

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 1, 2022

**NEW ISSUE
BOOK-ENTRY ONLY**

***RATING: Moody's: " ____ "**

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2022A Bonds (including any original issue discount properly allocable to the owner of a Series 2022A Bond) is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2022B Bonds is included in gross income for federal income tax purposes. Under existing laws, regulations, rulings and judicial decisions, Bond Counsel is of the opinion that the Series 2022A Bonds and the Series 2022B Bonds and the interest thereon are exempt from all state, county and municipal taxes in the State of Arkansas. For a more complete description, see the caption "TAX MATTERS" herein.

\$23,590,000**

**CITY OF CONWAY, ARKANSAS
ELECTRIC REVENUE IMPROVEMENT BONDS
TAX-EXEMPT SERIES 2022A**

\$13,395,000**

**CITY OF CONWAY, ARKANSAS
ELECTRIC REVENUE REFUNDING BONDS
TAXABLE SERIES 2022B**

Dated: Date of Delivery

Due: December 1, as shown on inside front cover

The Electric Revenue Improvement Bonds, Tax-Exempt Series 2022A (the "Series 2022A Bonds"), and the Electric Revenue Refunding Bonds, Taxable Series 2022B (the "Series 2022B Bonds," and together with the Series 2022A Bonds, the "Series 2022 Bonds"), are being issued by the City of Conway, Arkansas (the "City") for the purpose of (i) financing costs of betterments and improvements to the City's electric utility system, (ii) refunding the City's outstanding Electric Revenue Improvement Bonds, Series 2015, (iii) funding a debt service reserve, and (iv) paying certain expenses in connection with the issuance of the Series 2022 Bonds. See the captions "ESTIMATED SOURCES AND USES OF FUNDS," "THE PROJECT" and "PLAN OF REFUNDING" herein.

The Series 2022 Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal, premium, if any, and interest payments on the Series 2022 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2022 Bonds. Individual purchases of the Series 2022 Bonds will be made only in book-entry form, in denominations of \$5,000 or integral multiples thereof. Individual purchasers ("Beneficial Owners") of Series 2022 Bonds will not receive physical delivery of bond certificates. See the caption "BOOK-ENTRY ONLY SYSTEM" herein.

The Series 2022 Bonds shall bear interest from their dated date, payable on June 1 and December 1 of each year, commencing December 1, 2022. All such interest payments shall be payable to the persons in whose name such Series 2022 Bonds are registered on the bond registration books maintained by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as of the fifteenth day of the calendar month next preceding the month of the applicable interest payment date. Principal of and premium, if any, on the Series 2022 Bonds shall be payable upon presentation and surrender thereof at the designated corporate trust office of the Trustee. So long as DTC or its nominee is the registered owner of the Series 2022 Bonds, disbursement of such payments to DTC Participants is the responsibility of DTC, and the disbursement of such payments to Beneficial Owners is the responsibility of DTC Participants or Indirect Participants, as the case may be.

Payment of the principal of, premium, if any, and interest on the Series 2022 Bonds is secured by a pledge of the revenues of the City's electric system (the "System"). The pledge of System revenues securing the Series 2022 Bonds shall be on a parity with the pledge of System revenues securing any additional bonds hereafter issued on a parity of security therewith (the "Additional Bonds") in accordance with the provisions of a Trust Indenture dated as of the date of delivery of the Series 2022 Bonds (the "Indenture"), by and among the City, Conway Corporation, an Arkansas nonprofit corporation (the "Corporation"), and the Trustee. The Corporation operates and maintains the System pursuant to an exclusive franchise and lease arrangement with the City. See the captions "SECURITY FOR THE BONDS," "THE CORPORATION" and "THE SYSTEM" herein.

The Series 2022 Bonds are subject to optional and mandatory redemption prior to maturity as provided herein under the caption "THE SERIES 2022 BONDS."

The Series 2022 Bonds are special obligations of the City secured by and payable solely from the revenues of the System. The Series 2022 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limitation or restriction. The issuance of the Series 2022 Bonds shall not directly, indirectly or contingently obligate the City to levy or pledge any taxes whatsoever or to make any appropriation for the payment of the Series 2022 Bonds, except as described herein with respect to revenues of the System.

The Series 2022 Bonds are offered when, as and if issued by the City and are subject to the final approving opinion of Kutak Rock LLP, Little Rock, Arkansas, Bond Counsel. Certain matters will be passed upon for the City by its counsel, Charles Finkenbinder, Esq., City Attorney. It is expected that the Series 2022 Bonds will be available for delivery in New York, New York, on or about March 31, 2022.

Stephens Inc.

 **Crews & Associates**

The date of this Official Statement is March __, 2022

* See the caption "RATING" herein.

** Preliminary; subject to change.

MATURITY SCHEDULES*

Tax-Exempt Series 2022A Bonds

<u>Maturity (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIPS**</u>
2030	\$ 215,000	%	%	
2031	1,145,000			
2032	1,215,000			
2033	1,265,000			
2034	1,315,000			
2035	1,365,000			
2036	1,420,000			
2037	1,480,000			
2038	1,535,000			
2039	1,600,000			
2040	1,665,000			
2041	1,730,000			
2042	1,800,000			

\$5,840,000 ____% Term Bonds due December 1, 2045 - Yield: ____% CUSIP: _____**

Taxable Series 2022B Bonds

<u>Maturity (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIPS**</u>
2022	\$ 900,000	%	%	
2023	1,475,000			
2024	1,500,000			
2025	1,530,000			
2026	1,560,000			
2027	1,595,000			
2028	1,635,000			
2029	1,675,000			
2030	1,500,000			
2031	25,000			

* Preliminary; subject to change.

** CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the Series 2022 Bonds. The City and the Underwriters are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2022 Bonds by the City or by the Underwriters. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2022 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2022 Bonds.

No dealer, broker, salesman or other person has been authorized by the City, Conway Corporation (the “Corporation”), or by Stephens Inc. or Crews & Associates, Inc. (collectively, the “Underwriters”) to give any information or to make any representations, other than those contained in this Official Statement; and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of any Series 2022 Bonds in any jurisdiction in which such offer is not authorized, or in which the person making such offer, solicitation or sale is not qualified to do so, or to any person to whom it is unlawful to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Corporation or the System since the date hereof.

THE SERIES 2022 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE TRUST INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS FROM SUCH REGISTRATION AND QUALIFICATION CONTAINED IN SUCH LAWS.

CERTAIN INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM THE CITY, THE CORPORATION, THE DEPOSITORY TRUST COMPANY AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTY THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2022 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$23,590,000*

**CITY OF CONWAY, ARKANSAS
ELECTRIC REVENUE IMPROVEMENT BONDS
TAX-EXEMPT SERIES 2022A**

\$13,395,000*

**CITY OF CONWAY, ARKANSAS
ELECTRIC REVENUE REFUNDING BONDS
TAXABLE SERIES 2022B**

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. All descriptions and summaries of documents hereinafter set forth are qualified in their entirety by reference to each such document. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms under the caption “DEFINITIONS OF CERTAIN TERMS” herein.

This Official Statement, including the cover page and the Appendices hereto, is furnished in connection with the offering of (i) \$23,590,000* Electric Revenue Improvement Bonds, Tax-Exempt Series 2022A (the “Series 2022A Bonds”), and (ii) \$13,395,000* Electric Revenue Refunding Bonds, Taxable Series 2022B (the “Series 2022B Bonds,” and together with the Series 2022B Bonds, the “Series 2022 Bonds”), by the City of Conway, Arkansas (the “City”).

The City is a city of the first class organized and existing under the laws of the State of Arkansas (the “State”). The City is authorized under Amendment 65 to the Constitution of the State (“Amendment 65”) and the Local Government Capital Improvement Revenue Bond Act of 1985, codified as Arkansas Code Annotated Sections 14-164-401 *et seq.* (1998 Repl. & Supp. 2021), and the Municipal Electric System Financing Act of 1983, codified as Arkansas Code Annotated Sections 14-203-101 *et seq.* (1998 Repl.) (collectively, the “Authorizing Legislation”), to issue and sell its electric revenue bonds for the purpose of financing and refinancing the cost of improvements and betterments to its electric utility system (the “System”).

The Series 2022 Bonds are to be issued by the City pursuant to Ordinance No. O-22-20 adopted and approved on February 28, 2022 (the “Authorizing Ordinance”), for the purpose of (i) financing the costs of certain betterments and improvements (the “2022 Project”) to the City’s electric utility system (the “System”), (ii) to refund the City’s outstanding Electric Revenue Improvement Bonds, Series 2015 (the “Series 2015 Bonds”), (iii) funding a debt service reserve, and (iv) paying certain expenses in connection with the issuance of the Series 2022 Bonds. See the captions “ESTIMATED SOURCES AND USES OF FUNDS,” “THE 2022 PROJECT” and “PLAN OF REFUNDING” herein.

The Series 2022 Bonds are special obligations of the City, payable solely from and secured by a pledge of revenues of the System (the “Revenues”). The City has covenanted to establish and maintain rates for System services which shall provide Revenues in each Fiscal Year at least equal to the sum of (a) an amount sufficient to pay Operating Expenses, (b) an amount equal to 125% of the maximum annual Debt Service Requirement on all Outstanding Bonds, and (c) that amount, if any, required to make the amount on deposit in the Debt Service Reserve Fund equal to the then applicable Reserve Requirement(s) at such time. See the captions “SECURITY FOR THE BONDS” and “SUMMARY OF THE INDENTURE - *Rates and Charges*” herein.

* Preliminary; subject to change.

The Series 2022 Bonds are special obligations of the City secured by and payable solely from Revenues. The Series 2022 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limitation or restriction. The issuance of the Series 2022 Bonds shall not directly, indirectly or contingently obligate the City to levy or pledge any taxes whatsoever or to make any appropriation for the payment of the Series 2022 Bonds, except as described herein with respect to Revenues.

Additional bonds (“Additional Bonds”) may be issued on a parity of security with the Series 2022 Bonds under certain circumstances set forth in the Indenture (hereinafter defined). See the caption “THE SERIES 2022 BONDS - *Additional Bonds*” herein. The Series 2022 Bonds and any Additional Bonds are herein collectively referred to as the “Bonds.”

The Series 2022A Bonds are subject to optional redemption prior to maturity, to mandatory sinking fund redemption, and to mandatory redemption from excess moneys in the Project Fund following completion of the 2022 Project. The Series 2022B Bonds are subject to optional redemption prior to maturity. See the caption “THE SERIES 2022 BONDS – *Redemption*” herein.

The Conway Corporation, an Arkansas nonprofit corporation (the “Corporation”), operates the System under the terms of a lease agreement and a franchise arrangement with the City. Pursuant to similar franchise arrangements, the Corporation operates the City’s water and sewer systems. In addition, the Corporation leases and operates a cable television system for the benefit of the residents of the City.

Pursuant to the provisions of a Continuing Disclosure Agreement to be dated as of the date of delivery of the Series 2022 Bonds (the “Continuing Disclosure Agreement”), by and among the City, the Corporation and The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the “Dissemination Agent”), the City and the Corporation have undertaken certain obligations with respect to providing ongoing disclosure of certain financial and operating data concerning the System and of the occurrence of certain listed events. See the caption “SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT” herein.

Descriptions of the City, the System, the Corporation, the Series 2022 Bonds, the Continuing Disclosure Agreement, and a Trust Indenture dated as of the date of delivery of the Series 2022 Bonds (the “Indenture”), by and among the City, the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), pursuant to which the Series 2022 Bonds are issued and secured, are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Continuing Disclosure Agreement or the Indenture are qualified in their entirety by reference to such documents, copies of which are available from the City or the Corporation, and all references to the Series 2022 Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the Indenture. Certain financial data has been provided from the audited and unaudited records of the System and certain demographic information has been obtained from other sources which are believed to be reliable.

THE SERIES 2022 BONDS

Description. The Series 2022A Bonds and the Series 2022B Bonds will be initially dated as of their date of delivery, and will bear interest payable semiannually on June 1 and December 1 of each year, commencing December 1, 2022, at the rates set forth on the inside cover page hereof. The Series 2022A Bonds and the Series 2022B Bonds will mature on December 1 in the years and in the principal amounts set forth on the inside cover page hereof.

The Series 2022 Bonds are issuable only in the form of fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, to which principal, premium, if any, and interest payments on the Series 2022 Bonds will be made so long as DTC or its nominee is the registered owner of the Series 2022 Bonds. Individual purchases of the Series 2022 Bonds will be made only in book-entry form, in denominations of \$5,000 or integral multiples thereof. Individual purchasers (“Beneficial Owners”) of the Series 2022 Bonds will not receive physical delivery of bond certificates. See the caption “BOOK-ENTRY ONLY SYSTEM” herein.

All interest payments on the Series 2022 Bonds shall be payable to the persons in whose name such Series 2022 Bonds are registered on the bond registration books maintained by the Trustee, as of the fifteenth day of the calendar month next preceding the month of the applicable interest payment date. Principal of and premium, if any, on the Series 2022 Bonds shall be payable upon presentation and surrender thereof at the designated corporate trust office of the Trustee. All such payments shall be valid and effectual to satisfy and discharge the liability upon such

Series 2022 Bonds to the extent of the sum or sums so paid. So long as DTC or its nominee is the registered owner of the Series 2022 Bonds, disbursement of such payments to DTC Participants is the responsibility of DTC, and the disbursement of such payments to Beneficial Owners is the responsibility of DTC Participants or Indirect Participants, as more fully described herein under the caption “BOOK-ENTRY ONLY SYSTEM” herein.

Redemption. The Series 2022A Bonds are subject to redemption prior to maturity as follows:

(a) Series 2022A Optional Redemption. The Series 2022A Bonds are subject to redemption prior to maturity, at the option of the City, in whole or in part at any time on and after June 1, 2029, in such maturities as shall be selected by the City, from funds from any source, at a redemption price equal to one hundred percent (100%) of the principal amount of the Series 2022A Bonds being redeemed, plus accrued interest to the date of redemption.

(b) Series 2022A Excess Proceeds Redemption. The Series 2022A Bonds shall be redeemed, in whole or in part, in inverse order of maturity and by lot in such manner as the Trustee shall determine within a maturity, at a redemption price of one hundred percent (100%) of the principal amount of the Series 2022A Bonds to be redeemed, plus interest accrued and unpaid to the redemption date, on any interest payment date from any unexpended proceeds of the Series 2022A Bonds not needed for accomplishing the 2022A Project.

(c) Series 2022A Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Series 2022A Bonds maturing December 1, 2045, are subject to mandatory sinking fund redemption prior to maturity in part (selected by the Trustee by lot) on December 1, 2043, and on each December 1 thereafter to and including December 1, 2045, at a redemption price equal to one hundred percent (100%) of the principal amount of the Series 2022A Bonds being redeemed, plus accrued interest to the date of redemption, in the following amounts:

<u>Redemption Date</u>	<u>Principal Amount*</u>
December 1, 2043	\$1,870,000
December 1, 2044	1,945,000
December 1, 2045 (maturity)	2,025,000

* Preliminary; subject to change.

At its option, to be exercised on or before the 45th day preceding any sinking fund redemption date, the City may deliver to the Trustee for cancellation and retirement any of the Series 2022A Bonds maturing December 1, 2045, or portions thereof (\$5,000 or any integral multiple thereof), in any aggregate principal amount and receive a credit in respect of its sinking fund redemption obligations. Each such Series 2022A Bond or portion thereof so delivered or previously purchased or redeemed and cancelled by the Trustee shall be credited by the Trustee at one hundred percent (100%) of the principal amount thereof on the sinking fund obligations of the City on the redemption dates for the Series 2022A Bond or Bonds so cancelled, and any excess over such amount shall be credited on future sinking fund redemption obligations in chronological order, and the principal amount of any future sinking fund redemption obligations with respect to the Series 2022A Bonds shall be accordingly reduced.

The Series 2022B Bonds are subject to redemption prior to maturity as follows:

Series 2022B Optional Redemption. The Series 2022B Bonds are subject to redemption prior to maturity, at the option of the City, in whole or in part at any time on and after June 1, 2029, in such maturities as shall be selected by the City, from funds from any source, at a redemption price equal to one hundred percent (100%) of the principal amount of the Series 2022B Bonds being redeemed, plus accrued interest to the date of redemption.

Selection of Series 2022 Bonds to be Redeemed. If less than all of the Series 2022 Bonds of like series and maturity shall be called for redemption, the particular Series 2022 Bonds or portions of Series 2022 Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall deem fair and appropriate; provided, however, in case any Outstanding Series 2022 Bond is in a denomination greater than \$5,000, each \$5,000 of face value of such Series 2022 Bond shall be treated as a separate Series 2022 Bond in the denomination of \$5,000. Notwithstanding the foregoing, so long as DTC or its nominee is the

sole registered owner of the Series 2022 Bonds, the particular Series 2022 Bonds or portions thereof to be redeemed within a maturity shall be selected by lot in such manner as DTC shall determine.

Notice of Redemption. Notice of the call for any redemption, identifying the Series 2022 Bonds or portions thereof being called and the date on which they shall be presented for payment, shall be mailed by the Trustee by first class mail, postage prepaid (or, so long as DTC or its nominee is the sole Registered Owner of the Series 2022 Bonds, by any other means acceptable to DTC, including facsimile), to the Registered Owner of each such Series 2022 Bond to be redeemed addressed to such Registered Owner at his registered address and placed in the mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceeding for the redemption of any Series 2022 Bond with respect to which no such failure or defect has occurred. Such notices for optional redemption may be conditioned. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice.

Additional Bonds. The City may issue from time to time one or more series of Additional Bonds upon the following terms and conditions:

Historical Revenue Test. Additional Bonds may be issued, provided an Accountant certifies that the Net Revenues, as adjusted for electric rates then in effect, for the preceding Fiscal Year, are not less than 125% of the sum of the maximum annual Debt Service Requirements on all Bonds then Outstanding and the Additional Bonds then proposed to be issued, plus such further series of Bonds, if any, as may be required to be issued to complete any Project for which such Additional Bonds have been or are being issued.

Projected Revenue Test. Additional Bonds may be issued provided a Consulting Engineer or an Accountant certifies that Net Revenues, as estimated pursuant to the Indenture in each Fiscal Year to and including the latest of either (i) the third succeeding Fiscal Year or (ii) the second Fiscal Year following the latest estimated Completion Date of all Facilities for which Additional Bonds have been or are being issued, will be equal to not less than 135% of the maximum annual Debt Service Requirement on all Bonds then Outstanding and the Additional Bonds then proposed to be issued, plus such further series of Bonds, if any, as may be required to be issued to complete any Project for which such Additional Bonds have been or are being issued.

Completion Bonds Test. Additional Bonds, in an aggregate amount not exceeding \$10,000,000, may be issued without meeting the requirements of the Historical Revenue Test or the Projected Revenue Test ("Completion Bonds"), to pay the Costs of Facilities to complete any Project for which Additional Bonds were issued meeting the requirements of the Historical Revenue Test or Projected Revenue Test; provided, however, such Completion Bonds may be issued only if a Consulting Engineer (i) shall certify that the net proceeds of such Completion Bonds alone, or in combination with other moneys available, will be sufficient to complete the payment of the remaining Costs of Facilities with respect to the Project, and (ii) shall be of the opinion that, after consideration of other reasonable alternatives, it is in the best interest of the City to complete payment of the remaining Costs of Facilities with respect to the Project.

Refunding Bonds Test. Additional Bonds may be issued to refund Outstanding Bonds provided, however, that either (i) the Debt Service Requirement on all Bonds Outstanding after the refunding shall not be greater in any Fiscal Year than what the Debt Service Requirement would have been if the refunding were not to occur or (ii) the City shall obtain the certificate of a Consulting Engineer or an Accountant that the Historical Revenue Test or the Projected Revenue Test is met. Additional Bonds may also be issued to refund Outstanding Bonds at any time within one year prior to a principal maturity or mandatory sinking fund redemption with respect thereto if sufficient Net Revenues are not available to make such principal or mandatory sinking fund redemption payment.

Subordinate Indebtedness. Nothing in the Indenture shall prevent the City from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, the payment of the principal of and premium, if any, and interest on which shall be made from Revenues or from a special fund to be established and maintained from Revenues; provided payments from Revenues or from such special fund, and the lien and charge on such Revenues, shall be made junior and subordinate to the lien, pledge and charge created in the Indenture for the security and payment of the Bonds, and other payments under the Indenture, including, without

limitation, the following payments out of Revenues specified by the Indenture: (i) payments of Operating Expenses; (ii) payments into the Bond Fund; and (iii) payments into the Debt Service Reserve Fund.

There are currently outstanding (i) \$11,265,000 principal amount of the City's Wastewater Revenue Refunding Bonds, Series 2016, (ii) \$8,935,000 principal amount of the City's Wastewater Revenue Improvement Bonds, Series 2019A, (iii) \$19,090,000 principal amount of the City's Wastewater Revenue Refunding Bonds, Series 2019B, and (iv) \$5,741,323.85 principal amount of the City's Wastewater Revenue Refunding Bonds, Series 2020, each secured primarily by revenues of the City's wastewater collection and treatment system and, to the extent of any deficiency in wastewater system revenues, by surplus Revenues of the System on a junior and subordinate basis as described in the preceding paragraph.

Transfer and Exchange. The Bonds may be transferred on the books of registration kept by the Trustee by the Registered Owner thereof in person or by the Registered Owner's duly authorized attorney, upon surrender thereof, together with a written instrument of transfer duly executed by the Registered Owner or the Registered Owner's duly authorized attorney. Upon surrender for transfer of any Bond at the designated corporate office of the Trustee, the City shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds in the same series, maturity and aggregate principal amount and of any authorized denomination or denominations.

Transfers of registration or exchanges of Bonds shall be without charge to the holders of such Bonds, but any taxes, fees or other governmental charges required to be paid with respect to the same shall be paid by the holder of the Bond requesting such transfer or exchange as a condition precedent to the exercise of such privilege.

Neither the City nor the Trustee shall be required to transfer or exchange any Bond during the period from and including a Record Date to the next succeeding interest payment date with respect to such Bond, nor to transfer or exchange any Bond after the mailing of any notice calling such Bond for redemption.

So long as DTC or its nominee is the sole registered owner of the Series 2022 Bonds, transfers of beneficial interests in the Series 2022 Bonds shall be made in accordance with the rules and procedures of DTC and its direct and indirect participants. See the caption "BOOK-ENTRY ONLY SYSTEM" herein.

SECURITY FOR THE BONDS

General. The Bonds are special and limited obligations of the City secured by and payable as to principal, premium, if any, and interest solely from the Trust Estate (including the Revenues and certain other moneys and securities as provided in the Indenture). The pledge of Revenues securing payment of the principal, premium, if any, and interest on the Series 2022 Bonds shall be on a parity basis with any pledge of Revenues securing the payment of principal, premium and interest on Additional Bonds subsequently issued under the Indenture. See the caption "THE SERIES 2022 BONDS – *Additional Bonds*" herein. All Bonds issued under the Indenture are equally and ratably payable and secured without priority by reason of their series, number, date, date of issue, execution, authentication or sale, or otherwise, except that each series of Bonds is secured only by the Account of the Debt Service Reserve Fund relating thereto, if any.

The Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limit. The issuance of the Bonds shall not directly, indirectly or contingently obligate the City to levy or pledge any taxes whatsoever or to make any appropriation for the payment of the Bonds except as described herein with respect to the Revenues of the System.

