Wastewater Department

Financial Statements
and Supplemental Information
December 31, 2022 and 2021

(With Independent Auditor's Reports Thereon)

Conway Corporation Wastewater Department

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LANDMARK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Conway Corporation
Conway, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Conway Corporation Wastewater Department** (the Department) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Department, as of December 31, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance 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 (GAAS) 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 Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 GAAS 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 GAAS 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-8 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 the 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

The Board of Directors
Conway Corporation

Required Supplementary Information (Continued)

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The Schedules of Usage Rates, Schedule of Customers by Class, and the Schedule of Annual Billable Water by Customer Class are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Usage Rates, Schedule of Customers by Class, and the Schedule of Annual Billable Water by Customer Class are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 statement 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 Schedules of Usage Rates, Schedule of Customers by Class, and the Schedule of Annual Billable Water by Customer Class are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

As disclosed in Note 1, these financial statements are intended to present the financial position, results of operations and cash flows attributable to the Department only. They are not intended to, and do not, present the financial position of Conway Corporation as a whole as of December 31, 2022 and 2021, and the changes in its financial positions and its cash flows for the years then ended in accordance 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 March 28, 2023 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Department's internal control over financial reporting and compliance.

Landmark PLC

Little Rock, Arkansas
March 28, 2023

Management’s Discussion and Analysis

Conway Corporation Wastewater Department

Management's Discussion and Analysis
December 31, 2022 and 2021

Financial Highlights

	2022	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets			
Total current assets	$ 3,438,950	$ 2,641,855	$ 2,547,380
Total restricted assets	5,908,609	10,671,529	11,297,613
Utility plant in service, net	158,781,332	155,037,665	154,429,999
Total Assets	168,128,891	168,351,049	168,274,992
Deferred Outflows of Resources	2,900,854	1,953,837	2,172,739
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 171,029,745	$ 170,304,886	$ 170,447,731
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Total current liabilities	$ 7,314,664	$ 5,740,215	$ 5,829,347
Total noncurrent liabilities	97,802,158	101,501,810	106,602,146
Total Liabilities	105,116,822	107,242,025	112,431,493
Deferred Inflows of Resources	737,941	884,068	1,039,863
Net Position			
Net investment in utility plant in service	63,692,678	60,235,678	55,439,388
Restricted for debt service	1,430,477	1,424,016	1,411,507
Unrestricted	51,827	519,099	125,480
Total Net Position	65,174,982	62,178,793	56,976,375
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 171,029,745	$ 170,304,886	$ 170,447,731
OPERATING REVENUES			
Industrial	$ 2,623,855	$ 2,497,036	$ 2,187,439
Residential	12,245,668	11,738,116	10,956,768
Commercial	2,763,511	2,570,448	2,195,629
Institutional	771,386	663,022	516,536
Other operating income	86	188,273	114,304
Total Operating Revenues	18,404,506	17,656,895	15,970,676

(Continued)

Conway Corporation Wastewater Department

Management's Discussion and Analysis
December 31, 2022 and 2021

Financial Highlights *(Continued)*

	2022	2021	2020
OPERATING EXPENSES			
Treatment plant	$ 3,359,336	$ 2,665,566	$ 2,522,355
Collection	1,525,179	1,147,905	1,084,073
Depreciation	7,101,823	6,822,624	6,357,235
Customer accounting and collection	451,511	398,449	408,294
Administrative and general	988,632	821,500	788,952
Total Operating Expenses	13,426,481	11,856,044	11,160,909
OPERATING INCOME	4,978,025	5,800,851	4,809,767
NET NONOPERATING EXPENSE	(2,731,813)	(2,953,912)	(2,838,490)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	2,246,212	2,846,939	1,971,277
CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	749,977	2,355,479	1,268,550
INCREASE IN NET POSITION	2,996,189	5,202,418	3,239,827
NET POSITION, BEGINNING OF YEAR	62,178,793	56,976,375	53,736,548
NET POSITION, END OF YEAR	$ 65,174,982	$ 62,178,793	$ 56,976,375

The following management's discussion and analysis of Conway Corporation Wastewater Department's (the Department) financial performance provides an overview of the Department's activities for the years ended December 31, 2022 and 2021, in comparison with the prior year financial results. This discussion and analysis should be read in conjunction with the financial statements and supplemental data, which follow this section.

Conway Corporation (the Corporation) is an Arkansas nonprofit corporation established in May of 1929. The Corporation was organized for the purpose of operating utility plants and systems for the City of Conway, Arkansas (the City). The Corporation presently provides electric, water, wastewater treatment, cable, internet, telephone and security services to industrial, residential, commercial and institutional customers in the City.

The Department is responsible for the operation and maintenance of the City's wastewater treatment system pursuant to City Ordinance No. O-86-11 as amended.

Conway Corporation Wastewater Department

Management's Discussion and Analysis
December 31, 2022 and 2021

Introduction of Financial Statements

The statements of net position and the statements of revenues, expenses and changes in net position provide an indication of the Department's financial health.

The statements of net position include all of the Department's assets and liabilities, using accrual basis accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted.

The statements of revenues, expenses and changes in net position report all of the revenues and expenses during the time periods indicated.

The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as capital contributions or investment income.

Total and Capital Assets

At December 31, 2022, 2021 and 2020, the Department's assets totaled $168.1 million, $168.4 million and $168.3 million, respectively. Total assets were relatively unchanged from December 31, 2021 to December 31, 2022 and relatively unchanged from December 31, 2020 to December 31, 2021. There have been, however, some changes in composition of assets as unrestricted and restricted cash balances have been used to purchase and refurbish capital assets.

Capital Contributions and Interdepartmental Transfers

Capital contributions and interdepartmental transfers were approximately $750,000, $2.4 million and $1.3 million during 2022, 2021 and 2020, respectively. These capital contributions are comprised of developer paid fees for wastewater infrastructure. As the Department completes projects on behalf of developers, the assets constructed become property of the Department.

Liabilities

At December 31, 2022, 2021 and 2020, the Department's liabilities totaled $105.1 million, $107.2 million and $112.4 million, respectively. Total liabilities decreased by $2.1 million or 1.98% from December 31, 2021 to December 31, 2022 compared to a decrease of $5.2 million or 4.62% from December 31, 2020 to December 31, 2021. The decreases in liabilities during 2022 and 2021 are primarily the result of repayments of long-term debt of $5.1 million and $4.9 million, respectively.

