



Wastewater Department

**Financial Statements
and Supplemental Information
December 31, 2023 and 2022**

(With Independent Auditor's Reports Thereon)

Conway Corporation Wastewater Department

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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, 2023 and 2022, 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, 2023 and 2022, 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* (GAS), 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.

Emphasis-of-Matter

As disclosed in Note 1 to the financial statements, in 2023 the Department adopted the accounting requirements of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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.

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 GAS 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 GAS, 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

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, 2023 and 2022, and the changes in its financial position 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 April 15, 2024 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.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
April 15, 2024



Management's Discussion and Analysis

Conway Corporation Wastewater Department

Management's Discussion and Analysis December 31, 2023 and 2022

Financial Highlights

	2023	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets			
Total current assets	\$ 3,865,509	\$ 3,429,514	\$ 2,641,855
Total restricted assets	3,433,909	5,908,609	10,671,529
Utility plant in service and right to use assets, net	158,857,463	158,812,099	155,037,665
Total Assets	166,156,881	168,150,222	168,351,049
Deferred Outflows of Resources	2,350,381	2,900,854	1,953,837
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 168,507,262	\$ 171,051,076	\$ 170,304,886
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Total current liabilities	\$ 5,984,730	\$ 7,324,752	\$ 5,740,215
Total noncurrent liabilities	91,758,181	97,818,347	101,501,810
Total Liabilities	97,742,911	105,143,099	107,242,025
Deferred Inflows of Resources	1,019,262	737,941	884,068
Net Position			
Net investment in utility plant in service	66,690,599	63,692,678	60,235,678
Restricted for debt service	1,525,901	1,430,477	1,424,016
Unrestricted	1,528,589	46,881	519,099
Total Net Position	69,745,089	65,170,036	62,178,793
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 168,507,262	\$ 171,051,076	\$ 170,304,886
OPERATING REVENUES			
Industrial	\$ 2,652,223	\$ 2,623,855	\$ 2,497,036
Residential	12,770,458	12,245,668	11,738,116
Commercial	2,886,302	2,763,511	2,570,448
Institutional	782,345	771,386	663,022
Other operating income	64,572	86	188,273
Total Operating Revenues	19,155,900	18,404,506	17,656,895

(Continued)

Conway Corporation Wastewater Department

Management's Discussion and Analysis December 31, 2023 and 2022

Financial Highlights *(Continued)*

	2023	2022	2021
OPERATING EXPENSES			
Treatment plant	\$ 3,136,544	\$ 3,359,336	\$ 2,665,566
Collection	1,504,665	1,525,179	1,147,905
Depreciation	7,476,900	7,111,507	6,822,624
Customer accounting and collection	482,283	451,511	398,449
Administrative and general	1,061,404	986,316	821,500
Total Operating Expenses	13,661,796	13,433,849	11,856,044
OPERATING INCOME	5,494,104	4,970,657	5,800,851
NET NONOPERATING EXPENSE	(2,427,557)	(2,732,887)	(2,953,912)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	3,066,547	2,237,770	2,846,939
CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	1,508,506	749,977	2,355,479
INCREASE IN NET POSITION	4,575,053	2,987,747	5,202,418
NET POSITION, BEGINNING OF YEAR	65,170,036	62,178,793	56,976,375
GASB 96 RELATED RESTATEMENT OF BEGINNING NET POSITION	-	3,496	-
NET POSITION, END OF YEAR	\$ 69,745,089	\$ 65,170,036	\$ 62,178,793

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, 2023 and 2022, 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, 2023 and 2022

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, 2023, 2022 and 2021, the Department's assets totaled \$166.2 million, \$168.1 million and \$168.4 million, respectively. Total assets decreased only 1.2% from December 31, 2022 to December 31, 2023 and remained relatively flat from December 31, 2021 to December 31, 2022. There have been, however, some changes in the composition of assets as restricted cash balances have been used to purchase and refurbish fixed assets.

