



**Water Department**

**Financial Statements  
December 31, 2024 and 2023**

**(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, 2024 and 2023, 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, 2024 and 2023, and the changes in its financial position and its 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

***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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

***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

The Board of Directors  
Conway Corporation

***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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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, 2024 and 2023, 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 GAS, we have also issued our report dated March 18, 2025, 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 GAS 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  
March 18, 2025



## **Management's Discussion and Analysis**

# Conway Corporation Water Department

## Management's Discussion and Analysis December 31, 2024 and 2023

### Financial Highlights

	2024	2023	2022
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Assets</b>			
Total current assets	\$ 7,153,350	\$ 5,346,943	\$ 6,804,448
Total restricted assets	7,179	-	915,092
Utility plant in service and right to use assets, net	98,268,461	95,448,314	90,822,812
<b>Total Assets</b>	<b>105,428,990</b>	<b>100,795,257</b>	<b>98,542,352</b>
<b>Deferred Outflows of Resources</b>	<b>1,744,056</b>	<b>2,196,496</b>	<b>2,848,968</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$107,173,046</b>	<b>\$102,991,753</b>	<b>\$101,391,320</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>Liabilities</b>			
Total current liabilities	\$ 539,969	\$ 474,416	\$ 1,821,065
Total noncurrent liabilities	9,957,735	10,146,304	12,196,686
<b>Total Liabilities</b>	<b>10,497,704</b>	<b>10,620,720</b>	<b>14,017,751</b>
<b>Deferred Inflows of Resources</b>	<b>1,279,847</b>	<b>1,448,424</b>	<b>1,048,653</b>
<b>Net Position</b>			
Net investment in utility plant in service	91,523,032	89,041,817	82,119,993
Restricted for debt service	-	-	881,609
Unrestricted	3,872,463	1,880,792	3,323,314
<b>Total Net Position</b>	<b>95,395,495</b>	<b>90,922,609</b>	<b>86,324,916</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$107,173,046</b>	<b>\$102,991,753</b>	<b>\$101,391,320</b>
<b>OPERATING REVENUES</b>			
Industrial	\$ 1,495,975	\$ 1,229,754	\$ 1,212,428
Residential	10,743,962	9,821,605	9,350,374
Commercial	2,420,088	2,204,735	2,038,112
Institutional	504,556	513,733	479,629
Municipal	530,347	449,235	415,441
Other operating income	330,327	105,440	215,209
<b>Total Operating Revenues</b>	<b>16,025,255</b>	<b>14,324,502</b>	<b>13,711,193</b>

*(Continued)*

# Conway Corporation Water Department

## Management's Discussion and Analysis December 31, 2024 and 2023

### Financial Highlights *(Continued)*

	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>OPERATING EXPENSES</b>			
Supply and treatment	\$ 3,332,215	\$ 3,259,968	\$ 2,878,874
Distribution	3,473,267	2,515,589	2,227,596
Depreciation	4,628,922	4,499,927	4,197,107
Customer accounting and collection	1,039,027	939,277	896,519
Administrative and general expenses	1,647,897	1,463,520	1,439,542
<b>Total Operating Expenses</b>	<b>14,121,328</b>	<b>12,678,281</b>	<b>11,639,638</b>
<b>OPERATING INCOME</b>	<b>1,903,927</b>	<b>1,646,221</b>	<b>2,071,555</b>
<b>NET NONOPERATING EXPENSE</b>	<b>(83,499)</b>	<b>(76,022)</b>	<b>(269,670)</b>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS</b>	<b>1,820,428</b>	<b>1,570,199</b>	<b>1,801,885</b>
<b>CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS</b>	<b>2,652,458</b>	<b>3,027,494</b>	<b>1,395,858</b>
<b>INCREASE IN NET POSITION</b>	<b>4,472,886</b>	<b>4,597,693</b>	<b>3,197,743</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>90,922,609</b>	<b>86,324,916</b>	<b>83,112,038</b>
<b>GASB 96 RELATED RESTATEMENT OF BEGINNING NET POSITION</b>	<b>-</b>	<b>-</b>	<b>15,135</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 95,395,495</b>	<b>\$ 90,922,609</b>	<b>\$ 86,324,916</b>

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, 2024 and 2023 in comparison with the prior year financial results. This discussion and analysis should be read in conjunction with the financial statements, 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, video, 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, 2024 and 2023

### 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, 2024, 2023 and 2022, the Department's assets totaled \$105.4 million, \$100.8 million and \$98.5 million, respectively. Total assets increased approximately \$4.6 million, or 4.6%, from December 31, 2023 to December 31, 2024, compared to \$2.3 million, or 2.3%, from December 31, 2022 to December 31, 2023.