"Revenues" means and includes all income, rents, fees, charges, receipts, profits and other moneys derived by the City or the Corporation from the ownership or operation of the System, including, without limiting the generality of the foregoing, (a) all of the preceding derived from the sale, furnishing or supplying of the services, facilities, commodities and Electric Energy of the System; (b) the investment income on all Funds held by the Trustee pursuant to the Indenture; (c) the investment income on all Funds held by the City or the Corporation or by any Depository designated by the City or the Corporation pursuant to the provisions of the Indenture; and (d) all investment income from the investment of any other moneys derived from the ownership or operation of the System. "Revenues" shall not include (1) customers' deposits or any other deposits subject to refund, until such deposits have become the property of the City or (2) developer contributions in aid of construction.

"Net Revenues" means Revenues less all ordinary and necessary expenses incurred in the operation, repair, maintenance and insuring of the System, excluding depreciation and the payment of debt service on the Bonds and

any Subordinate Indebtedness, but including the cost of purchased Electric Energy and payments to all taxing authorities (“Operating Expenses”).

Electric Rates. The Board of Directors of the Corporation establishes rates and charges for the sale of the System’s electric power and energy. Such rates and charges are not subject to regulation or approval by any federal or state governmental body, but are subject to approval by the City Council of the City. The City and the Corporation have covenanted that they will, while any Bonds are Outstanding, establish, maintain and revise rates, and will collect Revenues, so as to produce Revenues in each Fiscal Year at least equal to the sum of the following amounts during such Fiscal Year: (a) an amount sufficient to pay Operating Expenses; (b) an amount equal to 125% of the maximum annual Debt Service Requirement (the maximum aggregate principal or sinking fund installment and interest not funded from bond proceeds coming due in any year) with respect to all Outstanding Bonds; and (c) that amount, if any, required to make the amount on deposit in the Debt Service Reserve Fund to be equal to the then applicable Reserve Requirement(s) at such time. Further, the City will not reduce rates while there are any Outstanding Bonds unless: (a) all deposits required by the Indenture to be made to the Funds and Accounts therein created or confirmed have been made; (b) there shall be on deposit in the Debt Service Reserve Fund moneys in an amount not less than the applicable Reserve Requirement(s) at such time; and (c) the Net Revenues for each of the preceding three Fiscal Years of the System shall have not been less than 125% of the maximum annual Debt Service Requirement for any Fiscal Year thereafter with respect to all Outstanding Bonds.

Debt Service Reserve. The Indenture establishes a Debt Service Reserve Fund to be held by the Trustee. To the extent a Reserve Requirement with respect to a series of Bonds is established under the Indenture or any Supplemental Indenture, Accounts in the Debt Service Reserve Fund shall be funded upon the issuance of such series of Bonds, and there shall thereafter be maintained in such Account with respect to each series of Bonds, an amount equal to the Reserve Requirement with respect to such series of Bonds. The Reserve Requirement with respect to the Series 2022A Bonds shall be \$862,344*, and the Reserve Requirement with respect to the Series 2022B Bonds shall be \$489,660*. Moneys in Accounts in the Debt Service Reserve Fund may be used to make payments of debt service only on the corresponding series of Bonds to the extent of any deficiency in the Bond Fund.

* Preliminary; subject to change.

BOOK-ENTRY ONLY SYSTEM

The Series 2022 Bonds will be issued only as one fully registered Series 2022 Bond for each maturity of each series, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner of all the Series 2022 Bonds. The fully registered Series 2022 Bonds will be retained and immobilized in the custody of DTC.

DTC (or any successor securities depository) or its nominee for all purposes under the Indenture will be considered by the City and the Trustee to be the owner or holder of the Series 2022 Bonds.

Owners of any book entry interests in the Series 2022 Bonds (the “book entry interest owners”) described below, will not receive or have the right to receive physical delivery of the Series 2022 Bonds, and will not be considered by the City and the Trustee to be, and will not have any rights as, owners or holders of the Series 2022 Bonds under the bond proceedings and the Indenture except to the extent, if any, expressly provided thereunder.

CERTAIN INFORMATION REGARDING DTC AND DIRECT PARTICIPANTS IS SET FORTH BELOW. THIS INFORMATION HAS BEEN PROVIDED BY DTC. THE CITY, THE CORPORATION, THE UNDERWRITERS AND BOND COUNSEL ASSUME NO RESPONSIBILITY FOR THE ACCURACY OF SUCH STATEMENTS.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides custody and asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 120 countries and territories) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic

computerized book-entry transfers and pledges among Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, the National Securities Clearing Corporation and the Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings' rating of "AA+." The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2022 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2022 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2022 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2022 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2022 Bonds, except in the event that use of the Book-Entry System for the Series 2022 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2022 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2022 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2022 Bonds, DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2022 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Series 2022 Bonds within a series and maturity are to be redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2022 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy will assign Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2022 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payment of debt service and redemption proceeds with respect to the Series 2022 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and debt service to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

BENEFICIAL OWNERS SHOULD CONSULT WITH THE DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS FROM WHOM THEY PURCHASE A BOOK ENTRY INTEREST TO OBTAIN INFORMATION CONCERNING THE SYSTEM MAINTAINED BY SUCH DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS TO RECORD SUCH INTERESTS, TO MAKE PAYMENTS, TO FORWARD NOTICES OF REDEMPTION AND OF OTHER INFORMATION.

THE CITY, THE CORPORATION AND THE TRUSTEE HAVE NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECTS OF THE RECORDS OR NOTICES RELATING TO, OR PAYMENTS MADE ON ACCOUNT OF, BOOK ENTRY INTEREST OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO THAT OWNERSHIP.

The Trustee and the City, so long as a book entry method of recording and transferring interest in the Series 2022 Bonds is used, will send any notice of redemption or of any Indenture amendment or supplement or other notices to Bondholders under the Indenture only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participants, or of any Direct Participants or Indirect Participants to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2022 Bonds called for redemption, the Indenture amendment or supplement, or any other action premised on notice given under the Indenture.

The City, the Corporation and the Trustee cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2022 Bonds made to DTC or its nominee as the registered owner of the Series 2022 Bonds, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as securities depository with respect to the Series 2022 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

In addition, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2022A Bonds are expected to be utilized as follows:

Sources of Funds*

Series 2022A Bond Par Amount	\$ 23,590,000
Net Reoffering [Discount][Premium]	_____
Total Sources:	\$ _____

Uses of Funds*

Deposit to Project Fund	\$ 25,000,000
Deposit to 2022A Account of Debt Service Reserve Fund	862,344
Costs of Issuance, including Underwriters' discount	327,532
Contingency	_____
Total Uses:	\$ _____

* Preliminary; subject to change.

The proceeds of the Series 2022B Bonds are expected to be utilized as follows:

Sources of Funds*

Series 2022B Bond Par Amount	\$ 13,395,000
Net Reoffering [Discount][Premium]	
Moneys in Series 2015 Bond Fund and DSR	<u>2,310,996</u>
Total Sources:	\$ _____

Uses of Funds*

Deposit to 2015 Escrow Account	\$ 15,015,806
Deposit to 2022B Account of Debt Service Reserve Fund	489,660
Costs of Issuance, including Underwriters' discount	200,530
Contingency	_____
Total Uses:	\$ _____

* Preliminary; subject to change.

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ESTIMATED DEBT SERVICE REQUIREMENTS

As of the date of closing, the Series 2022A Bonds and the Series 2022B Bonds will constitute the only debt obligations secured by Revenues of the System on a senior basis. The following table details amounts required to pay scheduled debt service on the Series 2022A Bonds and the Series 2022B Bonds during each Fiscal Year shown:

Fiscal Year	Series 2022A Principal Maturities ⁽¹⁾	Series 2022A Interest ⁽²⁾	Series 2022B Principal Maturities ⁽¹⁾	Series 2022B Interest ⁽²⁾	Total Debt Service
2022	\$ --	\$ 631,688	\$ 900,000	\$ 199,862	\$ 1,731,550
2023	--	943,600	1,475,000	285,408	2,704,008
2024	--	943,600	1,500,000	259,448	2,703,048
2025	--	943,600	1,530,000	230,049	2,703,649
2026	--	943,600	1,560,000	197,123	2,700,723
2027	--	943,600	1,595,000	161,914	2,700,514
2028	--	943,600	1,635,000	124,320	2,702,920
2029	--	943,600	1,675,000	83,886	2,702,486
2030	215,000	943,600	1,500,000	40,788	2,699,388
2031	1,145,000	935,000	25,000	693	2,105,693
2032	1,215,000	889,200	--	--	2,104,200
2033	1,265,000	840,600	--	--	2,105,600
2034	1,315,000	790,000	--	--	2,105,000
2035	1,365,000	737,400	--	--	2,102,400
2036	1,420,000	682,800	--	--	2,102,800
2037	1,480,000	626,000	--	--	2,106,000
2038	1,535,000	566,800	--	--	2,101,800
2039	1,600,000	505,400	--	--	2,105,400
2040	1,665,000	441,400	--	--	2,106,400
2041	1,730,000	374,800	--	--	2,104,800
2042	1,800,000	305,600	--	--	2,105,600
2043	1,870,000	233,600	--	--	2,103,600
2044	1,945,000	158,800	--	--	2,103,800
2045	<u>2,025,000</u>	<u>81,000</u>	<u>--</u>	<u>--</u>	<u>2,106,000</u>
Totals:	<u>\$23,590,000</u>	<u>\$16,348,888</u>	<u>\$13,395,000</u>	<u>\$1,583,491</u>	<u>\$54,917,379</u>

⁽¹⁾ Preliminary; subject to change.

⁽²⁾ Assuming for the purposes of this Preliminary Official Statement an average coupon rate per annum of 4.000% on the Series 2022A Bonds and an average coupon rate per annum of 2.399% on the Series 2022B Bonds.

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ESTIMATED DEBT SERVICE COVERAGE

The following table shows Net Revenues available to pay System debt service (for the Fiscal Years ended December 31, 2020 and December 31, 2021) and the extent to which the average and the maximum annual Debt Service Requirement on the Series 2022 Bonds is covered by such moneys. Net Revenues available to pay System debt service for the Fiscal Year ended December 31, 2020 have been calculated on the basis of the audited financial statements of the System (attached hereto as Appendix A) for such Fiscal Year. Net Revenues available to pay System debt service for the Fiscal Year ended December 31, 2021 have been calculated on the basis of the unaudited Statement of Revenues and Expenses of the System (attached hereto as Appendix B) for such Fiscal Year.

	<u>2020</u>	<u>2021⁽¹⁾</u>
Net Revenues Available for Debt Service ⁽²⁾	\$11,459,796	\$12,924,063
Average Annual Debt Service Requirement ⁽³⁾	\$2,288,224	\$2,288,224
Maximum Annual Debt Service Requirement ⁽⁴⁾	\$2,704,008	\$2,704,008
Estimated Average Annual Debt Service Coverage	<u>5.01X</u>	<u>5.65X</u>
Estimated Maximum Annual Debt Service Coverage	<u>4.24X</u>	<u>4.78X</u>

(1) Unaudited.

(2) Net Revenues means gross revenues of the System less the amounts required to pay the costs of operation and maintenance of the System (excluding depreciation, interest and amortization expenses).

(3) See the caption "ESTIMATED DEBT SERVICE REQUIREMENTS" above.

(4) Based on total debt service in Fiscal Year 2023 as set forth under the caption "ESTIMATED DEBT SERVICE REQUIREMENTS" above.

THE NET REVENUES AVAILABLE FOR SYSTEM DEBT SERVICE SET FORTH ABOVE ARE BASED ON THE HISTORICAL RESULTS OF OPERATIONS OF THE SYSTEM. FUTURE REVENUES AVAILABLE FOR DEBT SERVICE WILL DEPEND ON NUMEROUS FACTORS, AND THERE CAN BE NO ASSURANCE THAT FUTURE NET REVENUES AVAILABLE FOR DEBT SERVICE WILL APPROXIMATE SUCH HISTORICAL RESULTS.

THE 2022 PROJECT

Approximately \$25,000,000* of the proceeds of the Series 2022A Bonds will be deposited into the Project Fund to provide for a new Operations Center campus for the Corporation, including, but not limited to, the design, construction and equipping of an office building, warehouse and vehicle maintenance shop, the renovation of existing building(s), the addition of covered parking for Corporation vehicles and equipment, and associated site work (collectively, the "2022 Project"). The 2022 Project will be located on approximately 190 acres currently owned by the Corporation or the City near Stone Dam Creek on South German Lane within the City.

* Preliminary; subject to change.

PLAN OF REFUNDING

A portion of the proceeds of the Series 2022B Bonds, together with moneys in the Bond Fund and Debt Service Fund relating to the Series 2015 Bonds, will be used to accomplish a refunding of \$14,150,000 outstanding principal amount of the City's Electric Revenue Improvement Bonds, Series 2015, dated as of December 1, 2015 (the "Series 2015 Bonds"). The Series 2015 Bonds were issued to finance betterments and improvements to the System, including (i) the acquisition, construction and equipping of an administration building located at the corner of Locust and Prairie Streets in the City, (ii) the acquisition, construction and equipping of an electric substation located at 1725 Middle Road in the City, (iii) the acquisition and installation of certain automated electric and water metering equipment, (iv) the acquisition and installation of street lights and controls, and (v) the acquisition and installation of interstate lighting equipment (collectively, the "2015 Project").

Upon the delivery of the Series 2022B Bonds, a portion of the proceeds thereof will be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow trustee (the “Escrow Trustee”), under an irrevocable Escrow Deposit Agreement (the “Escrow Agreement”), between the City and the Escrow Trustee, and will be utilized, together with available Series 2015 bond fund and debt service reserve fund moneys, to pay principal and interest as due on the Series 2015 Bonds, and to redeem the Series 2015 Bonds in full on December 1, 2023, at par plus accrued interest. The proceeds derived from the Series 2022B Bonds and available Series 2015 bond fund and debt service reserve fund moneys to be deposited with the Escrow Trustee under the Escrow Agreement will be held in trust for the holders of the Series 2015 Bonds. Such moneys will be utilized to purchase United States Treasury obligations or held as cash, and will be sufficient, together with the investment earnings on such obligations, to pay the principal, premium, and interest due on the Series 2015 Bonds as due and upon the applicable redemption date. After such deposit, the Series 2015 Bonds will no longer be deemed to be outstanding under the Indenture and will be secured solely by the amounts held by the Escrow Trustee. See the caption “ESTIMATED SOURCES AND USES OF FUNDS” herein.

THE CORPORATION

General. The Conway Corporation (the “Corporation”) is a nonprofit corporation organized and existing under the laws of the State. The Corporation was duly created by an act of the Circuit Court of Faulkner County, Arkansas on May 6, 1929. Pursuant to a letter from the Internal Revenue Service dated April 29, 1965, the Corporation has been deemed an integral part of the City.

A board of seven (7) directors directs the affairs of the Corporation. Directors are elected by Board members and ratified by a majority vote of the City Council of the City. The present directors of the Corporation are:

Name	Occupation	Term Expires
Brad Teague, Chair	Athletic Director, Univ. of Central Ark.	May 8, 2022
Lindsay Henderson, Vice Chair	Chief Revenue Officer, Conway Chamber of Commerce	May 8, 2023
Tom Courtway, Secretary	Senior Lecturer, Univ. of Central Ark.	May 8, 2024
Jake Nabholz	CEO, Nabholz Construction Company	May 8, 2025
Denise Ealy-Perry	Executive Broker, Century 21 Sandstone Realty Group	May 8, 2026
Reggie Rose	Regional Community President, Simmons Bank	May 8, 2027
Kelley Erstine	CEO, Arkansas Independent Insurance Agents	May 8, 2028

Pursuant to Arkansas Code Annotated Sections 14-199-701 *et seq.* (1998 Repl.), the Corporation operates the electric system owned by the City under a lease agreement and an exclusive franchise arrangement. By adoption of Ordinance No. O-22-21 and Ordinance No. O-22-22 on February 28, 2022, the City has extended the term of such lease and franchise to December 31, 2050. The lease requires that the Corporation pay the City an annual cash rental of \$120,000. The franchise requires the Corporation to operate and maintain all City street lights and furnish electricity thereto, free of charge to the City. A franchise fee equal to 2.5% of retail electric sales to customers shall be paid by the Corporation to the City. Such amount is collected from System customers. If the franchise and lease are not renewed prior to their termination dates, the City would be forced to contract with another operator or operators or undertake operation of the System. See the caption “THE SYSTEM” below.

The Corporation also operates the water and wastewater system owned by the City under an exclusive franchise arrangement for the benefit of the City. In addition, the Corporation operates, under lease, a cable television system constructed with City funds.

Management. The day to day operations of the Corporation are conducted under the control and responsibility of its Chief Executive Officer, Mr. Bret Carroll. Mr. Carroll is only the sixth CEO of the Corporation in its 92 years of existence. He joined the Corporation in 1998 as Chief Financial Officer and served in that position until 2017, at which time he became Chief Executive Officer. Mr. Carroll currently serves on the Boards of the Conway Development Corporation, Arkansas 811 (formerly Arkansas One Call), the Arkansas Municipal Power

Association (Vice President of Finance), the American Public Power Association, and the University of Central Arkansas Foundation.

Employee Relations and Benefits. None of the employees of the Corporation are members of any collective bargaining group. Pension and retiree medical benefits and life insurance are provided to all regular full-time employees.

Retirement Plans. The Corporation administers a noncontributory, single-employer defined benefit pension plan (the “Defined Benefit Plan”) providing retirement benefits to eligible employees in the form of monthly pension payments over the life of the participant. Contribution requirements are calculated by an independent actuary. The Corporation’s practice has been to contribute 100% of the annual required contribution amount calculated by the actuary. As of December 31, 2020, the net pension liability of the Corporation was \$10,915,202. See Note 8 to the audited financial statements of the System in Appendix A hereto for additional information regarding the Defined Benefit Plan and unfunded actual accrued liability (UAAL) with respect thereto.

Effective January 1, 2000, the Corporation formed a supplemental defined contribution retirement plan for eligible employees (the “Defined Contribution Plan”). Employee participation in the Defined Contribution Plan is optional. The Corporation makes matching contributions for eligible employees who elect to participate in an amount up to 25% of the first 3% of each participant’s gross pay.

For additional information regarding the Defined Benefit Plan and the Defined Contribution Plan, see Note 8 to the audited financial statements of the System in Appendix A hereto.

Postemployment Healthcare and Life Insurance Plan. The Corporation offers retiree medical benefits and life insurance to employees who retire from active employment under a single-employer defined benefit postemployment plan (the “OPEB Plan”) administered by the Corporation. Contribution requirements of the OPEB Plan members and the Corporation are established and may be amended by the Corporation’s Board of Directors. Required contributions are based on projected pay-as-you-go financing requirements. As of December 31, 2020, the Corporation’s net obligation with respect to the OPEB Plan was \$3,131,180. For additional information regarding the OPEB Plan, see Note 9 to the audited financial statements of the System in Appendix A hereto.

Allocation of Costs Between Systems. The Corporation maintains separate cost accounting for the electric, water, wastewater and cable television departments. Other services provided to the City, such as sanitation billing, are accounted separately and compensated for by the City. General and administrative charges are presently allocated as follows: Electric 36%, Water 16%, Wastewater 11% and Cable Television 37%.

THE SYSTEM

Pursuant to Arkansas Code Annotated Sections 14-199-701 *et seq.* (1998 Repl.), the Corporation operates the System owned by the City under a lease agreement and an exclusive franchise arrangement. By adoption of Ordinance No. O-22-21 and Ordinance No. O-22-22 on February 28, 2022, the City has extended the term of such lease and franchise to December 31, 2050.

Service Area. The Corporation provides electric service to residential, commercial, industrial and institutional customers within the corporate limits of the City. Entergy Arkansas, Inc. serves the territory surrounding the City. As additional areas are annexed into the City, the Corporation purchases the Entergy Arkansas, Inc. (“EAI”) system serving the customers in such annexed area at its replacement cost less depreciation. The City considers annexation of properties only by petition of property owners seeking annexation unless annexing islands within the perimeter of City boundaries.

Customers. The following tabulation shows the number of the Corporation’s electric customers, by category, as of December 31, for the years 2012 through 2021.

Year	Residential	Commercial	Industrial	Institutional	Total
2012	26,124	2,887	115	4	29,130
2013	26,426	2,921	118	3	29,468

Year	Residential	Commercial	Industrial	Institutional	Total
2014	26,701	2,930	118	3	29,752
2015	26,904	2,927	123	5	29,959
2016	27,046	3,000	124	5	30,175
2017	27,319	3,025	124	6	30,474
2018	27,525	2,952	118	5	30,600
2019	28,016	2,995	109	5	31,125
2020	28,375	3,032	98	5	31,510
2021	29,137	3,083	99	5	32,324

Source: Conway Corporation

Largest Customers. Set forth below are the ten largest customers of the System during 2021, with the percentage of 2021 System Revenues attributable to each.

Customer	Total Revenues	Percentage of Total 2021 System Operating Revenues
Tokusen USA Inc.	\$ 3,521,829	5.56%
Acxiom LLC	2,502,794	3.95%
University of Central Arkansas	2,295,945	3.62%
Virco Manufacturing Corp.	1,417,535	2.24%
Kimberly-Clark Corp. ⁽¹⁾	1,214,569	1.92%
Conway Public Schools	1,107,496	1.75%
Hendrix College	908,830	1.43%
Conway Regional Medical Center	869,872	1.37%
WestRock Company	647,508	1.02%
DBG Arkansas, LLC	451,188	0.71%
Totals:	<u>\$14,937,566</u>	<u>23.58%</u>

⁽¹⁾ During 2021, Kimberly-Clark Corporation ceased operations at its Conway facility and sold such facility to Westrock Beverage Company, LLC (“Westrock Beverage”). Westrock Beverage is in the process of renovating and retrofitting the facility for use in the production of coffee, tea, liquid extracts and allied products.

Power Supply Sources. The City owns a 2% undivided ownership interest in White Bluff Steam Electric Station, a 1,659-megawatt coal-fired electric generation facility (the “White Bluff Plant”), and a 2% undivided ownership interest in Independence Steam Electric Station, a 1,678-megawatt coal-fired electric generation facility (the “Independence Plant”). Although the City owns interests in the White Bluff Plant and the Independence Plant, the City purchases all of its power supply needs through bi-lateral supply agreements or from the market operated by Midcontinent Independent System Operator (“MISO”), an independent, not-for-profit, regional transmission operator providing market services in fifteen states and the province of Manitoba, Canada. MISO has operational control of its members’ transmission systems, oversees transmission planning and operates a wholesale energy market.

The City has entered into a 20-year fixed-rate power purchase agreement with Lightsource BP for a 132-megawatt dc solar energy project to be constructed in White County, Arkansas. Pursuant to the agreement, Lightsource BP will finance, build, own and operate the facility and will deliver the solar energy it generates to the City. The facility is expected to come online in 2023.

The City has entered into a Resource Management Agreement with The Energy Authority (“TEA”) to aid in managing the City’s power supply portfolio. The City’s share of output from the White Bluff Plant and the Independence Plant is sold into the MISO market. The benefit of those sales is used to offset the cost of energy procured through bi-lateral supply agreements or from the MISO market.

Power purchased through bi-lateral agreements and from the MISO market is delivered across the Entergy Arkansas Inc. (“EAI”) transmission system, which is operated by MISO, pursuant to an Open Access Transmission Tariff (“OATT”) filed by MISO at the Federal Energy Regulatory Commission (“FERC”).