Capital Contributions and Interdepartmental Transfers

Capital contributions and interdepartmental transfers were approximately \$1.5 million, \$750,000 and \$2.4 million during 2023, 2022 and 2021, 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, 2023, 2022 and 2021, the Department's liabilities totaled \$97.7 million, \$105.1 million and \$107.2 million, respectively. Total liabilities decreased by \$7.4 million, or 7.0%, from December 31, 2022 to December 31, 2023 compared to a decrease of \$2.1 million, or 2.0%, from December 31, 2021 to December 31, 2022. The decreases in liabilities during 2023 and 2022 are primarily the result of repayments of long-term debt of \$5.3 million and \$5.1 million, respectively.

Operating Revenues and Expenses

At December 31, 2023, 2022 and 2021, the Department's operating revenues totaled \$19.2 million, \$18.4 million and \$17.7 million, respectively. The revenue increase from 2021 to 2022 was the result of phase III of a three-year approved rate ordinance. The revenue increase from 2022 to 2023 was the result of an automatic 2% rate increase effective January 1st each year per the approved rate ordinance. Wastewater billings are calculated using approved rates applied to water consumption. Both 2022 and 2023 saw increased water sales.

Conway Corporation Wastewater Department

Management's Discussion and Analysis December 31, 2023 and 2022

Operating Revenues and Expenses (*Continued*)

At December 31, 2023, 2022 and 2021, the Department's operating expenses totaled \$13.7 million, \$13.4 million and \$11.9 million, respectively. Operating expenses increased approximately \$228,000, or 1.7%, from December 31, 2022 to December 31, 2023 and \$1.6 million, or 13.3% from December 31, 2021 to December 31, 2022. During 2023 and 2022, the Department witnessed increases in depreciation expense and labor expenses.

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, 2023 and 2022

	<u>2023</u>	<u>As Restated 2022</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 1,455,621	\$ 876,373
Accounts receivable, net	1,979,144	2,056,721
Inventories	185,973	306,071
Prepaid expenses	244,771	190,349
Total Current Assets	<u>3,865,509</u>	<u>3,429,514</u>
Restricted Assets		
Cash and cash equivalents	2,986,379	5,478,462
Investments	447,530	430,147
Total Restricted Assets	<u>3,433,909</u>	<u>5,908,609</u>
Utility Plant in Service and Right to Use Assets, Net	<u>158,857,463</u>	<u>158,812,099</u>
Total Assets	<u>166,156,881</u>	<u>168,150,222</u>
Deferred Outflows of Resources		
Deferred loss on refunding of bonds payable	804,697	905,291
Deferred outflows related to OPEB	115,458	100,606
Deferred outflows related to pension	1,430,226	1,894,957
Total Deferred Outflows of Resources	<u>2,350,381</u>	<u>2,900,854</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 168,507,262</u></u>	<u><u>\$ 171,051,076</u></u>
		<i>(Continued)</i>

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Net Position (Continued)

December 31, 2023 and 2022

	2023	As Restated 2022
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accrued expenses and other liabilities	\$ 166,837	\$ 152,133
Right to use - subscription liability	23,596	10,088
Total Current Liabilities	<u>190,433</u>	<u>162,221</u>
Current Liabilities Payable from Restricted Assets		
Accrued expenses and other liabilities	-	1,462,095
Current portion of long-term debt	5,191,632	5,069,499
Accrued interest payable	601,576	630,937
Developer deposits	1,089	-
Total Current Liabilities Payable from Restricted Assets	<u>5,794,297</u>	<u>7,162,531</u>
Compensated Absences	<u>72,638</u>	<u>65,509</u>
Right to Use - Subscription Liability	<u>19,239</u>	<u>16,189</u>
Total OPEB Liability	<u>449,463</u>	<u>407,017</u>
Net Pension Liability	<u>2,188,467</u>	<u>3,021,880</u>
Long-term Debt, Less Current Portion	<u>89,028,374</u>	<u>94,307,752</u>
Total Liabilities	<u>97,742,911</u>	<u>105,143,099</u>
Deferred Inflows of Resources		
Deferred inflows related to OPEB	221,013	240,553
Deferred inflows related to pension	798,249	497,388
Total Deferred Inflows of Resources	<u>1,019,262</u>	<u>737,941</u>
Total Liabilities and Deferred Inflows of Resources	<u>98,762,173</u>	<u>105,881,040</u>
Net Position		
Net investment in utility plant in service	66,690,599	63,692,678
Restricted for debt service	1,525,901	1,430,477
Unrestricted	1,528,589	46,881
Total Net Position	<u>69,745,089</u>	<u>65,170,036</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 168,507,262</u>	<u>\$ 171,051,076</u>