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 \$2.7 million, \$3.0 million and \$1.4 million in 2024, 2023 and 2022, respectively. The contributions are comprised of developer paid fees for water infrastructure.

### Liabilities

At December 31, 2024, 2023 and 2022, the Department's liabilities totaled \$10.5 million, \$10.6 million and \$14.0 million, respectively. Total liabilities decreased \$123 thousand, or 1.2%, from December 31, 2023 to December 31, 2024. Liabilities decreased \$3.4 million, or 24.2%, from December 31, 2022 to December 31, 2023. 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, 2024, 2023 and 2022, the Department's operating revenues totaled \$16.0 million, \$14.3 million and \$13.7 million, respectively. Operating revenues increased by \$1.7 million, or 11.9%, from December 31, 2023 to December 31, 2024 and \$613,000, or 4.5%, from December 31, 2022 to December 31, 2023. 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 and an additional rate increase was implemented effective April 1, 2024.

# Conway Corporation Water Department

## Management's Discussion and Analysis December 31, 2024 and 2023

### **Operating Revenues and Expenses (*Continued*)**

At December 31, 2024, 2023 and 2022, the Department's operating expenses totaled \$14.1 million, \$12.7 million and \$11.6 million, respectively. Operating expenses increased approximately \$1.4 million, or 11.4%, from December 31, 2023 to December 31, 2024 and increased approximately \$1.0 million, or 8.9%, from December 31, 2022 to December 31, 2023. The Department experienced a break in the transmission line that transports raw water for treatment during the 2024 operating year. Costs to repair the line and increased water sales were the primary reasons supply and treatment and distribution 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, 2024 and 2023

	2024	2023
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,106,789	\$ 2,168,079
Accounts receivable, net	1,370,966	1,410,052
Grants receivable	-	64,326
Inventories	1,289,908	1,298,745
Prepaid expenses	385,687	405,741
<b>Total Current Assets</b>	7,153,350	5,346,943
<b>Restricted Assets</b>		
Cash and cash equivalents	7,179	-
<b>Utility Plant in Service and Right to Use Assets, Net</b>	98,268,461	95,448,314
<b>Total Assets</b>	105,428,990	100,795,257
<b>Deferred Outflows of Resources</b>		
Deferred outflows related to OPEB	168,504	164,072
Deferred outflows related to pension	1,575,552	2,032,424
<b>Total Deferred Outflows of Resources</b>	1,744,056	2,196,496
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 107,173,046	\$ 102,991,753

*(Continued)*

See accompanying notes to financial statements.

# Conway Corporation Water Department

## Statements of Net Position (Continued)

December 31, 2024 and 2023

	2024	2023
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accrued expenses and other liabilities	\$ 295,305	\$ 293,362
Right to use - subscription liability	39,129	79,305
Customer deposits	143,850	49,025
Current portion of long-term debt	54,506	52,724
<b>Total Current Liabilities</b>	532,790	474,416
<b>Current Liabilities Payable from Restricted Assets</b>		
Developer deposits	7,179	-
<b>Advances from Electric and Cable Departments</b>	4,853,109	4,629,880
<b>Compensated Absences</b>	154,646	156,125
<b>Right to Use - Subscription Liability</b>	11,610	27,983
<b>Total OPEB Liability</b>	688,856	633,716
<b>Net Pension Liability</b>	2,682,323	3,091,904
<b>Long-term Debt, Less Current Portion</b>	1,567,191	1,606,696
<b>Total Liabilities</b>	10,497,704	10,620,720
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to OPEB	283,785	314,071
Deferred inflows related to pension	996,062	1,134,353
<b>Total Deferred Inflows of Resources</b>	1,279,847	1,448,424
<b>Total Liabilities and Deferred Inflows of Resources</b>	11,777,551	12,069,144
<b>Net Position</b>		
Net investment in utility plant in service	91,523,032	89,041,817
Unrestricted	3,872,463	1,880,792
<b>Total Net Position</b>	95,395,495	90,922,609
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 107,173,046	\$ 102,991,753

See accompanying notes to financial statements.