The City will continue seeking cost effective power supply opportunities. These opportunities include short term power purchases, long term power purchase agreements, purchase of electric generating facilities, or other supply opportunities.

Electric Rates. Basic monthly rates for electric service provided by the System are established pursuant to City Ordinance No. O-17-57 and are set forth below. No other regulatory authority, federal, state or local, has jurisdiction over System rates.

Residential

Customer Charge: \$15.00

All KWH each: \$0.06700 (June through September)⁽¹⁾

All KWH each: \$0.04850 (October through May)⁽¹⁾

Minimum: \$15.00

Small Commercial

Customers Charge: \$23.00

Demand Charge per KW: \$10.00

Energy Charge per KWH each: \$0.03600 (June through Sept.)⁽¹⁾

Energy Charge per KWH each: \$0.03100 (Oct. through May)⁽¹⁾

Minimum: \$23.00 plus \$1.50 per KW times the highest demand established in the twelve months ending with the current month

Large General Service

Customer Charge: \$140.00

Demand Charge: \$1,000.00

Each KW of Demand in Excess of 100 KW (per KW): \$10.00

Energy Charge per KWH each: \$0.03110⁽¹⁾

Minimum: The customer charge plus the demand charge for the current month, but not less than \$1.75 per KW of the highest demand established during the twelve months ending with the current month

Large Power Service

Customer Charge: \$355.00

Demand Charge: \$10,000.00*

Each KW of Demand in Excess of 1,000 KW(per KW): \$10.00*

Energy Charge per KWH each: \$0.03080^{(1)**}

Minimum: The customer charge plus the demand charge for the current month, but not less than \$1.75 per KW of the highest demand established during the twelve months ending with the current month

Institutional Service

Customer Charge: \$340.00

Demand Charge: \$10.00

Energy Charge per KWH each: \$0.03370⁽¹⁾

Minimum: The customer charge plus the demand charge for the current month, but not less than \$3.50 per KW of the highest demand established during the twelve months ended with the current month

* This rate is subject to a 5% discount for service at primary voltage (13.8 KV).

** This rate is subject to 5% discount for service at primary voltage (13.8 KV) when KW demand is in excess of 10,000 KW

⁽¹⁾ For each of the residential, small commercial service, large general service, large power service and institutional service classes set forth above, energy charges will be increased or decreased to reflect to the nearest one-thousandth (.001) mill per KWH the change in the cost of power purchased for the supply of services by the Corporation, above or below 39.50 mills per kwh.

Night-Time Outdoor Lighting Service

150-watt HPS (existing pole) per month: \$6.95
150-watt HPS (new pole) per month: \$11.95
400-watt HPS (existing pole) per month: \$18.00
400-watt HPS (new pole) per month: \$23.00

1,000-watt HPS (existing pole) per month: \$32.50
1,000-watt HPS (new pole) per month: \$37.50

Municipal Service

Customer Charge: \$40.00
Demand Charge per KW: \$10.00
Energy Charge per KWH each: \$0.03630⁽¹⁾
Minimum: \$40.00 plus \$1.50 per KW times the highest load established in the twelve months ending with the current month

-
- (1) For each of the residential, small commercial service, large general service, large power service and institutional service classes set forth above, energy charges will be increased or decreased to reflect to the nearest one-thousandth (.001) mill per KWH the change in the cost of power purchased for the supply of services by the Corporation, above or below 39.50 mills per kwh.

In addition to the foregoing, Ordinance No. O-19-66 was adopted by the City Council on July 23, 2019, in order to maintain compliance with Act No. 827 of 2015 and Act No. 464 of 2019 of the Arkansas General Assembly requiring the purchase of excess electric generation, in certain circumstances, at the utility's avoided cost.

Customer Billing. The rates set forth above are subject to all applicable local, state and federal taxes. Monthly net bills are due and payable upon presentation. A gross bill in the amount of the net bill plus 2½% will be due and payable after twenty (20) days on all bills in excess of \$100.00.

[Remainder of page intentionally blank]

Summary of Recent Electric System Operations. The following table sets forth a summary of revenues and expenses of the System for the five years ended December 31, 2021. Information for the summary for Fiscal Years 2017, 2018, 2019 and 2020 was derived from the financial statements of the System audited by Landmark PLC (formerly Thomas & Thomas LLP), Little Rock, Arkansas, independent certified public accountants. Information for the summary for Fiscal Years 2021 was derived from the unaudited statement of revenue and expenses of the System.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating Revenues	\$56,860,300	\$60,152,785	\$61,159,266	\$55,291,936	\$63,650,348
Operating Expenses	<u>(54,494,912)</u>	<u>(56,802,750)</u>	<u>(55,698,536)</u>	<u>(52,175,076)</u>	<u>(59,187,551)</u>
Operating Income	\$2,365,388	\$ 3,350,035	\$ 5,460,730	\$ 3,116,860	\$ 4,462,797
Plus Nonoperating Revenues ⁽¹⁾	300,681	846,197	1,213,586	673,689	80,155
Plus Depreciation	<u>6,611,943</u>	<u>7,218,138</u>	<u>7,616,673</u>	<u>7,669,247</u>	<u>8,381,111</u>
Net Revenues Available for Debt Service	\$ <u>9,278,012</u>	\$ <u>11,414,370</u>	\$ <u>14,290,989</u>	\$ <u>11,459,796</u>	\$ <u>12,924,063</u>

⁽¹⁾ Excluding contributions in aid of construction.

Ownership and Operating Agreements. The City has entered into agreements (the “White Bluff Ownership Agreement” and the “White Bluff Operating Agreement”) with Entergy Arkansas, Inc. (“EAI”), Arkansas Electric Cooperative Corporation (“AECC”), the City Water & Light Plant of the City of Jonesboro, Arkansas (“CWL”), the City of West Memphis, Arkansas (“West Memphis”) and other parties providing for the ownership and operation of the White Bluff Plant. EAI has sole responsibility for the operation, maintenance and disposal of the White Bluff Plant. The City has a 2% undivided interest in the White Bluff Plant.

The City has entered into agreements (the “Independence Ownership Agreement,” and the “Independence Operating Agreement”) with EAI, AECC, CWL, West Memphis, the City of Osceola, Arkansas (“Osceola”) and other parties, providing for the ownership and operation of the Independence Plant. EAI has sole responsibility for the operation, maintenance and disposal of the Independence Plant. The City has a 2% undivided interest in the Independence Plant.

Under the White Bluff Ownership Agreement and the Independence Ownership Agreement, the City, West Memphis, AECC, CWL and Osceola (the “Participants”) are required to pay their Ownership Shares of the cost of additions or replacements to or retirements at the White Bluff Plant and the Independence Plant, respectively. Payments are to be made monthly based on notification by EAI of the nature and amounts of such costs.

As used herein, the White Bluff Plant and the Independence Plant are referred to collectively as the “Plants.” “Ownership Agreement” or “Ownership Agreements” refer, respectively, to the White Bluff Ownership Agreement and the Independence Ownership Agreement or to either of them. “Operating Agreement” or “Operating Agreements” refer, respectively, to the White Bluff Operating Agreement and the Independence Operating Agreement or to either of them. As used herein “Entergy Arkansas, Inc.” or “EAI” refers to and includes any assignee or successor.

The White Bluff Plant and the Independence Plant are operated in accordance with respective Operating Agreements among the owners of the Plants. EAI has sole authority to manage, control, maintain and operate the Plants. EAI and the Participants are required to discharge all obligations under the Operating Agreements in a prudent manner and in accordance with good utility practices.

EAI and each Participant are responsible for a proportionate share of Operating Costs equal to their respective Ownership Shares. The Participants are required to pay EAI for all KWH generated at each Plant for their respective accounts (or assumed to be generated for billing purposes) on the basis of actual fuel costs and the heat rate (assuming operation at 60% loading during summer test conditions) of its units.

“Operating Costs” consist of all operation and maintenance expenses, other than fuel or financing costs, incurred by EAI in respect of the Plants.

The Participants are also required to pay to EAI in each year their respective proportionate shares of additional amounts representing otherwise unrecovered administrative expenses of EAI.

Fuel. EAI furnishes, or causes to be furnished, the fuel supply for the Plants. Participants advance to EAI their respective Ownership Shares percentage of the cost of coal in inventory and pay an additional amount, based on a formula, per KWH for all KWH generated (or assumed to be generated for billing purposes) for the Participants’ respective accounts.

Energy. EAI and each Participant are entitled to their proportionate share of the net generating capacity and energy of the Plants at any given time. EAI has sole authority for the hourly scheduling and dispatching of generation in accordance with EAI standard scheduling and dispatching procedures.

Termination. The Operating Agreement for the White Bluff Plant terminates when the Plant is retired from commercial operation. The Operating Agreement for the Independence Plant terminates on the latest to occur of (i) the date the Plant is retired from commercial operation, (ii) the date EAI is replaced as operator of the Plant, (iii) the date EAI ceases to own any share of the Plant, (iv) January 1, 2019, or (v) such other date as may be mutually agreed upon by the parties. In November 2018, EAI, the Sierra Club and the National Parks Conservation Association entered into and filed in Federal District Court a settlement agreement related to environmental and regulatory issues. The settlement calls for EAU to begin using low-sulfur coal at the White Bluff Plant and the Independence Plant no later than June 30, 2021. The settlement also calls for EAI to cease burning coal at the White Bluff Plant no later than December 31, 2028, and at the Independence Plant no later than December 31, 2030. The settlement agreement received United States District Court approval on March 11, 2021.

Non-Payment. In the event any Participant at any time fails to make any payment when due to EAI under an Operating Agreement, EAI shall have the right to give written notice of such failure to such Participant and in the event such failure continues for a period of 30 days after the giving of such notice, to withhold and use, without charge as if it were its own, such Participant’s proportionate share of the capacity and energy from the Plant until such payment has been made but with appropriate credit being given to such Participant in respect of its ownership for use of such capacity and energy. If such credit exceeds the payment due EAI, EAI will pay such Participant monthly for the difference thereof. If such overdue payments due EAI exceed such credits, EAI shall have a right to receive interest on the difference thereof during the period such payment was due. Such Participant shall also indemnify and hold EAI and the other Participants harmless from and against any and all losses, costs, damages and expenses arising out of or resulting from such Participant’s failure to make such overdue payments when due.

Insurance. EAI is required to maintain insurance in such amount and with such deductibles or self-insurance features as is consistent with the customary practices of EAI. EAI may self-insure such risks as are consistent with its customary practices.

Payment Obligations. The obligations of the City under the Ownership Agreements and the Operating Agreements are payable solely from Revenues. However, the failure to pay due to insufficiency of Revenues or financing proceeds does not excuse such non-payment. The City has agreed to fix and maintain electric rates at levels sufficient to enable it to carry out its financial obligations under such agreements.

Power Supply Agreements. It is necessary for the City to purchase power to satisfy the needs of the System. The City purchases its power supply needs through bi-lateral supply agreements or from the MISO market. The City has entered into a Resource Management Agreement with The Energy Authority (“TEA”) of Jacksonville, Florida for the period commencing January 1, 2015, to assist in managing the City’s power supply portfolio. TEA represents the City in the MISO market as its market participant for load and transmission services. TEA forecasts “day ahead hourly load” and bids that forecast into the MISO market. TEA also arranges for bi-lateral power supply agreements. Day ahead, real time, bi-lateral power supply agreement, transmission and other charges are settled by TEA. TEA then bills the City for those charges and its services.

EAI represents the City in the MISO market as its market participant for generation for the White Bluff Plant and the Independence Plant. The City has entered into a Marketing Agreement with EAI for the period

commencing December 19, 2013. Pursuant to such agreement, EAI offers the output of the White Bluff Plant and the Independence Plant into the MISO market, settles the revenues and charges for such sales with MISO, and provides the City with the benefits of such sales, net of fuel charges and energy added charges.

Transmission Service. The City receives transmission services from MISO under the OATT filed by MISO with the FERC. Charges for transmission delivery are calculated pursuant to the OATT and reflect the City's share of all energy transmitted on the Energy Transmission System. MISO transmits and delivers to points of delivery such amounts of power as are required by the City at such points of delivery up to the amount of capacity at each point of delivery. TEA is the City's market participant for transmission services.

RISK FACTORS

THE PURCHASE OF THE SERIES 2022 BONDS IS SUBJECT TO CERTAIN INVESTMENT RISKS AND MAY NOT BE SUITABLE FOR SOME INVESTORS. PROSPECTIVE INVESTORS ARE ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING THE APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES 2022 BONDS, AND COULD ALSO AFFECT THE MARKET PRICE OF THE SERIES 2022 BONDS TO AN EXTENT THAT CANNOT BE DETERMINED. THE FOLLOWING LIST OF RISK FACTORS IS NOT INTENDED TO PROVIDE AN EXHAUSTIVE LIST OF THE GENERAL OR SPECIFIC RISKS RELATING TO THE PURCHASE OF THE SERIES 2022 BONDS. ADDITIONAL RISK FACTORS RELATING TO AN INVESTMENT IN THE SERIES 2022 BONDS ARE DESCRIBED THROUGHOUT THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, WHETHER OR NOT SPECIFICALLY DESIGNATED AS RISK FACTORS.

General. The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility and the level of utilization of generating facilities such as those of the System. One of the most significant of these factors has been the effort on national, state and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on wholesale and retail levels. Additional factors include, among others, (a) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory and legislative requirements; (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (c) changes that might result from a national energy policy; (d) increasing competition from independent power producers, marketers and brokers; (e) "self generation" by certain residential, industrial and commercial customers; (f) issues relating to the ability to issue tax-exempt obligations; (g) potential service restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (h) changes from projected future load requirements; (i) increases in costs; (j) shifts in the availability, intermittency and relative costs of different fuels; (k) changes in requirements in organized energy markets like MISO; (l) management and integration of renewable generation and storage systems into the supply portfolio; and (m) effects of the financial difficulties confronting power marketers. Any of these factors (as well as other factors) could have an impact on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City and the Corporation are unable to predict with certainty what effects that such factors may or will have on the operations and financial condition of the System, but the effects could be significant. The following is a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from sources in the public domain, and potential purchasers of the Series 2022 Bonds should obtain and review such information.

COVID-19 and Other Emergency Events. Certain external events, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism or other circumstances, could potentially disrupt the operations and effectiveness of entities such as the City and the Corporation.

One such external event is the global outbreak of COVID-19, a respiratory disease declared in 2019 to be a Pandemic (the "Pandemic") by the World Health Organization and an emergency by federal and state governments. Since the start of the Pandemic, Presidential administrations, Congress, the State and various federal and State agencies and regulatory bodies have enacted legislation and/or issued orders or directives (collectively, "Governmental Actions") to alleviate the effects of the Pandemic. Some of such Governmental Actions have been

extended and/or modified, and others have expired or been enjoined. While it is generally expected that new legislation may be enacted, new orders may be issued, and existing and new orders may be extended, modified, litigated or allowed to expire, no guarantee can be made with regards to the duration and/or effectiveness of any such Governmental Actions.

The Governmental Actions, and other future federal, State and local measures, may have both adverse and positive effects on the operations and financial condition of the City and the Corporation. In addition, unemployment in the City and its region, business closures and/or restrictions, and stock market fluctuations may have adverse effects as well. The City and the Corporation continue to assess the economic and social effects of the Pandemic and its impact on their respective operations and financial conditions. At present, neither the City nor the Corporation has experienced materially adverse financial impacts from the Pandemic. However, neither the City nor the Corporation can predict (i) the duration or extent of the Pandemic or any other outbreak emergency or (ii) whether and to what extent the Pandemic or other outbreak or emergency could disrupt the local or global economy, manufacturing or supply chain, or whether any such disruption could adversely impact the operations and financial condition of the City and/or the Corporation.

Power Supply. The System's power supply needs are met through bi-lateral supply agreements and MISO market purchases, the cost of which is partially offset through the sale of the output of the City's ownership interests in two coal-fired electric generation plants (the "Plants"). The fuel for the Plants is low sulfur coal obtained pursuant to long term supply agreements. See the captions "THE SYSTEM – *Power Supply Sources*" and "THE SYSTEM – *Power Supply Agreements*" above. As the System's annual energy usage has increased over time, the offset to total System power cost contributed by sales of the City's share of the Plants' output has decreased.

The Independence Plant and the White Bluff Plant are expected to remain in commercial operation until December 31, 2030 and December 31, 2028, respectively.

Additionally, the EPA's Affordable Clean Energy rule could significantly alter the fuel composition of electric generation plans across the United States and, almost assuredly, in Arkansas. The Affordable Clean Energy rule was vacated in January 2021 and remanded back to the EPA to develop a new rule consistent with the Clean Air Act. This decision will allow the EPA to draft a new rule establishing emission guidelines for states and to develop plans to address greenhouse gas emissions from existing coal-fired power plants. Given these factors, there can be no assurance given as to the source and cost of the City's future power needs.

Concentration of Demand. During 2021, the ten largest customers of the System accounted for a total of approximately 23.58% of System operating revenues, with the largest customer accounting for 5.56% of System operating revenues. See the caption "THE SYSTEM – *Largest Customers*" above. While these ten customers operate in diverse areas, the loss of any one or more of these users could have a material adverse impact on System operating revenues.

Environmental. Electric utilities are subject to continuing environmental regulation. Federal, state and local standards, which regulate the environmental impact of electric utilities, are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the Plants (defined above) will remain in compliance with future regulations or will be able to obtain or renew all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or a complete shutdown of individual electric generating units not in compliance.

There is concern by individuals, the scientific community and Congress regarding the environmental damage resulting from the use of fossil fuels, such as the coal utilized in the Plants. There is Congressional support for the increased regulation of air, water and contaminants, and there are a number of pending or enacted legislative proposals which affect the electric utility industry. There is increased regulation of sulfur dioxide and nitrogen oxide emissions by electric utility power plants. Although the Plants burn low sulfur coal, the impact of further environmental regulation upon the operation of the Plants and the City's power supply cannot be predicted.

Federal Energy Policy. On January 27, 2021, President Biden signed executive actions that make addressing climate change both a domestic and foreign policy goal for the United States. These actions followed the President's initial action of rejoining the Paris Climate Agreement by addressing domestic climate policies that seek to create jobs and sustainable infrastructure and address environmental justice. The executive actions direct the Secretary of the Department of the Interior to pause on entering new oil and natural gas leases on public lands or offshore waters, create a new civilian conservation corps and deliver economic help to coal-producing regions.

President Biden has elevated climate change to a national security priority and has instructed his Administration to prepare a national intelligence estimate of the security implications of the climate crisis and has directed all agencies to develop strategies for integrating climate considerations into their international work. The President also announced the reestablishment of the President’s Council of Advisors on Science and Technology and the formation of the National Climate Task Force, to be composed of leaders across 21 federal agencies and departments.

On December 8, 2021, President Biden signed an executive order directing the federal government to become carbon neutral by 2050 and to procure more than 10 gigawatts of renewable energy by 2030.

Changing Laws and Requirements. On both the state and federal levels, legislation is frequently introduced that would have the effect of further regulating environmental impacts relating to energy, including the generation of energy using conventional and unconventional technologies. Issues raised in recent legislative proposals have included implantation of energy efficiency and renewable energy standards, addressing transmission planning, siting and cost allocation to support the construction of renewable energy facilities, cyber-security legislation that would allow the Federal Energy Regulatory Commission to issue interim measures to protect critical electric infrastructure, a federal cap-and-trade program to reduce greenhouse emissions, and renewable energy incentives that could provide grants and credits to municipal utilities to invest in renewable energy infrastructure.

The Corporation is unable to predict whether any of these or other legislative proposals will be enacted into law and, if so, the impact they may have on the operations and finances of the System or the electric utility industry in general.

THE CITY

General. The City is a city of the first class organized and existing under the laws of the State of Arkansas. The City is the seat of government of Faulkner County (the “County”) and is among the eight largest cities in the State. The City is located in the central portion of the State and is approximately 35 miles north of Little Rock, Arkansas, the State capitol.

The City is a regional trade and distribution center located on U.S. Interstate 40 and positioned at the intersection of U.S. Highways 64 and 65. A number of State highways serve the area. The City is also served by Cadron Port, a slack water harbor located on the Cadron Creek about one mile from the Arkansas River, and by the Union Pacific Railroad. The Conway Municipal Airport at Cantrell Field is located approximately 10 miles southwest of the City’s center. Opened in 2014, the airport features a 5,500-foot runway and is equipped for night service with beacon and runway lights. The Little Rock Regional Airport is located approximately 40 minutes from downtown Conway and provides major commercial airline service to points throughout the United States.

The University of Central Arkansas, a State university founded in 1907, which currently has an enrollment of approximately 10,100 students, Hendrix College, a private college founded in 1884, which currently has an enrollment of approximately 1,100 students, and Central Baptist College, founded in 1952, which currently has an enrollment of approximately 600 students, are all located in the City.

The City is served by (i) a 150-bed acute-care hospital, Conway Regional Medical Center, expanded and improved in 1990, 1992, 2000, 2012 and 2019, and (ii) Baptist Health Medical Center - Conway, a 264,000 square foot hospital featuring 111 beds, 8 operating rooms and a Level III trauma-center emergency room.

Government. The City currently operates under the Mayor-Council form of government pursuant to which a mayor, city attorney, city clerk and eight aldermen are elected, two from each of the City’s four wards. The mayor, city attorney and city clerk are full-time positions elected to four-year terms. Aldermen serve two-year terms.

The City’s elected officials and the dates on which their respective terms expire are as follows:

Name	Office	Term Expires
Bart Castleberry	Mayor	12/31/24
Charles Finkenbinder	City Attorney	12/31/22
Michael Garrett	City Clerk	12/31/24
David Grimes	Alderman	12/31/22
Andrew Hawkins	Alderman	12/31/24
Sheila Isby	Alderman	12/31/22

Name	Office	Term Expires
Theodore Jones, Jr.	Alderman	12/31/24
Mark Ledbetter	Alderman	12/31/24
Shelley Mehl	Alderman	12/31/22
Mary Smith	Alderman	12/31/22
Anne Tucker	Alderman	12/31/24

Population. The following is a table of population changes for the City, the County and the State of Arkansas, according to the United States Census Bureau:

Year	City of Conway	Faulkner County	State of Arkansas
1960	9,791	24,303	1,786,272
1970	15,510	31,578	1,923,322
1980	20,375	46,192	2,286,435
1990	26,481	60,006	2,350,624
2000	43,167	86,014	2,673,400
2010	59,908	113,237	2,915,918
2020	64,134	123,498	3,011,524

Economic Data. Per capita personal income figures for the County and the State of Arkansas are as follows:

Year	Faulkner County	State of Arkansas
2010	\$31,671	\$32,017
2011	31,792	34,089
2012	32,692	36,423
2013	32,514	36,698
2014	33,445	37,751
2015	34,235	38,257
2016	35,159	39,345
2017	35,918	41,063
2018	36,068	42,566
2019	n/a	44,788
2020	n/a	47,235

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Unemployment figures for the County and the State of Arkansas, according to the Arkansas Department of Workforce Services, has averaged as follows:

Year	Faulkner County	State of Arkansas
2013	7.0%	7.5%
2014	5.7%	6.1%
2015	5.0%	5.3%
2016	3.8%	4.0%
2017	3.4%	3.4%
2018	3.9%	3.7%
2019	3.1%	3.7%
2020	5.4%	6.1%
2021*	2.0%	3.1%

* December 2021 only; preliminary, not seasonally adjusted.