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2023 and 2022

	2023	As Restated 2022
OPERATING REVENUES		
Industrial	\$ 2,652,223	\$ 2,623,855
Residential	12,770,458	12,245,668
Commercial	2,886,302	2,763,511
Institutional	782,345	771,386
Service fees and other	64,572	86
Total Operating Revenues	<u>19,155,900</u>	<u>18,404,506</u>
OPERATING EXPENSES		
Treatment plant	3,136,544	3,359,336
Collection	1,504,665	1,525,179
Depreciation and amortization	7,476,900	7,111,507
Customer accounting and collection	482,283	451,511
Administrative and general expenses	1,061,404	986,316
Total Operating Expenses	<u>13,661,796</u>	<u>13,433,849</u>
Operating Income	<u>5,494,104</u>	<u>4,970,657</u>
NONOPERATING INCOME (EXPENSE)		
Net investment income	278,115	104,793
Interest expense	(2,605,078)	(2,732,634)
Amortization of deferred loss on refunding	(100,594)	(105,046)
Net Nonoperating Expense	<u>(2,427,557)</u>	<u>(2,732,887)</u>
Income Before Contributions in Aid of Construction	3,066,547	2,237,770
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>1,508,506</u>	<u>749,977</u>
Increase in Net Position	4,575,053	2,987,747
NET POSITION, BEGINNING OF YEAR	65,170,036	62,178,793
GASB 96 RELATED RESTATEMENT OF BEGINNING NET POSITION	<u>-</u>	<u>3,496</u>
NET POSITION, END OF YEAR	<u><u>\$ 69,745,089</u></u>	<u><u>\$ 65,170,036</u></u>

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Cash Flows Years Ended December 31, 2023 and 2022

	2023	As Restated 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From		
User fees	\$ 19,168,905	\$ 17,979,909
Service fees and other	64,572	86
Total Receipts	<u>19,233,477</u>	<u>17,979,995</u>
Disbursements For		
Salaries, wages and employee benefits	1,828,383	1,742,922
Goods and services	7,419,782	4,583,954
Total Disbursements	<u>9,248,165</u>	<u>6,326,876</u>
Net Cash Provided by Operating Activities	<u>9,985,312</u>	<u>11,653,119</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(5,069,502)	(4,937,491)
Interest paid on long-term debt	(2,720,988)	(2,845,719)
Contributions in aid of construction	1,509,595	749,977
Payments on subscription liability	(24,927)	(11,752)
Purchases and construction of utility plant in service	(5,877,886)	(9,343,292)
Proceeds from sale of utility plant in service	24,829	3,833
Net Cash Used by Capital and Related Financing Activities	<u>(12,158,879)</u>	<u>(16,384,444)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income (expense)	261,017	102,002
Proceeds from sales of investments, net of purchases	(285)	3,616
Net Cash Provided by Investing Activities	<u>260,732</u>	<u>105,618</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,912,835)	(4,625,707)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,354,835</u>	<u>10,980,542</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,442,000</u></u>	<u><u>\$ 6,354,835</u></u>

(Continued)

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Statements of Cash Flows (*Continued*) Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>As Restated 2022</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 5,494,104	\$ 4,970,657
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities		
Depreciation and amortization	7,476,900	7,111,507
Bad debt expense	46,684	39,538
Loss (gain) on disposal of utility plant in service	19,211	13,789
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	30,893	(464,049)
Inventories	(65,934)	(308,196)
Prepaid expenses	(54,422)	23,711
Accrued expenses and other liabilities	(2,909,486)	3,804
Long-term compensated absences	7,129	497
Total OPEB liability and related deferred outflows and inflows of resources	8,054	10,121
Net pension liability and related deferred outflows and inflows of resources	(67,821)	251,740
Net Cash Provided by Operating Activities	<u>\$ 9,985,312</u>	<u>\$ 11,653,119</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Current assets	\$ 1,455,621	\$ 876,373
Restricted assets	<u>2,986,379</u>	<u>5,478,462</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 4,442,000</u>	<u>\$ 6,354,835</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Inventories recorded as additions to utility plant in service during the years ended December 31, 2023 and 2022, totaled \$186,032 and \$57,725, 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 in the fair value of investments for the years ended December 31, 2023 and 2022, totaled \$17,098 and \$2,791, respectively, and is included in net investment income.