Operating Revenues and Expenses

At December 31, 2022, 2021 and 2020, the Department's operating revenues totaled $18.4 million, $17.7 million and $16.0 million, respectively. The revenue increases from 2020 to 2021 and 2021 to 2022 were the results of phases II and III of a three-year approved rate ordinance. Wastewater billings are calculated using approved rates applied to water consumptions. Both 2021 and 2022 were better years for water sales as the economy rebounded from COVID-19.

Operating Revenues and Expenses *(Continued)*

At December 31, 2022, 2021 and 2020, the Department's operating expenses totaled $13.4 million, $11.9 million, and $11.2 million, respectively. Operating expenses increased approximately $1.6 million, or 13.20% from December 31, 2021 to December 31, 2022 and $695,000, or 6.23% from December 31, 2020 to December 31, 2021. During 2022 and 2021, the Department witnessed increases in treatment expenses due to plant maintenance, increased power and labor costs, and an increase in depreciation expense. Reduced demand from customers in the Commercial, Industrial and Institutional sectors, due to the COVID-19 pandemic, as well as intentional cost-cutting measures by the Corporation because of the pandemic, contributed to lower operating expenses in 2020.

Rate Structure

The Department's rate structure for wastewater services are based on a cost-of-service approach. Operating expenses and capital improvements are the components that must be funded from rates or bond issues. Wastewater rates are recommended by the Department's staff and approved by the Board of Directors. The Conway City Council serves as the regulatory body for the Department and has ultimate rate approval authority.

Contacting the Corporation's Financial Management

This report is intended to provide our customers and other interested parties with a general overview of the Department's financial position and to demonstrate accountability and stewardship for the revenues received by the Department.

Questions about this report or request for additional information should be directed to the Corporation at 501-450-6000 or to our office located at 650 Locust Street, Conway, Arkansas 72034.

Financial Statements

Conway Corporation Wastewater Department

Statements of Net Position
December 31, 2022 and 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$ 876,373	$ 739,985
Accounts receivable, net	2,056,721	1,632,210
Inventories	306,071	55,600
Prepaid expenses	199,785	214,060
Total Current Assets	3,438,950	2,641,855
Restricted Assets		
Cash and cash equivalents	5,478,462	10,240,557
Investments	430,147	430,972
Total Restricted Assets	5,908,609	10,671,529
Utility Plant in Service, Net	158,781,332	155,037,665
Total Assets	168,128,891	168,351,049
Deferred Outflows of Resources		
Deferred loss on refunding of bonds payable	905,291	1,010,338
Deferred outflows related to OPEB	100,606	113,721
Deferred outflows related to pension	1,894,957	829,778
Total Deferred Outflows of Resources	2,900,854	1,953,837
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 171,029,745	$ 170,304,886

(Continued)

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Net Position *(Continued)*
December 31, 2022 and 2021

	2022	2021
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accrued expenses and other liabilities	$ 152,133	$ 148,329
Total Current Liabilities	152,133	148,329
Current Liabilities Payable from Restricted Assets		
Accrued expenses and other liabilities	1,462,095	-
Current portion of long-term debt	5,069,499	4,937,490
Accrued interest payable	630,937	654,396
Total Current Liabilities Payable from Restricted Assets	7,162,531	5,591,886
Compensated Absences	65,509	65,012
Total OPEB Liability	407,017	525,084
Net Pension Liability	3,021,880	1,443,762
Long-term Debt, Less Current Portion	94,307,752	99,467,952
Total Liabilities	105,116,822	107,242,025
Deferred Inflows of Resources		
Deferred inflows related to OPEB	240,553	125,481
Deferred inflows related to pension	497,388	758,587
Total Deferred Inflows of Resources	737,941	884,068
Total Liabilities and Deferred Inflows of Resources	105,854,763	108,126,093
Net Position		
Net investment in utility plant in service	63,692,678	60,235,678
Restricted for debt service	1,430,477	1,424,016
Unrestricted	51,827	519,099
Total Net Position	65,174,982	62,178,793
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 171,029,745	$ 170,304,886

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Industrial	$ 2,623,855	$ 2,497,036
Residential	12,245,668	11,738,116
Commercial	2,763,511	2,570,448
Institutional	771,386	663,022
Service fees and other	86	188,273
Total Operating Revenues	18,404,506	17,656,895
OPERATING EXPENSES		
Treatment plant	3,359,336	2,665,566
Collection	1,525,179	1,147,905
Depreciation	7,101,823	6,822,624
Customer accounting and collection	451,511	398,449
Administrative and general expenses	988,632	821,500
Total Operating Expenses	13,426,481	11,856,044
Operating Income	4,978,025	5,800,851
NONOPERATING INCOME (EXPENSE)		
Net investment income	104,793	2,469
Interest expense	(2,731,560)	(2,846,998)
Amortization of deferred loss on refunding	(105,046)	(109,383)
Net Nonoperating Expense	(2,731,813)	(2,953,912)
Income Before Contributions in Aid of Construction and Interdepartmental Transfers	2,246,212	2,846,939
CONTRIBUTIONS IN AID OF CONSTRUCTION	749,977	2,355,479
Increase in Net Position	2,996,189	5,202,418
NET POSITION, BEGINNING OF YEAR	62,178,793	56,976,375
NET POSITION, END OF YEAR	$ 65,174,982	$ 62,178,793

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From		
User fees	$ 17,979,909	$ 17,349,837
Service fees and other	86	188,273
Total Receipts	17,979,995	17,538,110
Disbursements For		
Salaries, wages and employee benefits	1,742,922	1,806,347
Goods and services	4,595,706	3,518,900
Total Disbursements	6,338,628	5,325,247
Net Cash Provided by Operating Activities	11,641,367	12,212,863
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(4,937,491)	(4,812,433)
Interest paid on long-term debt	(2,845,719)	(2,971,165)
Contributions in aid of construction	749,977	2,355,479
Purchases and construction of utility plant in service	(9,343,292)	(7,408,514)
Proceeds from sale of utility plant in service	3,833	9,956
Net Cash Used by Capital and Related Financing Activities	(16,372,692)	(12,826,677)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income (expense)	102,002	(14,644)
Proceeds from sale (purchases) of investments, net	3,616	(325,779)
Net Cash Provided (Used) by Investing Actvities	105,618	(340,423)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,625,707)	(954,237)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,980,542	11,934,779
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,354,835	$ 10,980,542

(Continued)

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Cash Flows (*Continued*)
Years Ended December 31, 2022 and 2021

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 4,978,025	$ 5,800,851
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	7,101,823	6,822,624
Bad debt expense	39,538	29,083
Loss (gain) on disposal of utility plant in service	13,789	(9,293)
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	(464,049)	(147,868)
Inventories	(308,196)	5,049
Prepaid expenses	14,275	11,561
Accrued expenses and other liabilities	3,804	(183,305)
Long-term compensated absences	497	(39,405)
Total OPEB liability and related deferred outflows and inflows of resources	10,121	37,463
Net pension liability and related deferred ouflows and inflows of resources	251,740	(113,897)
Net Cash Provided by Operating Activities	$ 11,641,367	$ 12,212,863
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Current assets	$ 876,373	$ 739,985
Restricted assets	5,478,462	10,240,557
TOTAL CASH AND CASH EQUIVALENTS	$ 6,354,835	$ 10,980,542

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Inventories recorded as additions to utility plant in service during the years ended December 31, 2022 and 2021, totaled $57,725 and $22,439, respectively.