Some of the major employers in the City, their products and services and average employment range are as follows:

Employer	Product or Service	Employee Range
Acxiom LLC	Information Technology	1,000-2,499
University of Central Arkansas	Education	1,000-2,499
Conway Regional Medical Center	Healthcare	1,000-2,499
Conway Human Development Center	Institutional Care	1,000-2,499
Conway Public School District	Education	1,000-2,499
Gainwell Technologies	Information Technology	500-999
Walmart	Department Store	500-999
Virco Manufacturing Corp.	Institutional Furniture	500-999
Nabholz Companies	Construction	500-999
Snap-On Equipment	Diagnostic Equipment	500-999
City of Conway	Government	300-499
Hendrix College	Education	300-499
Tokusen, U.S.A., Inc.	Steel Tire Cord	300-499
Kroger	Grocery Store	300-499
WestRock Co.	Folding Cartons	300-499

Source: Conway Chamber of Commerce

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The following table shows the total assessed value of non-utility real and personal property within the City for the years indicated:

Year	Real Property	Personal Property	Total
2012	\$728,382,645	\$232,876,600	\$961,259,245
2013	754,745,406	241,487,490	996,232,896
2014	770,031,399	246,188,760	1,016,220,159
2015	783,039,131	226,479,870	1,009,519,001
2016	805,741,505	228,091,050	1,033,832,555
2017	837,332,403	226,133,440	1,063,465,843
2018	873,438,756	222,900,220	1,096,338,976
2019	892,115,677	213,555,410	1,105,671,087
2020	892,603,526	226,689,130	1,119,292,656
2021	954,243,388	243,459,960	1,197,703,348

Source: Faulkner County Tax Assessor's Office. The assessed value represents 20% of the appraised value of property.

Building permits issued by the City are shown below for the years indicated:

	2018	2019	2020	2021
Residential Building Permits	205	267	348	409
Commercial Building Permits	17	20	31	23
Value of All Building Permits	\$138,082,693	\$129,669,247	\$159,545,244	\$167,506,461

Source: City of Conway

DEFINITIONS OF CERTAIN TERMS

Definitions. Unless a different meaning clearly appears from the context, and in addition to the terms defined elsewhere herein, the following terms shall, for all purposes of this Official Statement and the Indenture, have the following meanings:

“Accountant” means an independent certified public accountant or a firm of independent certified public accountants of recognized national standing, selected from time to time by the City or the Corporation and approved by the Trustee, who may be the accountant or firm of accountants which regularly audits the books of the City or the System.

“Additional Bonds” means Bonds other than the Series 2022 Bonds authorized to be issued under the Indenture.

“Annual Budget” means the annual budget with respect to the System to be prepared and maintained by the City or the Corporation pursuant to the provisions of the Indenture.

“Authorizing Legislation” means, collectively, (i) the Local Government Capital Improvement Revenue Bond Act of 1985, codified as Arkansas Code Annotated Sections 14-164-401 *et seq.* (1998 Repl. & Supp. 2021), and (ii) the Municipal Electric System Financing Act of 1983, codified as Arkansas Code Annotated Sections 14-203-101 *et seq.* (1998 Repl.), as amended from time to time.

“Bond” or “Bonds” means any Bond or Bonds authenticated and delivered under the Indenture, including the Series 2022 Bonds and all Additional Bonds.

“Bond Counsel” means an attorney or firm of attorneys of nationally recognized standing in the field of law relating to tax-exempt municipal securities.

“Bond Fund” means the Bond Fund created by the Indenture.

“Chief Executive Officer” means the Chief Executive Officer of the Corporation.

“City” means the City of Conway, Arkansas, a city of the first class, duly organized and validly existing under the laws of the State of Arkansas and situated in Faulkner County, Arkansas.

“Code” means the Internal Revenue Code of 1986, as now or hereafter amended, and applicable regulations issued or proposed thereunder.

“Completion Date” means the date upon which a Project is first ready for normal continuous operation as determined by the Chief Executive Officer.

“Consulting Engineer” means an independent consulting engineer or firm of independent consulting engineers who are not in the regular employ of the City or the Corporation, but who may be the regular outside consulting engineers for either of them.

“Corporation” means the Conway Corporation, a non-profit corporation organized and existing under the laws of the State of Arkansas.

“Costs of Facilities” means, to the extent permitted by the Authorizing Legislation and other applicable laws, all costs paid or incurred in connection with the planning, designing, purchasing, acquiring, constructing, equipping, improving, enlarging, extending or modifying of Facilities and the placing of the same in operation or the reconstruction and reequipping of damaged Facilities and replacing them in operation, including, but not limited to, paying all or a portion of the interest on any series of Bonds issued for such purpose and funding the Debt Service Reserve Fund, as set forth in the Indenture.

“Cost of Issuance Fund” means the Cost of Issuance Fund created by the Indenture.

“Costs of Issuance” means all items of expense payable or reimbursable directly or indirectly by the City or the Corporation and related to the authorization, sale and issuance of a series of Bonds, including, but not limited to, expenses of printing, reproducing documents, filing and recording, initial fees and charges of the Fiduciaries, legal and other professional services and consultation, credit ratings, costs of securing any credit enhancement for a series of Bonds, execution, transportation and safekeeping of Bonds, and other costs, charges and fees in connection with the foregoing.

“Debt Service Requirement” means, with respect to all or any particular amount of Bonds, the total as of any particular date of computation and for any particular Fiscal Year of the amounts required to be paid or set aside during such period into the Bond Fund to provide for the payment of interest on such Bonds, less the amount of such interest for which payment is provided from the proceeds of the sale of the Bonds or from sources other than Revenues, and to provide for the payment of principal maturing or to be retired from a sinking fund installment. For the purpose of calculating Debt Service Requirements on Variable Rate Debt, interest shall be calculated for any period by assuming that the rate of interest applicable to such period is equal to 110% of the weighted average rate of interest (calculated in the manner in which the rate of interest for such period is to be calculated) borne by the Variable Rate Debt during the then next preceding twelve-month period (or 110% of the initial interest rate for Variable Rate Debt outstanding less than twelve (12) months). For purposes of calculating Debt Service Requirements on balloon debt (debt of which more than 25% of the principal comes due in any single fiscal year), demand debt (debt payable from demand of the holder), and tender debt (debt which may be tendered for purchase at the option of the holder or under specified conditions), principal will be deemed to mature on a level debt service basis over a period equal to the shorter of twenty (20) years or the actual term to maturity so long as there is in effect a credit facility or other binding commitment to refinance such debt from a financial institution.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund created by the Indenture.

“Depository” means any bank or trust company selected by the City or the Corporation as a depository of moneys and securities held under the provisions of the Indenture, and may include the Trustee and the Paying Agent, and which holds membership in the Federal Deposit Insurance Corporation.

“Electric Energy” means the electricity produced by the System or otherwise transmitted to and distributed by the City or the Corporation to customers.

“2015 Escrow Agreement” means the Escrow Deposit Agreement dated March __, 2022, between the City and the 2015 Escrow Trustee, providing for the redemption of the Series 2015 Bonds.

“2015 Escrow Account” means the escrow account created under the 2015 Escrow Agreement for the deposit of moneys and investment securities.

“2015 Escrow Trustee” means The Bank of New York Mellon Trust Company, N.A., and its successors and any entity into which it may be converted or merged or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and corporate trust assets as a whole or substantially as a whole, and any successor at the time serving under the 2015 Escrow Agreement.

“Facilities” means land, buildings, structures, machinery, equipment and all related or necessary property, tangible or intangible, constituting the System, including, but not limited to, fuel and other consumables, rights, easements, franchises and common facilities (being facilities used in common by the City or the Corporation in the furnishing of water, sewer, electric, cable or internet services) which are used or useful in the generation, transmission, distribution, sale or use of Electric Energy, and to which the City or the Corporation has right, title or ownership, in whole or undivided part, and, if in undivided part, then to the extent of the City’s or the Corporation’s right, title or ownership therein.

“Fiduciary” or “Fiduciaries” means the Trustee, the Paying Agent, or any or all of them, as may be appropriate.

“Fiscal Year” means the annual accounting reporting period used by the City and the Corporation with respect to the System, initially the twelve-month period commencing on January 1 of each year and ending on December 31 of such year.

“Fund” means a Fund established or continued by the Indenture.

“Government Securities” means (i) bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations on which the full and timely payment of principal and interest is fully and unconditionally guaranteed by, the United States of America (including any such securities issued or held in book-entry form on the books of the Department of Treasury of the United States of America), and (ii) evidences of direct ownership or proportionate or individual interest in future interest or principal payments on specified direct obligations of, or obligations on which the full and timely payment of principal and interest is fully and unconditionally guaranteed by, the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian in form and substance satisfactory to the Trustee.

“Holder,” “Bondholder,” “Owner” or “Registered Owner” means the registered owner of any Bond or Bonds.

“Indenture” means the Trust Indenture dated as of the date of delivery of the Series 2022 Bonds, by and among the City, the Corporation and the Trustee, as from time to time amended or supplemented.

“Investment Obligations” means, if and to the extent the same are at the time legal for investment of funds held under the Indenture:

(a) Bank deposit products, cash deposits, certificates of deposits, including those placed by a third party pursuant to an agreement between the Trustee and the Corporation or the City, or money market deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Government Securities), including those of the Trustee or any of its affiliates;

(b) Government Securities;

(c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: U.S. Export-Import Bank (Eximbank); Rural Economic Community Development Administration; Federal Financing Bank; General Services Administration; U.S. Maritime Administration; U.S. Department of Housing and Urban Development (PHAs); Small Business Administration; Government National Mortgage Association (GNMA); Federal Housing Administration; and Farm Credit System Financial Assistance Corporation.

(d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America;

(i) Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC); and

(ii) Senior debt obligations of the Federal Home Loan Bank System;

(e) U.S. dollar denominated deposit accounts, including time deposit fund trust accounts, overnight bank deposit interest bearing deposits, interest bearing money market accounts, federal funds and bankers' acceptances with domestic commercial banks, including those of the Trustee or any of its affiliates, which either (i) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, or (ii) are insured at all times by the Federal Deposit Insurance Corporation. All such certificates must mature no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(f) Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two nationally recognized rating agencies and which matures no more than 270 days after the date of purchase;

(g) Investments in (i) money market funds subject to SEC Rule 2a-7 and rated in the highest short-term rating category of at least one of S&P and Moody's, including those for which the Trustee or an affiliate receives a fee for services provided to the fund, whether as a custodian, transfer agent or otherwise, and (ii) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the City's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least one of S&P and Moody's;

(h) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) Which are rated, based on an irrevocable escrow account or fund (the "Escrow"), in the highest long-term rating category of at least two nationally recognized rating agencies; or

(ii) (I) which are fully secured as to principal and interest and redemption premium, if any, by an Escrow consisting only of cash or direct obligations of the United States of America, which Escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and

(II) which Escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(i) General obligations of states with a short-term rating in one of the two highest rating categories and a long-term rating in one of the two highest rating categories of at least two nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually;

(j) With respect to investments of moneys in an Account of the Debt Service Reserve Fund only, surety bonds or debt service reserve insurance policies from issuers rated as Aa3 or higher by Moody's or AA- or higher by S&P at the time of delivery of such surety bond or debt service reserve insurance policy; and

(k) Any cash sweep account maintained by the Trustee and consisting of investments described in clauses (a) through (i).

"Moody's" means Moody's Investor's Service, Inc., and any successor thereto.

“Net Revenues” means Revenues less Operating Expenses.

“Operating Expenses” means, for any period, all ordinary and necessary expenses incurred in the operation, repair, maintenance and insuring of the System which are properly accounted for such purposes under generally accepted accounting principles. Such term may include the cost of purchased Electric Energy and payments to all taxing authorities, but there shall not be included (i) any allowance for depreciation, (ii) any deposits or transfers to the credit of (a) the Bond Fund or to any fund or account created for the payment of Debt Service on any Subordinate Indebtedness, or (b) the Debt Service Reserve Fund and any debt service reserve fund or account created in connection with any Subordinate Indebtedness, or (iii) any payments with respect to obligations not payable in whole or in part under any circumstances from Revenues.

“Outstanding” or “outstanding,” when used with reference to the Bonds, means, as of any particular date, the aggregate of all Bonds which have been authenticated and delivered under the Indenture except:

- (i) Any Bonds canceled by the Trustee at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation;
- (ii) Bonds for the payment or redemption of which moneys, equal to the principal amount thereof and interest to the date of maturity or redemption date, shall be held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity date or redemption date);
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered pursuant to the Indenture; and
- (iv) Bonds deemed to have been paid as provided in the Indenture.

“Paying Agent” means any bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the Indenture. The Trustee is the initial Paying Agent for the Bonds, and the Indenture authorizes the naming of one or more additional Paying Agents.

“Permitted Encumbrances” shall mean and include (a) the Lease dated December 20, 2005, as amended, by and between the City and the Corporation, pursuant to which the System is leased to the Corporation, of record in the office of the Circuit Clerk and Ex-Officio Recorder of Faulkner County, Arkansas, (b) liens for taxes, assessments and other governmental charges not delinquent or which can be paid without penalty, (c) unfilled, inchoate mechanics’ and materialmen’s liens, (d) workmen’s, repairmen’s, warehousemen’s and carriers’ liens and other similar items, if any, arising in the ordinary course of business, and (e) any easements, restrictions, mineral, oil, gas and mining rights and reservations, zoning laws and defects in title or other encumbrances to which Facilities may be subject because of their acquisition, construction and installation as part of the System.

“2022 Project” means the particular Facilities acquired, constructed, equipped and installed with the proceeds of the Series 2022A Bonds.

“Project” means the 2022 Project and any additional Facilities acquired, constructed or equipped with the proceeds of Additional Bonds.

“Project Fund” means the Project Fund created by the Indenture.

“Rebate Fund” means the Rebate Fund created by the Indenture.

“Record Date” means, with respect to any interest payment date for a series of Bonds, the date which is the fifteenth (15th) day of the calendar month preceding the month in which such interest payment date falls.

“Reserve Requirement” means, with respect to each series of Bonds, the amount, if any, established under the Indenture or a Supplemental Indenture pursuant to which such series of Bonds is issued. The combined Reserve Requirement with respect to the Series 2022A Bonds and Series 2022B Bonds shall be an amount equal to 50% of the maximum annual Debt Service Requirement for the Series 2022 Bonds in any Fiscal Year thereafter as determined at the date of issuance. The respective Reserve Requirements for the Series 2022A Bonds (\$862,344*) and the Series 2022B Bonds (\$489,660*) shall be the pro rata portions of the combined amount as determined based on the original aggregate principal amounts of each such series of Bonds. These amounts shall be deposited in the Series 2022A Account and the Series 2022B Account of the Debt Service Reserve Fund and shall only be available for the payment of principal of and interest on the respective series of Bonds.

* Preliminary; subject to change.

“Revenue Fund” means the Revenue Fund confirmed and continued by the Indenture.

“Revenues” means and includes all income, rents, fees, charges, receipts, profits and other moneys derived by the City or the Corporation from the ownership and operation of the System, including, without limiting the generality of the foregoing, (i) all income, tolls, rents, fees, charges, receipts, profits and other moneys derived from the sale, furnishing or supplying of the services, facilities, commodities and Electric Energy of the System; (ii) the investment income on all Funds held by the Trustee pursuant to the terms of the Indenture, (iii) the investment income on all Funds derived with respect to the System and held by the City or the Corporation or by any Depository designated by the City or the Corporation, and (iv) the income from the investment of any other moneys derived from the ownership or operation of the System. Notwithstanding the foregoing, “Revenues” shall not include (1) customers’ deposits or any other deposits subject to refund, until such deposits have become the property of the Corporation or the City, or (2) developer contributions in aid of construction.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services, LLC, and any successor thereto.

“Series 2015 Bonds” means the City’s Electric Revenue Improvement Bonds, Series 2015.

“Series 2016 Bonds” means the City’s Wastewater Revenue Refunding Bonds, Series 2016.

“Series 2019A Bonds” means the City’s Wastewater Revenue Improvement Bonds, Series 2019A.

“Series 2019B Bonds” means the City’s Wastewater Revenue Refunding Bonds, Taxable Series 2019B.

“Series 2020 Bonds” means the City’s Wastewater Revenue Refunding Bonds, Series 2020.

“Series 2022A Bonds” means the City’s Electric Revenue Improvement Bonds, Tax-Exempt Series 2022A, issued in the original principal amount of \$23,590,000*.

“Series 2022B Bonds” means the City’s Electric Revenue Refunding Bonds, Taxable Series 2022B, issued in the original principal amount of \$13,395,000*.

“Series 2022 Bonds” means, collectively, the Series 2022A Bonds and the Series 2022B Bonds.

“State” shall mean the State of Arkansas.

“Subordinate Indebtedness” means the Series 2016 Bonds, Series 2019A Bonds, Series 2019B Bonds and Series 2020 Bonds, each secured primarily by revenues of the City wastewater collection and treatment system and, to the extent of any deficiency in wastewater system revenues, by surplus Revenues in the manner described in Section 207 of the Indenture. Any indebtedness subsequently incurred by the City and secured by surplus Revenues in the manner described in Section 207 of the indenture shall also constitute Subordinate Indebtedness.

“Supplemental Indenture” means all indentures executed and delivered pursuant to the provisions of Article XII of the Indenture.

“System” means all Facilities of the City wherever located, as such Facilities may now or in the future exist.

“Tax Compliance Agreement” means, with respect to any series of tax-exempt Bonds, that Tax Compliance Agreement of the City and the Corporation relating to the maintenance of the excludability of interest on such series of Bonds from federal income taxation.

“Trustee” means the banking corporation or association designated as Trustee in the Indenture, and its successors and any entity into which it may be converted or merged or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and corporate trust assets as a whole or substantially as a whole, and any successor at the time serving under the Indenture. The original Trustee is The Bank of New York Mellon Trust Company, N.A.

“Trust Estate” means the property described in the granting clauses of the Indenture.

* Preliminary; subject to change.

“Value” means, as of any particular time of determination, the value of any investment calculated as follows:

- (a) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;
- (b) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
- (c) as to certificates of deposit: the face amount thereof, plus accrued interest;
- (d) as to direct obligations of the United States (State and Local Government Series) in book-entry form: the par or face principal amount thereof; and
- (e) as to any investment not specified above: at market value.

“Variable Rate Debt” means any debt the terms of which are such that the interest payable thereon for any future period is not, at the time of the making of the calculation being undertaken, susceptible to precise calculation.

SUMMARY OF THE INDENTURE

In addition to the information earlier given under the captions “SECURITY FOR THE BONDS” and “THE SERIES 2022 BONDS”, there follows a brief summary of certain provisions of the Indenture, which is qualified by reference to, and is subject to the complete terms of, the Indenture.

Rates and Charges. The schedule of rates for Electric Energy supplied by the System set forth in Ordinance No. O-17-57 adopted on May 23, 2017, and the net metering rules and regulations of the System set forth in Ordinance No. O-19-66 adopted on July 23, 2019 (collectively, the “Rate Ordinance”), are approved, confirmed, ratified and continued. A copy of the Rate Ordinance shall be filed with the Trustee and a copy of each ordinance or resolution hereafter adopted revising or changing the rates set forth in the Rate Ordinance shall be filed with the Trustee, to the end that there always be on file with the Trustee the rates in effect at any and all times while there are Outstanding Bonds.

The City covenants that the rates set forth in the Rate Ordinance shall not be reduced while any Bonds issued under the Indenture shall be Outstanding unless:

- (a) All required deposits to the credit of the Funds and Accounts created in the Indenture are current;
- (b) The amount then on deposit to the credit of the Debt Service Reserve Fund shall be not less than the applicable Reserve Requirement(s) at such time; and
- (c) The Net Revenues for each of the preceding three Fiscal Years of the System shall have been not less than 125% of the maximum annual Debt Service Requirement for any Fiscal Year thereafter on all Outstanding Bonds.

The City covenants that it shall establish, maintain, revise and collect rates throughout the life of the Bonds sufficient to produce Revenues in each Fiscal Year at least equal to the sum of the following disbursements out of Revenues for that Fiscal Year:

- (a) An amount sufficient to pay Operating Expenses;
- (b) An amount equal to 125% of the maximum annual Debt Service Requirement on all Outstanding Bonds; and
- (c) The amount, if any, required to be deposited into the Debt Service Reserve Fund to cause the amount or deposit therein to be equal to the applicable Reserve Requirement(s) at such time.

Funds and Accounts. There are confirmed and continued the following Funds previously established by the City:

(a) Revenue Fund (which includes the Operations and Maintenance Fund maintained by the Corporation).

There are created and established the following Funds and Accounts:

- (a) Bond Fund, and therein an Interest Account and Principal Account;
- (b) Debt Service Reserve Fund, and a Series 2022A Account and a Series 2022B Account therein;
- (c) Cost of Issuance Fund;
- (d) Project Fund; and
- (e) Rebate Fund.

The Revenue Fund shall be maintained in such Depository or Depositories as shall be selected from time to time by the City or the Corporation, but which must hold membership in the Federal Deposit Insurance Corporation ("FDIC"). All other Funds and Accounts shall be held and maintained by the Trustee in trust, for the use and benefit of the Bondholders and the City, but subject to the permitted applications expressed in the Indenture.

Revenue Fund. There shall be deposited to the credit of the Revenue Fund, as and when received, all Revenues. There shall be paid from the Revenue Fund the monthly Operating Expenses of the System. Fixed annual charges, such as insurance premiums and the cost of major repair and maintenance expenses, may be computed and set up on an annual basis and a portion of the total amount thereof may be paid each month.

After providing for Operating Expenses, moneys in the Revenue Fund shall be disbursed for the purposes, and in the order or priority, hereinafter described.

(a) Bond Fund. There shall be paid from the Revenue Fund into the appropriate Accounts of the Bond Fund, for the purpose of providing moneys for the payment of the principal of, premium, if any, and interest on the Bonds, monthly amounts equal to 1/6 of the next installment of interest due and 1/12 of the principal due during the then next twelve months.

If there shall be insufficient moneys in any Account in the Bond Fund to pay in full principal, premium or interest due on Bonds on any payment or redemption date, the Trustee shall, one day prior to such date, transfer an amount equal to the deficiency into the appropriate Account of the Bond Fund from the Funds indicated in the following order:

FIRST: the Revenue Fund; and

SECOND: the Debt Service Reserve Fund (provided, however, that moneys transferred from an Account within the Debt Service Reserve Fund shall only be used to pay principal, premium or interest on the corresponding series of Bonds).

(b) Debt Service Reserve Fund. Accounts in the Debt Service Reserve Fund shall be used solely to pay the principal of, premium, if any, and interest on the corresponding series of Outstanding Bonds for which there are no available funds in the applicable Accounts of the Bond Fund to make such payments, as the same become due at maturity or prior redemption. If any Account of the Debt Service Reserve Fund, by virtue of any such payment, is reduced below the applicable Reserve Requirement, it shall be reimbursed in the amount of any such deficiency from any moneys in the Revenue Fund (after providing for Operating Expenses and after making the required deposits into the Bond Fund).

If an excess shall exist in an Account of the Debt Service Reserve Fund over and above the applicable Reserve Requirement, such excess shall be transferred to the Bond Fund.

