



Water Department

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

(With Independent Auditor's Reports Thereon)

Conway Corporation Water 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 Water 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 audits 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.

Responsibilities of Management for the Financial Statements (Continued)

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

Required Supplementary Information (Continued)

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Department's basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is 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 Water 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	\$ 5,346,943	\$ 6,804,448	\$ 6,525,456
Total restricted assets	-	915,092	898,910
Utility plant in service and right to use assets, net	95,448,314	90,822,812	89,647,194
Total Assets	<u>100,795,257</u>	<u>98,542,352</u>	<u>97,071,560</u>
Deferred Outflows of Resources	<u>2,196,496</u>	<u>2,848,968</u>	<u>1,380,955</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$102,991,753</u>	<u>\$101,391,320</u>	<u>\$ 98,452,515</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Total current liabilities	\$ 474,416	\$ 1,821,065	\$ 1,682,949
Total noncurrent liabilities	10,146,304	12,196,686	12,401,221
Total Liabilities	<u>10,620,720</u>	<u>14,017,751</u>	<u>14,084,170</u>
Deferred Inflows of Resources	<u>1,448,424</u>	<u>1,048,653</u>	<u>1,256,307</u>
Net Position			
Net investment in utility plant in service	89,041,817	82,119,993	78,805,084
Restricted for debt service	-	881,609	889,727
Unrestricted	1,880,792	3,323,314	3,417,227
Total Net Position	<u>90,922,609</u>	<u>86,324,916</u>	<u>83,112,038</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$102,991,753</u>	<u>\$101,391,320</u>	<u>\$ 98,452,515</u>
OPERATING REVENUES			
Industrial	\$ 1,229,754	\$ 1,212,428	\$ 1,167,636
Residential	9,821,605	9,350,374	8,795,135
Commercial	2,204,735	2,038,112	1,871,183
Institutional	513,733	479,629	427,102
Municipal	449,235	415,441	210,724
Other operating income	105,440	215,209	435,623
Total Operating Revenues	<u>14,324,502</u>	<u>13,711,193</u>	<u>12,907,403</u>

(Continued)

Conway Corporation Water Department

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

Financial Highlights *(Continued)*

	2023	2022	2021
OPERATING EXPENSES			
Supply and treatment	\$ 3,259,968	\$ 2,878,874	\$ 4,257,027
Distribution	2,515,589	2,227,596	1,719,785
Depreciation	4,499,927	4,197,107	3,746,582
Customer accounting and collection	939,277	896,519	755,075
Administrative and general expenses	1,463,520	1,439,542	1,115,629
Total Operating Expenses	12,678,281	11,639,638	11,594,098
OPERATING INCOME	1,646,221	2,071,555	1,313,305
NET NONOPERATING EXPENSE	(76,022)	(269,670)	(329,286)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	1,570,199	1,801,885	984,019
CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	3,027,494	1,395,858	3,001,720
INCREASE IN NET POSITION	4,597,693	3,197,743	3,985,739
NET POSITION, BEGINNING OF YEAR	86,324,916	83,112,038	79,126,299
GASB 96 RELATED RESTATEMENT OF BEGINNING NET POSITION	-	15,135	-
NET POSITION, END OF YEAR	\$ 90,922,609	\$ 86,324,916	\$ 83,112,038

The following management's discussion and analysis of Conway Corporation Water 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 water supply, treatment and distribution system pursuant to City Ordinance No. O-86-11 as amended.

Conway Corporation Water 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 of 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 \$100.8 million, \$98.5 million and \$97.1 million, respectively. Total assets increased approximately \$2.3 million, or 2.3% from December 31, 2022 to December 31, 2023, compared to \$1.5 million, or 1.5%, from December 31, 2021 to December 31, 2022.

Asset additions for all years presented were financed by operating revenue and short and long-term loans.

Capital Contributions and Interdepartmental Transfers

Capital contributions and interdepartmental transfers were approximately \$3.0 million, \$1.4 million and \$3.0 million in 2023, 2022 and 2021, respectively. The contributions are comprised of developer paid fees for water infrastructure.