At December 31, 2022, $1,462,095 of additions to utility plant in service were included in accrued expenses and other liabilities.

Net appreciation (depreciation) in the fair value of investments for the years ended December 31, 2022 and 2021, totaled $2,791 and $17,113, respectively, and is included in net investment income.

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
Conway Corporation (the Corporation) is an Arkansas nonprofit corporation established in May of 1929. The Corporation was organized for benevolent and other purposes, including the purpose of operating utility plants and systems for the City of Conway, Arkansas (the City). The Corporation presently provides electric, water, wastewater treatment, cable, internet, telephone and security services to industrial, residential, commercial and institutional customers. The affairs of the Corporation are managed by a seven member Board of Directors. The Corporation is included in the City's financial statements as a component unit due to the significance of resources provided by the Corporation to the City.

Conway Corporation Wastewater Department (the Department) is responsible for the operation and maintenance of the City's wastewater treatment system pursuant to an exclusive franchise agreement granted under City Ordinance No. 0-86-11, as amended. The franchise agreement requires that the Corporation assess each customer a 4.25% franchise fee during the years ended December 31, 2022 and 2021, on certain service revenues and remit amounts collected directly to the City. Total franchise fees both collected from customers and remitted to the City for the years ended December 31, 2022 and 2021, were approximately $776,000 and $740,000, respectively, and are included net in administrative and general expenses in the Department's statements of revenues, expenses and changes in net position.

These financial statements are intended to present only the financial position, results of operations and cash flows attributable to the Department and are not intended to, and do not, reflect the financial position, results of operations and cash flows of Conway Corporation as a whole.

Basis of Accounting
The Department is operated as an enterprise fund of the Corporation. 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, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements of the Department are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Presentation
The presentation of the Department's financial statements follows the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34) – applicable to enterprise funds, as amended. In accordance with the requirements of GASB Statement No. 34, the Department's net position is

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation *(Continued)*
categorized into net investment in utility plant in service, restricted and unrestricted, as applicable. In addition, operating revenues and expenses derived from or related directly to providing wastewater treatment services are distinguished from nonoperating revenues and expenses for purposes of presentation on the Department's statements of revenues, expenses and changes in net position. Operating revenues consist primarily of user charges, and operating expenses include the costs of maintaining and operating the wastewater treatment system. Operating revenues and expenses may also include gains and losses on the sale or disposal of utility plant in service assets in the normal course of business.

Cash and Cash Equivalents
For purposes of the presentation on the statements of cash flows, cash and cash equivalents include all demand deposit and money market deposit accounts held with financial institutions and money market mutual funds held with investment banking firms.

Accounts Receivable, Net
Customers are required to place a utility deposit unless they pass a soft credit check with the Corporation. Accounts receivable are ordinarily due twenty days after the issuance of an invoice. An account that has been on inactive status without payment for thirty days after the due date is turned over to a collection agency for further action. After six months of inactive status without payment the account is written off as bad debt.

Accounts receivable are stated net of an allowance for doubtful accounts, determined by management based upon a review of outstanding receivables and historical collection information. Management does not anticipate material losses on the Department's receivables in excess of the established allowance, which was approximately $16,000 at December 31, 2022 and 2021.

Inventories
Materials and supplies used in the operation and maintenance of utility plant in service are stated at average cost.

Utility Plant in Service
Utility plant in service is recorded at historical cost, including all direct salaries, materials and supplies related to construction and improvements completed by Department personnel.

Costs related to major additions and betterments of utility plant in service are capitalized, while costs of repairs and maintenance that do not add value or extend the useful life of the related asset are expensed as incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant in Service *(Continued)*
Depreciation is provided using the straight-line method over the following estimated useful lives:

Collection and treatment facilities – 20 to 75 years
Equipment – 3 to 25 years

As required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB Statement No. 42), management evaluates events or changes in circumstances affecting assets comprising utility plant in service to determine whether impairment has occurred. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded in accordance with GASB Statement No. 42. There were no impairment losses recorded for the years ended December 31, 2022 or 2021.

Deferred Outflows/Inflows of Resources
Deferred outflows/inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Department's deferred outflows and inflows of resources consist of deferred outflows and inflows of resources related to the Department's pension plan and OPEB activities, as further discussed in Notes 7 and 8, respectively, and the deferred loss on refunding of bonds payable. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding bonds.

Contributions in Aid of Construction
Entities or individuals intending to engage in residential or commercial development activities within the City must first receive approval from the Corporation to connect to existing utility lines. It is customary, although not specifically required, that the Corporation will subcontract and manage the installation of utility lines and hook-ups on behalf of the developer. The developer may be required to place on deposit with the Corporation an amount equal to the estimated cost to complete the project or may be required to obtain a letter of credit issued by a financial institution that is acceptable to the Corporation.

Deposits received from developers are initially recorded as restricted assets and liabilities payable from restricted assets or unearned service fees, as applicable. Amounts on deposit are then used to pay the costs of construction. In the event that the Corporation does not receive a deposit from the developer, construction costs are billed as the work progresses and costs are incurred and are included in accounts receivable until collected. As the Corporation completes projects on behalf of developers, the assets constructed become property of the Corporation, and the cost of the project is recognized as "contributions in aid of construction," capitalized and depreciated in accordance with the Corporation's depreciation policy.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Corporation employees earn paid time off benefits on the basis of length of service time. Subject to certain restrictions, employees are compensated (usually from the Department which the employee is assigned) for unused paid time off upon leaving the Corporation's employment. All paid time off is accrued when incurred in the Department's financial statements.