# Conway Corporation Water Department

## Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2024 and 2023

	2024	2023
<b>OPERATING REVENUES</b>		
Industrial	\$ 1,495,975	\$ 1,229,754
Residential	10,743,962	9,821,605
Commercial	2,420,088	2,204,735
Institutional	504,556	513,733
Municipal	530,347	449,235
Service fees and other	330,327	105,440
<b>Total Operating Revenues</b>	16,025,255	14,324,502
<b>OPERATING EXPENSES</b>		
Supply and treatment	3,332,215	3,259,968
Distribution	3,473,267	2,515,589
Depreciation and amortization	4,628,922	4,499,927
Customer accounting and collection	1,039,027	939,277
Administrative and general expenses	1,647,897	1,463,520
<b>Total Operating Expenses</b>	14,121,328	12,678,281
<b>Operating Income</b>	1,903,927	1,646,221
<b>NONOPERATING INCOME (EXPENSE)</b>		
Net investment income	68,956	134,831
Interest expense	(152,455)	(197,681)
Amortization of deferred amount on refunding	-	(13,172)
<b>Net Nonoperating Expense</b>	(83,499)	(76,022)
<b>Income Before Contributions in Aid of Construction</b>	1,820,428	1,570,199
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	2,652,458	3,027,494
<b>Increase in Net Position</b>	4,472,886	4,597,693
<b>NET POSITION, BEGINNING OF YEAR</b>	90,922,609	86,324,916
<b>NET POSITION, END OF YEAR</b>	\$ 95,395,495	\$ 90,922,609

See accompanying notes to financial statements.

# Conway Corporation Water Department

## Statements of Cash Flows Years Ended December 31, 2024 and 2023

	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts From</b>		
User fees	\$ 15,720,826	\$ 13,963,309
Service fees and other	407,841	27,926
<b>Total Receipts</b>	16,128,667	13,991,235
<b>Disbursements For</b>		
Salaries, wages and employee benefits	2,855,633	2,608,064
Goods and services	6,959,532	6,617,730
<b>Total Disbursements</b>	9,815,165	9,225,794
<b>Net Cash Provided by Operating Activities</b>	6,313,502	4,765,441
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term debt	(52,723)	(1,456,000)
Proceeds from issuance of long-term debt	15,000	-
Interest paid	(150,073)	(221,246)
Principal paid on advances from Electric Department	(380,116)	(848,203)
Advance from Cable Department	603,345	-
Contributions in aid of construction	2,659,637	2,998,694
Payments on subscription liability	(92,445)	(36,259)
Purchases and construction of utility plant in service	(7,049,158)	(8,178,099)
Proceeds from sale of utility plant in service	9,964	14,495
<b>Net Cash Used by Capital and Related Financing Activities</b>	(4,436,569)	(7,726,618)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	68,956	162,554
Purchases of investments, net	-	720,881
<b>Net Cash Provided by Investing Activities</b>	68,956	883,435
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,945,889	(2,077,742)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,168,079	4,245,821
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 4,113,968	\$ 2,168,079

*(Continued)*

See accompanying notes to financial statements.

# Conway Corporation Water Department

## Statements of Cash Flows (*Continued*) Years Ended December 31, 2024 and 2023

	2024	2023
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 1,903,927	\$ 1,646,221
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation and amortization	4,628,922	4,499,927
Bad debt expense	23,914	42,379
Loss on disposal of utility plant in service	269,086	111,107
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	15,172	(311,320)
Grants receivable	64,326	(64,326)
Inventories	(636,669)	(1,121,304)
Prepaid expenses	20,054	(13,505)
Accrued expenses and other liabilities	2,002	29,149
Customer deposits	94,825	18,075
Long-term compensated absences	(1,479)	13,968
Total OPEB liability and related deferred outflows and inflows of resources	20,422	11,447
Net pension liability and related deferred outflows and inflows of resources	(91,000)	(96,377)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 6,313,502</b>	<b>\$ 4,765,441</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION</b>		
Current assets	\$ 4,106,789	\$ 2,168,079
Restricted assets	7,179	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 4,113,968</b>	<b>\$ 2,168,079</b>

### SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Inventories recorded as additions to utility plant in service during 2024 and 2023 totaled \$645,506 and \$1,014,327, respectively.