Liabilities

At December 31, 2023, 2022 and 2021, the Department's liabilities totaled \$10.6 million, \$14.0 million and \$14.1 million, respectively. Total liabilities decreased \$3.4 million, or 24.2%, from December 31, 2022 to December 31, 2023. Liabilities remained relatively flat from December 31, 2021 to December 31, 2022. The 2023 decrease is the result of continual retirement of debt according to amortization schedules as well as a decrease in the actuarial determined pension liability for that accounting period.

Operating Revenues and Expenses

At December 31, 2023, 2022 and 2021, the Department's operating revenues totaled \$14.3 million, \$13.7 million and \$12.9 million, respectively. Operating revenues increased by \$613,000, or 4.5%, from December 31, 2022 to December 31, 2023 and \$804,000, or 6.2%, from December 31, 2021 to December 31, 2022. High irrigation demand was prevalent during all years as dry conditions began in Spring and extended through Fall. In addition to volumetric sales increases, a 3% Consumer Price Index (CPI) increase was implemented effective February 1, 2023 per the Water Rate Ordinance.

Conway Corporation Water Department

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

Operating Revenues and Expenses (*Continued*)

At December 31, 2022, 2021 and 2020, the Department's operating expenses totaled \$12.7 million, \$11.6 million and \$11.6 million, respectively. Operating expenses increased approximately \$1.0 million or 8.9% from December 31, 2022 to December 31, 2023 and remained relatively flat from December 31, 2021 to December 31, 2022. The Department experienced a break in the transmission line that transports raw water for treatment during the 2021 operating year. Costs to repair the line were the primary reason supply and treatment expenses were so high compared to 2022 and 2023. Increased water sales in 2023 contributed to higher expenses in supply and treatment and distribution compared to 2022.

Rate Structure

The Department's rate structure for water 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. Water 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 Water Department

Statements of Net Position December 31, 2023 and 2022

	2023	As Restated 2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 2,168,079	\$ 4,079,333
Accounts receivable, net	1,410,052	1,141,111
Grants receivable	64,326	-
Inventories	1,298,745	1,191,768
Prepaid expenses	405,741	392,236
Total Current Assets	5,346,943	6,804,448
Restricted Assets		
Cash and cash equivalents	-	166,488
Investments	-	748,604
Total Restricted Assets	-	915,092
Utility Plant in Service and Right to Use Assets, Net	95,448,314	90,822,812
Total Assets	100,795,257	98,542,352
Deferred Outflows of Resources		
Deferred loss on refunding of bonds payable	-	13,172
Deferred outflows related to OPEB	164,072	142,966
Deferred outflows related to pension	2,032,424	2,692,830
Total Deferred Outflows of Resources	2,196,496	2,848,968
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 102,991,753	\$ 101,391,320

(Continued)

See accompanying notes to financial statements.

Conway Corporation Water 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	\$ 293,362	\$ 264,272
Right to use - subscription liability	79,305	36,359
Customer deposits	49,025	30,950
Current portion of long-term debt	52,724	51,000
Total Current Liabilities	<u>474,416</u>	<u>382,581</u>
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	-	1,405,000
Accrued interest payable	-	4,684
Developer deposits	-	28,800
Total Current Liabilities Payable from Restricted Assets	<u>-</u>	<u>1,438,484</u>
Advances from Electric Department	<u>4,629,880</u>	<u>5,478,083</u>
Compensated Absences	<u>156,125</u>	<u>142,157</u>
Right to Use - Subscription Liability	<u>27,983</u>	<u>45,856</u>
Total OPEB Liability	<u>633,716</u>	<u>573,395</u>
Net Pension Liability	<u>3,091,904</u>	<u>4,276,226</u>
Long-term Debt, Less Current Portion	<u>1,606,696</u>	<u>1,680,969</u>
Total Liabilities	<u>10,620,720</u>	<u>14,017,751</u>
Deferred Inflows of Resources		
Deferred inflows related to OPEB	314,071	341,839
Deferred inflows related to pension	1,134,353	706,814
Total Deferred Inflows of Resources	<u>1,448,424</u>	<u>1,048,653</u>
Total Liabilities and Deferred Inflows of Resources	<u>12,069,144</u>	<u>15,066,404</u>
Net Position		
Net investment in utility plant in service	89,041,817	82,119,993
Restricted for debt service	-	881,609
Unrestricted	1,880,792	3,323,314
Total Net Position	<u>90,922,609</u>	<u>86,324,916</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 102,991,753</u></u>	<u><u>\$ 101,391,320</u></u>

See accompanying notes to financial statements.