Long-Term Debt

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Pension and OPEB

For purposes of measuring the net pension liability and total OPEB liability, deferred outflows/inflows of resources related to pension and OPEB and pension and OPEB expense, information about the fiduciary net position of the Retirement Plan of the Corporation (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the Plan are reported at fair value.

Revenue Recognition

Revenues for wastewater collection and treatment services are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the Department's financial statements include an estimate of charges for services provided but unbilled at year end.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosed in the notes. Actual results could differ from those estimates.

The useful lives of assets comprising utility plant in service are significant estimates used to determine the amount of depreciation expense and the net book value of utility plant in service reported in the Department's financial statements.

Estimates and assumptions are used by an independent actuary to perform actuarial valuations for the Corporation's defined benefit plan and postemployment benefit plan. These valuations are the basis for determining required contributions, annual cost, funded status and net pension liability or total OPEB liability.

Fair Value of Financial Instruments

Entities with total assets of $100 million or more are generally required to disclose certain information about the estimated fair value of financial instruments held as of the reporting date. The fair value of a financial instrument is the current amount that would be exchanged between willing parties other than in a forced liquidation. Disclosures about the fair value of financial instruments are

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments *(Continued)*
based on pertinent information available to management. Accordingly, management's estimate of fair value may not necessarily be indicative of amounts that could be realized upon disposition of the financial instruments. The Department's financial instruments include cash and cash equivalents, investments, accounts receivable, accrued expenses and other liabilities. It is management's estimate that the carrying values of these financial instruments are a reasonable approximation of their respective fair values at December 31, 2022 and 2021.

Recently Adopted Accounting Standards
Effective January 1, 2022, the Department implemented GASB Statement No. 87, *Leases* (GASB Statement No. 87). The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments, and increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee recognizes a lease liability and an intangible right-to-use lease asset, and a lessor recognizes a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The adoption of GASB Statement No. 87 had no effect on the Department's financial statements.

Recently Issued Accounting Standards
GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96) issued in May 2020, will be effective for the Corporation on January 1, 2023. The objective of GASB Statement No. 96 is to better meet the information needs of financial statement users by improving the accounting and financial reporting for subscription-based information technology arrangements (SBITA) by governments, and increases the usefulness of governments' financial statements by defining a SBITA, requiring the recognition of SBITA assets and liabilities, providing capitalization criteria for outlays such as certain implementation costs, and requiring note disclosures for a SBITA. Management of the Corporation has not yet determined the impact that adoption of GASB Statement No. 96 will have on the Department's financial statements or related disclosures.

NOTE 2: RESTRICTED ASSETS

The Department's restricted assets include the following:

The bond funds include resources accumulated by the Department for the payment of principal and interest on outstanding bonds through monthly deposits. Monthly deposits are equal to one-sixth of the next principal and interest payment for the Series 2015B Wastewater Revenue Improvement Bonds and Series 2017 Wastewater Revenue Refunding Bonds and one-twelfth of the next principal payment and one-sixth of the next interest payment for the Series 2016 Wastewater Revenue Refunding Bonds,

NOTE 2: RESTRICTED ASSETS (Continued)

Series 2019A Wastewater Revenue Improvement Bonds, Series 2019B Wastewater Revenue Refunding Bonds and Series 2020 Wastewater Revenue Refunding Bonds, as required by revenue bond ordinances.

The debt service reserve funds were established at the time the related bonds were issued and are required to be maintained at an amount equal to 50% of the maximum annual debt service of the Series 2016 Wastewater Revenue Refunding Bonds.

The construction fund is comprised of unspent bond proceeds to be used for the purpose to fund large infrastructure projects.

Balances in these restricted asset accounts are as follows:

	2022	2021
Bond funds	$ 1,629,376	$ 1,645,253
Debt service reserve funds	432,038	433,159
Construction fund	3,847,195	8,593,117
Total restricted assets	$ 5,908,609	$ 10,671,529

NOTE 3: DEPOSITS AND INVESTMENTS

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 59, *Financial Instruments Omnibus*, require that certain disclosures be made related to the Department's exposure to credit risk and interest rate risk, which are included in the paragraphs that follow:

Deposits
State of Arkansas (the State) statutes require the City, and thus the Corporation and each of its departments, to maintain cash balances on deposit with financial institutions located within the State. It is generally the Corporation's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the Corporation's name by an agent of the Corporation. At December 31, 2022 and 2021, all of the Department's deposits were fully covered by FDIC insurance and collateral held by the Corporation's agent in the Corporation's name.

Investments
In accordance with state statutes and bond ordinances, the Department's investments consist of direct obligations of the United States (U.S.) government and its agencies, mutual funds comprised of U.S. Treasury obligations and fixed income securities. All of the Department's investments are restricted for specified purposes, held in trust by a financial institution in the name of the Corporation and reported in the statements of net position at fair value.

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Investments *(Continued)*
Accounting standards categorize fair value measurements according to a hierarchy based on valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. The fair values of the Department's investments are determined using Level 1 inputs.

The Department's investments are detailed in the schedule that follows:

Investment	Book Value	Maturity Date	Fair Value
December 31, 2022:			
Money market mutual funds	$ 4,785,780	-	$ 4,785,780
Fixed income securities	172,707	5/22/2023	171,096
U.S. Treasury Note	104,426	11/30/2023	101,984
Fixed income securities	174,702	8/25/2025	157,067
Total Investments	$ 5,237,615		$ 5,215,927
December 31, 2021:			
Money market mutual funds	$ 9,360,515	-	$ 9,360,515
U.S. Treasury Note	90,989	3/24/2022	90,989
Fixed income securities	171,550	4/5/2022	170,700
Fixed income securities	174,935	5/25/2025	169,283
Total Investments	$ 9,797,989		$ 9,791,487

	2022	2021
Reconciliation to statements of net position:		
Total investments as presented in the schedule above	$ 5,215,927	$ 9,791,487
Less amounts included in cash and cash equivalents	(4,785,780)	(9,360,515)
Total investments as presented in the statements of net position	$ 430,147	$ 430,972

The money market mutual funds held by the Department are the Northern Institutional Treasury Portfolio comprised primarily of money market instruments issued by, or guaranteed by, the U.S. government and related repurchase agreements. These funds may be exposed to interest rate risk, which is the risk that changes in interest rates will adversely affect their fair values. As of December 31, 2022, the weighted average maturity of the Northern Institutional Treasury Portfolio was 11 days, and was rated AAAm by Standard & Poor's.