During the year ended December 31, 2023, right to use assets obtained in exchange for a new subscription liability totaled \$40,291.

Interest expense on subscription liabilities totaled \$1,194 and \$1,074 during 2023 and 2022, respectively.

See accompanying notes to financial statements.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, were approximately \$805,000 and \$776,000, 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

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

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, 2023 and 2022.

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.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

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 on an annual basis 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, 2023 or 2022.

Right to Use Assets

Right to use assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any subscription payments made prior to the term, less incentives, and plus any ancillary charges necessary to place the subscription into service. The right to use assets are amortized on a straight-line basis over the life of the related subscription.

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 8 and 9, 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

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions in Aid of Construction (Continued)

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.

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 to 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.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards

Effective January 1, 2023, the Corporation implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96) issued in May 2020. GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The statement also requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and it provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. The adoption of this statement was applied retrospectively and required a prior period adjustment in the amount of \$3,496 to January 1, 2022 net position and resulted in the recognition of right-to-use subscription assets and subscription liabilities.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

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, 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 on all outstanding Revenue Refunding bonds in any fiscal year after bond issuance.

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

Developer deposits are held by the Corporation and paid to subcontractors upon the satisfactory execution of work related to construction projects.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 2: RESTRICTED ASSETS (Continued)

Balances in these restricted asset accounts are as follows:

	2023	2022
Bond funds	\$ 1,679,264	\$ 1,629,376
Debt service reserve funds	448,213	432,038
Construction fund	1,305,343	3,847,195
Developer Deposits	1,089	-
Total restricted assets	<u>\$ 3,433,909</u>	<u>\$ 5,908,609</u>

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, 2023 and 2022, 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.

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.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

Investment	Book Value	Maturity Date	Fair Value
December 31, 2023:			
Money market mutual funds	\$ 1,744,865	-	\$ 1,744,865
Fixed income securities	172,087	7/8/2024	172,986
Fixed income securities	174,469	8/25/2025	162,708
Fixed income securities	111,271	4/24/2026	111,836
Total Investments	<u>\$ 2,202,692</u>		<u>\$ 2,192,395</u>
December 31, 2022:			
Money market mutual funds	\$ 4,785,780	-	\$ 4,785,780
U.S. Treasury Note	172,707	5/22/2023	171,096
Fixed income securities	104,426	11/30/2023	101,984
Fixed income securities	174,702	8/25/2025	157,067
Total Investments	<u>\$ 5,237,615</u>		<u>\$ 5,215,927</u>
		2023	2022
Reconciliation to statements of net position:			
Total investments as presented in the schedule above		\$ 2,192,395	\$ 5,215,927
Less amounts included in cash and cash equivalents		<u>(1,744,865)</u>	<u>(4,785,780)</u>
Total investments as presented in the statements of net position		<u>\$ 447,530</u>	<u>\$ 430,147</u>

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, 2023, the weighted average maturity of the Northern Institutional Treasury Portfolio was 31 days, and was rated AAAM by Standard & Poor's.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

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) and Federal Home Loan Banks (FHLBanks). 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 Fannie Mae and FHLBanks 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 AND RIGHT TO USE ASSETS

A summary of changes in utility plant in service that occurred during the years ended December 31, 2023 and 2022, is as follows:

	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>2023</u>
Non-depreciable:				
Land and land use rights	\$ 555,891	\$ 5,881	\$ -	\$ 561,772
Construction in progress	10,256,611	4,802,036	(5,038,774)	10,019,873
Depreciable:				
Collection and treatment facilities	218,631,760	6,844,865	(73,724)	225,402,901
Equipment	4,936,183	912,004	(300,430)	5,547,757
	<u>234,380,445</u>	<u>12,564,786</u>	<u>(5,412,928)</u>	<u>241,532,303</u>
Accumulated depreciation	<u>(75,599,113)</u>	<u>(7,462,739)</u>	<u>330,114</u>	<u>(82,731,738)</u>
Utility plant in service, net	<u>158,781,332</u>	<u>5,102,047</u>	<u>(5,082,814)</u>	<u>158,800,565</u>
Amortizable:				
Right to use subscription assets	43,645	40,291	-	83,936
Accumulated amortization	<u>(12,878)</u>	<u>(14,160)</u>	<u>-</u>	<u>(27,038)</u>
Right to use subscription assets, net	<u>30,767</u>	<u>26,131</u>	<u>-</u>	<u>56,898</u>
Utility plant in service and right to use subscription assets, net	<u>\$ 158,812,099</u>	<u>\$ 5,128,178</u>	<u>\$ (5,082,814)</u>	<u>\$ 158,857,463</u>

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 4: UTILITY PLANT IN SERVICE AND RIGHT TO USE ASSETS (Continued)

	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
Amortizable:				
Right to use subscription assets	43,645	-	-	43,645
Accumulated amortization	(3,194)	(9,684)	-	(12,878)
Right to use subscription assets, net	40,451	(9,684)	-	30,767
Utility plant in service and right to use subscription assets, net	\$ 155,078,116	\$ 5,673,201	\$ (1,939,218)	\$ 158,812,099

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, 2023 and 2022, is as follows:

	2023	2022
Beginning balance	\$ 77,070	\$ 76,485
Additions	268,174	231,804
Reductions	(259,788)	(231,219)
Ending balance	\$ 85,456	\$ 77,070
Amounts due in one year	\$ 12,818	\$ 11,561
Long-term	72,638	65,509
	\$ 85,456	\$ 77,070

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

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, 2023 and 2022, are as follows:

	Interest Rates	2023	2022
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%	\$ 10,435,000	\$ 10,860,000
\$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%	8,460,000	8,700,000
\$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%	17,105,000	18,110,000

(Continued)

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 6: LONG-TERM DEBT (Continued)

	Interest Rates	2023	2022
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%	\$ 7,182,688	\$ 7,630,776
\$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%	45,765,496	48,026,537
\$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%	4,376,109	5,066,482
		93,324,293	98,393,795
Unamortized premium		895,713	983,456
Total long-term debt		94,220,006	99,377,251
Less current portion		(5,191,632)	(5,069,499)
Long-term debt, net of current portion		\$ 89,028,374	\$ 94,307,752

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

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

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 was 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 \$57,324,293 and \$60,723,795 as of December 31, 2023 and 2022, 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, 2023 and 2022

NOTE 6: LONG-TERM DEBT (Continued)

Long-Term Debt Activity

Long-term debt activity for the years ended December 31, 2023 and 2022, is as follows:

	2022	Increases	Decreases	2023
Bonds payable (public)	\$ 37,670,000	\$ -	\$ (1,670,000)	36,000,000
Bonds payable (private placement)	60,723,795	-	(3,399,502)	57,324,293
Unamortized premium	983,456	-	(87,743)	895,713
	<u>\$ 99,377,251</u>	<u>\$ -</u>	<u>\$ (5,157,245)</u>	<u>\$ 94,220,006</u>

	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
	<u>\$ 104,405,442</u>	<u>\$ -</u>	<u>\$ (5,028,191)</u>	<u>\$ 99,377,251</u>

Annual Debt Service Requirements

Remaining debt service payments at December 31, 2023, are as follows:

Fiscal Year	Publicly Traded Bonds		Bonds from Direct Placement		Total
	Principal	Interest	Principal	Interest	
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	1,925,000	1,001,087	3,818,333	1,041,782	7,786,202
2029-2033	10,655,000	3,991,513	20,677,304	3,751,817	39,075,634
2034-2038	12,635,000	2,018,396	18,426,888	1,046,634	34,126,918
2039-2040	3,630,000	175,875	-	-	3,805,875
	<u>\$ 36,000,000</u>	<u>\$ 11,746,309</u>	<u>\$ 57,324,293</u>	<u>\$ 10,863,873</u>	<u>\$ 115,934,475</u>