Conway Corporation Water Department

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

	2023	As Restated 2022
OPERATING REVENUES		
Industrial	\$ 1,229,754	\$ 1,212,428
Residential	9,821,605	9,350,374
Commercial	2,204,735	2,038,112
Institutional	513,733	479,629
Municipal	449,235	415,441
Service fees and other	105,440	215,209
Total Operating Revenues	<u>14,324,502</u>	<u>13,711,193</u>
OPERATING EXPENSES		
Supply and treatment	3,259,968	2,878,874
Distribution	2,515,589	2,227,596
Depreciation and amortization	4,499,927	4,197,107
Customer accounting and collection	939,277	896,519
Administrative and general expenses	1,463,520	1,439,542
Total Operating Expenses	<u>12,678,281</u>	<u>11,639,638</u>
Operating Income	<u>1,646,221</u>	<u>2,071,555</u>
NONOPERATING INCOME (EXPENSE)		
Net investment income	134,831	13,042
Interest expense	(197,681)	(255,687)
Amortization of deferred amount on refunding	(13,172)	(27,025)
Net Nonoperating Expense	<u>(76,022)</u>	<u>(269,670)</u>
Income Before Contributions in Aid of Construction	1,570,199	1,801,885
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>3,027,494</u>	<u>1,395,858</u>
Increase in Net Position	4,597,693	3,197,743
NET POSITION, BEGINNING OF YEAR	86,324,916	83,112,038
GASB 96 RELATED RESTATEMENT OF BEGINNING NET POSITION	<u>-</u>	<u>15,135</u>
NET POSITION, END OF YEAR	<u><u>\$ 90,922,609</u></u>	<u><u>\$ 86,324,916</u></u>

See accompanying notes to financial statements.

Conway Corporation Water Department

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

	<u>2023</u>	<u>As Restated 2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From		
User fees	\$ 13,963,309	\$ 13,406,414
Service fees and other	27,926	215,209
Total Receipts	<u>13,991,235</u>	<u>13,621,623</u>
Disbursements For		
Salaries, wages and employee benefits	2,608,064	2,177,321
Goods and services	6,617,730	5,550,759
Total Disbursements	<u>9,225,794</u>	<u>7,728,080</u>
Net Cash Provided by Operating Activities	<u>4,765,441</u>	<u>5,893,543</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(1,456,000)	(1,399,336)
Interest paid	(221,246)	(301,305)
Principal paid on advances from Electric Department	(848,203)	(823,708)
Contributions in aid of construction	2,998,694	1,424,658
Payments on subscription liability	(36,259)	(42,576)
Purchases and construction of utility plant in service	(8,178,099)	(4,500,636)
Proceeds from sale of utility plant in service	<u>14,495</u>	<u>6,241</u>
Net Cash Used by Capital and Related Financing Activities	<u>(7,726,618)</u>	<u>(5,636,662)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	162,554	40,765
Purchases of investments, net	<u>720,881</u>	<u>(149,942)</u>
Net Cash Provided (Used) by Investing Activities	<u>883,435</u>	<u>(109,177)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,077,742)	147,704
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,245,821</u>	<u>4,098,117</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,168,079</u>	<u>\$ 4,245,821</u>

(Continued)

See accompanying notes to financial statements.

Conway Corporation Water 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	\$ 1,646,221	\$ 2,071,555
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and amortization	4,499,927	4,197,107
Bad debt expense	42,379	25,023
Loss on disposal of utility plant in service	111,107	69,168
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	(311,320)	(114,593)
Grants receivable	(64,326)	-
Inventories	(1,121,304)	(705,931)
Prepaid expenses	(13,505)	(40,474)
Accrued expenses and other liabilities	29,149	16,227
Customer deposits	18,075	4,625
Long-term compensated absences	13,968	(1,280)
Total OPEB liability and related deferred outflows and inflows of resources	11,447	14,381
Net pension liability and related deferred outflows and inflows of resources	(96,377)	357,735
Net Cash Provided by Operating Activities	<u><u>\$ 4,765,441</u></u>	<u><u>\$ 5,893,543</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Current assets	\$ 2,168,079	\$ 4,079,333
Restricted assets	<u>-</u>	<u>166,488</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 2,168,079</u></u>	<u><u>\$ 4,245,821</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Inventories recorded as additions to utility plant in service during 2023 and 2022 totaled \$1,014,327 and \$810,724, respectively.