During the years ended December 31, 2024 and 2023, right to use assets obtained in exchange for a new subscription liability totaled \$33,455 and \$58,605, respectively.

Interest expense on subscription liabilities totaled \$2,441 and \$2,727 during 2024 and 2023, respectively.

**See accompanying notes to financial statements.**

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **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, 2024 and 2023, on certain service revenues and remit amounts collected directly to the City. Total franchise fees collected for the years ended December 31, 2024 and 2023, were approximately \$649,000 and \$581,000, 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 \$649,000 and \$581,000 remitted to the City for franchise fees collected from customers for the years ended December 31, 2024 and 2023, 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, 2024 and 2023

### **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, 2024 and 2023.

#### **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, 2024 and 2023

### **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, 2024 or 2023.

#### **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 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, 2024 and 2023

### **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, 2024 and 2023

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Recently Adopted Accounting Standards**

Effective January 1, 2024, the Corporation implemented GASB Statement No. 101, *Compensated Absences* (GASB Statement No. 101) issued in June 2022. GASB Statement No. 101 provides guidance on the accounting and financial reporting for compensated absences. The statement requires liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The adoption of this statement did not have a material effect on the financial statements.

### **NOTE 2: RESTRICTED ASSETS**

The Department's restricted assets consist of developer deposits that are held by the Corporation and paid to subcontractors upon the satisfactory execution of work related to construction projects. As of December 31, 2024, balances in the developer deposit accounts totaled \$7,719.

### **NOTE 3: 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, 2024 and 2023, is as follows:

	<u>2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>2024</u>
Non-depreciable:				
Land and land use rights	\$ 17,747,379	\$ 29,310	\$ -	\$ 17,776,689
Construction in progress	7,470,717	3,754,505	(2,276,175)	8,949,047
Depreciable:				
Supply, treatment and distribution facilities	119,214,066	4,977,011	(13,839)	124,177,238
Equipment	13,428,677	1,037,986	(602,467)	13,864,196
	<u>157,860,839</u>	<u>9,798,812</u>	<u>(2,892,481)</u>	<u>164,767,170</u>
Accumulated depreciation	<u>(62,544,388)</u>	<u>(4,562,400)</u>	<u>337,256</u>	<u>(66,769,532)</u>
Utility plant in service, net	<u>95,316,451</u>	<u>5,236,412</u>	<u>(2,555,225)</u>	<u>97,997,638</u>
Non-amortizable:				
Work in process	14,666	172,026	-	186,692
Amortizable:				
Right to use subscription asset	209,086	33,455	-	242,541
Accumulated amortization	<u>(91,889)</u>	<u>(66,521)</u>	<u>-</u>	<u>(158,410)</u>
Right to use subscription asset, net	<u>131,863</u>	<u>138,960</u>	<u>-</u>	<u>270,823</u>
Utility plant in service and right to use subscription asset, net	<u>\$ 95,448,314</u>	<u>\$ 5,375,372</u>	<u>\$ (2,555,225)</u>	<u>\$ 98,268,461</u>

**(Continued)**

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **NOTE 3: UTILITY PLANT IN SERVICE AND RIGHT TO USE ASSETS (Continued)**

	<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	5,066,698	(378,131)	7,470,717
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
	<u>149,020,703</u>	<u>9,555,894</u>	<u>(715,758)</u>	<u>157,860,839</u>
Accumulated depreciation	<u>(58,298,830)</u>	<u>(4,457,583)</u>	<u>212,025</u>	<u>(62,544,388)</u>
Utility plant in service, net	<u>90,721,873</u>	<u>5,098,311</u>	<u>(503,733)</u>	<u>95,316,451</u>
Non-amortizable:				
Work in process	-	14,666	-	14,666
Amortizable:				
Right to use subscription asset	150,481	58,605	-	209,086
Accumulated amortization	<u>(49,542)</u>	<u>(42,347)</u>	<u>-</u>	<u>(91,889)</u>
Right to use subscription asset, net	<u>100,939</u>	<u>30,924</u>	<u>-</u>	<u>131,863</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>

Management has entered into contracts for engineering and construction services related to various expansion and improvements projects. As of December 31, 2024, the original contract amounts and balance remaining on these contracts is as follows:

