565,846
Long-term capital lease obligation - Note 7	145,038	163,037
Less: Current maturities above	(51,516)	(56,036)
Total Long-Term Debt	621,423	672,847
Other Liabilities:		
Customer meter deposits and prepaid connection fees	124,766	119,715
Due to other funds	19,021	19,021
Total Other Liabilities	143,787	138,736
Total Liabilities	853,874	912,815
Net Position:		
Invested in capital assets, net of related debt	2,361,180	2,012,071
Restricted for:		
Debt service	114,297	111,687
Meter deposits	125,276	122,415
Board designated	244,229	238,653
Unrestricted	65,475	107,528
Total Net Position	$ 2,759,392	$ 2,592,354

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

CITY OF DAMASCUS WATER DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Operating Revenues:		
Water sales	$ 891,727	$ 803,041
Garbage collection sales	183,788	158,845
Connection fees and other income	142,141	36,710
Total Operating Revenues	1,217,656	998,596
Expenses:		
Water purchases	272,942	240,026
Garbage collection purchases	127,496	127,496
Salaries	173,902	173,672
Maintenance materials	24,314	18,018
Utilities	15,870	12,871
Equipment repairs and maintenance	112,477	77,353
Insurance	9,532	9,275
Employee benefits	26,314	29,326
Payroll taxes	13,379	13,391
Sales tax	67,263	58,871
Professional fees	6,500	-
Other fees expense	21,568	11,309
Vehicle operation and repair	23,542	22,429
Office supplies and postage	22,699	14,864
Travel	1,172	1,153
Depreciation expense	94,293	99,964
Total Expenses	1,013,263	910,018
Operating Income (Loss)	204,393	88,578
Other Income (Expenses):		
Interest income	5,413	6,387
Gain (loss) on sale of assets	-	-
Interest expense	(42,768)	(35,615)
Total Other Income (Expenses)	(37,355)	(29,228)
Change in Net Position	$ 167,038	$ 59,350

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

CITY OF DAMASCUS WATER DEPARTMENT

STATEMENTS OF CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2024 AND 2023

	Invested in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total
Total Net Position - 12/31/22	1,913,030	439,677	58,620	2,411,327
Change in capital assets net of debt	99,041	-	(99,041)	-
Contribution in aid of construction			121,677	121,677
Change in net position	-	33,078	26,272	59,350
Total Net Position - 12/31/23	2,012,071	472,755	107,528	2,592,354
Change in capital assets net of debt	349,109	-	(349,109)	-
Contribution in aid of construction		-	-	-
Change in net position	-	(140,018)	307,056	167,038
Total Net Position - 12/31/24	$ 2,361,180	$ 332,737	$ 65,475	$ 2,759,392

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

CITY OF DAMASCUS WATER DEPARTMENT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Cash Flows from Operating Activities:		
Cash received from customers	$ 1,165,273	$ 993,678
Cash paid to suppliers	(751,611)	(643,765)
Cash paid to employees	(173,902)	(173,672)
Net of customer deposits received (returned)	5,051	(8,773)
Net Cash Provided (Used) by Operating Activities	244,811	167,468
Cash Flows from Capital and Related Financing Activities:		
Acquisition of fixed assets	(364,935)	(145,136)
Contribution in aid of construction	-	121,677
Principal paid on long-term debt	(51,516)	(53,868)
Interest paid on debt	(43,159)	(35,734)
Net Cash Provided (Used) by Capital and Related Financing Activities	(459,610)	(113,061)
Cash Flows from Investing Activities:		
Interest income	4,876	5,398
Net Cash Provided (Used) by Investing Activities	4,876	5,396
Increase (Decrease) in Cash	(209,923)	59,805
Cash - Beginning of Year	597,167	537,362
Cash - End of Year	$ 387,244	$ 597,167
Reconciliation of operating income to net cash provided by operating activities:		
Cash Flows from Operating Activities:		
Operating Income	$ 204,393	$ 88,578
Adjustments to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	94,293	99,964
(Increase) decrease in accounts receivable	(25,433)	(4,918)
(Increase) decrease in inventory	1,114	(8,976)
Increase (decrease) in accounts payable	(6,774)	1,433
Increase (decrease) in accrued taxes payable	(883)	160
Increase (decrease) in customer meter deposits and prepaid fees	5,051	(8,773)
Net Cash Provided (Used) by Operating Activities	$ 271,761	$ 167,468

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

CITY OF DAMASCUS WATER DEPARTMENT

STATEMENTS OF CASH FLOWS (Continued)

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Reconciliation of cash and cash equivalents to statement of net position:		
Current assets	$ 165,846	$ 124,412
Restricted assets	221,398	472,755
Total Cash and Cash Equivalents	$ 387,244	$ 597,167

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Entity is the business-type activity of the local government, the City of Damascus, Arkansas, organized to provide utility services.

