

NEW ISSUE**BOOK-ENTRY ONLY**

*In the opinion of Bond Counsel, based on existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excludable from gross income for federal income tax purposes, subject to the condition that the City comply with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Bonds, and is not an item of tax preference for purposes of the federal alternative minimum tax. In the opinion of Bond Counsel, the interest on the Bonds is exempt from Arkansas income taxes, the Bonds are exempt from property taxation in the State of Arkansas and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code. See **LEGAL MATTERS, Tax Exemption.***

\$5,225,000
CITY OF LINCOLN, ARKANSAS
WATER AND SEWER REFUNDING REVENUE BONDS
SERIES 2021

Dated: Date of Delivery

Due: November 1, as described below

The Bonds will not be general obligations of the City of Lincoln, Arkansas (the "City") but will be special obligations, secured by a pledge of and payable from revenues derived from the operation of the City's water and sewer system which pledge is (a) on a parity with the pledge in favor of the Parity Bonds described herein and (b) senior to the pledge in favor of the Subordinate Bond described herein. See **THE BONDS, Security.**

Interest on the Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2021, and the Bonds mature (on November 1 of each year), bear interest and are priced to yield as follows:

MATURITY SCHEDULE

\$2,940,000 Serial Bonds

<u>Year</u>	<u>Amount</u>	<u>Rate(%)</u>	<u>Yield(%)</u>	<u>Year</u>	<u>Amount</u>	<u>Rate(%)</u>	<u>Yield(%)</u>
2022	\$245,000	2.000%	0.400%	2028	\$275,000	1.250%	1.300%
2023	250,000	2.000	0.550	2029	275,000	1.300	1.400
2024	255,000	2.000	0.700	2030	280,000	1.450	1.550
2025	255,000	2.000	0.850	2031	285,000	1.625	1.650
2026	265,000	2.000	1.000	2032	285,000	1.700	1.750
2027	270,000	1.125	1.200				

\$860,000 2.000% Term Bonds Due November 1, 2036 to Yield 2.100%

\$715,000 2.250% Term Bonds Due November 1, 2040 to Yield 2.250%

\$710,000 2.375% Term Bonds Due November 1, 2044 to Yield 2.400%

The Bonds of each maturity will be initially issued as a single registered bond registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York. The Bonds will be available for purchase in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Except in limited circumstances described herein, purchasers of the Bonds will not receive physical delivery of Bonds. Payments of principal of and interest on the Bonds will be made by Citizens Bank & Trust Co., Van Buren, Arkansas, as the Trustee, directly to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC Participants and thereafter to the Beneficial Owners of the Bonds, all as further described herein.

The Bonds are offered when, as and if issued and received by the Underwriter named below, subject to approval as to legality by Friday, Eldredge & Clark, LLP, Bond Counsel, and subject to satisfaction of certain other conditions.

This cover page contains information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Stephens Inc.

Dated: July 29, 2021

No dealer, broker, salesman or any other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Bonds described herein and, if given or made, such information or representations must not be relied upon as having been authorized by the City. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the business, operations or financial condition of the City since the date hereof. This Official Statement does not constitute an offer or solicitation in any state in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or is made to any person to whom it is unlawful to make such offer or solicitation.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Authorizing Ordinance described herein been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions in such laws from such registration and qualification.

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OFFICIAL STATEMENT

\$5,225,000
CITY OF LINCOLN, ARKANSAS
WATER AND SEWER REFUNDING REVENUE BONDS
SERIES 2021

INTRODUCTION TO THE OFFICIAL STATEMENT

This Introduction is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement, including the cover page hereof and exhibit hereto. A full review should be made of the entire Official Statement, as well as the Authorizing Ordinance described herein.

This Official Statement is provided to furnish certain information in connection with the issuance by the City of Lincoln, Arkansas (the "City") of its Water and Sewer Refunding Revenue Bonds, Series 2021, in the aggregate principal amount of \$5,225,000 (the "Bonds"). The Bonds are being issued to current refund the City's Water and Sewer Revenue Bond, dated April 18, 2007 (the "2007 Bond") and the City's Water and Sewer Refunding Revenue Bonds, Series 2016 (the "2016 Bonds" and together with the 2007 Bond, the "Bonds Refunded"), to fund a debt service reserve and to pay expenses of issuing the Bonds. See **THE BONDS**, Purposes for Bonds.