(c) Project Fund. Proceeds from the issuance and sale of each series of Bonds issued to finance a Project shall be deposited in the Project Fund and shall be disbursed by the Trustee to pay Costs of Issuance and Costs of Facilities on the basis of requisitions signed by the Chief Executive Officer. On the applicable Completion Date for a Project, any balance then remaining in Project Fund (except for amounts retained by the Trustee at the City's or the Corporation's direction for Costs of Facilities not then due and payable, to remedy

defects, or for seasonal completion) shall be disbursed by the Trustee in payment or reimbursement of any part of Costs of Facilities not theretofore paid or reimbursed to the City. Any portion of the balance then remaining in the Project Fund (in excess of amounts, if any, retained by the Trustee as above provided) shall be segregated by the Trustee and transferred to the Principal Account of the Bond Fund to be used for the redemption of Bonds of the same series of Bonds from which such moneys were derived in accordance with the provisions of the Indenture.

(e) Rebate Fund. There shall be deposited in the Rebate Fund the amount of all income or gain on moneys deposited in any of the Funds established by the Indenture which is required to be rebated to the United States and is designated for deposit therein, as calculated by the City to be owing to the United States pursuant to the applicable Tax Compliance Agreement, which shall be delivered by the City concurrently with the issuance of each series of tax-exempt Bonds. The Trustee, upon receipt of written instructions from the Chief Executive Officer on behalf of the City, shall pay to the United States out of the amounts in the Rebate Fund such amounts as are required pursuant to the applicable Tax Compliance Agreement.

Investment of Funds. Except as otherwise provided in the Indenture, the Corporation (on behalf of the City) may direct the Trustee in writing to invest moneys in the Funds and Accounts held by the Trustee in Investment Obligations with maturity or redemption dates consistent with the times at which moneys in such Fund or Account will be required for the purposes provided in the Indenture. Moneys in separate Funds and Accounts may be pooled for the purpose of investment or deposit.

Except as otherwise provided in the Indenture, the Corporation (on behalf of the City) shall invest moneys in the Revenue Fund held by any Depository or Depositories selected by the Corporation in Investment Obligations with maturity or redemption dates consistent with the times at which moneys in the Revenue Fund will be required for the purposes provided in the Indenture. Moneys in separate Funds and Accounts may be pooled for the purpose of investment or deposit.

Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee or a Depository selected by the City (or the Corporation on behalf of the City) under the provisions of the Indenture shall be deemed at all time to be a part of such Fund or Account, and the losses, if any, to a Fund or Account due to the investment thereof shall be charged against the respective Fund or Account for which the investment was made.

Income or interest earned by the investment of Accounts of the Bond Fund or Debt Service Reserve Fund (to the extent the deposits therein exceed the applicable Reserve Requirement) moneys will be transferred to the Bond Fund. Income or interest earned by the investment of moneys in the Revenue Fund and the Project Fund shall remain a credit to such Funds.

Accounts, Records and Audits. The City and the Corporation covenant that they will keep the Funds and Accounts of the System separate from all other funds and accounts of City and the Corporation and that they will keep accurate records of all items of cost and of all expenditures relating to the System and of the collection and application of the Revenues. Such records and accounts shall be open to inspection by the Trustee under reasonable circumstances.

The Corporation (on behalf of the City) further covenants that at the end of each Fiscal Year it will cause an audit to be made of its books and accounts for that Fiscal Year pertaining to the System and will cause an annual report of operations of the System to be prepared and delivered within a reasonable time thereafter, but not exceeding six (6) months, such annual report to cover the matters usually contained in annual reports for similar operations. Costs of such audits shall be considered Operating Expenses.

Creation of Liens. Except as provided in the Indenture, the City shall not issue any bonds or other evidence of indebtedness, other than the Bonds and Subordinate Indebtedness, secured by a pledge of the Revenues and the other revenues and moneys pledged or held aside by the City or the Corporation or by a Fiduciary under the Indenture, and shall not create or cause to be created any lien or charge on the Revenues equal or superior to the lien created by the Indenture; provided, however, that nothing shall prevent the City from issuing notes or bonds of the City secured by assets and revenues of the City other than the assets and revenues pledged in the Indenture.

Payment of Taxes and Charges. The City (or the Corporation on behalf of the City) covenants that it will promptly pay all lawful taxes, charges, assessments, imposts and governmental charges at any time levied or assessed upon or against the System, or any part thereof; provided, however, that nothing shall require the City to cause to be paid any such taxes, assessments, imposts or charges so long as the validity thereof is being contested in

good faith and by appropriate legal proceedings. The City (or the Corporation on behalf of the City) shall notify the Trustee in writing of any legal proceeding contesting any such tax, assessment, impost or other charge.

Obligation to Insure. The City (or the Corporation on behalf of the City) covenants that it will insure, or cause to be insured, with a nationally recognized insurance company or companies authorized and qualified under the laws of the State of Arkansas to assume the risks thereof, the Facilities against loss or damage, and will maintain such forms of insurance as are carried in the case of similar systems to the extent available at reasonable costs.

The proceeds of all insurance against loss or damage shall be applied to the repair, replacement and reconstruction of the damaged or destroyed Facilities, unless the City or the Corporation finds and determines that such Facilities are no longer required for System purposes. The proceeds of general liability insurance shall be used to pay the claims on account of which they are received. If insurance proceeds shall be insufficient for such purposes, the deficiency shall be supplied from other available moneys of the Corporation. If the proceeds of any insurance against damage or loss are not required to repair or reconstruct or replace the lost or damaged property, the proceeds of such insurance not required for such use may be used for any lawful purpose of the System other than the payment of Operating Expenses (but nothing in the preceding provision of this sentence shall preclude the City or the Corporation from applying proceeds of business interruption insurance or other corresponding income insurance, if any is carried, to the payment of Operating Expenses).

Annual Budget. Not later than thirty (30) days prior to the beginning of each Fiscal Year, the City (or the Corporation on behalf of the City) shall prepare an Annual Budget for System operations for the succeeding Fiscal Year. Such Annual Budget shall indicate in reasonable detail (i) the amounts and sources of Revenues, (ii) the nature of Operating Expenses, and (iii) the nature of budgeted capital expenditures. A copy of each Annual Budget shall be filed with the Trustee and a copy shall be maintained in the office of the Chief Executive Officer.

Agreement of the Corporation to Perform City Covenants. The Corporation covenants and agrees and shall have the right and responsibility to perform all covenants and obligations of the City for so long as the franchise and lease agreement from and with the City with respect to the System remains in force and effect.

Possession, Use and Distribution of System Properties. The City covenants that, until all Bonds issued and at any time Outstanding under the Indenture, including the principal, premium, if any, and interest thereon, shall have been paid or the required provision for payment made, it will continuously operate the System, or cause the System to be so operated, as a revenue producing undertaking in compliance with all of its covenants and obligations under the Indenture and, except for transactions by and between the City and the Corporation and except as otherwise permitted by the Indenture, it will not sell, lease or otherwise dispose of, or encumber, except for Permitted Encumbrances, the System or any part thereof. The City or the Corporation may, however, from time to time, sell, lease or dispose of any machinery, fixtures, apparatus, tools, instruments or other movable property or any materials used in connection therewith if the City or the Corporation determines that such articles are no longer needed or are no longer useful in connection with the operation and maintenance of the System, and any proceeds thereof received by the City or the Corporation shall be deposited to the credit of the Revenue Fund. Any real property forming part of the System may from time to time be sold, leased or disposed of, free and clear of any lien of the Indenture, if the City or the Corporation determines that it is not needed or serves no useful purpose in connection with the maintenance and operation of the System, and easements may be granted if the City or the Corporation determines that the granting thereof is reasonable and will not interfere with the proper maintenance and operation of the System. Any proceeds of any such sale, lease or disposition of any real property or of the granting of an easement received by the City or the Corporation shall be deposited to the credit of the Revenue Fund. Any property (personal or real or mixed) traded in on other property being acquired by the City or the Corporation for the System may be so disposed of without any obligation by the City or the Corporation to make a deposit in the Revenue Fund.

Events of Default. Each of the following events is declared an “Event of Default” under the Indenture:

- (i) if default shall be made in the due and punctual payment of any principal or premium payment of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;
- (ii) if default shall be made in the due and punctual payment of any interest payment on any Bond when and as the same shall become due and payable;

(iii) if default shall be made in the due and punctual payment of any moneys required to be paid to the Trustee for deposit in the Funds held by the Trustee;

(iv) if default shall be made by the City or the Corporation in the performance or observance of any other of the covenants, agreements or conditions on their part in the Indenture or in the Bonds contained, and such default shall continue for a period of sixty (60) days after written notice thereof to the City and the Corporation by the Trustee or to the City, the Corporation and the Trustee by the owners of not less than twenty-five percent (25%) in principal amount of the Bonds Outstanding;

(v) if the City or the Corporation, except as permitted in the Indenture, shall sell, transfer, assign or convey any properties or rights or interest in properties constituting the System, or any part or parts thereof, or shall make any agreement for such sale or transfer or shall voluntarily forfeit or allow any of the licenses, franchises, permits, privileges, easements or rights of way necessary or desirable in the operation of the System to lapse to terminate prior to the expiration date thereof by neglect or default;

(vi) if an order, judgment or decree shall be entered, with the consent or acquiescence of the City or the Corporation, or if such order, judgment or decree, having been entered without the consent or acquiescence of City or the Corporation, shall not be vacated or set aside or discharged or stayed, and in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated, within ninety (90) days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged; (a) approving any petition for the reorganization of the System under provisions of any applicable bankruptcy laws or the rearrangement or readjustment under such laws of the obligations of the City or the Corporation under the Indenture; or (b) appointing a receiver, trustee or liquidator for the City, the Corporation or for the System or any part of the System; or (c) under the provisions of any law for the relief or aid of debtors, assuming custody or control of the System or any part thereof; or (d) approving a petition filed against City or the Corporation under the provisions of Chapter IX of the United States Bankruptcy Code, or granting relief to the City or the Corporation under any amendment to the Bankruptcy Code, or under any other applicable bankruptcy act, which shall give relief substantially similar to that afforded by the Bankruptcy Code;

(vii) if the City or the Corporation shall (a) admit in writing its inability to pay its debts generally as they become due; or (b) file a petition in bankruptcy or seeking a composition of indebtedness; or (c) make an assignment for the benefit of its creditors; or (d) file a petition or any answer seeking relief under the Bankruptcy Code of the United States referred to in the preceding subparagraph, or under any amendment thereto; or

(viii) if the State has limited or altered the rights of the City or the Corporation pursuant to the Authorizing Legislation as in force on the date of the Indenture, to fulfill the terms of any agreements made with Owners of Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

The term “default” shall mean default by the City or the Corporation in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture, or in the Outstanding Bonds, exclusive of any period of grace required to constitute a default an “Event of Default.”

Acceleration. Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Holders of twenty-five (25%) in aggregate principal amount of Outstanding Bonds, shall, by notice in writing delivered to the City, declare the principal of all Outstanding Bonds and the interest accrued thereon immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable. If all defaults shall be made good, then the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds, or the Trustee, if the Trustee shall have acted without a direction from the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds at the time Outstanding, may annul such declaration and its consequences.

Trustee’s Right to Enter and Take Possession. Upon the occurrence of an Event of Default, the City and the Corporation, upon demand of the Trustee, shall forthwith surrender to it the actual possession of, and it shall be lawful for the Trustee, by such officer or agent as it may appoint, to take possession of all or any part of the System, with the books, papers and accounts of the City and the Corporation pertaining thereto and to hold, operate and manage the same, and from time to time to make all needful repairs and improvements as shall be deemed wise by the Trustee; and the Trustee, with or without such permission, may collect, receive and sequester the tolls, rents, revenues, issues, earnings, income, products and profits therefrom and out of the same and any moneys received

from any part thereof pay, and/or set up proper reserves for the payment of, all proper costs and expenses of so taking, holding and managing the same, including reasonable compensation to the Trustee, its agents and counsel, and any charges of the Trustee under the Indenture and any taxes and assessments and other charges prior to the lien of the Indenture which the Trustee may deem it wise to pay, and all expenses of such repairs and improvements, and apply the remainder of the moneys so received by the Trustee in accordance with the provisions of the Indenture. Whenever all that is due for principal, premium, if any, and interest on the Bonds shall have been paid and all defaults made good, the Trustee shall surrender possession of the System to the City, its successors or assigns; the same right of entry, however, to exist upon any subsequent Event of Default.

While in possession of the System, or any part thereof, the Trustee shall render annually to the Bondholders, at their addresses as set forth in the bond registration book maintained by the Trustee, a summarized statement of income and expenditures in connection therewith.

Other Remedies. Upon the occurrence of an Event of Default, the Trustee may, as an alternative, proceed either after entry or without entry, to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and to protect and enforce its rights and the rights of the Bondholders under applicable laws and the Indenture, including, without limitation, mandamus.

Rights of Bondholders. Anything in the Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of Outstanding Bonds shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceeding under the Indenture; provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and of the tolls, rents, revenues, issues, earnings, income, products and profits thereof, pending such proceedings with such powers as the court making such appointment shall confer.

Application of Available Moneys. Available moneys remaining after discharge of costs, charges and liens prior to the Indenture (including the fees and expenses of the Trustee) shall be applied by the Trustee as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD: To the payment of the interest on and the principal of the Bonds, and to the redemption of Bonds, all in accordance with the Indenture,

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without discrimination or privilege.

Right of Bondholders to Proceed Contingent on Offer to Trustee. No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy unless a default has occurred of which the Trustee has been notified as described in the Indenture, or of which it is deemed to have notice, nor unless such default shall become an Event of Default and the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, nor unless also they have offered to the Trustee indemnity as provided in the Indenture, nor unless the Trustee shall thereafter fail or refuse to exercise the powers granted by the Indenture, or to institute such action, suit or proceeding in its own name; it being understood and intended that no one or more Holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by his or their action or to enforce any right except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture for the equal benefit of the Holders of all Outstanding Bonds. Nothing contained in the Indenture shall, however, affect or impair the right of any Bondholders to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of City to pay the principal of, premium, if any, and interest on each of the Bonds to the respective Holders thereof at the time and place in the Bonds expressed.

Waiver of Events of Default. The Trustee may in its discretion waive any Event of Default and its consequences and rescind any declaration of maturity of principal, and shall do so upon the written request of the Holders of a majority in aggregate principal amount of all Outstanding Bonds; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any Outstanding Bonds at the date of maturity specified therein or any default in the redemption of Bonds from mandatory sinking fund payments or (b) any default in the payment of interest on any Outstanding Bonds, unless prior to such waiver or rescission all arrears of principal (due otherwise than by declaration) and interest and all expenses of the Trustee and Paying Agent shall have been paid or provided for, and in case of any such waiver of rescission, the City, the Corporation, the Trustee and the Bondholders shall be restored to their former positions and rights; but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Concerning the Fiduciaries. For the benefit and protection of the Bonds and the Bondholders from time to time, The Bank of New York Mellon Trust Company, N.A., a national banking association, doing business and having its designated corporate trust office in Houston, Texas, is appointed as Trustee and Paying Agent and accepts the duties and obligations imposed upon it, but only upon and subject to certain terms and conditions, including the following:

(a) The Trustee and any Paying Agent may execute any of the trusts or powers and perform any duties required of either of them by or through attorneys, agents, receivers or employees, and shall be entitled to advice of counsel concerning all matters of trusts and duties, and may in all cases pay reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts of the Indenture. The Trustee and any Paying Agent may act upon the opinion or advice of any attorney, surveyor, engineer or accountant selected by it in the exercise of reasonable care, or, if selected or retained by the City or the Corporation prior to the occurrence of a default of which the Trustee has been notified, or of which the Trustee is deemed to have notice, approved by the Trustee in the exercise of such care. The Trustee and any Paying Agent shall not be responsible for any loss or damage resulting from an action or nonaction in accordance with any such opinion or advice.

(b) The Trustee shall not be responsible for any recital in the Indenture or the Bonds (except with respect to the certificate of the Trustee endorsed on the Bonds), or for insuring the System or collecting any insurance moneys, or for the validity of the execution by the City or the Corporation of the Indenture or of any Supplemental Indentures or instrument of further assurance, or for the sufficiency of the security for the Bonds; except that in the event the Trustee enters into possession of a part or all of the System, it shall use due diligence in preserving such property; and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the City and/or the Corporation except as otherwise set forth in the Indenture; but the Trustee may require of the City and the Corporation full information and advice as to the performance of the covenants, conditions and agreements aforesaid as to the condition of the System or part thereof.

(c) The Trustee and any Paying Agent may become a Holder of the Bonds with the same rights which it would have if not a Fiduciary.

(d) The Trustee and any Paying Agent shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it, in the exercise of reasonable care, to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee or any Paying Agent upon the request or authority or consent of the Holder of any Bond shall be conclusive and binding upon all future Holders of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(e) With certain exceptions, the Trustee shall not be required to take notice and shall not be deemed to have notice of any default unless the Trustee shall be specifically notified in writing of such default by the City or by the Holders of at least ten percent (10%) in aggregate principal amount of Outstanding Bonds, and all notices or other instruments required to be delivered to the Trustee must, in order to be effective, be delivered to the office of the Trustee, and, in the absence of such notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid.

(f) The Trustee shall not be required to give any bond or surety in respect of the execution of any trusts and powers or otherwise in respect of the premises.

(g) The Trustee and any Paying Agent shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the cancellation and discharge of the lien of the Indenture, or any action whatsoever, any showings, certificates, opinions, appraisals or other information, or action or evidence thereof, in addition to that by the terms of the Indenture required as a condition of such action by the Trustee or a Paying Agent, deemed desirable for the purpose of establishing the right of the City to the authentication of any Bonds, the withdrawal of any cash, the cancellation and discharge of the lien of the Indenture, or the taking of any other action by the Trustee or Paying Agent.

(h) Before taking any action under the Indenture, the Trustee may require that it be furnished with an indemnity bond satisfactory to it for the reimbursement to it of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee.

Resignation of Trustee. The Trustee and any successor trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than sixty (60) days' written notice by first class mail, postage prepaid, to the City, the Corporation and Owners of Bonds Outstanding specifying the date when such resignation shall take effect. Such resignation shall take effect upon the date specified in such notice unless previously a successor shall have been appointed by the City or the Owners of Bonds as provided in the Indenture in which event such resignation shall take effect immediately on the appointment of such successor, provided no such resignation shall take effect until a successor shall have been appointed.

Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, signed by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the City or the Corporation, notification thereof having been given to the City and the Corporation, provided no such removal shall take effect until thirty days after such instrument or instruments is filed with the Trustee and a successor shall have been appointed.

Appointment of Successor Trustee. Any bank or trust company into which the Trustee may be merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any bank or trust company resulting from any such sale, merger, consolidation or transfer to which it is a party, *ipso facto*, shall be and become successor trustee provided, however, that such successor trustee shall have capital, surplus and undivided profits of at least \$10,000,000.

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the City or the Corporation, by an instrument or concurrent instruments in writing signed and acknowledged by such owners of Bonds or by their attorneys-in-fact duly authorized and delivered to the successor Trustee, notification thereof having been given to the City, the Corporation and the predecessor Trustee; provided, nevertheless, that, unless a successor Trustee shall have been appointed by the owners of Bonds as aforesaid, the City shall forthwith appoint a temporary Trustee to fill such a

vacancy until a successor Trustee shall have been appointed by the Owners of Bonds. The City shall mail notice of any such appointment made by it by first class mail, postage prepaid, to the Owners of Bonds Outstanding. Any successor Trustee appointed by the City shall, immediately and without further act, be superseded by the Trustee appointed by the Owners of Bonds.

If in a proper case no appointment of a successor Trustee shall be made within forty-five (45) days after the Trustee shall have given to the City and the Corporation written notice or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Owner of any Bonds or the Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee.

Any Trustee appointed as a successor Trustee shall be a bank or trust company with capital, surplus, and undivided profits aggregating at least \$10,000,000, provided that there be such a bank or trust company willing and able to accept the office on reasonable and customary terms and authorized by law to perform the duties imposed by the Indenture.

Resignation or Removal of Paying Agent and Appointment of Successor. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least sixty (60) days' written notice to the City, the Corporation, the Trustee and any other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the City. Any successor Paying Agent shall be appointed by the City, with the approval of the Trustee, and shall be a bank or trust company having capital, surplus and undivided profits aggregating at least \$10,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed by the Indenture.

Supplemental Indentures Not Requiring Consent of Bondholders. For any one or more of the following purposes or at any time or from time to time, a Supplemental Indenture may be adopted without the consent of the Bondholders, which Supplemental Indenture, upon its execution by the Trustee, the City and the Corporation, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity or formal defect or omission in the Indenture or any Supplemental Indenture;
- (2) to grant to or confer on the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred on them or the Trustee;
- (3) to add to the covenants and agreements of the City and the Corporation in the Indenture other covenants and agreements to be observed by the City or the Corporation;
- (4) more precisely to identify the Revenues subject to the lien of the Indenture;
- (5) to subject to the lien of the Indenture additional revenues, property or collateral; or
- (6) to provide for the issuance of Additional Bonds.

Supplemental Indentures Effective With Consent of Owners of Bonds. The Holders of not less than two-thirds (2/3) in aggregate principal amount of the Outstanding Bonds shall have the right, from time to time, to consent to and approve the execution by the City, the Corporation and the Trustee of such Supplemental Indentures as shall be deemed necessary and desirable by the City for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that nothing shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond, the redemption premium applicable to any Bond, or the rate of interest applicable to any Bond, or reduction of the principal amount of Bonds to be redeemed from mandatory sinking fund payments, or (c) cause interest on any Bonds held by non-consenting Bondholders to become subject to federal income taxes, or (d) the creation of a lien or a pledge of Revenues pledged to the Bonds other than the lien and pledge created by the Indenture, or (e) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (f) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture.

Defeasance. Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the City or the Corporation of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid. Any Outstanding Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid if

(a) in case any Bonds are to be redeemed on any date prior to their maturity, the City shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the time, shall be sufficient to pay when due the principal, premium, if any, and interest due and to become due on such Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the City shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (b) above has been made with the Trustee and that the Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, premium, if any, and interest on such Bonds.

SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

The City and the Corporation have entered into an undertaking in the form of the Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Series 2022 Bonds to cause certain financial information to be sent to certain information repositories annually and to cause notice to be sent to such information repositories of certain specified events, pursuant to the requirements of Section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (the “Rule”).

The City and the Corporation are parties to multiple continuing disclosure agreements for various bond issues of the City secured by specified revenue sources.

With respect to the City’s and the Corporation’s continuing disclosure undertakings for bonds secured by wastewater revenues (with a secondary pledge of electric revenues), while timely filings have been made of the audited financial statements relating to the Wastewater System, filings of the audited financial statements of the Electric System were late for fiscal year 2018 (61 days). A notice of the incurring of a financial obligation in 2020 was filed 5 days late.

With respect to the City’s obligations secured by franchise fee revenues, while the City’s audited financial statements were timely filed upon receipt by the City, unaudited financial statements were not filed for 2017 as of the due date set forth in the relevant continuing disclosure agreement.

With respect to the City’s obligations secured by sales and use tax receipts, while the City’s audited financial statements were timely filed upon receipt by the City, unaudited financial statements were not filed for 2017 as of the due date set forth in the relevant continuing disclosure agreement.