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Investments *(Continued)*

The fixed income securities held by the Department are note securities of the Federal National Mortgage Association (Fannie Mae). The notes, including any interest or return of discount on the notes, are not guaranteed by, and are not the debts or obligations of the United States. These funds may be exposed to interest rate risk, which is the risk that changes in interest rates will adversely affect their fair values. The fixed income securities are rated AA+ by Standard & Poor's.

The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates or that limits the amount of investments in any one issuer.

NOTE 4: UTILITY PLANT IN SERVICE

A summary of changes in utility plant in service that occurred during the years ended December 31, 2022 and 2021, is as follows:

	2021	Increases	Decreases	2022
Non-depreciable:				
Land and land use rights	$ 542,346	$ 13,545	$ -	$ 555,891
Construction in progress	2,604,206	9,574,001	(1,921,596)	10,256,611
Depreciable:				
Collection and treatment facilities	216,085,405	2,572,726	(26,371)	218,631,760
Equipment	4,421,185	624,436	(109,438)	4,936,183
	223,653,142	12,784,708	(2,057,405)	234,380,445
Accumulated depreciation	(68,615,477)	(7,101,823)	118,187	(75,599,113)
Utility plant in service, net	$ 155,037,665	$ 5,682,885	$ (1,939,218)	$ 158,781,332

	2020	Increases	Decreases	2021
Non-depreciable:				
Land and land use rights	$ 509,246	$ 33,100	$ -	$ 542,346
Construction in progress	2,330,610	4,226,841	(3,953,245)	2,604,206
Depreciable:				
Collection and treatment facilities	209,177,483	6,907,922	-	216,085,405
Equipment	4,299,708	216,335	(94,858)	4,421,185
	216,317,047	11,384,198	(4,048,103)	223,653,142
Accumulated depreciation	(61,887,048)	(6,822,624)	94,195	(68,615,477)
Utility plant in service, net	$ 154,429,999	$ 4,561,574	$ (3,953,908)	$ 155,037,665

NOTE 5: COMPENSATED ABSENCES

Activity related to the Department's compensated absences as well as the amounts due within one year and greater than one year for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
Beginning balance	$ 76,485	$ 122,843
Additions	231,804	202,878
Reductions	(231,219)	(249,236)
Ending balance	$ 77,070	$ 76,485
Amounts due in one year	$ 11,561	$ 11,473
Long-term	65,509	65,012
	$ 77,070	$ 76,485

NOTE 6: LONG-TERM DEBT

The Department's long term-debt consists of revenue refunding bonds, issued September 3, 2020, October 2, 2019, November 30, 2017 and January 1, 2016, to refund previously issued debt and revenue improvement bonds, issued October 2, 2019 and May 19, 2015, for the purpose of financing improvements to the wastewater collection and treatment facilities. Significant terms and principal balances of the Department's long-term debt at December 31, 2022 and 2021, are as follows:

	Interest Rates	2022	2021
Publicly Traded Bonds			
$12,415,000 City of Conway, Arkansas, Wastewater Revenue Refunding Bonds, Series 2016; principal payable annually, interest payable semi-annually through maturity on October 1, 2040	2.0% - 5.0%	$ 10,860,000	$ 11,265,000
$9,370,000 City of Conway, Arkansas, Wastewater Revenue Improvement Bonds, Series 2019A; principal payable annually, interest payable semi-annually through maturity on October 1, 2039	2.375%- 5.0%	8,700,000	8,935,000
$21,000,000 City of Conway, Arkansas Wastewater Revenue Refunding Bonds, Series 2019B; principal payable annually, interest payable semi-annually through maturity on October 1, 2037	2.11%- 3.17%	18,110,000	19,090,000

(Continued)

NOTE 6: LONG-TERM DEBT (Continued)

	Interest Rates	2022	2021
Bonds from Direct Placement			
$10,000,000 City of Conway, Arkansas, Wastewater Revenue Improvement Bonds, Series 2015B; principal and interest payable semi-annually through maturity on April 15, 2037	1.5%	$ 7,630,776	$ 8,067,868
$58,832,042 City of Conway, Arkansas, Wastewater Revenue Refunding Bonds, Series 2017; principal and interest payable semi-annually through maturity on April 15, 2035	1.5%	48,026,537	50,232,094
$6,395,956 City of Conway, Arkansas Wastewater Revenue Refunding Bonds, Series 2020; principal payable annually beginning October 1, 2021, interest payable semi-annually through maturity on October 1, 2029	1.69%	5,066,482	5,741,324
		98,393,795	103,331,286
Unamortized premium		983,456	1,074,156
Total long-term debt		99,377,251	104,405,442
Less current portion		(5,069,499)	(4,937,490)
Long-term debt, net of current portion		$ 94,307,752	$ 99,467,952

All of the Department's long-term debt is secured by a pledge of revenues generated by the Department, and the Series 2019A Wastewater Revenue Improvement Bonds and the Series 2020, 2019B and 2016 Wastewater Revenue Refunding Bonds are additionally secured by surplus revenues of the Electric Department.

Publicly Traded Bonds

On January 1, 2016, the City issued $12,415,000 of Wastewater Revenue Refunding Bonds, Series 2016 (the 2016 Series Bonds) to refund the outstanding balance of the $14,955,000 Wastewater Revenue Improvement Bonds, Series 2010 (the 2010 Series Bonds). The net proceeds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the 2010 Series Bonds. As a result, the remaining principal balance of the 2010 Series Bonds is considered defeased, and the Department has removed the liability from its accounts. The reacquisition price exceeded the net carrying amount of the old debt by $264,873. This amount is shown as deferred loss on refunding of bonds payable and

NOTE 6: LONG-TERM DEBT (Continued)

Publicly Traded Bonds *(Continued)*

amortized over the life of the new debt through 2040. This refunding transaction was undertaken to reduce the Department's total debt service payments by approximately $1,130,000 over 24 years and resulted in an economic gain (difference between present value of debt service payments on the old and new debt) of approximately $601,000.

On October 2, 2019, the City issued $21,000,000 of Wastewater Revenue Refunding Bonds, Series 2019B (the 2019B Series Bonds) to refund the outstanding balance of the $25,000,000 Wastewater Revenue Improvement Bonds, Series 2012A (the 2012A Series Bonds). The net proceeds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the 2012A Series Bonds. As a result, the remaining principal balance of the 2012A Series Bonds is considered defeased, and the Department has removed the liability from its accounts. The outstanding principal of the defeased bonds is $21,310,000 at December 31, 2019, and will be fully redeemed on April 1, 2022. The reacquisition price exceeded the net carrying amount of the old debt by $1,035,858. This amount is shown as deferred loss on refunding of bonds payable and amortized over the life of the new debt through 2037. This refunding transaction was undertaken to reduce the Department's total debt service payments by approximately $1,419,000 over 18 years and resulted in an economic gain (difference between present value of debt service payments on the old and new debt) of approximately $1,415,000.