The City is a city of the first class organized under the laws of the State of Arkansas (the "State") located in Washington County, Arkansas, which is in northwest Arkansas. The City is authorized and empowered under the laws of the State, including particularly Title 14, Chapter 234, Subchapter 2, Title 14, Chapter 235, Subchapter 2 and Title 14, Chapter 164, Subchapter 4 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation"), to issue revenue bonds and to expend the proceeds thereof for the intended purposes. See **THE CITY AND THE COUNTY**.

The Bonds are not general obligations of the City but are special obligations payable solely from the revenues derived from the operation of the City's water and sewer (combined) system (the "System"). In this regard, the pledge in favor of the Bonds is (a) on a parity with the pledge in favor of the Parity Bonds (hereinafter defined) and (b) senior to the pledge in favor of the Subordinate Bond (hereinafter defined). See **THE BONDS**, Security. The Bonds are being issued pursuant to and in full compliance with the Constitution and laws of the State, particularly the Authorizing Legislation, and Ordinance No. 2021-16 adopted on July 22, 2021 (the "Authorizing Ordinance"). See **THE AUTHORIZING ORDINANCE**.

The Bonds will be initially issued in book-entry form and purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. See **THE BONDS**, Book-Entry Only System. The Bonds will contain such other terms and provisions as described herein. See **THE BONDS**, Generally.

The Bonds are issuable only as fully registered bonds, without coupons, in the denomination of \$5,000 or integral multiple thereof. Interest is payable November 1, 2021, and semiannually thereafter on each May 1 and November 1. Principal is payable at the principal office of Citizens Bank & Trust Co., Van Buren, Arkansas, as trustee and paying agent (the "Trustee"). Interest is payable by the Trustee by check or draft to the registered owners as of the record date for each interest payment date. The record date for payment of interest on the Bonds shall be the fifteenth day of the calendar month next preceding each interest payment date. A Bond may be transferred, in whole or in part (in integral multiples of \$5,000), but only upon delivery of the Bond, together with a written instrument of transfer, to the Trustee. See **THE BONDS**, Generally and Book-Entry Only System.

The Bonds are subject to optional redemption on and after November 1, 2026. The Bonds maturing on November 1 in the years 2036, 2040 and 2044 are also subject to mandatory sinking fund redemption prior to maturity as described herein. The Trustee shall give at least thirty (30) days' notice of redemption. See **THE BONDS, Redemption**.

Under existing law and assuming compliance with certain covenants described herein, (i) interest on the Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, (iii) the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended (the "Code"), (iv) interest on the Bonds is exempt from State income tax and (v) the Bonds are not subject to property taxes in the State. See **LEGAL MATTERS, Tax Exemption**.

It is expected that the Bonds will be available for delivery on or about August 31, 2021, through the facilities of The Depository Trust Company in New York, New York.

The City and the Trustee will enter into a Continuing Disclosure Agreement in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Continuing Disclosure Agreement"). See **CONTINUING DISCLOSURE AGREEMENT**.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Authorizing Ordinance and the Continuing Disclosure Agreement summarized herein are available upon request from Stephens Inc., 111 Center Street, Suite 1720, Little Rock, Arkansas 72201 Attention: Public Finance.

THE BONDS

Book-Entry Only System. The Depository Trust Company ("DTC"), New York, New York, or its successor, will act as securities depository for the Bonds. The Bonds will each be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate for each maturity will be issued in the principal amount of the maturity and will be deposited with DTC.

DTC 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 securities that its 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 between 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, National Securities Clearing Corporation and 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 corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (referred to herein as "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. Beneficial Owners are, however, 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 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. 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 will be sent to Cede & Co. If fewer than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

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

Principal, interest and premium, if any, payments on the 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 Trustee, on the 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 principal, interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 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, Bonds are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information concerning DTC and DTC's book-entry system set forth above has been obtained from DTC. Neither the Underwriter nor the City make any representation or warranty regarding the accuracy or completeness thereof.

So long as the Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Bonds for all purposes under the Authorizing Ordinance, including receipt of all principal of and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Authorizing Ordinance. The City and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Authorizing Ordinance to be given to owners of Bonds; or (d) other action taken by DTC or Cede & Co. as owner of the Bonds.

Generally. The Bonds shall be dated, mature and bear interest, and interest is payable on the Bonds as set forth on the cover page hereof. The Bonds are issuable in the form of registered Bonds without coupons in the denomination of \$5,000 each or any integral multiple thereof, interchangeable in accordance with the provisions of the Authorizing Ordinance. In the event any Bond is mutilated, lost or destroyed, the City shall, if not then prohibited by law, execute and the Trustee may authenticate a new Bond in accordance with the provisions therefor in the Authorizing Ordinance.