With respect to the City’s obligations secured by hotel and restaurant gross receipt tax receipts, while the City’s audited financial statements were timely filed upon receipt by the City, unaudited financial statements were not filed for 2017 as of the due date set forth in the relevant continuing disclosure agreement.

The City and the Corporation have undertaken steps to ensure future compliance with their respective continuing disclosure undertakings.

The Continuing Disclosure Agreement contains the following covenants and provisions:

(a) The City and the Corporation covenant that they will disseminate, or will cause the Dissemination Agent to disseminate, the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth in Exhibit I to the Continuing Disclosure Agreement) by delivering such Annual Financial Information to the MSRB within 180 days of the completion of the Fiscal Year of the System. Audited Financial Statements, if available, shall be filed with the MSRB at the same time as the Annual Financial Information. If not then available, unaudited financial statements shall be included with the MSRB filing, and Audited Financial Statements shall be provided to the MSRB within ten (10) business days after availability thereof. The City and/or the Corporation are required to deliver or cause delivery of such information in Prescribed Form and by such time so that such entity receives the information by the dates specified.

(b) If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the City and the Corporation will disseminate or cause dissemination of a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

(c) If any amendment is made to the Continuing Disclosure Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

(d) The City and the Corporation covenant to disseminate or cause dissemination in a timely manner, not in excess of ten (10) business days after the occurrence of the event, Listed Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series 2022 Bonds need not be given under the Continuing Disclosure Agreement any earlier than the notice (if any) of such redemption is given to the owners of the Series 2022 Bonds pursuant to the Indenture. The City and the Corporation are required to deliver or cause delivery of such Listed Events Disclosure in the same manner as provided for Annual Financial Information and Audited Financial Statements.

(e) The City and/or the Corporation shall give notice in a timely manner or shall cause such notice to be given by the Dissemination Agent, not in excess of ten (10) business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due.

(f) The Continuing Disclosure Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, the Continuing Disclosure Agreement shall inure solely to the benefit of the City, the Corporation, the Dissemination Agent, if any, the Trustee and the Beneficial Owners of the Series 2022 Bonds, and shall create no rights in any other person or entity. In the event of a failure of the City and the Corporation to comply with any provision of the Continuing Disclosure Agreement, the Trustee may (and at the request of a Participating Underwriter or the Beneficial Owners of at least 25% in aggregate principal amount of the Series 2022 Bonds, and upon being indemnified to its satisfaction, shall) or the Beneficial Owner of any Series 2022 Bond may seek specific performance by court order to cause the City and/or the Corporation to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture or any other agreement, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City, the Corporation or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

(g) The Undertaking of the City and/or the Corporation pursuant to the Continuing Disclosure Agreement shall be terminated hereunder when the City and/or the Corporation shall no longer have any legal liability for any obligation on or relating to the repayment of the Series 2022 Bonds. The City and/or the Corporation shall give notice to the MSRB, or shall cause the Dissemination Agent to give such notice, in a timely manner and in Prescribed Form in such event.

(h) The City, the Corporation and the Dissemination Agent may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, if (i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City, the Corporation or type of business conducted; (ii) the Continuing Disclosure Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) the amendment or waiver does not materially impair the interests of the Beneficial Owners of the Series 2022 Bonds, as determined either by parties unaffiliated with the City or the Corporation (and evidenced by an opinion of Bond Counsel delivered to the Dissemination Agent) or by an approving vote of the Beneficial Owners of the Series 2022 Bonds holding a majority of the aggregate principal amount of the Series 2022 Bonds (excluding Series 2022 Bonds held by or on behalf of the City, the Corporation or their affiliates) pursuant to the terms of the Indenture at the time of the amendment; or (iv) the amendment or waiver is otherwise permitted by the Rule (and evidenced by an opinion of Bond Counsel delivered to the Dissemination Agent).

(i) The following terms used under this caption shall have the meanings set forth below:

“Annual Financial Information” means the following general categories of financial information and operating data with respect to the System for the prior fiscal year:

- (1) Total and classification of System customers as set forth under the caption “THE SYSTEM - *Customers*” in this Official Statement;
- (2) List of ten largest System customers along with the total revenues derived from each and the respective percentages of such revenues to total revenues of the System, as set forth under the caption “THE SYSTEM – *Largest Customers*” in this Official Statement; and
- (3) The electric rates with respect to the System as set forth under the caption “THE SYSTEM – *Electric Rates*” in the Official Statement.

“Annual Financial Information Disclosure” means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in subsection (a) above.

“Audited Financial Statements” means the audited consolidated financial statements of the System, prepared pursuant to generally accepted accounting standards and as described in Exhibit I to the Continuing Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2022 Bonds (including persons holding Series 2022 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2022 Bonds for federal income tax purposes.

“Commission” means the U.S. Securities and Exchange Commission.

“Dissemination Agent” shall mean The Bank of New York Mellon Trust Company, N.A., acting in its capacity as a dissemination agent under the Continuing Disclosure Agreement, or any successor dissemination agent designated in writing by the City and the Corporation and which has filed with the Trustee a written acceptance of such designation.

“EMMA” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation does not include municipal securities as to which a final official statement has been otherwise provided to the MSRB under the Rule.

“Fiscal Year” means any period of twelve (12) consecutive months adopted by the Corporation as the fiscal year of the System for financial reporting purposes. The Fiscal Year of the System presently ends on December 31 of each year.

“Listed Event” means the occurrence of any of the following events with respect to the Series 2022 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment-related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS

Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the City;
- (13) The consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a Financial Obligation of the City or the Corporation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City or the Corporation, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or similar events under the terms of a Financial Obligation of the City or the Corporation, any of which reflect financial difficulties.

“*Listed Events Disclosure*” means dissemination of a notice of a Listed Event as set forth in subsection (d) above.

“*MSRB*” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the 1934 Act.

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Series 2022 Bonds.

“*Prescribed Form*” means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Listed Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Exchange Act, as the same may be amended from time to time.

“*State*” means the State of Arkansas.

“*Undertaking*” means the obligations of the City and the Corporation pursuant to subsections (a) and (d) above.

UNDERWRITING

Under a bond purchase agreement entered into by and among the City and Stephens Inc. and Crews & Associates, Inc. (the “Underwriters”), and approved by the Corporation, (i) the Series 2022A Bonds are being purchased at a purchase price of \$_____ (representing the stated principal amount of the Series 2022A Bonds [plus][less] a net reoffering [premium][discount] of \$_____ and less an underwriting discount of

\$_____); and (ii) the Series 2022B Bonds are being purchased at a purchase price of \$_____ (representing the stated principal amount of the Series 2022B Bonds [plus][less] a net reoffering [premium][discount] of \$_____ and less an underwriting discount of \$_____). The bond purchase agreement provides that the Underwriters will purchase all of the Series 2022 Bonds if any are purchased. The obligation of the Underwriters to accept delivery of the Series 2022 Bonds is subject to various conditions contained in the bond purchase agreement, including the absence of pending or threatened litigation questioning the validity of the Series 2022 Bonds or any proceedings in connection with the issuance thereof, and the absence of material adverse changes in the financial condition of the Corporation or the System.

The Underwriters intend to offer the Series 2022 Bonds to the public initially at the offering prices as set forth on the inside cover page of this Official Statement, which offering prices (or bond yields establishing such offering prices) may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2022 Bonds to the public, and may offer the Series 2022 Bonds to such dealers and other underwriters at a price below the public offering price.

The Corporation has agreed to indemnify the Underwriters against certain civil liabilities in connection with the offering and sale of the Series 2022 Bonds, including certain liabilities under federal securities laws.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters and their affiliates have, from time to time, performed and may in the future perform, various financial advisory, commercial banking, investment banking and swap counterparty services for the City and the Corporation, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City or the Corporation.

TAX MATTERS

The Series 2022A Bonds; General Matters

Federal Income Taxes. In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2022A Bonds (including any original issue discount properly allocable to the owner of a Series 2022A Bond) is excluded from the gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the City and the Corporation with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2022A Bonds. Failure to comply with such requirements could cause interest on the Series 2022A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2022A Bonds. The City and the Corporation have covenanted to comply with such requirements.

Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2022A Bonds.

The accrual or receipt of interest on the Series 2022A Bonds may otherwise affect the federal income tax liability of the owners of the Series 2022A Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2022A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2022A Bonds.

Recognition of Income Generally. Section 451 of the Code was amended by Pub. L. No. 115-97, enacted December 22, 2017 (sometimes referred to as the Tax Cuts and Jobs Act), to provide that taxpayers using an accrual

method of accounting for federal income tax purposes generally will be required to include certain amounts in income, including original issue discount and market discount, no later than the time such amounts are reflected on certain financial statements of such taxpayer. Investors should consult their own tax advisors regarding the application of this rule and its impact on the timing of the recognition of income related to the Series 2022A Bonds under the Code.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2022A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information, including an accurate taxpayer identification number, to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2022A Bonds from gross income for federal income purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

The Series 2022B Bonds; General Matters

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Series 2022B Bonds under the Code and the regulations promulgated by the U.S. Treasury Department thereunder (the “Regulations”), and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the Series 2022B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2022B Bonds.

Bond Counsel is of the opinion that interest on the Series 2022B Bonds is included in gross income for federal income tax purposes.

In general, interest paid on the Series 2022B Bonds, original discount, if any, and market discount, if any, will be treated as ordinary income to the owners of the Series 2022B Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount or accrued market discount) will be treated as a return of capital.

Market Discount. An investor that acquires a Series 2022B Bond for a price less than the adjusted issue price of such bond may be subject to the market discount rules of Sections 1276 through 1278 of the Code. Under these sections and the principles applied by the Regulations, “market discount” means (a) in the case of a Series 2022B Bond originally issued at a discount, the amount by which the issue price of such bond, increased by all accrued original issue discount (as if held since the issue date), exceeds the initial tax basis of the owner therein, less any prior payments that did not constitute payments of qualified stated interest, and (b) in the case of a Series 2022B Bond not originally issued at a discount, the amount by which the stated redemption price of such bond at maturity exceeds the initial tax basis of the owner therein. Under Section 1276 of the Code, the owner of such a Series 2022B Bond will generally be required (i) to allocate each principal payment to accrued market discount not previously included in income and, upon sale or other disposition of the bond, to recognize the gain on such sale or disposition as ordinary income to the extent of such cumulative amount of accrued market discount as of the date of sale or other disposition of such a bond or (ii) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the U.S. Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest or, in the case of a Series 2022B Bond with original issue discount, in proportion to the accrual of original issue discount.

An owner of a Series 2022B Bond that acquired such bond at a market discount also may be required to defer, until the maturity date of such bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry such bond in excess of the aggregate amount of interest (including original issue

discount) includable in such owner's gross income for the taxable year with respect to such bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2022B Bond for the days during the taxable year on which the owner held such bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2022B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the owner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such owner in that taxable year or thereafter.

Attention is called to the fact that Regulations implementing the market discount rules have not yet been issued. Therefore, investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

Unearned Income Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals earning certain investment income. Holders of the Series 2022B Bonds should consult their own tax advisors regarding the application of this tax to interest earned on the Series 2022B Bonds and to gain on the sale of a Series 2022B Bond.

Sales or Other Dispositions. If an owner of a Series 2022B Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner's basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss.

If the terms of a Series 2022B Bond were materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Series 2022B Bond should consult its own tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any, of such reissuance.

Defeasance. The legal defeasance of the Series 2022B Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Series 2022B Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

Backup Withholding. An owner of a Series 2022B Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Series 2022B Bonds, if such owner, upon issuance of the Series 2022B Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Foreign Investors. An owner of a Series 2022B Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Series 2022B Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Series 2022B Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States of America is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing on Series 2022B Bonds owned by foreign investors. In those instances in which payments of interest on the Series 2022B Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Series 2022B Bonds having original issue discount and held by foreign

investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Series 2022B Bond.

Tax-Exempt Investors. In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. Unrelated business taxable income generally means the gross income derived by an organization from any unrelated trade or business as defined in Section 513 of the Code. An unrelated trade or business is any trade or business that is not substantially related to the purpose that forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any owner of a Series 2022B Bond incurs acquisition indebtedness with respect to such bond, interest paid or accrued with respect to such owner may be excluded by such tax-exempt owner from the calculation of unrelated business taxable income. Each potential tax-exempt holder of a Series 2022B Bond is urged to consult its own tax advisor regarding the application of these provisions.

ERISA Considerations. The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities whose underlying assets are considered to include "plan assets" (within the meaning of 29 C.F.R. Section 2510.3 (as modified by Section 3(42) of ERISA), such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans," and together with arrangements that are subject to Section 4975 of the Code or similar provisions under any other federal, state, local, non-United States or other laws or regulations or similar law, as applicable, "Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the Series 2022B Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and the Code generally prohibit certain transactions between an ERISA Plan or a qualified employee benefit plan under the Code and persons who, with respect to that plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of the Series 2022B Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the City or any dealer of the Series 2022B Bonds might be considered or might become a "party in interest" within the meaning of ERISA or a "disqualified person" within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Sections 4975 or 503 of the Code. Prohibited transactions within the meaning of ERISA and the Code may arise if the Series 2022B Bonds are acquired by such plans or arrangements with respect to which the City or any dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above sections of the Code, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Series 2022B Bonds. The sale of the Series 2022B Bonds to a plan is in no respect a representation by the City or the Underwriters that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the Series 2022B Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law.

Neither the City nor the Corporation nor the Underwriters are acting as a fiduciary, or undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, to such purchaser or transferee with respect to the decision to purchase or hold the Series 2022B Bonds or an interest in the Series 2022B Bonds.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed on persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Series 2022B Bonds on behalf of,

or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any similar laws to such investment and whether an exemption would be applicable to the purchase and holding of the Series 2022B Bonds.

State Taxes

Bond Counsel is of the opinion that, under existing law, the interest on the Series 2022A Bonds and the Series 2022B Bonds is exempt from all state, county and municipal taxes in the State of Arkansas.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading "TAX MATTERS" or adversely affect the market value of the Series 2022 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2022 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2022 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2022 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2022 Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LEGAL MATTERS

Legal Opinions. Legal matters incident to the authorization and issuance of the Series 2022 Bonds are subject to the unqualified approving opinion of Kutak Rock LLP, Little Rock, Arkansas, Bond Counsel, a copy of whose approving opinion will be delivered with the Series 2022 Bonds and a proposed form of which is attached hereto as Appendix C. Certain legal matters will be passed upon for the City by its counsel, Charles Finkenbinder, Esq., City Attorney.

Litigation. Charles Finkenbinder, Esq., City Attorney, will deliver as to the sale of the Series 2022 Bonds, his opinion that there is no litigation pending seeking to restrain or enjoin the issuance or delivery of the Series 2022 Bonds or questioning or affecting the legality of the Series 2022 Bonds or the proceedings and authority under which the Series 2022 Bonds are to be issued, or questioning the right of the City to issue the Series 2022 Bonds.

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the City in any way which could have a material adverse effect on the City or the Corporation or on the financial affairs of the System.

RATING

Application has been made to Moody's Investors Service, Inc. ("Moody's") for a municipal bond rating on the Series 2022 Bonds.

Moody's has assigned a rating of "_____" to the Series 2022 Bonds. Such rating reflects only the view of Moody's at the time such rating was given, and the City and Corporation make no representation as to the appropriateness of such rating. An explanation of the significance of the above rating may be obtained only from Moody's.

The City and the Corporation have furnished Moody's certain information and materials relating to the Series 2022 Bonds and the City and Corporation, some of which have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on independent investigations, studies and assumptions furnished to and obtained and made by the rating agencies. A securities rating is not a recommendation to buy, sell or hold securities. There is no assurance that a particular rating, once obtained will be maintained for any given period of time or that it may not be lowered, raised or withdrawn entirely by Moody's if, in its judgment, circumstances so warrant. Neither the City, the Corporation nor the Underwriters have undertaken any responsibility to oppose any such revision or withdrawal. Any downward change in or withdrawal of a rating may

have an adverse effect on the market price and marketability of the Series 2022 Bonds. No application has been made to any Rating Agency other than Moody's for a rating on the Series 2022 Bonds.

FINANCIAL STATEMENTS

Set forth in Appendix A to this Official Statement are the financial statements of the System for the Fiscal Years ended December 31, 2020 and 2019, which financial statements have been audited by Landmark PLC (formerly, Thomas & Thomas LLP), Little Rock, Arkansas, independent certified public accountants, as indicated in their report dated March 16, 2021, which report is also included in Appendix A. The notes set forth in Appendix A are an integral part of the financial statements, and the statements and notes should be read in their entirety. The Corporation did not request Landmark PLC to perform any updating procedures subsequent to the date of its audit request on the December 31, 2020 financial statements.

Set forth in Appendix B to this Official Statement are the compiled (unaudited) financial statements of the System for the Fiscal Year ended December 31, 2021.

MISCELLANEOUS

The Corporation has furnished the information in this Official Statement relating to the operations of the System. The Underwriters have furnished the information in this Official Statement with respect to the public offering price of the Series 2022 Bonds and the information under the caption "UNDERWRITING" herein.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. This Official Statement is not to be construed as a contract or agreement between the City or the Corporation and the purchasers or owners of any of the Series 2022 Bonds.

ACCURACY AND COMPLETENESS OF OFFICIAL STATEMENT

The information contained in this Official Statement has been taken from sources considered to be reliable, but is not guaranteed. To the best of the knowledge of the City and the Corporation, this Official Statement does not include any untrue statement of a material fact, nor does it omit the statement of any material fact required to be stated herein, or necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

This Official Statement has been approved by the City of Conway, Arkansas.

CITY OF CONWAY, ARKANSAS

By: _____
Mayor

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE SYSTEM AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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Electric Department

**Financial Statements
December 31, 2020 and 2019**

(With Independent Auditor's Reports Thereon)



Conway Corporation Electric Department

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Conway Corporation
Conway, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of **Conway Corporation Electric Department** (the Department) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2020 and 2019, and the changes in its financial

The Board of Directors
Conway Corporation

Opinion (Continued)

position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our 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, 2020 and 2019, 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 March 16, 2021 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.


Certified Public Accountants

Little Rock, Arkansas
March 16, 2021



Management's Discussion and Analysis



Conway Corporation Electric Department

Management's Discussion and Analysis
December 31, 2020 and 2019

Financial Highlights

	2020	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets			
Total current assets	\$ 51,282,359	\$ 51,098,145	\$ 53,957,213
Total restricted assets	2,971,250	4,010,996	8,732,836
Utility plant in service, net	112,564,565	108,859,462	103,995,684
Other assets	9,788,587	4,842,432	2,852,070
Total Assets	<u>176,606,761</u>	<u>168,811,035</u>	<u>169,537,803</u>
Deferred Outflows of Resources	<u>2,683,778</u>	<u>3,318,973</u>	<u>1,773,834</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 179,290,539</u>	<u>\$ 172,130,008</u>	<u>\$ 171,311,637</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Total current liabilities	\$ 12,555,538	\$ 11,799,198	\$ 12,282,556
Total noncurrent liabilities	20,266,654	24,513,000	26,030,270
Total Liabilities	<u>32,822,192</u>	<u>36,312,198</u>	<u>38,312,826</u>
Deferred Inflows of Resources	<u>2,650,255</u>	<u>1,302,588</u>	<u>28,064</u>
Net Position			
Net investment in utility plant in service	96,516,359	91,770,399	89,383,560
Restricted for debt service	1,606,497	1,574,221	1,507,173
Unrestricted	45,695,236	41,170,602	42,080,014
Total Net Position	<u>143,818,092</u>	<u>134,515,222</u>	<u>132,970,747</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 179,290,539</u>	<u>\$ 172,130,008</u>	<u>\$ 171,311,637</u>
OPERATING REVENUES			
Industrial	\$ 16,230,563	\$ 19,553,151	\$ 19,930,710
Residential	22,823,349	22,721,544	23,515,545
Commercial	10,919,482	11,574,233	10,992,563
Institutional	2,827,289	4,552,753	3,356,604
Municipal and street lighting	708,967	880,298	877,860
Other operating income	1,782,286	1,877,287	1,479,503
Total Operating Revenues	<u>55,291,936</u>	<u>61,159,266</u>	<u>60,152,785</u>

(Continued)

Conway Corporation Electric Department

Management's Discussion and Analysis December 31, 2020 and 2019

Financial Highlights (Continued)

	2020	2019	2018
OPERATING EXPENSES			
Power purchased	\$ 24,763,988	\$ 28,577,645	\$ 31,502,191
Coal plant generation expense	1,626,493	1,861,747	2,063,292
Transmission service demand	6,638,073	6,721,515	6,343,645
Distribution	5,431,014	4,543,260	3,771,282
Depreciation	7,669,247	7,616,673	7,218,138
Customer accounting and collection	1,686,726	1,789,385	1,690,070
Administrative and general	4,359,535	4,588,311	4,214,132
Total Operating Expenses	<u>52,175,076</u>	<u>55,698,536</u>	<u>56,802,750</u>
OPERATING INCOME	<u>3,116,860</u>	<u>5,460,730</u>	<u>3,350,035</u>
NET NONOPERATING INCOME	<u>673,689</u>	<u>1,213,586</u>	<u>846,197</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	3,790,549	6,674,316	4,196,232
CAPITAL CONTRIBUTIONS AND INTERDEPARTMENTAL TRANSFERS	<u>5,512,321</u>	<u>(5,129,841)</u>	<u>(1,346,018)</u>
INCREASE IN NET POSITION	9,302,870	1,544,475	2,850,214
NET POSITION, BEGINNING OF YEAR	134,515,222	132,970,747	130,545,888
OPEB RELATED RESTATEMENT OF BEGINNING NET POSITION	<u>-</u>	<u>-</u>	<u>(425,355)</u>
NET POSITION, END OF YEAR	<u>\$ 143,818,092</u>	<u>\$ 134,515,222</u>	<u>\$ 132,970,747</u>

The following management's discussion and analysis of Conway Corporation Electric Department's (the Department) financial performance provides an overview of the Department's activities for the years ended December 31, 2020 and 2019, 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, cable, internet, telephone and security services to industrial, residential, commercial and institutional customers in the City.

Conway Corporation Electric Department

Management's Discussion and Analysis December 31, 2020 and 2019

Financial Highlights (Continued)

The Department is responsible for the operation and maintenance of the City's electric system pursuant to an exclusive franchise agreement and lease granted under City Ordinances No. 0-79-24 and No. 0-05-163, respectively, as amended.

Introduction of Financial Statements

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

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

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

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

Total and Capital Assets

At December 31, 2020, 2019, and 2018, the Department's assets totaled \$176.6 million, \$168.8 million and \$169.5 million, respectively. Total assets increased by \$7.8 million, or 4.6%, from December 31, 2019 to December 31, 2020, compared to a decrease of \$727,000, or .4%, from December 31, 2018 to December 31, 2019. The 2020 increase was a result of increased investment in plant in service of approximately \$4 million as well as increases in inventories and in a receivable from the Water Department for long-term repayment of the Water Department's portion of the Advanced Metering Infrastructure (AMI) project.

All asset additions for years presented were funded by operating revenue and bond proceeds.

Capital Contributions and Interdepartmental Transfers

Capital contributions received and interdepartmental transfers were approximately \$5.5 million, (\$5.1 million) and (\$1.3 million) in 2020, 2019 and 2018, respectively. Ordinarily these contributions are primarily comprised of developer fees paid for electric infrastructure; however, the amount reported in 2020 reflects approximately \$4.5 million considered as a transfer from the Water Department in conjunction with loans related to the AMI project. In 2019, transfers of \$3 million were made to the Wastewater Department for a major collection main project and in 2018, transfers of \$1.9 million were recorded to the Water Department for the AMI project.