Specific Accounting Policies

The following is a summary of significant accounting policies:

Fund Accounting

The accounts of the Entity are organized on the basis of funds or account groups, each of which is considered to be a separate accounting unit. The operations of each fund are reported as a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

Resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one generic fund type (proprietary) and the following broad fund category:

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

Basis of Accounting

The accounting records of the Entity are maintained on the accrual basis. Revenues are recognized when they are earned; expenses are recognized when they are incurred. The Entity does not utilize encumbrance accounting.

Cash and Cash Equivalents

The Entity considers all highly liquid investments stemming from unrestricted cash with a maturity of three months or less to be cash.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Concentrations of Credit Risk

Financial instruments that potentially subject the Entity to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Entity places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Entity's customer base. At December 31, 2024 and 2023, the Entity had no significant concentrations of credit risk.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management classifies accounts past due for 61 or more days in the allowance for doubtful accounts.

Inventory

Inventory is valued at the lower of average cost or market.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date donated. During construction, interest expenditures are capitalized. Subsequent to development, interest expenditures are recognized as incurred.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	Years
Water and Sewer Systems	50
Equipment	7 - 15

Income Taxes

Because the Entity is classified as a component of a local government, it is not subject to federal or state income taxes.

Compensated Absences

Employees of the Entity are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Entity's policy is to recognize the costs of compensated absences when paid to employees.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Budget

Enterprise Fund service delivery levels are determined by the extent of consumer demand. Because Enterprise Fund revenues and expenses fluctuate with changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons and, accordingly, these comparisons have not been included.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stock, mutual funds and United States Treasury obligations. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Entity did not hold any securities or have any Level 2 or Level 3 activities as of December 31, 2024.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED):

Other Financial Instruments

The following methods and assumptions were used by the Department in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term investments, and promises to give due in less than one year: The carrying amounts reported in the balance sheets approximate fair values because of the short maturities of those instruments.

Long-term debt: The fair value of the notes and bonds payable is based on its carrying amount. The Entity has executed a security agreement with its lender which established a lien on all structures, improvements, and the distribution system, and pledges revenue to assure payment of principal and interest on the indebtedness until paid.

Collateralization of Cash Balances

	2024	2023
Cash in Bank, Fully Insured by FDIC	$ 250,000	$ 250,000
Cash in Bank, Collateralized	137,244	351,848
Cash in Bank, Uninsured, Uncollateralized	-	-
	$ 387,244	$ 601,848

NOTE 3 - RESTRICTED CASH:

Under the terms of bond ordinances, certain restricted funds must be maintained at December 31, 2024 and 2023, as follows:

	2024	2023
USDA-RD Debt Service Reserve and Water Depreciation Fund	$ 83,681	$ 79,672
Arkansas Natural Resources Commission Bond Fund, Debt Service Reserve and Depreciation Fund	8,234	32,015
Other Restricted Assets:		
Customer meter deposits and pre-paid connection fees	124,766	122,415
Water Contingency Fund	4,717	238,653
Total Restricted Funds	$ 221,398	$ 472,755

USDA-RD debt service reserve funds were created for the purpose of providing funds for the payment of the principal and interest on the USDA-RD loans if the required monthly principal and interest payments to USDA-RD loans are insufficient at any time.

Arkansas Natural Resources Commission reserve funds were created for the purpose of providing funds for the replacement of the project.

CITY OF DAMASCUS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE 3 - RESTRICTED CASH (CONTINUED):

Customer meter deposits are deposits made by the customer when meters are installed for their use. Prepayments of connection fees are being paid by customers for connection rights to new line extensions not yet available.

Restricted assets consist of cash and savings accounts, all of which are insured or collateralized.

NOTE 4 - CAPITAL ASSETS:

A summary of changes in capital assets for the year ended December 31, 2024, is presented below:

	Balance December 31, 2023	Increases	Decreases	Balance December 31, 2024
Capital assets, being depreciated:				
Buildings	$ 45,000	$ -	$ -	$ 45,000
Machinery and equipment	238,113	-	-	238,113
Water System	4,653,356	387,458	-	5,040,814
Total Capital Assets, being Depreciated	4,936,469	-	-	5,323,927
Less accumulated depreciation for:				
Buildings	(8,813)	(1,125)	-	(9,938)
Machinery and equipment	(209,769)	(6,111)	-	(215,880)
Water System	(1,976,933)	(87,057)	-	(2,063,990)
Total accumulated depreciation	(2,195,515)	(94,293)	-	(2,289,808)
Total Capital Assets, Net	$ 2,740,954	$ (94,293)	$ -	$ 3,034,119

Depreciation expense for the years ended December 31, 2024 and 2023 was $94,293 and $99,964 respectively.