Each Bond is transferable by the registered owner thereof or by his attorney duly authorized in writing at the principal office of the Trustee. Upon such transfer a new fully registered Bond or Bonds of the same maturity, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange therefor.

No charge shall be made to any owner of any Bond for the privilege of registration, but any owner of any Bond requesting any such registration shall pay any tax or other governmental charge required to be paid with respect thereto. Except as otherwise provided in the immediately preceding sentence, the cost of preparing each new Bond upon each exchange or transfer and any other expenses of the City or the Trustee incurred in connection therewith shall be paid by the City. Neither the City nor the Trustee shall be required to transfer or exchange any Bonds selected for redemption in whole or in part.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal or premium, if any, or interest of any Bond shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday or Sunday or shall be in the State a legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest or principal (and premium, if any) need not be made on such date but may be made on the next succeeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after the date of maturity or date fixed for redemption.

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption as follows:

(1) Optional Redemption. The Bonds are subject to redemption at the option of the City from funds from any source, in whole or in part at any time, on and after November 1, 2026 at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

If fewer than all of the Bonds shall be called for redemption, the particular maturities of the Bonds to be redeemed shall be selected by the City in its discretion. If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

(2) Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Bonds maturing on November 1 in the years 2036, 2040 and 2044 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on November 1 in the years and in the amounts set forth below, at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption:

Bonds Maturing November 1, 2036

<u>Years</u>	<u>Principal Amounts</u>
2033	\$295,000
2034	185,000
2035	190,000
2036 (maturity)	190,000

Bonds Maturing November 1, 2040

<u>Years</u>	<u>Principal Amounts</u>
2037	\$195,000
2038	170,000
2039	170,000
2040 (maturity)	180,000

Bonds Maturing November 1, 2044

<u>Years</u>	<u>Principal Amounts</u>
2041	\$180,000
2042	185,000
2043	190,000
2044 (maturity)	155,000

In case any outstanding Bond is in a denomination greater than \$5,000, each \$5,000 of face value of such Bond shall be treated as a separate Bond of the denomination of \$5,000.

In the case of any redemption of Bonds prior to maturity, the Trustee shall mail, or send via other standard means, including electronic or facsimile communication, a copy of the redemption notice to the registered owners of the Bonds to be redeemed, in each case not less than 30 nor more than 60 days prior to the date of redemption. After the date for redemption no further interest shall accrue on any Bond called for redemption if funds for redemption of such Bond have been deposited with the Trustee as provided in the Authorizing Ordinance.

Notwithstanding the above, so long as the Bonds are issued in book-entry only form, if fewer than all the Bonds of an issue are called for redemption, the particular Bonds to be redeemed will be selected pursuant to the procedures established by DTC. So long as the Bonds are issued in book-entry only form, notice of redemption will be given only to Cede & Co., as nominee for DTC. **The Trustee will not give any notice of redemption to the Beneficial Owners of the Bonds.**

Purposes for Bonds. The Bonds are being issued to current refund the Bonds Refunded (the "Refunding"), to fund a debt service reserve and to pay expenses of issuing the Bonds. A portion of the proceeds of the Bonds and other available funds held in connection with the 2007 Bond will be deposited with the trustee for the owner of the 2007 Bond and used to redeem the 2007 Bond on the date the Bonds are issued at a price of par plus accrued interest. A portion of the Bond proceeds and other available funds held in connection with the 2016 Bonds will be deposited with the trustee for the owners of the 2016 Bonds and invested in United States Treasury Obligations which will mature and bear interest at such times and in such amounts as will, together with uninvested cash, provide a cash flow sufficient to fully redeem the 2016 Bonds on November 1, 2021, at a redemption price of par plus accrued interest.

The sources and uses of funds to accomplish the Refunding are estimated by the City as follows:

SOURCES:

Principal Amount of Bonds	\$5,225,000
Existing Funds for Bonds Refunded	394,522
Net Original Issue Premium	<u>24,952</u>
Total Sources	\$5,644,474

USES:

Refunding Costs	\$5,372,408
Debt Service Reserve	138,065
Underwriter's Discount	78,375
Costs of Issuance	<u>55,626</u>
Total Uses	\$5,644,474

The payment of Underwriter's discount and the costs of issuing the Bonds relating to the payment of professional fees will be contingent on the Bonds being issued. See **MISCELLANEOUS, Underwriting** for a description of the Underwriter's discount

Security. The Bonds are not general obligations of the City but are special obligations, secured by a pledge of the revenues derived from operation of the System. For a schedule of annual debt service requirements for the Bonds, see **DEBT SERVICE REQUIREMENTS**.