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 7: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The Department has three subscription-based information technology arrangements for various informational and cloud-based software. The Department recognized a subscription asset and a subscription liability, each discounted at various rates ranging from 2.84% to 4.57%, in the statements of net position. The agreements have terms of three to five years. The Department recognized subscription amortization and interest expense of \$14,160 and \$1,194, respectively, which are included in the statements of revenues, expenses and changes in net position for the year ended December 31, 2023. For the year ended December 31, 2022, the Department recognized subscription amortization and interest expense of \$9,684 and \$1,074, respectively. The Department has various subscription-based information and technology arrangements that are subject to variable payments or classified as short-term (less than 12 months), expenses for such arrangements totaled approximately \$56,000 for each of the years ended December 31, 2023 and 2022.

Future payments on the subscription liability are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 23,596	\$ 1,483	\$ 25,079
2025	19,239	613	19,852
	<u>\$ 42,835</u>	<u>\$ 2,096</u>	<u>\$ 44,931</u>

Subscription-based Information Technology Arrangements Related Restatement of Beginning Net Position:

	<u>As Restated</u>
Beginning net position, as previously reported January 1, 2022	\$ 62,178,793
Adjustment to beginning net position related to GASB Statement No. 96 Implementation	<u>3,496</u>
Beginning net position, as restated January 1, 2022	<u>\$ 62,182,289</u>

NOTE 8: 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.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: RETIREMENT PLANS

Defined Benefit Plan (Continued)

Benefits Provided

The Plan provides retirement benefits for full-time employees of the Corporation with at least one year of service and who 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, 2023, the following employees of the Corporation were covered by the benefit terms:

Retirees and beneficiaries	100
Terminated vested and other inactive participants	56
Active	<u>235</u>
Total	<u><u>391</u></u>

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, 2023 and 2022 totaled 17.13% and \$3,174,711, and 12.82% and \$2,106,543, respectively. Actual contributions for all departments for the years ended December 31, 2023 and 2022 totaled \$3,500,000 and \$2,400,000, or 110.25% and 113.93%, respectively, of required contributions.

Net Pension Liability

The Corporation's net pension liability was measured as of December 31, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2023 and 2022, and then projected forward to the measurement date. There have been no significant changes between the valuation date and the measurement date.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Net Pension Liability (Continued)

Total pension liability in the August 1, 2023 and 2022 actuarial valuation was determined using the following assumptions:

	2023	2022
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, 2023 and 2022 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, 2023 and 2022, are summarized in the table below:

Asset Class	2023		2022	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Stock	70.00%	5.00%	75.00%	6.00%
Fixed income	25.00%	3.00%	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.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: 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, 2023 were as follows:

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at December 31, 2022	\$ 62,226,000	\$ 40,920,099	\$ 21,305,901
Changes for the year:			
Service cost	1,070,738	-	1,070,738
Interest on total pension liability	4,308,811	-	4,308,811
Effect of economic/demographic gains or losses	(1,358,916)	-	(1,358,916)
Employer contributions	-	3,500,000	(3,500,000)
Net investment income	-	6,417,893	(6,417,893)
Benefit payments	(2,413,866)	(2,413,866)	-
Net changes	1,606,767	7,504,027	(5,897,260)
Balances at December 31, 2023	\$ 63,832,767	\$ 48,424,126	\$ 15,408,641

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	\$ 21,921,055	\$ 15,408,641	\$ 8,896,227

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: 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, 2023 and 2022, the Corporation recognized pension expense of \$2,981,188 and \$4,142,410, respectively. At December 31, 2023, 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	\$ 3,248,057	\$ 1,712,082
Net difference between projected and actual earnings	6,212,623	3,936,360
Changes of assumptions	659,655	-
Contributions made during the measurement period not recognized in pension expense	-	-
Total	<u>\$ 10,120,335</u>	<u>\$ 5,648,442</u>

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

Year ending December 31,	
2024	\$ 1,237,117
2025	\$ 1,936,321
2026	\$ 2,049,247
2027	\$ (571,307)
2028	\$ 14,645
Thereafter	\$ (194,130)

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 \$2,188,467, \$1,430,226, \$798,249 and \$421,307, respectively, for the year ended December 31, 2023, and \$3,021,880, \$1,894,956, \$497,388 and \$585,414, respectively, for the year ended December 31, 2022.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: 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 75% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the years ended December 31, 2023 and 2022, totaled approximately \$269,500 and \$168,000, respectively.