Net depreciation in the fair value of investments for the years ended December 31, 2022 totaled \$27,723 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 \$58,605.

Interest expense on subscription liabilities totaled \$2,727 and \$3,152 during 2023 and 2022, respectively.

See accompanying notes to financial statements.

Conway Corporation Water 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 Water Department (the Department) is responsible for the operation and maintenance of the City's water supply, treatment and distribution 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 collected for the years ended December 31, 2023 and 2022, were approximately \$581,000 and \$553,000, respectively, and are included in administrative and general expenses in the Department's statements of revenues, expenses and changes in net position, net of approximately \$581,000 and \$553,000 remitted to the City for franchise fees collected from customers for the years ended December 31, 2023 and 2022, respectively.

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).

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 water supply, treatment and distribution 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 water supply, treatment and distribution 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 \$25,000 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 Water 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:

- Supply, treatment and distribution facilities – 20 to 67 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 a yearly 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 9 and 10, 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.

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

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 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 water supply, treatment and distribution 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 Water 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 required a prior period adjustment in the amount of \$15,135 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 equal to one-twelfth of the next principal payment and one-sixth of the next interest payment, 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 that is greater than or equal to 50% of the maximum annual debt service on all outstanding bonds in any fiscal year after bond issuance.

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

Conway Corporation Water 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	\$ -	\$ 133,757
Debt service reserve funds	-	752,535
Developer deposits	-	28,800
Total restricted assets	<u>\$ -</u>	<u>\$ 915,092</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 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 Water 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, 2022:			
Money market mutual funds	\$ 137,688	-	\$ 137,688
Commerical paper	253,924	11/6/2023	244,361
U.S. Treasury Note	403,912	11/30/2023	396,389
Fixed income securities	126,314	10/8/2027	107,854
Total Investments	<u>\$ 921,838</u>		<u>\$ 886,292</u>
			2022
Reconciliation to statements of net position:			
Total investments as presented in the schedule above			\$ 886,292
Less amounts included in cash and cash equivalents			<u>(137,688)</u>
Total investments as presented in the statements of net position			<u>\$ 748,604</u>

The money market mutual funds held by the Department are Morgan Stanley Treasury Securities Money Market Funds, and are comprised primarily of short-term and intermediate-term U.S. Treasury obligations. 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 effective maturity of holdings in the funds was 36 days. The Morgan Stanley Treasury Securities Money Market Fund is rated AAAM by Standard & Poor's.

Conway Corporation Water 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 Home Loan Mortgage Corporation (Freddie Mac) and 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 AND RIGHT TO USE ASSETS

A summary of changes in utility plant in service and right to use assets 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	\$ 17,380,837	\$ 366,542	\$ -	\$ 17,747,379
Construction in progress	2,782,150	5,081,364	(378,131)	7,485,383
Depreciable:				
Supply, treatment and distribution facilities	115,757,930	3,484,588	(28,452)	119,214,066
Equipment	13,099,786	638,066	(309,175)	13,428,677
	149,020,703	9,570,560	(715,758)	157,875,505
Accumulated depreciation	(58,298,830)	(4,457,583)	212,025	(62,544,388)
Utility plant in service, net	<u>90,721,873</u>	<u>5,112,977</u>	<u>(503,733)</u>	<u>95,331,117</u>
Amortizable:				
Right to use subscription asset	150,481	58,605	-	209,086
Accumulated amortization	(49,542)	(42,347)	-	(91,889)
Right to use subscription asset, net	<u>100,939</u>	<u>16,258</u>	<u>-</u>	<u>117,197</u>
Utility plant in service and right to use subscription asset, net	<u>\$ 90,822,812</u>	<u>\$ 5,129,235</u>	<u>\$ (503,733)</u>	<u>\$ 95,448,314</u>