Bonds from Direct Placement

On September 3, 2020, the City issued $6,395,956 of Wastewater Revenue Refunding Bonds, Series 2020 (the 2020 Series Bonds) to refund the outstanding balance of the $9,980,000 Wastewater Revenue Refunding Bonds, Series 2014 (the 2014 Series Bonds). The net proceeds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the 2014 Series Bonds. As a result, the remaining principal balance of the 2014 Series Bonds is considered defeased, and the Department has removed the liability from its accounts. The outstanding principal of the defeased bonds is $6,855,000 at December 31, 2020, and will be fully redeemed on October 1, 2029. The reacquisition price exceeded the net carrying amount of the old debt by $17,245. This amount is shown as deferred loss on refunding bonds payable and amortized over the life of the new debt through 2025. This refunding transaction was undertaken to reduce the Department's total debt service payments by approximately $368,000 over 9 years and resulted in an economic gain (difference between present value of debt service payments on the old and new debt) of approximately $344,000.

The Department's outstanding bonds from direct placement of $60,723,795 and $64,041,286 as of December 31, 2022 and 2021, respectively, is compiled of the Series 2015B, 2017 and the 2020 bonds. The Series 2015B and 2017 bonds contain a provision that, in the event of default, the lender may apply to the courts to appoint a person to administer the Wastewater System on behalf of the bondholders with the power to charge and collect rates sufficient to provide the payment of the System's operations and the principal and interest on all indebtedness secured by the revenues. The Series 2020 bond contains a provision that, in the event of default, the lenders may proceed to file suit to enforce the terms of the bond agreement.

Conway Corporation Wastewater Department

Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6: LONG-TERM DEBT (Continued)

Long-Term Debt Activity

Long-term debt activity for the years ended December 31, 2022 and 2021, is as follows:

	2021	Increases	Decreases	2022
Bonds payable (public)	$ 39,290,000	$ -	$ (1,620,000)	$ 37,670,000
Bonds payable (private placement)	64,041,286	-	(3,317,491)	60,723,795
Unamortized premium	1,074,156	-	(90,700)	983,456
	$ 104,405,442	$ -	$ (5,028,191)	$ 99,377,251

	2020	Increases	Decreases	2021
Bonds payable (public)	$ 40,870,000	$ -	$ (1,580,000)	$ 39,290,000
Bonds payable (private placement)	67,273,719	-	(3,232,433)	64,041,286
Unamortized premium	1,167,439	-	(93,283)	1,074,156
	$ 109,311,158	$ -	$ (4,905,716)	$ 104,405,442

Annual Debt Service Requirements

Remaining debt service payments at December 31, 2022, are as follows:

	Publicly Traded Bonds		Bonds from Direct Placement		
Fiscal Year	Principal	Interest	Principal	Interest	Total
2023	$ 1,670,000	$ 1,260,760	$ 3,399,499	$ 1,460,230	$ 7,790,489
2024	1,715,000	1,212,290	3,476,632	1,380,411	7,784,333
2025	1,765,000	1,166,313	3,558,887	1,298,726	7,788,926
2026	1,810,000	1,118,049	3,641,839	1,215,074	7,784,962
2027	1,865,000	1,062,786	3,724,410	1,129,429	7,781,625
2028-2032	10,305,000	4,336,456	20,144,634	4,251,176	39,037,266
2033-3037	12,210,000	2,443,584	22,777,894	1,589,057	39,020,535
2038-2040	6,330,000	406,831	-	-	6,736,831
	$ 37,670,000	$ 13,007,069	$ 60,723,795	$ 12,324,103	$ 123,724,967

NOTE 7: RETIREMENT PLANS

Defined Benefit Plan

Plan Description

The Plan is a noncontributory, single-employer defined benefit pension plan administered by the Corporation with the Corporation's Chief Executive Officer serving as the Plan's trustee. The Plan provides retirement benefits to eligible employees in the form of monthly pension payments over the life of the participant. The Corporation's Board of Directors has been assigned the authority to establish and amend benefit provisions of the Plan. An actuarial valuation is prepared by an independent actuary as of the beginning of each plan year, which occurs on August 1. The Corporation does not issue a stand-alone financial report for the Plan.

Benefits Provided

The Plan provides retirement benefits for full-time employees of the Corporation with at least one year of service and are at least 21 years of age. Retirement benefits are calculated as 1.5% of the employee's final 5 year average salary times the employee's years of service. All employees may retire on the latter of an employee's sixty-fifth birthday or the fifth anniversary of the first day of the Plan year in which participation in the Plan commenced. An employee who retires after the age of 55, but before age 65, and has completed at least 10 years of service may withdraw their vested accrued benefit, subject to a 0.25% per month actuarial reduction (if hired on or after January 1, 1990) or 0.167% actual reduction (if hired before January 1, 1990) for early commencement.

At August 1, 2022, the following employees of the Corporation were covered by the benefit terms:

Retirees and beneficiaries	89
Terminated vested and other inactive participants	52
Active	229
Total	370

Contributions

The Corporation's practice has been to contribute at least 100% of the actuarially determined contribution, subject to approval by the Corporation's Board of Directors. The Corporation's contribution rate and required contributions for the years ended December 31, 2022 and 2021 totaled 12.82% and $2,106,543, and 13.34% and $2,398,914, respectively. Actual contributions for all departments for the years ended December 31, 2022 and 2021 totaled $2,400,000 and $2,392,000, or 113.93% and 99.71%, respectively, of required contributions.

Net Pension Liability

The Corporation's net pension liability was measured as of December 31, 2022 and 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2022 and 2021, and then projected forward to the measurement date. There have been no significant changes between the valuation date and the measurement date.

NOTE 7: RETIREMENT PLANS (Continued)

Defined Benefit Plan *(Continued)*

Net Pension Liability *(Continued)*

Total pension liability in the August 1, 2022 and 2021 actuarial valuation was determined using the following assumptions:

	2022	2021
Inflation	3.50%	3.50%
Annual salary increases	4.00%	4.00%
Investment rate of return	7.00%	7.00%

Mortality rates in the August 1, 2022 and 2021 actuarial valuation were based on the Pub-G 2010 Healthy Mortality Table, projected generationally with Scale MP 2019.