NOTE 9: 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, 2023 and 2022. There were no assets of the OPEB that were accumulated in a trust during the years ended December 31, 2023 and 2022.

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, 2023, the following employees were covered by the benefit terms:

Retirees and surviving spouses	68
Active employees	<u>223</u>
Total	<u><u>291</u></u>

During the years ended December 31, 2023 and 2022, the Corporation paid, as they came due, \$68,383 and \$48,278, respectively, of benefit payments for the OPEB.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (Continued)

Total OPEB Liability

The Corporation's total OPEB liability was measured as of December 31, 2023 and 2022, using an actuarial valuation as of those dates.

Total OPEB liability in the December 31, 2023 and 2022 actuarial valuations was determined using the following actuarial assumptions and other inputs:

	<u>2023</u>	<u>2022</u>
Inflation	2.00%	2.00%
Annual salary increases	4.00%	4.00%
Healthcare cost trend rates	0.00% for 2023, increased/ decreased each year to an ultimate rate of 4.25% for 2032 and later	7.50% for 2022, increased/ decreased each year to an ultimate rate of 4.25% for 2031 and later

Mortality rates in the December 31, 2023 and 2022 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, 2023 and 2022 actuarial valuations was 4.00% and 4.31%, 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, 2023 were as follows:

Balance at December 31, 2022	\$ 2,858,468
Changes for the year:	
Service cost	81,925
Interest on total OPEB liability	123,492
Differences between expected and actual experience	217,692
Effect of assumptions changes or inputs	(54,369)
Benefit payments	<u>(68,383)</u>
Net changes	<u>300,357</u>
Balance at December 31, 2023	<u><u>\$ 3,158,825</u></u>

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: 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 4.00%, 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 (3.00%) or 1 percentage point higher (5.00%) than the current rate:

	1% Decrease	Current	1% Increase
	3.00%	Discount Rate	5.00%
		4.00%	
Total OPEB liability	\$ 3,380,138	\$ 3,158,825	\$ 2,955,292

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	1% Increase
		Healthcare Cost	
		Trend Rate	
Total OPEB liability	\$ 2,860,078	\$ 3,158,825	\$ 3,520,259

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

For the years ended December 31, 2023 and 2022, the Corporation recognized OPEB expense of \$56,991 and \$71,619, respectively. For the year ended December 31, 2023, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred	Deferred
	Outflows of	Inflows of
	Resources	Resources
Difference between expected and actual experience	\$ 711,974	\$ 846,883
Changes of assumptions	105,014	717,016
Total	<u>\$ 816,988</u>	<u>\$ 1,563,899</u>

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: 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,	
2024	\$ (80,043)
2025	\$ (80,043)
2026	\$ (80,043)
2027	\$ (82,068)
2028	\$ (100,275)
Thereafter	\$ (324,439)

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 \$449,463, \$221,013, \$115,458 and \$8,054, respectively, for the year ended December 31, 2023, and \$407,017, \$240,553, \$100,606 and \$10,121, respectively, for the year ended December 31, 2022.

NOTE 10: SELF-INSURED HEALTH PLAN SUPPLEMENTED BY STOP-LOSS INSURANCE

During the year ended December 31, 2023, the Corporation adopted a self-insured health plan for all its employees. The Corporation is exposed to various risks related to this plan. The Corporation has purchased stop-loss insurance in order to limit its exposure, which will reimburse the Corporation for individual claims in excess of \$100,000 annually or aggregate claims exceeding \$1,000,000 annually. Self-insured losses are accrued based on the Corporation's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry. At December 31, 2023, the accrued liability for the self-insured health plan totaled approximately \$307,000.

NOTE 11: 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, 2023 and 2022, was \$986,577 and \$1,251,577, respectively.

Conway Corporation Wastewater Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 11: INTERDEPARTMENTAL TRANSACTIONS (Continued)

The operating expenses of all departments of the Corporation are initially paid by the Electric Department. During the years ended December 31, 2023 and 2022, the Department reimbursed the Electric Department for all amounts owed before year end.