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

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

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Non-depreciable:				
Land and land use rights	\$ 17,371,416	\$ 9,421	\$ -	\$ 17,380,837
Construction in progress	2,419,016	1,950,833	(1,587,699)	2,782,150
Depreciable:				
Supply, treatment and distribution facilities	111,854,596	3,911,927	(8,593)	115,757,930
Equipment	12,354,709	1,026,878	(281,801)	13,099,786
	<u>143,999,737</u>	<u>6,899,059</u>	<u>(1,878,093)</u>	<u>149,020,703</u>
Accumulated depreciation	<u>(54,352,543)</u>	<u>(4,161,272)</u>	<u>214,985</u>	<u>(58,298,830)</u>
Utility plant in service, net	<u>89,647,194</u>	<u>2,737,787</u>	<u>(1,663,108)</u>	<u>90,721,873</u>
Amortizable:				
Right to use subscription asset	150,481	-	-	150,481
Accumulated amortization	<u>(13,707)</u>	<u>(35,835)</u>	<u>-</u>	<u>(49,542)</u>
Right to use subscription asset, net	<u>136,774</u>	<u>(35,835)</u>	<u>-</u>	<u>100,939</u>
Utility plant in service and right to use subscription asset, net	<u>\$ 89,783,968</u>	<u>\$ 2,701,952</u>	<u>\$ (1,663,108)</u>	<u>\$ 90,822,812</u>

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:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 167,244	\$ 168,750
Additions	208,712	327,077
Reductions	<u>(192,280)</u>	<u>(328,583)</u>
Ending balance	<u>\$ 183,676</u>	<u>\$ 167,244</u>
Amounts due in one year	\$ 27,551	\$ 25,087
Long-term	<u>156,125</u>	<u>142,157</u>
	<u>\$ 183,676</u>	<u>\$ 167,244</u>

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 6: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The Department has four subscription-based information technology arrangements for various informational and cloud-based software. During 2023, the Department adopted GASB 96, *Subscription-based Information Technology Arrangements*, and 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 \$42,344 and \$2,727, 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 \$35,835 and \$3,152, 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 \$80,000 for the years ended December 31, 2023 and 2022, respectively.

Future payments on the subscription liability are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 79,305	\$ 2,528	\$ 81,833
2025	27,983	891	28,874
	<u>\$ 107,288</u>	<u>\$ 3,419</u>	<u>\$ 110,707</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	\$ 83,112,038
Adjustment to beginning net position related to GASB Statement No. 96 Implementation	<u>15,135</u>
Beginning net position, as restated January 1, 2022	<u>\$ 83,127,173</u>

NOTE 7: ADVANCES FROM ELECTRIC DEPARTMENT

During the year ended December 31, 2006, the Electric Department advanced the Department approximately \$6.2 million for the Gleason Water Treatment Facility construction and an additional \$210,000 to fund the Water Revenue Refunding Bonds, Series 2005 debt service reserve fund. Interest at 3.7% began accruing January 1, 2006. The Department repaid the advance during the year ended December 31, 2023.

During the year ended December 31, 2020, the Electric Department advanced approximately \$1 million and converted prior year interdepartmental transfers made during the years ended December 31, 2019 and 2018, totaling approximately \$4.7 million, into an advance payable. These advances totaling approximately \$5.7 million were for work related to advanced metering infrastructure. During the year ended December 31, 2021, the Electric Department advanced approximately \$271,000 in additional funds to complete the advanced metering infrastructure project. Management intends to repay the advance as sufficient excess cash is available, but no later than December 31, 2034. Interest at 2.0% began accruing January 1, 2020.