	<u>Original Contract Amount</u>	<u>Remaining Amount</u>
Roger Q Mills Water Treatment Plant expansion	\$ 45,277,000	\$ 45,277,000
Chestnut Street improvements project	1,288,915	115,324
Locust Street improvements project	<u>1,164,085</u>	<u>765,977</u>
Ending balance	<u>\$ 47,730,000</u>	<u>\$ 46,158,301</u>

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **NOTE 4: 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, 2024 and 2023, is as follows:

	2024	2023
Beginning balance	\$ 183,676	\$ 167,244
Additions	363,868	385,614
Reductions	(365,608)	(369,182)
Ending balance	\$ 181,936	\$ 183,676
Amounts due in one year	\$ 27,290	\$ 27,551
Long-term	154,646	156,125
	\$ 181,936	\$ 183,676

### **NOTE 5: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

The Department has five 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 \$66,522 and \$2,441, respectively, which are included in the statements of revenues, expenses and changes in net position for the year ended December 31, 2024. For the year ended December 31, 2023, the Department recognized subscription amortization and interest expense of \$42,344 and \$2,727, 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 \$103,000 and \$80,000, respectively, for the years ended December 31, 2024 and 2023.

Future payments on the subscription liability are as follows:

	Principal	Interest	Total
2025	\$ 39,129	\$ 1,355	\$ 40,484
2026	11,610	-	11,610
	\$ 50,739	\$ 1,355	\$ 52,094

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **NOTE 6: ADVANCES FROM ELECTRIC AND CABLE 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.

During the year ended December 31, 2024, the Cable Department advanced the Department approximately \$603,000 for the water treatment plant expansion. Interest at 3.0% began accruing July 2024. The Department will make interest only payments for 18-24 months while work on the project progresses or until the Corporation determines no further costs will be covered by the advance.

Interest expense related to these advances for the years ended December 31, 2024 and 2023, is approximately \$109,000 and \$114,000, respectively. Activity related to these advances during the years ended December 31, 2024 and 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 4,629,880	\$ 5,478,083
Additions	603,345	-
Reductions	<u>(380,116)</u>	<u>(848,203)</u>
Ending balance	<u>\$ 4,853,109</u>	<u>\$ 4,629,880</u>

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **NOTE 7: LONG-TERM DEBT**

The Department's long-term debt consists of loans for water storage rights and revenue improvement bonds issued for the purpose of financing improvements to the water system. Significant terms and principal balances of the Department's long-term debt at December 31, 2024 and 2023, are as follows:

	Interest Rates	2024	2023
<b>Publicly Traded Bonds</b>			
\$31,713,371 City of Conway, Arkansas, Water Revenue Improvement Bond, Series 2024A; principal and interest payable monthly starting on April 1, 2027 through maturity on March 1, 2047	0.75%	\$ 15,000	\$ -
<b>Notes Payable from Direct Borrowing</b>			
\$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%	449,584	470,947
\$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%	1,157,113	1,188,473
		1,621,697	1,659,420
Less current portion		(54,506)	(52,724)
Long-term debt, net of current portion		\$ 1,567,191	\$ 1,606,696

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

#### **Bonds Payable**

On July 31, 2024, the City entered into a bond purchase agreement to issue a \$31,713,371 Water Revenue Improvement Bond, Series 2024A and a \$7,579,609 Water Revenue Improvement Bond, Series 2024B for the purpose of financing improvements to the water system. Principal and interest on the 2024A Bonds is payable monthly through maturity on March 1, 2047, beginning approximately April 1, 2027, or after the final disbursement of funds for improvements. The 2024A Bonds bear an interest rate of .75% and a servicing fee of 1.00%. The 2024B Bonds bear no interest rate or servicing fee and principal will be forgiven as disbursements are made to fund improvements to the water system.

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### NOTE 7: LONG-TERM DEBT (Continued)

#### 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 \$1,606,697 and \$1,659,420 on December 31, 2024 and 2023, 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.