The best-estimate range for the long-term expected rate of return on pension plan investments was determined by adding expected inflation to expected long-term real returns. The target allocations and the expected real returns were developed based on consultation with the Plan’s investment advisor.

Best estimates of arithmetic real rates of return for each major asset class included in the Plan’s target asset allocation as of August 1, 2022 and 2021, are summarized in the table below:

	2022		2021	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Stock	75.00%	6.00%	75.00%	6.00%
Fixed income	20.00%	2.00%	20.00%	2.00%
Cash equivalents	5.00%	0.00%	5.00%	0.00%
Total	100.00%		100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will total the actuarially determined contribution. 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 active and inactive employees. 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.

NOTE 7: RETIREMENT PLANS (Continued)

Defined Benefit Plan *(Continued)*

Changes in the Net Pension Liability

Changes in the Corporation's net pension liability for the year ended December 31, 2022 were as follows:

	Increase (Decrease)		
	Total Pension Liability (A)	**Plan Fiduciary Net Position (B)**	**Net Pension Liability (A) - (B)**
Balances at December 31, 2021	$ 57,638,937	$ 47,499,865	$ 10,139,072
Changes for the year:			
Service cost	1,087,220	-	1,087,220
Interest on total pension liability	4,003,983	-	4,003,983
Effect of economic/demographic gains or losses	1,461,450	-	1,461,450
Employer contributions	-	2,400,000	(2,400,000)
Net investment income	-	(7,014,176)	7,014,176
Benefit payments	(1,965,590)	(1,965,590)	-
Net changes	4,587,063	(6,579,766)	11,166,829
Balances at December 31, 2022	$ 62,226,000	$ 40,920,099	$ 21,305,901

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Corporation, calculated using the discount rate of 7.00%, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	**Current Discount Rate 7.00%**	**1% Increase 8.00%**
Net pension liability	$ 27,728,611	$ 21,305,901	$ 14,883,191

NOTE 7: RETIREMENT PLANS (Continued)

Defined Benefit Plan *(Continued)*

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2022 and 2021, the Corporation recognized pension expense of $4,142,410 and $1,547,157, respectively. At December 31, 2022, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,206,843	$ 742,232
Net difference between projected and actual earnings	8,283,497	2,777,306
Changes of assumptions	879,539	-
Contributions made during the measurement period not recognized in pension expense	38,907	-
Total	$ 13,408,786	$ 3,519,538

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2023	$ 1,440,194
2024	$ 2,134,342
2025	$ 2,833,546
2026	$ 2,946,472
2027	$ 325,918
Thereafter	$ 208,776

Department Allocations

The allocations of net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been allocated to each department of the Corporation based on salary and wages attributable to each department as a percent of total salaries and wages paid to all employees of the Corporation. The Department's allocable portion of net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense totaled $3,021,880, $1,894,956, $497,388 and $585,414, respectively, for the year ended December 31, 2022, and $1,443,762, $829,778, $758,587 and $218,647, respectively, for the year ended December 31, 2021.

NOTE 7: RETIREMENT PLANS (Continued)

457 Plan

The Conway Corporation 457 Supplemental Retirement Plan (similar to a 401(k) plan for non-governmental entities) was formed, effective January 1, 2000, as a supplemental defined contribution retirement program for employees. Employee participation in this plan is optional. The Corporation makes matching contributions for eligible employees who elect to participate up to 50% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the years ended December 31, 2022 and 2021, totaled approximately \$168,000 and \$123,700, respectively.

NOTE 8: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN

Plan Description

The Corporation offers retiree medical benefits and life insurance to employees who retire from active employment under a single-employer defined benefit post-employment plan (the OPEB) administered by the Corporation. The Corporation's Board of Directors has been assigned the authority to establish and amend benefits of the OPEB. An actuarial valuation was prepared by an independent actuary as of December 31, 2022 and 2021. There were no assets of the OPEB that were accumulated in a trust during the years ended December 31, 2022 and 2021.

Benefits Provided

The OPEB provides medical and life insurance benefits for retirees and their surviving spouses. An employee is eligible to elect medical coverage upon meeting the eligibility requirements of the Plan if the employee pays 100% of the retiree premium (see criteria for eligibility of the Plan in Note 7). The OPEB also provides retirees with life insurance coverage of one times their basic annual earnings immediately prior to retirement, up to a maximum of \$200,000. This amount is reduced by 50% at age 65.

At January 1, 2022, the following employees were covered by the benefit terms:

Retirees and surviving spouses	54
Active employees	228
Total	282

During the years ended December 31, 2022 and 2021, the Corporation paid, as they came due, \$48,278 and \$49,979, respectively, of benefit payments for the OPEB.

NOTE 8: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (Continued)

Total OPEB Liability

The Corporation's total OPEB liability was measured as of December 31, 2022 and 2021, using an actuarial valuation as of those dates.

Total OPEB liability in the December 31, 2022 and 2021 actuarial valuations was determined using the following actuarial assumptions and other inputs:

	2022	2021
Inflation	2.00%	2.00%
Annual salary increases	4.00%	4.00%
Healthcare cost trend rates	7.50% for 2022, increased/ decreased each year to an ultimate rate of 4.25% for 2031 and later	7.50% for 2021, increased/ decreased each year to an ultimate rate of 4.25% for 2030 and later

Mortality rates in the December 31, 2022 and 2021 actuarial valuation were based on the Pub-G 2010 Healthy Mortality Table, projected generationally with Scale MP 2019.

Discount Rate

The discount rate used to measure the total OPEB liability in the December 31, 2022 and 2021 actuarial valuations was 4.31% and 2.25%, respectively, and was based upon the S&P Municipal Bond 20 Year High Grade Index as of their respective measurement dates.