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 7: ADVANCES FROM ELECTRIC DEPARTMENT (Continued)

Interest expense related to these advances for the years ended December 31, 2023 and 2022, is approximately \$114,000 and \$139,000, respectively. Activity related to these advances during the years ended December 31, 2023 and 2022, is as follows:

	2023	2022
Beginning balance	\$ 5,478,083	\$ 6,301,791
Reductions	(848,203)	(823,708)
Ending balance	<u>\$ 4,629,880</u>	<u>\$ 5,478,083</u>

NOTE 8: LONG-TERM DEBT

The Department's long-term debt consists of loans for water storage rights and bonds issued to refund previously issued debt. 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			
\$10,185,000 City of Conway, Arkansas, Water Revenue Refunding Bonds, Series 2015; principal payable annually and interest payable semi-annually through maturity on December 1, 2023.	4.00%	\$ -	\$ 1,405,000
Notes Payable from Direct Borrowing			
\$723,417 Mid-Arkansas Water Alliance, Note Payable, principal and interest payable of approximately \$41,000 annually through maturity on June 5, 2039.	4.125%	470,947	491,465
\$1,342,920 Mid-Arkansas Water Alliance, Note Payable, principal and interest payable of approximately \$66,000 annually through maturity on June 5, 2049.	2.875%	<u>1,188,473</u>	<u>1,218,956</u>
		1,659,420	3,115,421
Unamortized premium		-	21,548
Total long-term debt		<u>1,659,420</u>	<u>3,136,969</u>
Less current portion		<u>(52,724)</u>	<u>(1,456,000)</u>
Long-term debt, net of current portion		<u>\$ 1,606,696</u>	<u>\$ 1,680,969</u>

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: LONG-TERM DEBT (Continued)

All of the Department's long-term debt is secured by a pledge of revenues generated by the Department.

Bonds Payable

On May 1, 2015, the City issued \$10,185,000 of Water Revenue Refunding Bonds, Series 2015 (the 2015 Series Bonds) to refund the outstanding balance of the \$13,100,000 Water Revenue Refunding Bonds, Series 2010 (the 2010 Series Bonds). The net proceeds 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 \$501,099. This amount is shown as deferred loss on refunding of bonds payable and amortized over the life of the new debt through 2023. This refunding transaction was undertaken to reduce the Department's total debt service payments by approximately \$746,000 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 \$627,000.

Notes Payable from Direct Borrowings

During May 2010, the Water Department entered into a \$723,417 note payable to Mid-Arkansas Water Alliance for water storage rights. Annual principal payments were required beginning in 2010, with the final payment scheduled to occur in 2039. Interest at 4.125% began accruing on May 5, 2010. Interest on the unpaid balance is computed using the yield rate adjusted at five year intervals as determined by the Secretary of the Treasury on the basis set forth in Section 932 of the 1986 Water Resources Development Act plus 1/8 percent.

During May 2020, the Water Department entered into a \$1,342,920 note payable to Mid-Arkansas Water Alliance for water storage rights. Annual principal payments were required beginning in 2020, with the final payment scheduled to occur in 2049. Interest at 2.875% began accruing on May 5, 2020. Interest on the unpaid balance is computed using the yield rate adjusted at five year intervals as determined by the Secretary of the Treasury on the basis set forth in Section 932 of the 1986 Water Resources Development Act plus 1/8 percent.

The Department's outstanding notes payable from direct borrowings of \$1,659,420 and \$1,710,420 on December 31, 2023 and 2022, respectively, contain a provision that in the event of default, the lender may file suit to enforce the terms of the note payable. The Department has pledged assets as collateral for their notes payable.

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: LONG-TERM DEBT (Continued)

Long-Term Debt Activity

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

	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>2023</u>
Bonds payable (public)	\$ 1,405,000	\$ -	\$ (1,405,000)	\$ -
Unamortized premium	21,548	-	(21,548)	-
Notes payable (direct borrowing)	<u>1,710,421</u>	<u>-</u>	<u>(51,001)</u>	<u>1,659,420</u>
	<u>\$ 3,136,969</u>	<u>\$ -</u>	<u>\$ (1,477,549)</u>	<u>\$ 1,659,420</u>
	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Bonds payable (public)	\$ 2,755,000	\$ -	\$ (1,350,000)	\$ 1,405,000
Unamortized premium	65,759	-	(44,211)	21,548
Notes payable (direct borrowing)	<u>1,759,757</u>	<u>-</u>	<u>(49,336)</u>	<u>1,710,421</u>
	<u>\$ 4,580,516</u>	<u>\$ -</u>	<u>\$ (1,443,547)</u>	<u>\$ 3,136,969</u>