#### Long-Term Debt Activity

Long-term debt activity for the years ended December 31, 2024 and 2023, is as follows:

	2023	Increases	Decreases	2024
Bonds payable (public)	\$ -	\$ 15,000	\$ -	\$ 15,000
Notes payable (direct borrowing)	1,659,420	-	(52,723)	1,606,697
	\$ 1,659,420	\$ 15,000	\$ (52,723)	\$ 1,621,697
	2023	Increases	Decreases	2023
Bonds payable (public)	\$ 1,405,000	\$ -	\$ (1,405,000)	\$ -
Unamortized premium	21,548	-	(21,548)	-
Notes payable (direct borrowing)	1,710,421	-	(51,001)	1,659,420
	\$ 3,136,969	\$ -	\$ (1,477,549)	\$ 1,659,420

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### NOTE 7: LONG-TERM DEBT (Continued)

#### Annual Debt Service Requirements

Remaining debt service payments at December 31, 2024, are as follows:

	Notes Payable from Direct Borrowings		Notes Payable from Public Borrowings		Total
	Principal	Interest	Principal	Interest	
2025	\$ 54,506	\$ 51,812	\$ -	\$ -	\$ 106,318
2026	56,351	49,967	-	-	106,318
2027	58,261	48,058	15,000	-	121,319
2028	60,238	46,081	-	-	106,319
2029	62,283	44,035	-	-	106,318
2030-2034	344,707	186,886	-	-	531,593
2035-2039	407,796	123,798	-	-	531,594
2040-2044	261,378	66,263	-	-	327,641
2045-2049	301,177	26,467	-	-	327,644
	<u>\$ 1,606,697</u>	<u>\$ 643,367</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 2,265,064</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.

##### 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.

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### NOTE 8: RETIREMENT PLANS

#### Defined Benefit Plan

##### Benefits Provided (Continued)

At August 1, 2024, the following employees of the Corporation were covered by the benefit terms:

Retirees and beneficiaries	111
Terminated vested and other inactive participants	56
Active employees	239
Total	406

##### 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, 2024 and 2023 totaled 15.41% and \$3,012,427, and 17.13% and \$3,174,711, respectively. Actual contributions for all departments for the years ended December 31, 2024 and 2023 totaled \$3,647,000 and \$3,500,000, or 121.06% and 110.25%, respectively, of required contributions.

##### Net Pension Liability

The Corporation's net pension liability was measured as of December 31, 2024 and 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2024 and 2023, and then projected forward to the measurement date. There have been no significant changes between the valuation date and the measurement date.

Total pension liability in the August 1, 2024 and 2023 actuarial valuation was determined using the following assumptions:

	2024	2023
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, 2024 and 2023 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.

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### NOTE 8: RETIREMENT PLANS (Continued)

#### Defined Benefit Plan (Continued)

##### Net Pension Liability (Continued)

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, 2024 and 2023, are summarized in the table below:

Asset Class	2024		2023	
	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%	5.00%
Fixed income	25.00%	3.00%	20.00%	3.00%
Cash equivalents	5.00%	0.00%	5.00%	0.00%
Total	<u>100.00%</u>		<u>100.00%</u>	

##### 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.

##### Changes in the Net Pension Liability

Changes in the Corporation's net pension liability for the year ended December 31, 2024 were as follows:

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at December 31, 2023	\$ 63,832,767	\$ 48,424,126	\$ 15,408,641
Changes for the year:			
Service cost	1,134,459	-	1,134,459
Interest on total pension liability	4,406,920	-	4,406,920
Effect of economic/demographic gains or losses	1,134,810	-	1,134,810
Employer contributions	-	3,647,000	(3,647,000)
Net investment income	-	5,068,672	(5,068,672)
Benefit payments	(2,888,004)	(2,888,004)	-
Net changes	<u>3,788,185</u>	<u>5,827,668</u>	<u>(2,039,483)</u>
Balances at December 31, 2024	<u>\$ 67,620,952</u>	<u>\$ 54,251,794</u>	<u>\$ 13,369,158</u>

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### NOTE 8: RETIREMENT PLANS (Continued)

#### Defined Benefit Plan (Continued)

##### 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	\$ 20,515,534	\$ 13,369,158	\$ 6,222,784

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

For the years ended December 31, 2024 and 2023, the Corporation recognized pension expense of \$3,193,875 and \$2,981,188, respectively. At December 31, 2024, 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	\$ 3,263,846	\$ 1,331,669
Net difference between projected and actual earnings	4,141,749	3,628,161
Changes of assumptions	439,771	-
Total	\$ 7,845,366	\$ 4,959,830

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

Year ending December 31,	
2025	\$ 1,767,953
2026	\$ 1,880,879
2027	\$ (739,675)
2028	\$ (153,721)
2029	\$ (32,014)
Thereafter	\$ 162,114

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **NOTE 8: RETIREMENT PLANS (Continued)**

#### **Defined Benefit Plan (Continued)**

##### 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 \$2,682,323, \$1,575,552, \$996,062 and \$641,413, respectively, for the year ended December 31, 2024, and \$3,091,904, \$2,032,424, \$1,134,353 and \$598,699, respectively, for the year ended December 31, 2023.