During the years ended December 31, 2023 and 2022, the Electric Department charged the Department \$818,404 and \$927,041, respectively, for electric services used in the operation and maintenance of the wastewater collection and treatment system, and the Water Department charged the Department \$227,941 and \$213,036, respectively, for water used in the operation and maintenance of the wastewater collection and treatment system.

NOTE 12: 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, 2023 and 2022. In addition, there have been no settlements in excess of the Corporation's coverage in any of the prior three fiscal years.

NOTE 13: TAX STATUS

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

NOTE 14: RISKS AND UNCERTAINTIES

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, 2023

Consumption Charges (by customer class)							
	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Institutional</u>	<u>Municipal</u>	<u>Out-of-City Residential</u>	<u>Out-of-City Commercial</u>
Customer Charge	\$ 7.47	\$ 9.35	\$ 33.61	\$ 33.61	\$ 9.35	\$ 11.20	\$ 14.04
Per 1,000 gallons	\$ 8.52	n/a	n/a	n/a	n/a	\$ 12.77	n/a
First 25,000 gallons	n/a	\$ 9.54	\$ 8.52	\$ 8.52	\$ 8.52	n/a	\$ 12.77
Next 75,000 gallons	n/a	\$ 9.28	\$ 9.28	\$ 9.28	\$ 9.28	n/a	\$ 13.93
All over 100,000 gallons	n/a	\$ 8.52	\$ 8.52	\$ 8.52	\$ 8.52	n/a	\$ 12.77
Minimum (2,000 gallons + customer charge)	\$ 24.50	\$ 26.39	\$ 50.64	\$ 50.64	\$ 26.39	\$ 36.74	\$ 39.58

See Independent Auditor's Report.

Conway Corporation Wastewater Department

Schedule of Water Rates

December 31, 2023

Minimum Monthly Charges (all customers)	
Meter Size	Charge
5/8" or 3/4" meter	\$ 6.95
1" meter	\$ 15.70
1.5" meter	\$ 29.93
2" meter	\$ 46.17
3" meter	\$ 92.16
4" meter	\$ 149.58
6" meter	\$ 298.96
8" meter	\$ 373.79
Fire hydrant meter	\$ 98.08
Institutional customer charge	\$ 373.79
5/8" or 3/4" meter multi-family	\$ 15.70
1" meter multi-family	\$ 23.51
1.5" meter multi-family	\$ 43.14
2" meter multi-family	\$ 68.65
Fire protection systems	\$ 17.17

Consumption Charges (by customer class)						
	Residential	Commercial	Industrial	Institutional	Multi-Family	Fire Hydrant
First 20,000 gallons	\$ 4.03	\$ 4.03	\$ 4.03	n/a	n/a	n/a
Next 30,000 gallons	\$ 3.75	\$ 3.75	\$ 3.75	n/a	n/a	n/a
Next 50,000 gallons	n/a	\$ 3.23	\$ 3.23	n/a	n/a	n/a
All over 100,000 gallons	n/a	\$ 2.99	\$ 2.99	n/a	n/a	n/a
All consumption	n/a	n/a	n/a	\$ 2.99	\$ 4.03	\$ 4.03

See Independent Auditor's Report.

Conway Corporation Wastewater Department

Schedule of Customers by Class Year Ended December 31, 2023

	<u>Wastewater</u>	<u>Water</u>
Residential	23,407	25,518
Commercial	2,027	2,564
Industrial	92	103
Institutional	3	5
Municipal	-	157
	<hr/>	<hr/>
Total Customers	<u>25,529</u>	<u>28,347</u>

See Independent Auditor's Report.

Conway Corporation Wastewater Department

Schedule of Annual Billable Water by Customer Class Year Ended December 31, 2023

	<u>Wastewater</u>	<u>Water</u>
Residential	1,493,854	1,691,335
Commercial	294,279	446,086
Industrial	330,135	352,637
Institutional	103,406	161,953
Municipal	-	122,682
	<u> </u>	<u> </u>
Total Annual Billable Water	<u>2,221,674</u>	<u>2,774,693</u>

Amounts are in thousands of gallons

See Independent Auditor's Report.



**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, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 15, 2024.

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.

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.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
April 15, 2024