Conway Corporation Electric Department

Management's Discussion and Analysis December 31, 2020 and 2019

Liabilities

At December 31, 2020, 2019 and 2018, the Department's liabilities totaled \$32.8 million, \$36.3 million and \$38.3 million, respectively. Total liabilities decreased by \$3.5 million, or 9.6%, from December 31, 2019 to December 31, 2020, compared to a decrease of \$2.0 million or 5.3%, from December 31, 2018 to December 31, 2019. The liability associated with the 2015 revenue improvements bonds decreased in 2020 and 2019 as principal and interest payments were made according to the maturity schedule. An increase in the actuarial determination for pension liability contributed to the increase in liabilities from 2018 to 2019. Current liability increases are related to current portion of long-term debt and an increase in customer deposits.

Operating Revenues and Expenses

At December 31, 2020, 2019 and 2018, the Department's operating revenues totaled \$55.3 million, \$61.2 million and \$60.2 million, respectively. Operating revenues decreased by \$5.9 million or 9.6% from December 31, 2019 to December 31, 2020, compared to an increase of \$1.0 million or 1.7% from December 31, 2018 to December 31, 2019. The 2020 revenue decrease was primarily attributable to commercial, industrial and institutional customers closing or reducing operations during the COVID-19 pandemic. The revenue increase in 2019 was a result of rate increases despite lower sales compared to 2018.

At December 31, 2020, 2019 and 2018, the Department's operating expenses totaled \$52.2 million, \$55.7 million and \$56.8 million, respectively. Operating expenses decreased by approximately \$3.5 million, or 6.3% from December 31, 2019 to December 31, 2020 while operating expenses decreased by approximately \$1.1 million, or 1.9% from December 31, 2018 to December 31, 2019. The largest operations and maintenance component is production or costs associated with getting power to Conway Corporation's substations. Because sales were down a great deal and because production expenses fluctuate widely with sales, these costs were much less in 2020. In 2019, despite an increase in transmission charges for power delivery, power supply expenses were less due to lower market prices in natural gas, the primary fuel used to generate electricity in this region, as well as lower sales volumes.

Rate Structure

The Department's rate structure for electric services is based on a cost-of-service approach. Operating expenses and capital improvements are the components that must be funded from rates or bond issues. Electric 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 Electric Department

Statements of Net Position December 31, 2020 and 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 20,062,778	\$ 16,780,967
Certificates of deposit	16,299,307	19,076,752
Accounts receivable, net	4,922,822	4,980,233
Receivable from other Conway Corporation departments	-	323,902
Current portion of note receivable from related organization	64,153	-
Accrued interest receivable	224,170	275,562
Inventories	9,154,002	8,152,866
Prepaid expenses	555,127	1,507,863
Total Current Assets	<u>51,282,359</u>	<u>51,098,145</u>
Restricted Assets		
Cash and cash equivalents	2,696,000	2,616,659
Investments	275,250	1,394,337
Total Restricted Assets	<u>2,971,250</u>	<u>4,010,996</u>
Utility Plant in Service, Net	<u>112,564,565</u>	<u>108,859,462</u>
Other Assets		
Land held for resale	410,296	410,296
Advances to Water and Wastewater Departments	6,812,444	1,802,136
Long-term portion of note receivable from related organization	2,565,847	2,630,000
Total Other Assets	<u>9,788,587</u>	<u>4,842,432</u>
Total Assets	<u>176,606,761</u>	<u>168,811,035</u>
Deferred Outflows of Resources		
Deferred outflows related to OPEB	144,329	103,145
Deferred outflows related to pension	2,539,449	3,215,828
Total Deferred Outflows of Resources	<u>2,683,778</u>	<u>3,318,973</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 179,290,539</u>	<u>\$ 172,130,008</u>

(Continued)

See accompanying notes to financial statements.

Conway Corporation Electric Department

Statements of Net Position *(Continued)* December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts and contracts payable	\$ 5,680,879	\$ 5,371,736
Accrued expenses and other liabilities	669,032	538,070
Payable to other Conway Corporation departments	-	12,465
Due to the city of Conway	876,006	928,940
Customer deposits	3,008,554	2,794,154
Total Current Liabilities	<u>10,234,471</u>	<u>9,645,365</u>
Current Liabilities Payable from Restricted Assets		
Accounts and contracts payable	121,505	134,915
Current portion of long-term debt	1,985,000	1,890,000
Accrued interest payable	60,999	68,874
Developer deposits	153,563	60,044
Total Current Liabilities Payable from Restricted Assets	<u>2,321,067</u>	<u>2,153,833</u>
Total OPEB Liability	<u>1,126,364</u>	<u>1,286,833</u>
Net Pension Liability	<u>3,926,893</u>	<u>5,719,247</u>
Long-term Debt, Less Current Portion	<u>15,213,397</u>	<u>17,506,920</u>
Total Liabilities	<u>32,822,192</u>	<u>36,312,198</u>
Deferred Inflows of Resources		
Deferred inflows related to OPEB	281,506	-
Deferred inflows related to pension	2,368,749	1,302,588
Total Deferred Inflows of Resources	<u>2,650,255</u>	<u>1,302,588</u>
Total Liabilities and Deferred Inflows of Resources	<u>35,472,447</u>	<u>37,614,786</u>
Net Position		
Net investment in utility plant in service	96,516,359	91,770,399
Restricted for debt service	1,606,497	1,574,221
Unrestricted	45,695,236	41,170,602
Total Net Position	<u>143,818,092</u>	<u>134,515,222</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 179,290,539</u>	<u>\$ 172,130,008</u>

See accompanying notes to financial statements.

Conway Corporation Electric Department

Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Industrial	\$ 16,230,563	\$ 19,553,151
Residential	22,823,349	22,721,544
Commercial	10,919,482	11,574,233
Institutional	2,827,289	4,552,753
Municipal and street lighting	708,967	880,298
Interdepartmental revenues	1,049,719	1,124,597
Service fees and other	732,567	752,690
Total Operating Revenues	<u>55,291,936</u>	<u>61,159,266</u>
OPERATING EXPENSES		
Power purchased	24,763,988	28,577,645
Coal plant generation expense	1,626,493	1,861,747
Transmission service demand	6,638,073	6,721,515
Distribution	5,431,014	4,543,260
Depreciation	7,669,247	7,616,673
Customer accounting and collection	1,686,726	1,789,385
Administrative and general expenses	4,359,535	4,588,311
Total Operating Expenses	<u>52,175,076</u>	<u>55,698,536</u>
Operating Income	<u>3,116,860</u>	<u>5,460,730</u>
NONOPERATING INCOME (EXPENSE)		
Net investment income	839,412	877,013
Accretion of bond premium	308,523	336,573
Interest expense	(474,246)	-
Net Nonoperating Income	<u>673,689</u>	<u>1,213,586</u>
Income Before Contributions in Aid of Construction and Interdepartmental Transfers	3,790,549	6,674,316
CONTRIBUTIONS IN AID OF CONSTRUCTION	969,406	534,175
INTERDEPARTMENTAL TRANSFERS	<u>4,542,915</u>	<u>(5,664,016)</u>
Increase in Net Position	9,302,870	1,544,475
NET POSITION, BEGINNING OF YEAR	<u>134,515,222</u>	<u>132,970,747</u>
NET POSITION, END OF YEAR	<u><u>\$ 143,818,092</u></u>	<u><u>\$ 134,515,222</u></u>

See accompanying notes to financial statements.

Conway Corporation Electric Department

Statements of Cash Flows Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From		
User fees	\$ 54,389,736	\$ 58,465,371
Service fees and other	732,567	752,690
Total Receipts	<u>55,122,303</u>	<u>59,218,061</u>
Disbursements For		
Salaries, wages and employee benefits	2,895,703	2,677,772
Goods and services	42,128,458	50,079,461
Franchise fees, lease payments and other	1,060,417	944,750
Total Disbursements	<u>46,084,578</u>	<u>53,701,983</u>
Net Cash Provided by Operating Activities	<u>9,037,725</u>	<u>5,516,078</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interdepartmental transfers to the Water and Wastewater Departments	<u>(145,215)</u>	<u>(5,664,016)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(1,890,000)	(1,815,000)
Interest paid on long-term debt	(826,493)	(899,094)
Contributions in aid of construction	1,062,925	379,849
Purchases and construction of utility plant in service	(8,342,948)	(8,753,098)
Proceeds from sale of utility plant in service	<u>-</u>	<u>139,338</u>
Net Cash Used by Capital and Related Financing Activities	<u>(9,996,516)</u>	<u>(10,948,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	894,683	762,414
Proceeds from maturities of certificates of deposit	19,076,752	16,456,848
Purchases of certificates of deposit	(16,299,307)	(19,076,752)
Proceeds of sale (purchases) of investments, net	1,115,208	(42,979)
Payments received on advances to Water and Wastewater Departments	697,487	639,638
Advances to Water Department	<u>(1,019,665)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>4,465,158</u>	<u>(1,260,831)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,361,152	(12,356,774)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>19,397,626</u>	<u>31,754,400</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 22,758,778</u></u>	<u><u>\$ 19,397,626</u></u>

(Continued)

See accompanying notes to financial statements.

Conway Corporation Electric Department

Statements of Cash Flows (Continued) Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 3,116,860	\$ 5,460,730
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	7,669,247	7,616,673
Bad debt expense	81,389	86,377
Loss on disposal of utility plant in service	4,612	17,631
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	(23,978)	916,629
Receivable from other Conway Corporation departments	323,902	(323,902)
Inventories	(3,571,273)	(4,713,423)
Prepaid expenses	952,736	(707,530)
Note receivable from related organization	-	(2,630,000)
Accounts and contracts payable	174,228	(909,042)
Accrued expenses and other liabilities	130,962	(1,486)
Payable to other Conway Corporation departments	(12,465)	5,125
Due to the city of Conway	(52,934)	99,028
Customer deposits	214,400	160,580
Total OPEB liability and related deferred outflows and inflows of resources	79,853	61,088
Net pension liability and related deferred outflows and inflows of resources	(49,814)	377,600
Net Cash Provided by Operating Activities	<u><u>\$ 9,037,725</u></u>	<u><u>\$ 5,516,078</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Current assets	\$ 20,062,778	\$ 16,780,967
Restricted assets	<u>2,696,000</u>	<u>2,616,659</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 22,758,778</u></u>	<u><u>\$ 19,397,626</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Inventories recorded as additions to utility plant in service during 2020 and 2019 totaled \$2,570,137 and \$2,743,465, respectively.

At December 31, 2020 and 2019, \$121,505 and \$199,276 of additions to utility plant in service were included in accounts and contracts payable, respectively.

During the years ended December 31, 2020 and 2019, total interest expense incurred was \$344,372 and \$893,044, respectively, all of which was recorded as additions to utility plant in service.

Net appreciation in the fair value of investments for the years ended December 31, 2020 and 2019, totaled \$3,879 and \$3,867, respectively, and is included in net investment income.

See accompanying notes to financial statements.

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

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 Electric Department (the Department) is responsible for the operation and maintenance of the City's electric system pursuant to an exclusive franchise agreement and lease granted under City Ordinances No. 0-79-24 and No. 0-05-163, respectively, as amended. The lease agreement requires that the Corporation pay an annual lease payment of \$120,000. The franchise agreement requires that the Corporation assess each customer a 2.5% franchise fee for the years ended December 31, 2020 and 2019, on certain service revenues and remit amounts collected directly to the City. Total lease expense and franchise fees collected for the years ended December 31, 2020 and 2019, were approximately \$1,438,000 and \$1,579,000 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 \$1,318,000 and \$1,459,000 remitted to the City for franchise fees collected from customers for the years ended December 31, 2020 and 2019, 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 Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

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 electric services are distinguished from non-operating 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 cost of electricity and expenses related to maintaining and operating the electric utility 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 \$50,000 at December 31, 2020 and 2019.

Inventories

Inventories consist of coal, materials and supplies used in the generation and distribution of electricity and in the operation and maintenance of utility plant in service. Materials and supplies inventory is stated at average cost, while coal is stated at cost, determined on a first-in, first-out basis.

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. Interest costs related to acquiring or constructing utility plant in service is also capitalized as part of the cost of the related asset.

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant in Service (Continued)

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.

Depreciation is provided using the straight-line method over the following estimated useful lives:

- Buildings and improvements – 5 to 25 years
- Equipment and distribution lines – 3 to 37 years
- Undivided interest in coal-fired generating plants – 30 to 37 years

As required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB Statement No. 42), management evaluates events or changes in circumstances affecting assets comprising utility plant in service to determine whether impairment has occurred. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded in accordance with GASB Statement No. 42. There were no impairment losses recorded for the years ended December 31, 2020 or 2019.

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.

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 Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Use of Estimates

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

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

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

Fair Value of Financial Instruments

Entities with total assets of \$100 million or more are generally required to disclose certain information about the estimated fair value of financial instruments held as of the reporting date. The fair value of a financial instrument is the current amount that would be exchanged between willing parties other than in a forced liquidation. Disclosures about the fair value of financial instruments are based on pertinent information available to management. Accordingly, management's estimate of fair value may not necessarily be indicative of amounts that could be realized upon disposition of the financial instruments. The Department's financial instruments include cash and cash equivalents, certificates of deposit, investments, accounts and other receivables, accounts payable, accrued expenses and other liabilities. It is management's estimate that the carrying values of these financial instruments are a reasonable approximation of their respective fair values at December 31, 2020 and 2019.

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards

GASB Statement No. 87, *Leases* (GASB Statement No. 87), issued in June of 2017, will be effective for the Corporation on January 1, 2021. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments, and increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will now be required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor will now be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Management of the Corporation has not yet determined the impact that adoption of GASB Statement No. 87 will have on the Department's financial statements or related disclosures.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB Statement No. 89), issued in June of 2018, will be effective for the Corporation on January 1, 2021. The objectives of GASB Statement No. 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. Management of the Corporation has not yet determined the impact that adoption of GASB Statement No. 89 will have on the Department's financial statements or related disclosures.

NOTE 2: RESTRICTED ASSETS

The Department's restricted assets include the following:

The bond fund includes 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 construction fund is comprised of unspent bond proceeds to be used specifically for the purpose of advanced metering infrastructure and the completion of a new substation.

The debt service reserve fund was 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 Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 2: RESTRICTED ASSETS (Continued)

Balances in these restricted asset accounts are as follows:

	<u>2020</u>	<u>2019</u>
Bond fund	\$ 226,860	\$ 248,401
Construction fund	1,150,191	2,307,857
Debt service reserve fund	1,440,636	1,394,694
Developer deposits	<u>153,563</u>	<u>60,044</u>
Total restricted assets	<u>\$ 2,971,250</u>	<u>\$ 4,010,996</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, 2020 and 2019, 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 and mutual funds comprised of U.S. Treasury obligations. All of the Department's investments are restricted for specified purposes, held in trust by a financial institution in the name of the Corporation and reported in the statements of net position at fair value.

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

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020:			
Money market mutual funds	\$ 1,165,385	-	\$ 1,165,385
U.S. Treasury Note	270,234	1/31/2021	275,250
Total investments	<u>\$ 1,435,619</u>		<u>\$ 1,440,635</u>
December 31, 2019:			
Money market mutual funds	\$ 2,556,615	-	\$ 2,556,615
U.S. Treasury Note	269,936	1/31/2020	272,913
U.S. Treasury Note	270,234	1/31/2021	274,238
U.S. Treasury Note	426,357	9/30/2023	422,747
U.S. Treasury Note	428,946	9/30/2024	424,439
Total investments	<u>\$ 3,952,088</u>		<u>\$ 3,950,952</u>
		<u>2020</u>	<u>2019</u>
Reconciliation to statements of net position:			
Total investments as presented in the schedule above		\$ 1,440,635	\$ 3,950,952
Less amounts included in cash and cash equivalents		<u>(1,165,385)</u>	<u>(2,556,615)</u>
Total investments as presented in the statements of net position		<u>\$ 275,250</u>	<u>\$ 1,394,337</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, 2020, the effective maturity of holdings in the funds was 58 days. The Morgan Stanley Treasury Securities Money Market Fund is rated AAAM by Standard & Poor's.

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

NOTE 4: UTILITY PLANT IN SERVICE

A summary of changes in utility plant in service that occurred during the years ended December 31, 2020 and 2019, is as follows:

	2019	Increases	Decreases	2020
Non-depreciable:				
Land and land use rights	\$ 2,656,335	\$ 1,138	\$ -	\$ 2,657,473
Construction in progress	9,691,548	3,636,268	(4,484,710)	8,843,106
Depreciable:				
Building and improvements	38,747,691	837,079	-	39,584,770
Equipment and distribution lines	146,438,748	9,531,090	(790,650)	155,179,188
Undivided interest in coal-fired generating plants	50,408,276	1,858,100	-	52,266,376
	247,942,598	15,863,675	(5,275,360)	258,530,913
Accumulated depreciation	(139,083,136)	(7,669,247)	786,035	(145,966,348)
Utility plant in service, net	<u>\$ 108,859,462</u>	<u>\$ 8,194,428</u>	<u>\$ (4,489,325)</u>	<u>\$ 112,564,565</u>
	2018	Increases	Decreases	2019
Non-depreciable:				
Land and land use rights	\$ 2,793,801	\$ 1,263	\$ (138,729)	\$ 2,656,335
Construction in progress	5,713,333	4,940,429	(962,214)	9,691,548
Depreciable:				
Building and improvements	38,599,906	147,785	-	38,747,691
Equipment and distribution lines	139,206,422	7,962,129	(729,803)	146,438,748
Undivided interest in coal-fired generating plants	49,841,097	567,179	-	50,408,276
	236,154,559	13,618,785	(1,830,746)	247,942,598
Accumulated depreciation	(132,158,875)	(7,616,673)	692,412	(139,083,136)
Utility plant in service, net	<u>\$ 103,995,684</u>	<u>\$ 6,002,112</u>	<u>\$ (1,138,334)</u>	<u>\$ 108,859,462</u>

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 4: UTILITY PLANT IN SERVICE (Continued)

The undivided interest in coal-fired generating plants included in the Department's utility plant in service balance represents a 2% undivided interest in the White Bluff Steam Electric Station and Independence Electric Station (the Plants), pursuant to the terms of agreements executed by and between Entergy Arkansas, Inc. (EAI), the City and other municipal entities providing for the operation and ownership of the Plants. EAI has the sole responsibility for management, operation, maintenance and disposal of the Plants and invoices the Department for its proportionate share of capital additions, coal inventory purchases and normal operating and maintenance expenses.

Coal purchases are recorded as inventory when purchased and expensed as used. Operating and maintenance costs are expensed as incurred. Capital additions to the Plants and operating and maintenance costs of the Plants were approximately \$1.8 million and \$1.6 million for the year ended December 31, 2020, respectively and \$567,000 and \$1.7 million for the year ended December 31, 2019, respectively.

NOTE 5: NOTE RECEIVABLE FROM RELATED ORGANIZATION

As of December 31, 2020 and 2019, the Department has an outstanding note receivable from a related organization of \$2,630,000. The note bears interest at 7%. Annual principal and interest payments of \$248,253 are required through February 1, 2040, beginning February 1, 2021. In addition, an interest payment was received in February 2020 of approximately \$61,000. Accrued interest receivable and interest income were approximately \$168,800 and \$184,100 for the year ended December 31, 2020, respectively. Accrued interest receivable and interest income were both approximately \$46,000 for the year ended December 31, 2019.

NOTE 6: ENERGY PURCHASE AGREEMENT

The Department is party to a resource management agreement with The Energy Authority (TEA) under which TEA provides services to manage the Department's resources in the Midcontinent Independent System Operator Inc. (MISO) market, execute and manage bilateral transactions with counterparties, provide risk management services and provide regulatory related services.

During the years ended December 31, 2020 and 2019, approximately 15% and 25%, respectively, of the Department's power supply was provided through the Plants (see Note 4), and the balance of the Department's energy needs was purchased either from the MISO market or through bilateral transactions, both managed by TEA.

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 7: LONG-TERM DEBT

The Department's long-term debt consists of revenue improvement bonds, issued December 1, 2015, for the purpose of financing costs of betterments and improvements to the City's electric utility system. Significant terms and principal balance of the Department's long-term debt at December 31, 2020 and 2019, are as follows:

	<u>Interest Rates</u>	<u>2020</u>	<u>2019</u>
\$25,000,000 City of Conway, Arkansas, Electric Revenue Improvement Bonds, Series 2015; principal payable annually and interest payable semi-annually through maturity on December 1, 2027.	3.0% - 5.0%	\$ 16,135,000	\$ 18,025,000
Unamortized premium		1,063,397	1,371,920
Total long-term debt		17,198,397	19,396,920
Less current portion		(1,985,000)	(1,890,000)
Long-term debt, net of current portion		<u>\$ 15,213,397</u>	<u>\$ 17,506,920</u>

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

Long-term debt activity for the years ended December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Beginning principal balance	\$ 18,025,000	\$ 19,840,000
Principal payments	(1,890,000)	(1,815,000)
Ending principal balance	<u>\$ 16,135,000</u>	<u>\$ 18,025,000</u>

Remaining debt service payments at December 31, 2020, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,985,000	\$ 731,994	\$ 2,716,994
2022	2,085,000	632,744	2,717,744
2023	2,190,000	528,494	2,718,494
2024	2,295,000	418,994	2,713,994
2025	2,410,000	304,244	2,714,244
2026-2027	5,170,000	266,088	5,436,088
	<u>\$ 16,135,000</u>	<u>\$ 2,882,558</u>	<u>\$ 19,017,558</u>

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

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 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, 2020, the following employees of the Corporation were covered by the benefit terms:

Retirees and beneficiaries	75
Terminated vested and other inactive participants	47
Active	<u>232</u>
Total	<u><u>354</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, 2020 and 2019 totaled 13.10% and \$2,510,257, and 12.90% and \$2,090,124, respectively. Actual contributions for all departments for the years ended December 31, 2020 and 2019 totaled \$2,200,000 and \$2,092,000, or 87.64% and 100.09%, respectively, of required contributions.

Net Pension Liability

The Corporation's net pension liability was measured as of December 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2020 and 2019, and then projected forward to the measurement date. There have been no significant changes between the valuation date and the measurement date.

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 8: RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Net Pension Liability (Continued)

Total pension liability in the August 1, 2020 and 2019 actuarial valuation was determined using the following assumptions:

	<u>2020</u>	<u>2019</u>
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, 2020 and 2019 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, 2020 and 2019, are summarized in the table below:

<u>Asset Class</u>	<u>2020</u>		<u>2019</u>	
	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Stock	75.00%	6.00%	75.00%	6.00%
Fixed income	20.00%	2.00%	20.00%	2.00%
Cash equivalents	5.00%	0.00%	5.00%	0.00%
Total	<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.