Changes in Total OPEB Liability

Changes in the Corporation's total OPEB liability for the year ended December 31, 2022 were as follows:

Balance at December 31, 2021	$ 3,693,910
Changes for the year:	
Service cost	130,746
Interest on total OPEB liability	84,041
Differences between expected and actual experience	(366,408)
Effect of assumptions changes or inputs	(635,543)
Benefit payments	(48,278)
Net changes	(835,442)
Balance at December 31, 2022	$ 2,858,468

NOTE 8: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Corporation using the discount rate of 4.31%, as well as what the Corporation's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.31%) or 1 percentage point higher (5.31%) than the current rate:

	1% Decrease 3.31%	Current Discount Rate 4.31%	1% Increase 5.31%
Total OPEB liability	$ 3,061,619	$ 2,858,468	$ 2,672,167

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following represents the total OPEB liability of the Corporation, calculated using the current healthcare cost trend rate, as well as what the Corporation's total OPEB liability would be if it were calculated using the healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB liability	$ 2,585,379	$ 2,858,468	$ 3,170,161

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended December 31, 2022 and 2021, the Corporation recognized OPEB expense of $71,619 and $265,092, respectively. For the year ended December 31, 2022, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 591,777	$ 958,350
Changes of assumptions	120,113	743,817
Total	$ 711,890	$ 1,702,167

NOTE 8: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (Continued)

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB *(Continued)*

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending December 31,		
2023	$	(94,890)
2024	$	(94,890)
2025	$	(94,890)
2026	$	(94,890)
2027	$	(96,915)
Thereafter	$	(513,802)

Department Allocations

The allocations of total OPEB liability, deferred outflows/inflows of resources and OPEB expense have been allocated to each department of the Corporation based on salary and wages attributable to each department as a percent of total salaries and wages paid to all employees of the Corporation. The Department's allocable portion of total OPEB liability, deferred inflows of resources, deferred outflows of resources and OPEB expense is $407,017, $240,553, $100,606 and $10,121, respectively, for the year ended December 31, 2022, and $525,084, $125,481, $113,721 and $37,463, respectively, for the year ended December 31, 2021.

NOTE 9: INTERDEPARTMENTAL TRANSACTIONS

Certain employees of the Corporation perform administrative duties for all four of the Corporation's departments. The salaries and related employee benefit expenses of these employees are allocated to each department based on management's estimate of the relative amount of time spent performing duties for each department. The amount allocated to the Department for salaries and employee benefit expenses for the years ended December 31, 2022 and 2021, was $1,251,577 and $865,178, respectively.

The operating expenses of all departments of the Corporation are initially paid by the Electric Department. During the years ended December 31, 2022 and 2021, the Department reimbursed the Electric Department for all amounts owed before year end.

During the years ended December 31, 2022 and 2021, the Electric Department charged the Department $927,041 and $689,473, respectively, for electric services used in the operation and maintenance of the wastewater collection and treatment system, and the Water Department charged the Department $213,036 and $28,140, respectively, for water used in the operation and maintenance of the wastewater collection and treatment system.

NOTE 10: RISK MANAGEMENT

The Corporation is exposed to various levels of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation has purchased insurance to address these risks. There have been no significant reductions in the Corporation’s coverage during the years ended December 31, 2022 and 2021. In addition, there have been no settlements in excess of the Corporation’s coverage in any of the prior three fiscal years.

NOTE 11: TAX STATUS

The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code.

NOTE 12: RISKS AND UNCERTANTIES

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of the investments; at this time, an aggregate effect on assets and performance cannot be reasonably estimated. Management of the Department is continuing to monitor these developments and evaluate other impacts they may have on the investments.

Supplemental Information

Conway Corporation Wastewater Department

Schedule of Wastewater Rates
December 31, 2022

Consumption Charges (by customer class)

	Residential	Commercial	Industrial	Institutional	Municipal	Out-of-City Residential	Out-of-City Commercial
Customer Charge	$ 7.32	$ 9.17	$ 32.95	$ 32.95	$ 9.17	$ 10.98	$ 13.76
Per 1,000 gallons	$ 8.35	n/a	n/a	n/a	n/a	$ 12.52	n/a
First 25,000 gallons	n/a	$ 8.35	$ 8.35	$ 8.35	$ 8.35	n/a	$ 12.52
Next 75,000 gallons	n/a	$ 9.10	$ 9.10	$ 9.10	$ 9.10	n/a	$ 13.66
All over 100,000 gallons	n/a	$ 8.35	$ 8.35	$ 8.35	$ 8.35	n/a	$ 12.52
Minimum (2,000 gallons + customer charge)	$ 24.02	$ 25.87	$ 49.65	$ 49.65	$ 25.87	$ 36.02	$ 38.80

See Independent Auditor's Report.

Conway Corporation Wastewater Department

Schedule of Water Rates
December 31, 2022

Minimum Monthly Charges (all customers)

Meter Size	Charge
5/8" or 3/4" meter	$ 6.75
1" meter	$ 15.24
1.5" meter	$ 29.06
2" meter	$ 44.83
3" meter	$ 89.48
4" meter	$ 145.22
6" meter	$ 290.25
8" meter	$ 362.90
Fire hydrant meter	$ 95.22
Institutional customer charge	$ 362.90
5/8" or 3/4" meter multi-family	$ 15.24
1" meter multi-family	$ 22.83
1.5" meter multi-family	$ 41.88
2" meter multi-family	$ 66.65
Fire protection systems	$ 16.67

Consumption Charges (by customer class)

	Residential	Commercial	Industrial	Institutional	Multi-Family	Fire Hydrant
First 20,000 gallons	$ 3.91	$ 3.91	$ 3.91	n/a	n/a	n/a
Next 30,000 gallons	$ 3.64	$ 3.64	$ 3.64	n/a	n/a	n/a
Next 50,000 gallons	n/a	$ 3.14	$ 3.14	n/a	n/a	n/a
All over 100,000 gallons	n/a	$ 2.90	$ 2.90	n/a	n/a	n/a
All consumption	n/a	n/a	n/a	$ 2.90	$ 3.91	$ 3.91

See Independent Auditor’s Report.

Conway Corporation Wastewater Department

Schedule of Customers by Class
Year Ended December 31, 2022

	Wastewater	Water
Residential	23,019	25,331
Commercial	2,011	2,532
Industrial	91	102
Institutional	3	7
Municipal	-	148
Total Customers	25,124	28,120

See Independent Auditor's Report.

Conway Corporation Wastewater Department

Schedule of Annual Billable Water by Customer Class
Year Ended December 31, 2022

	Wastewater	Water
Residential	1,184,590	1,665,153
Commercial	284,775	419,477
Industrial	332,498	357,014
Institutional	102,449	152,881
Municipal	-	119,077
Total Annual Billable Water	1,904,312	2,713,602

Amounts are in thousands of gallons

See Independent Auditor's Report.

LANDMARK
CERTIFIED PUBLIC ACCOUNTANTS

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*

The Board of Directors
Conway Corporation
Conway, 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 **Conway Corporation Wastewater Department** (the Department), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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 were not identified.

Landmark PLC, Certified Public Accountants
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The Board of Directors
Conway Corporation

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Landmark PLC

Little Rock, Arkansas
March 28, 2023