#### **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, 2024 and 2023, totaled approximately \$431,000 and \$269,500, 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, 2024 and 2023. There were no assets of the OPEB that were accumulated in a trust during the years ended December 31, 2024 and 2023.

#### 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 8). 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, 2024, the following employees were covered by the benefit terms:

Retirees and surviving spouses	78
Active employees	231
	<hr/>
Total	309
	<hr/> <hr/>

During the years ended December 31, 2024 and 2023, the Corporation paid, as they came due, \$55,021 and \$68,383, respectively, of benefit payments for the OPEB.

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **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, 2024 and 2023, using an actuarial valuation as of those dates.

Total OPEB liability in the December 31, 2024 and 2023, actuarial valuations was determined using the following actuarial assumptions and other inputs:

	<u>2024</u>	<u>2023</u>
Inflation	3.00%	2.00%
Annual salary increases	4.28%	4.00%
Healthcare cost trend rates	7.50% for 2024, decreased each year to an ultimate rate of 4.25% for 2033 and later	0.00% for 2023, increased/ decreased each year to an ultimate rate of 4.25% for 2032 and later

Mortality rates in the December 31, 2024 and 2023 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, 2024 and 2023 actuarial valuations was 4.28% and 4.00% 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, 2024 were as follows:

Balance at December 31, 2023	\$ 3,158,825
Changes for the year:	
Service cost	100,212
Interest on total OPEB liability	127,257
Differences between expected and actual experience	(46,012)
Effect of assumptions changes or inputs	148,130
Benefit payments	<u>(55,021)</u>
Net changes	<u>274,566</u>
Balance at December 31, 2024	<u><u>\$ 3,433,391</u></u>

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **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 4.28%, 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 (3.28%) or 1 percentage point higher (5.28%) than the current rate:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	<b>3.28%</b>	<b>4.28%</b>	<b>5.28%</b>
Total OPEB liability	\$ 3,643,568	\$ 3,433,391	\$ 3,240,772

#### 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:

	<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1% Increase</b>
Total OPEB liability	\$ 3,154,487	\$ 3,433,391	\$ 3,770,327

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

For the years ended December 31, 2024 and 2023, the Corporation recognized OPEB expense of \$101,688 and \$56,991, respectively. For the year ended December 31, 2024, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 614,479	\$ 777,245
Changes of assumptions	224,579	635,846
Total	\$ 839,058	\$ 1,413,091

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **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,	
2025	\$ (70,760)
2026	\$ (70,760)
2027	\$ (72,785)
2028	\$ (90,992)
2029	\$ (90,990)
Thereafter	\$ (177,746)

#### 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 \$688,856, \$283,785, \$168,504 and \$20,422, respectively, during the year ended December 31, 2024, and \$633,716, \$314,071, \$164,072 and \$11,447, respectively, during the year ended December 31, 2023.

### **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, 2024 and 2023, the accrued liability for the self-insured health plan totaled approximately \$267,000 and \$307,000, respectively.

### **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, 2024 and 2023, was \$1,690,126 and \$1,520,981, respectively.

# Conway Corporation Water Department

## Notes to Financial Statements December 31, 2024 and 2023

### **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, 2024 and 2023, the Department reimbursed the Electric Department for all amounts owed before year end.

During the years ended December 31, 2024 and 2023, the Electric Department charged the Department \$366,339 and \$377,320, 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 \$256,494 and \$227,941, 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, 2024 and 2023. 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.

### **NOTE 15: RISKS AND UNCERTAINTIES**

The Department's financial performance is subject to various risks and uncertainties. These risks include, but are not limited to, economic conditions, market fluctuations, regulatory changes, and geopolitical events. In particular, recent developments such as the potential imposition of tariffs and certain ongoing geopolitical events have introduced additional uncertainties that could impact the Department's operations and financial results.



**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, 2024, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated March 18, 2025.

**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.

The Board of Directors  
Conway Corporation

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Little Rock, Arkansas  
March 18, 2025