NOTE 5 – ACCOUNTS RECEIVABLE:

Accounts receivable are recorded at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. As of December 31, 2024, and 2023, accounts receivables were:

	2024	2023
Current – due within 30 days	$ 94,195	$ 66,017
Past due	13,670	16,415
Allowance for doubtful accounts	(1,862)	(1,862)
Total	$ 106,003	$ 80,570

NOTE 6 - LONG-TERM DEBT:

Changes in Long-Term debt obligations for the year ended December 31, 2024, were as follows:

	Balance December 31, 2023	Increases	Decreases	Balance December 31, 2024	Due Within One Year
Bonds payable to USDA Rural Development; interest only due first two years; thereafter, monthly payments of $1,732; interest rate of 5.00%	$ 183,916	$ -	$ 11,857	$ 172,059	$ 12,464
Bonds payable to USDA Rural Development; interest only due first two years; thereafter, monthly payments of $2,232; interest rate of 4.25%	230,371	-	12,434	218,028	12,973
Bonds payable to Arkansas Natural Resources Commission; no interest nor payment due first ten years; first payment of $19,110 due 12-01-2013; thereafter, annual payments of $21,324; interest rate of 5.00%	151,560	-	13,746	137,814	14,433
Total Long-Term Debt	$ 565,847	$ -	$ 38,037	$ 527,901	$ 39,869

Maturities of long-term debt for years subsequent to 2024 are as follows: 2025 - $39,870; 2026 - $41,791; 2027 - $43,806; 2028 - $45,918; 2029 - $203,199; thereafter - $148,172; totaling, $522,759.

Long-term debt expected to be financed from Proprietary Fund types are accounted for in the Proprietary Fund. Expenditures related to such debt are also reflected in the Proprietary Funds.

NOTE 7 - LONG-TERM CAPITAL LEASE OBLIGATIONS:

The Lease - Purchase Agreement dated January 18, 2001, with Arkansas Soil and Water Conservation Commission for the connection to the Community Water System includes master meter assembly amounting to $387,629. Payments as rental for this project are $9,362 paid semi-annually for thirty years with interest computed at the rate of 4.50%.

The future minimum lease payments required at December 31, 2024, are:

2025	$ 18,724
2026	18,724
2027	18,724
2028	18,724
2029	18,724
Thereafter	84,218
	$ 177,838

Present value of the net minimum lease as of December 31, 2024 and 2023 are as follows:

	2024	2023
Future minimum lease payments	$ 177,838	$ 196,562
Less: Amounts representing interest	(34,411)	(41,267)
Present value of net minimum lease	143,427	155,295
Less: Current portion	(11,868)	(13,746)
Long-term Portion	$ 131,559	$ 141,549

The Lease - Purchase Agreement dated May 29, 2019, with Utility Service Co., Inc. for the PAX Mixing System amounting to $33,925. Payments as rental for this project are $565.42 paid monthly for four years and $150.15 paid monthly for one year with interest computed at the rate of 5%.

The future minimum lease payments required at December 31, 2024, are:

2024	$ 1,652
2025	-
2026	-
2027	-
2028	-
Thereafter	-
	$ 1,652

Present value of the net minimum lease as of December 31, 2024 and 2023 are as follows:

	2024	2023
Future minimum lease payments	$ 1,652	$ 7,742
Less: Amounts representing interest	(41)	(279)
Present value of net minimum lease	1,611	7,463
Less: Current portion	(1,611)	(6,131)
Long-term Portion	$ -	$ 1,332

NOTE 8 - EMPLOYEE BENEFITS:

The Water Department participates in the City of Damascus' health insurance and benefits program. Health coverage is provided by Municipal Health Benefit Fund, a division of the Arkansas Municipal League. The Department pays for the employees cost of the insurance. Coverage includes health, dental, vision and $20,000 in life insurance. A disability policy is also available to the employees at their cost as a payroll deduction. In 2023, the City of Damascus adopted and administered a Plan to provide health benefit coverage to retirees. The total expense for health and related benefits to the Water Department for the years ended December 31, 2024 and 2023 were $15,534 for 2024 and $18,166 for 2023.