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8: RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Changes in the Net Pension Liability

Changes in the Corporation's net pension liability for the year ended December 31, 2020 were as follows:

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at December 31, 2019	\$ 51,955,356	\$ 36,003,174	\$ 15,952,182
Changes for the year:			
Service cost	1,002,305	-	1,002,305
Interest on total pension liability	3,616,015	-	3,616,015
Effect of economic/demographic gains or losses	(1,263,550)	-	(1,263,550)
Employer contributions	-	2,200,000	(2,200,000)
Net investment income	-	6,191,750	(6,191,750)
Benefit payments	(1,598,300)	(1,598,300)	-
Net changes	1,756,470	6,793,450	(5,036,980)
Balances at December 31, 2020	\$ 53,711,826	\$ 42,796,624	\$ 10,915,202

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	\$ 16,430,194	\$ 10,915,202	\$ 5,400,210

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8: RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

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

For the years ended December 31, 2020 and 2019, the Corporation recognized pension expense of \$2,022,789 and \$3,113,342, respectively. At December 31, 2020, 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	\$ 3,668,155	\$ 1,132,102
Net difference between projected and actual earnings	1,946,294	5,444,445
Changes of assumptions	1,319,307	-
Contributions made during the measurement period not recognized in pension expense	116,721	-
Total	<u>\$ 7,050,477</u>	<u>\$ 6,576,547</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,	
2021	\$ (114,763)
2022	\$ 230,465
2023	\$ (759,650)
2024	\$ (65,502)
2025	\$ 633,700
Thereafter	\$ 549,680

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 \$3,926,893, \$2,539,449, \$2,368,749 and \$728,571, respectively, for the year ended December 31, 2020, and \$5,719,247, \$3,215,828, \$1,302,588 and \$1,108,315, respectively, for the year ended December 31, 2019.

457 Plan

The Conway Corporation 457 Supplemental Retirement Plan (similar to a 401(k) plan for nongovernmental entities) was formed, effective January 1, 2000, as a supplemental defined contribution retirement program for employees. Employee participation in this plan is optional. The

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 8: RETIREMENT PLANS (Continued)

457 Plan (Continued)

Corporation makes matching contributions for eligible employees who elect to participate up to 25% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the years ended December 31, 2020 and 2019, totaled approximately \$116,100 and \$114,600, 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, 2020 and 2019. There were no assets of the OPEB that were accumulated in a trust during the years ended December 31, 2020 and 2019.

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, 2020, the following employees were covered by the benefit terms:

Retirees and surviving spouses	46
Active employees	<u>222</u>
Total	<u><u>268</u></u>

During the years ended December 31, 2020 and 2019, the Corporation paid, as they came due, \$76,613 and \$86,668, respectively, of benefit payments for the OPEB.

Total OPEB Liability

The Corporation's total OPEB liability was measured as of December 31, 2020 and 2019, using an actuarial valuation as of those dates.

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

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

Total OPEB Liability (Continued)

Total OPEB liability in the December 31, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions and other inputs:

	<u>2020</u>	<u>2019</u>
Inflation	3.00%	3.00%
Annual salary increases	4.00%	4.00%
Healthcare cost trend rates	4.00% for 2020, increased/ decreased each year to an ultimate rate of 5.00% for 2026 and later	4.00% for 2019, increased/ decreased each year to an ultimate rate of 5.00% for 2025 and later

Mortality rates in the December 31, 2020 and 2019 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, 2020 and 2019 actuarial valuations was 1.93% and 3.26%, 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, 2020 were as follows:

Balance at December 31, 2019	\$ 3,580,074
Changes for the year:	
Service cost	209,947
Interest on total OPEB liability	118,884
Differences between expected and actual experience	(859,723)
Effect of assumptions changes or inputs	158,611
Benefit payments	(76,613)
Net changes	(448,894)
Balance at December 31, 2020	<u>\$ 3,131,180</u>

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

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 1.93%, 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 (0.93%) or 1 percentage point higher (2.93%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>0.93%</u>	<u>1.93%</u>	<u>2.93%</u>
Total OPEB liability	\$ 3,271,594	\$ 3,131,180	\$ 2,837,426

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 Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 2,951,599	\$ 3,131,180	\$ 3,773,118

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

For the years ended December 31, 2020 and 2019, the Corporation recognized OPEB expense of \$221,703 and \$171,599, respectively. For the year ended December 31, 2020, 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	\$ 250,401	\$ 781,566
Changes of assumptions	150,311	-
Total	<u>\$ 400,712</u>	<u>\$ 781,566</u>

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

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,	
2021	\$ (30,515)
2022	\$ (30,515)
2023	\$ (30,515)
2024	\$ (30,515)
2025	\$ (30,515)
Thereafter	\$ (228,279)

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 \$1,126,364, \$281,506, \$144,329 and \$79,853, respectively, during the year ended December 31, 2020, and \$1,286,833, \$0, \$103,145 and \$61,088, respectively, during the year ended December 31, 2019.

NOTE 10: INTERDEPARTMENTAL TRANSACTIONS

Administration

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, 2020 and 2019, was \$2,893,354 and 3,244,947, respectively.

The operating expenses of all departments of the Corporation are initially paid by the Electric Department. Amounts receivable from other Conway Corporation departments are for the reimbursement of expenses paid or accrued by the Electric Department on behalf of the other departments, as well as electric services provided to the other departments as necessary in the operation and maintenance of their respective utility systems. No interest is charged on these interdepartmental receivables. At December 31, 2020, there were no interdepartmental receivables or payables. At December 31, 2019, \$323,092 was receivable from the Wastewater Department, while the Electric Department owed the Cable Television Department \$12,465.

Conway Corporation Electric Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 10: INTERDEPARTMENTAL TRANSACTIONS

Advances

Advances to the Water Department at December 31 are as follows:

	<u>Interest Rates</u>	<u>2020</u>	<u>2019</u>
2006 Water Department Advance; to be repaid as sufficient excess cash is available, but no later than December 31, 2023.	3.7%	\$ 1,376,067	\$ 1,802,136
2020 Water Department Advance; to be repaid as sufficient excess cash is available, but no later than December 31, 2034.	2.0%	<u>5,436,377</u>	<u>-</u>
Advances to Water Department		<u>\$ 6,812,444</u>	<u>\$ 1,802,136</u>

During the year ended December 31, 2020, the Department advanced to the Water Department 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. 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. The effect of this transaction is recorded as an interdepartmental transfer from the Water Department in the Department's statements of revenues, expenses and changes in net position as of December 31, 2020. Management does not believe the prior year financial statements should be restated to reflect the effects of treating the advance as a transfer to the Water Department in the prior years.

In addition, a 2013 Wastewater Department advance with a balance of approximately \$230,000 as of January 1, 2019, was fully redeemed on April 15, 2019.

Interest income related to these advances for the years ended December 31, 2020 and 2019, is approximately \$159,000 and \$80,000, respectively. Activity related to these advances are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,802,136	\$ 2,441,774
Additions	5,707,795	-
Reductions	<u>(697,487)</u>	<u>(639,638)</u>
Ending balance	<u>\$ 6,812,444</u>	<u>\$ 1,802,136</u>

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 10: INTERDEPARTMENTAL TRANSACTIONS (Continued)

Services

During the years ended December 31, 2020 and 2019, the Electric Department charged the other Conway Corporation departments the following amounts for electric services used in the operation and maintenance of the respective utility systems:

	2020	2019
Water Department	\$ 267,036	\$ 284,426
Wastewater Department	605,555	646,294
Cable Television Department	74,563	76,588
	<u>\$ 947,154</u>	<u>\$ 1,007,308</u>

Other

The City issued \$9,980,000 in revenue refunding bonds during 2014 (refunded during 2020), \$12,415,000 in revenue refunding bonds during 2016, \$9,370,000 in revenue improvement bonds during 2019, \$21,000,000 in revenue refunding bonds during 2019, and \$6,395,956 in revenue refunding bonds during 2020 for the purpose of financing the acquisition and equipping of certain betterments and improvements to the wastewater system and refunding previously issued debt. These bonds are secured by a pledge of revenues generated by the Conway Corporation Wastewater Department, and by surplus revenues of the Electric Department, as defined in the related trust indenture.

During the years ended December 31, 2020 and 2019, the Electric Department transferred \$145,215 to the Wastewater Department for work relating to the Stone Dam and \$3,000,000 for work relating to the replacement of a large collection main that serves central Conway, respectively. These transfers are reported as interdepartmental transfers on the statements of revenues, expenses and changes in net position.

NOTE 11: 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, 2020 and 2019. In addition, there have been no settlements in excess of the Corporation's coverage in any of the prior three fiscal years.

Conway Corporation Electric Department

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 12: TAX STATUS

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

NOTE 13: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Department and financial results will depend on future developments, including the duration and spread of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.



**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 Electric Department** (the Department) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 16, 2021.

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 audit 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 may exist that have not been identified.

The Board of Directors
Conway Corporation

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.


Certified Public Accountants

Little Rock, Arkansas
March 16, 2021

APPENDIX B

COMPILED (UNAUDITED) FINANCIAL STATEMENTS OF THE SYSTEM FOR THE YEAR ENDED DECEMBER 31, 2021

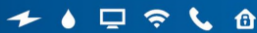
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Electric Department

Financial Statements
December 31, 2021 and 2020

(With Accountant's Report Thereon)





ACCOUNTANT'S REPORT

The Board of Directors
Conway Corporation
Conway, Arkansas

Management is responsible for the accompanying financial statements of **Conway Corporation Electric Department** (the Department) which comprise the statements of net position for the years ended December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and the statements of cash flows. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or the completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about Department's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The accompanying December 31, 2020, financial statements were compiled by us from financial statements that did not omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America and that we previously audited as indicated in our report dated March 16, 2021.

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, 2021 and 2020, and the changes in its financial positions and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Little Rock, Arkansas
February 21, 2022

Conway Corporation Electric Department

Statements of Net Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 15,007,981	\$ 20,062,778
Certificates of deposit	18,964,662	16,299,307
Accounts receivable, net	5,630,807	4,922,822
Current portion of note receivable from related organization	68,644	64,153
Accrued interest receivable	218,716	224,170
Inventories	9,136,378	9,154,002
Prepaid expenses	742,007	555,127
Total Current Assets	<u>49,769,195</u>	<u>51,282,359</u>
Restricted Assets		
Cash and cash equivalents	744,278	2,696,000
Investments	1,140,443	275,250
Total Restricted Assets	<u>1,884,721</u>	<u>2,971,250</u>
Utility Plant in Service, Net	<u>121,249,529</u>	<u>112,564,565</u>
Other Assets		
Land held for resale	410,296	410,296
Advances to Water and Wastewater Departments	6,301,791	6,812,444
Long-term portion of note receivable from related organization	2,497,203	2,565,847
Total Other Assets	<u>9,209,290</u>	<u>9,788,587</u>
Total Assets	<u>182,112,735</u>	<u>176,606,761</u>
Deferred Outflows of Resources		
Deferred outflows related to OPEB	289,836	144,329
Deferred outflows related to pension	2,114,815	2,539,449
Total Deferred Outflows of Resources	<u>2,404,651</u>	<u>2,683,778</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 184,517,386</u></u>	<u><u>\$ 179,290,539</u></u>

(Continued)

See Accountant's Report.

Conway Corporation Electric Department

Statements of Net Position *(Continued)* December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts and contracts payable	\$ 7,681,612	\$ 5,680,879
Accrued expenses and other liabilities	694,291	669,032
Due to the city of Conway	900,023	876,006
Customer deposits	3,151,646	3,008,554
Total Current Liabilities	<u>12,427,572</u>	<u>10,234,471</u>
Current Liabilities Payable from Restricted Assets		
Accounts and contracts payable	-	121,505
Current portion of long-term debt	2,085,000	1,985,000
Accrued interest payable	52,729	60,999
Developer deposits	234,925	153,563
Total Current Liabilities Payable from Restricted Assets	<u>2,372,654</u>	<u>2,321,067</u>
Total OPEB Liability	<u>1,329,050</u>	<u>1,126,364</u>
Net Pension Liability	<u>3,647,346</u>	<u>3,926,893</u>
Long-term Debt, Less Current Portion	<u>12,855,638</u>	<u>15,213,397</u>
Total Liabilities	<u>32,632,260</u>	<u>32,822,192</u>
Deferred Inflows of Resources		
Deferred inflows related to OPEB	319,809	281,506
Deferred inflows related to pension	1,933,379	2,368,749
Total Deferred Inflows of Resources	<u>2,253,188</u>	<u>2,650,255</u>
Total Liabilities and Deferred Inflows of Resources	<u>34,885,448</u>	<u>35,472,447</u>
Net Position		
Net investment in utility plant in service	106,308,891	96,516,359
Restricted for debt service	1,597,067	1,606,497
Unrestricted	41,725,980	45,695,236
Total Net Position	<u>149,631,938</u>	<u>143,818,092</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 184,517,386</u>	<u>\$ 179,290,539</u>

See Accountant's Report.

Conway Corporation Electric Department

Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Industrial	\$ 17,894,232	\$ 16,230,563
Residential	26,494,926	22,823,349
Commercial	12,849,482	10,919,482
Institutional	3,647,789	2,827,289
Municipal and street lighting	782,650	708,967
Interdepartmental revenues	1,215,754	1,049,719
Service fees and other	765,515	732,567
Total Operating Revenues	<u>63,650,348</u>	<u>55,291,936</u>
OPERATING EXPENSES		
Power purchased	30,933,624	24,763,988
Coal plant generation expense	1,728,844	1,626,493
Transmission service demand	7,918,897	6,638,073
Distribution	4,495,301	5,431,014
Depreciation	8,381,111	7,669,247
Customer accounting and collection	1,515,272	1,686,726
Administrative and general expenses	4,214,502	4,359,535
Total Operating Expenses	<u>59,187,551</u>	<u>52,175,076</u>
Operating Income	<u>4,462,797</u>	<u>3,116,860</u>
NONOPERATING INCOME (EXPENSE)		
Net investment income	531,119	839,412
Accretion of bond premium	272,759	308,523
Interest expense	(723,723)	(474,246)
Net Nonoperating Income	<u>80,155</u>	<u>673,689</u>
Income Before Contributions in Aid of Construction and Interdepartmental Transfers	4,542,952	3,790,549
CONTRIBUTIONS IN AID OF CONSTRUCTION	1,270,894	969,406
INTERDEPARTMENTAL TRANSFERS	<u>-</u>	<u>4,542,915</u>
Increase in Net Position	5,813,846	9,302,870
NET POSITION, BEGINNING OF YEAR	<u>143,818,092</u>	<u>134,515,222</u>
NET POSITION, END OF YEAR	<u><u>\$ 149,631,938</u></u>	<u><u>\$ 143,818,092</u></u>

See Accountant's Report.

Conway Corporation Electric Department

Statements of Cash Flows Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From		
User fees	\$ 62,021,881	\$ 54,389,736
Service fees and other	765,515	732,567
Total Receipts	<u>62,787,396</u>	<u>55,122,303</u>
Disbursements For		
Salaries, wages and employee benefits	2,202,597	2,895,703
Goods and services	50,630,894	42,128,458
Franchise fees, lease payments and other	909,680	1,060,417
Total Disbursements	<u>53,743,171</u>	<u>46,084,578</u>
Net Cash Provided by Operating Activities	<u>9,044,225</u>	<u>9,037,725</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interdepartmental transfers to the Water and Wastewater Departments	<u>-</u>	<u>(145,215)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(1,985,000)	(1,890,000)
Interest paid on long-term debt	(731,993)	(826,493)
Contributions in aid of construction	1,352,256	1,062,925
Purchases and construction of utility plant in service	(12,222,950)	(8,342,948)
Proceeds from sale of utility plant in service	<u>20,265</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(13,567,422)</u>	<u>(9,996,516)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	536,573	894,683
Proceeds from maturities of certificates of deposit	16,299,307	19,076,752
Purchases of certificates of deposit	(18,964,662)	(16,299,307)
Proceeds of sale (purchases) of investments, net	(865,193)	1,115,208
Payments received on advances to Water and Wastewater Departments	781,888	697,487
Advances to Water Department	<u>(271,235)</u>	<u>(1,019,665)</u>
Net Cash (Used) Provided by Investing Activities	<u>(2,483,322)</u>	<u>4,465,158</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,006,519)	3,361,152
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>22,758,778</u>	<u>19,397,626</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 15,752,259</u></u>	<u><u>\$ 22,758,778</u></u>

(Continued)

See Accountant's Report.

Conway Corporation Electric Department

Statements of Cash Flows *(Continued)* Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 4,462,797	\$ 3,116,860
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	8,381,111	7,669,247
Bad debt expense	79,186	81,389
(Gain) loss on disposal of utility plant in service	(17,458)	4,612
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable, net	(787,171)	(23,978)
Receivable from other Conway Corporation departments	-	323,902
Inventories	(4,053,932)	(3,571,273)
Prepaid expenses	(186,880)	952,736
Note receivable from related organization	64,153	-
Accounts and contracts payable	1,104,852	174,228
Accrued expenses and other liabilities	25,259	130,962
Payable to other Conway Corporation departments	-	(12,465)
Due to the city of Conway	24,017	(52,934)
Customer deposits	143,092	214,400
Total OPEB liability and related deferred outflows and inflows of resources	95,482	79,853
Net pension liability and related deferred outflows and inflows of resources	(290,283)	(49,814)
Net Cash Provided by Operating Activities	<u>\$ 9,044,225</u>	<u>\$ 9,037,725</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Current assets	\$ 15,007,981	\$ 20,062,778
Restricted assets	744,278	2,696,000
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 15,752,259</u>	<u>\$ 22,758,778</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Inventories recorded as additions to utility plant in service during 2021 and 2020 totaled \$4,071,556 and \$2,570,137, respectively.

At December 31, 2021 and 2020, \$895,881 and \$121,505 of additions to utility plant in service were included in accounts and contracts payable, respectively.

During the year ended December 31, 2020, total interest expense incurred was \$818,620, of which \$344,372 was recorded as additions to utility plant in service with the remainder expensed as incurred.

Net (depreciation) appreciation in the fair value of investments for the years ended December 31, 2021 and 2020, totaled (\$20,788) and \$3,879, respectively, and is included in net investment income.

See Accountant's Report.

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APPENDIX C

FORM OF BOND COUNSEL OPINION

March __, 2022

City of Conway
Conway, Arkansas

Conway Corporation
Conway, Arkansas

The Bank of New York Mellon Trust
Company, N.A., as trustee
Houston, Texas

Crews & Associates, Inc.
Little Rock, Arkansas

Stephens Inc.
Little Rock, Arkansas

\$23,590,000*
City of Conway, Arkansas
Electric Revenue Improvement Bonds
Tax-Exempt Series 2022A

and

\$13,395,000*
City of Conway, Arkansas
Electric Revenue Refunding Bonds
Taxable Series 2022B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Conway, Arkansas (the “City”), a city of the first class and political subdivision of the State of Arkansas, of (i) its \$23,590,000* Electric Revenue Improvement Bonds, Tax-Exempt Series 2022A (the “Series 2022A Bonds”), and (ii) its \$13,395,000* Electric Revenue Refunding Bonds, Taxable Series 2022B (the “Series 2022B Bonds, and together with the Series 2022A Bonds, the “Series 2022 Bonds”).

The Series 2022 Bonds are being issued pursuant to Amendment 65 to the Constitution of the State (“Amendment 65”) and the Local Government Capital Improvement Revenue Bond Act of 1985, codified as Arkansas Code Annotated Sections 14-164-401 *et seq.* (1998 Repl. & Supp. 2021), and the Municipal Electric System Financing Act of 1983, codified as Arkansas Code Annotated Sections 14-203-101 *et seq.* (1998 Repl.) (collectively, the “Authorizing Legislation”), and pursuant to Ordinance No. O-22-20 of the City, duly adopted and approved on February 28, 2022 (the “Bond Ordinance”).

The Series 2022 Bonds are issued under and secured and entitled to the protection given by a Trust Indenture dated as of the date of issuance of the Series 2022 Bonds (the “Indenture”), by and among the City, Conway Corporation, a non-profit corporation organized and existing under the laws of the State of Arkansas which operates and maintains the City’s electric system (the “System”) pursuant to an exclusive franchise and lease from the City (the “Corporation”), and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Reference is hereby made to the Indenture and to all indentures supplemental thereto for the provisions, among others, with respect to the conditions for the issuance of parity debt by the City, the nature and extent of the security for the Series 2022 Bonds, the rights, duties and obligations of the City, the Corporation, the Trustee and the holders of the Series 2022 Bonds, and the terms upon which the Series 2022 Bonds are issued and secured.

* Preliminary; subject to change.

Reference is made to an opinion of even date herewith of Charles Finkenbinder, Esq., City Attorney, a copy of which is on file with the Trustee, with respect, among other matters, to the status and valid existence of the City, the power of the City to adopt the rate ordinances relating to System services (collectively, the “Rate Ordinances”), the power of the City to adopt the Bond Ordinance and enter into and perform its obligations under the Indenture, the valid adoption of the Rate Ordinances and the Bond Ordinance, and the due authorization, execution and delivery of the Indenture by the City, and with respect to the Indenture being enforceable upon the City.

We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied (i) upon the representations of the City contained in the Bond Ordinance and the Indenture and in the certified proceedings and other certifications of public officials furnished to us and (ii) upon the representations of the Corporation contained in the Indenture and in the certifications of officers of the Corporation furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a municipal corporation of the State of Arkansas. Pursuant to the Constitution and laws of the State of Arkansas, including, particularly, Amendment 65 and the Authorizing Legislation, the City is empowered to adopt the Bond Ordinance, to execute and deliver the Indenture, to perform the agreements on its part contained therein, and to issue the Series 2022 Bonds.

2. The Bond Ordinance has been duly adopted by the City and constitutes a valid and binding obligation of the City enforceable upon the City in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the City and is a valid and binding obligation of the City enforceable upon the City in accordance with its terms.

4. The Series 2022 Bonds have been duly authorized, executed, issued and delivered by the City. The Series 2022 Bonds are not general obligations of the City, but are special obligations of the City payable solely from a pledge of Revenues (as defined in the Indenture) of the System. The pledge of Revenues securing the Series 2022 Bonds is made on a parity basis to any subsequent pledge securing Additional Bonds (as defined in the Indenture) issued hereafter.

5. The Revenues have been duly and validly assigned and pledged to the Trustee under the Indenture, and the Indenture creates, as security for the Series 2022 Bonds, a valid security interest in the Revenues. Under the laws of the State of Arkansas, including, particularly, Arkansas Code Annotated (2020 Repl.) § 4-9-109(d)(14), the pledge, assignment and security interest in the Revenues securing the Series 2022 Bonds is and shall be prior to any judicial lien hereafter imposed on said Revenues to enforce a judgment against the City on a simple contract, and it is not necessary to file a Uniform Commercial Code financing statement in order to perfect a security interest in said Revenues.

6. Interest on the Series 2022A Bonds (including any original issue discount properly allocable to the owner of a Series 2022A Bond) is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentence assume the accuracy of certain representations and compliance by the City and the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be met subsequent to the issuance of the Series 2022A Bonds. Failure to comply with such requirements could cause interest on the Series 2022A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2022A Bonds. The City and the Corporation have covenanted to comply with such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2022A Bonds.

7. Interest on the Series 2022B Bonds is included in gross income for federal income tax purposes.

8. Interest on the Series 2022A Bonds and the Series 2022B Bonds is exempt from all state, county and municipal taxes in the State of Arkansas.

9. The Series 2022 Bonds are exempt from registration pursuant to the Securities Act of 1933, as amended, and the Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended, in connection with the offer and sale of the Series 2022 Bonds.

It is to be understood that the rights of the registered owners of the Series 2022 Bonds and the enforceability of the Series 2022 Bonds, the Bond Ordinance and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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