Annual Debt Service Requirements

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

	Notes Payable from Direct Borrowings		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 52,724	\$ 53,595	\$ 106,319
2025	54,506	51,812	106,318
2026	56,351	49,967	106,318
2027	58,261	48,058	106,319
2028	60,238	46,081	106,319
2029-2033	333,349	198,245	531,594
2034-2038	394,287	137,306	531,593
2039-2043	293,248	75,184	368,432
2044-2048	292,758	34,884	327,642
2049	<u>63,698</u>	<u>1,831</u>	<u>65,529</u>
	<u>\$ 1,659,420</u>	<u>\$ 696,963</u>	<u>\$ 2,356,383</u>

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: 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 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 employees	<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 Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: 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 Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: 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 Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: 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 \$3,091,904, \$2,032,424, \$1,134,353 and \$598,699, respectively, for the year ended December 31, 2023, and \$4,276,226, \$2,692,830, \$706,814 and \$831,903, respectively, for the year ended December 31, 2022.

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.

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 10: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN

457 Plan (Continued)

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 9. 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	223
Total	291

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.

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:

	2023	2022
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.

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 10: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (Continued)

457 Plan (Continued)

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>

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:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
	<u>3.00%</u>	<u>Discount Rate</u>	<u>5.00%</u>
		<u>4.00%</u>	
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:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
		<u>Healthcare Cost</u>	
		<u>Trend Rate</u>	
Total OPEB liability	\$ 2,860,078	\$ 3,158,825	\$ 3,520,259

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 10: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (Continued)

457 Plan (Continued)

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:

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

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 \$633,716, \$314,071, \$164,072 and \$11,445, respectively, during the year ended December 31, 2023, and \$573,395, \$341,839, \$142,966 and \$14,383, respectively, during the year ended December 31, 2022.

NOTE 11: 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.

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 11: SELF-INSURED HEALTH PLAN SUPPLEMENTED BY STOP-LOSS INSURANCE (Continued)

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 12: 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 \$1,520,981 and \$1,857,786, respectively.

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 \$377,320 and \$422,647, respectively, for electric services used in the operation and maintenance of the water supply, treatment and distribution system, and the Department charged the Wastewater Department \$227,941 and \$213,036, respectively, for water used in the operation and maintenance of the wastewater collection and treatment system.

NOTE 13: 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 14: TAX STATUS

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

Conway Corporation Water Department

Notes to Financial Statements December 31, 2023 and 2022

NOTE 15: 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.



**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 Water 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 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



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
THE UNIFORM GUIDANCE**

The Board of Directors
Conway Corporation

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Conway Corporation Water Department** (the Department), compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Department's major federal programs for the year ended December 31, 2023. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Internal Control Over Compliance (*Continued*)

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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

Conway Corporation Water Department

Schedule of Expenditures of Federal Awards Year Ended December 31, 2023

	<u>Assistance Listing</u>	<u>Expenditures</u>
FEDERAL		
U.S. Department of Treasury		
Passed through Faulkner County:		
Coronavirus State and Local Fiscal Recovery Funds	21.027	\$ 1,237,915
Total Expenditures of Federal Awards		<u>\$ 1,237,915</u>

See Independent Auditor's Report.

Conway Corporation Water Department

Notes to the Schedule of Expenditures of Federal Awards Year Ended December 31, 2023

Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes federal grant activity of **Conway Corporation Water Department** (the Department), under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position or changes in financial position of the Department.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

10 Percent De Minimis Indirect Cost Rate

The Department has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Conway Corporation Water Department

Schedule of Findings and Questioned Costs Year Ended December 31, 2023

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

1. The opinion expressed in the independent auditor's report on accounting principles generally accepted in the United States of America:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program disclosed:

Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program were:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by the Uniform Guidance?

☐ Yes ☒ No

7. The Department's major programs were:

- Department of Treasury, Coronavirus State and Local Fiscal Recovery Funds, Federal Assistance Listing #21.027

Conway Corporation Water Department

Schedule of Findings and Questioned Costs Year Ended December 31, 2023

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS *(Continued)*

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance was \$750,000.

9. The Department qualified as a low-risk auditee as that term is defined in the Uniform Guidance?

☐ Yes ☒ No

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

There were no audit findings for the year ended December 31, 2023.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no audit findings for the year ended December 31, 2023.