The Water Department participates in the City of Damascus' retirement benefit program. The Plan is administered as a 451(b) retirement plan by CitiStreet Retirement. The City pays $310 per month per employee. Employees are eligible to participate after completing three months of service. The cost expensed by the Water Department for the years ended December 31, 2024 was $8,680 and for December 31, 2023 was $11,160. No retirement plan liabilities were payable at year end. The plan had no forfeitures during the years ended December 31, 2024 and 2023.

NOTE 9 - SUBSEQUENT EVENTS:

No other events occurring subsequent to year end, having a direct and material effect on the financial statements for the year ended December 31, 2024, have been determined as of the date of the audit report.

NON-FINANCIAL SECTION

CITY OF DAMASCUS WATER DEPARTMENT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2024 AND 2023

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Program or Award Amount	Expenditures
United States Department of Treasury			
Passed through the Arkansas Department of Finance and Administration			
Coronavirus State and Local Fiscal Recovery Funds	21.027	$121,677	$ 121,677
Total Department of Treasury			$ 121,677

NOTE: The System received these ARPA funds from Faulkner County. $121,677 came from Faulkner County. These city and county governments received the funding from the Arkansas Department of Finance and Administration. It was deemed necessary to report the funds on a Schedule of Expenditures of Federal Awards for the System's financial statement since the System is where the funds were ultimately used. These funds were used for infrastructure improvements and additions and for premium pay to staff.

INDEPENDENT AUDITORS' 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*

City Council
City of Damascus Water Department
Damascus, 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 financial statements of the business-type activities of the City of Damascus Water Department for the City of Damascus, Arkansas, as of and for the year ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the City of Damascus Water Department for the City of Damascus's basic financial statements, and have issued our report thereon dated July 3, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Damascus Water Department for the City of Damascus, Arkansas, internal control over financial reporting (internal control) as a basis for designing 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 City of Damascus Water Department for the City of Damascus, Arkansas, internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Damascus Water Department for the City of Damascus, Arkansas, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Damascus Water Department for the City of Damascus, Arkansas, 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 financial statements. 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*.

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.

Arkansas Accounting

July 29, 2025
Conway, Arkansas

CITY OF DAMASCUS WATER DEPARTMENT

SCHEDULE OF FINDINGS/NONCOMPLIANCE AND QUESTIONED COSTS

DECEMBER 31, 2024 AND 2023

Program	Findings/Noncompliance	Questioned Costs
United States Department of Agriculture - Rural Development	None Noted	None Noted

SUPPLEMENTAL INFORMATION

CITY OF DAMASCUS WATER DEPARTMENT

SUPPLEMENTAL INFORMATION (CONTINUED)

DECEMBER 31, 2024 AND 2023

INSURANCE COVERAGE:

Policy	Company	Coverage	Term
00810 01/01/23 - 12/31/23	Arkansas Municipal League	Auto, Damage, and Liability	
		2008 J.D. Tractor	$ 33,000.00
		2008 Ford F-350	33,000.00
		2014 Ford F-150	25,000.00
		2018 Dodge Ram 2500	40,000.00
FBTF16	Arkansas Fidelity Bond Trust	Blanket Fidelity Bond	07/01/24 - 06/30/25
		All employees and Officers	$300,000 per occurrence $2,500 deductible
00810	Arkansas Municipal League	Property coverage	06/25/24 - 06/24/25
		Meter water tank	$ 410,245.00
		Chlorine building	62,463.70
		345,000 gallon tank	614,637.03
		Pump station	1,194,247.00
		Storage Building	40,539.00
		Water Shop	481,668.00

CITY OF DAMASCUS WATER DEPARTMENT

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2024 AND 2023

SCHEDULE OF RATES CHARGED:

	2024
WATER -	
First 1,000 gallons	$ 25.75 - $31.75
Any additional 1,000 gallons	11.50

	2023
WATER -	
First 1,000 gallons	$ 23.25 - $29.25
Any additional 1,000 gallons	10.25

GROSS REVENUE RECEIVED:

	2024	2023
Gross Water Revenue	$ 1,126,970	$ 803,041
Number of Connections	1,781	1,008
Number of Gallons Bought	68,646,000	67,606,900
Number of Gallons Sold	53,574,400	50,086,500

NAMES AND TITLES OF DIRECTORS:

Name	Title
Terry Jones	Mayor
Wendi Payne	Recorder/Treasurer
Gilbert Lewis	Alderman
Justin Moore	Alderman
Jackie Williams	Alderman
Gene Byrd	Alderman
Brian Edwards	Alderman
Randy Nicholson	Water Superintendent