The pledge in favor of the Bonds is on a parity with the Parity Bonds, which are defined as the City's Water and Sewer Revenue Bonds, Series 2019. For a schedule of annual debt service requirements for the Parity Bonds, see **DEBT SERVICE REQUIREMENTS**.

The pledge in favor of the Bonds is senior to the pledge in favor of the Subordinate Bond, which is defined as the City's Water and Sewer Revenue Bond, dated November 13, 2012. For a schedule of annual debt service requirements for the Subordinate Bond, see **DEBT SERVICE REQUIREMENTS**.

There will be a debt service reserve securing the Bonds in an amount equal to one-half of the average annual debt service requirement on the Bonds. The debt service reserve will be funded with Bond proceeds. See **THE AUTHORIZING ORDINANCE, Funds and Disposition of Revenues**. The Bonds are secured under the Authorizing Ordinance. For a summary of the terms of the Authorizing Ordinance, see **THE AUTHORIZING ORDINANCE** herein. The City may issue additional bonds on a parity of security with the Bonds. See **THE AUTHORIZING ORDINANCE, Parity Bonds**.

COVID-19 Disclosure. The World Health Organization has declared a pandemic following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus.

To date, the COVID-19 pandemic has not negatively impacted the City or the System. The City expects that its available funds will be sufficient to fund its essential services and make all debt service payments. The System also expects its available funds are adequate to fund its services and make all debt service payments.

THE CITY AND THE COUNTY

Location. The City is located in Washington County (the "County"), which is in the northwestern part of Arkansas. The City is situated approximately 18 miles west of Fayetteville, Arkansas.

Population. Resident population in the City and the County has been as follows:

<u>Year</u>	<u>City</u>	<u>County</u>
1980	1,422	100,494
1990	1,460	113,409
2000	1,752	157,715
2010	2,249	203,065
2019 (Estimate as of July 1)	2,481	239,187

Transportation. The City is served by U.S. Highway No. 62. More than 25 motor freight carriers make shipments from the Fayetteville/Springdale/Rogers metropolitan statistical area, which includes the City. No rail service is available. The Northwest Arkansas National Airport, located approximately 42 miles from the City in Highfill, offers commercial service.

Government. The City has the Mayor-City Council form of government. The Mayor serves a four-year term, while members of the City Council serve two-year terms.

Set forth below are the names and occupations of the Mayor and the members of the City Council:

<u>Name</u>	<u>Occupation</u>
Doug Hutchens, Mayor	Metal Fabrication/Owner
Terry Bryson	Retired
Michele Davis	Customer Service
Gary Eoff	Military
David McBride	Retired
Doug Moore	Lawncare Sales and Repair, Owner
Billy Rusher	Laborer
Johnny Stowers	Retired
Amanda Thomas	Teacher

Medical Facilities. The City is served by two physicians. The closest hospitals to the City are located 18 miles away in Fayetteville, Arkansas.

Education. Primary and secondary education for the City's inhabitants are provided by a public school system. The University of Arkansas is located 18 miles away in Fayetteville, Arkansas.

Financial Institutions. The City is served by branches of Arvest Bank and Simmons Bank.

Economy. Set forth below is a list of major employers in the City.

<u>Name</u>	<u>Product or Service</u>	<u>Number of Employees</u>
Harps Foods	Grocery	30
City of Lincoln	Municipal government	31
Latco, Inc.	Poultry supply	50
Lincoln School District	Education	150

Litigation. There is no material litigation pending or threatened against the City.

County Economic Data. Per capita personal income estimates for the County are as follows:⁽¹⁾

<u>Year</u>	<u>Per Capita Personal Income</u>
2015	\$36,881
2016	37,714
2017	39,145
2018	39,844
2019	41,005

Total personal income estimates for the County are as follows:⁽¹⁾

<u>Year</u>	<u>Total Personal Income</u>
2015	\$8,277,459,000
2016	8,617,072,000
2017	9,110,248,000
2018	9,427,459,000
2019	9,807,870,000

Set forth below are the annual average unemployment rates for the County and State since 2016 according to the Arkansas Department of Workforce Services:

<u>Year</u>	<u>Annual Average Unemployment Rate (%)</u>	
	<u>County</u>	<u>State</u>
2016	2.8	4.0
2017	2.6	3.7
2018	2.6	3.7
2019	2.5	3.5
2020	4.6	6.1
2021*	2.9	4.1

*Preliminary as of April, 2021

⁽¹⁾Source: U.S. Bureau of Economic Analysis.

THE SYSTEM

General. The City has a contract with the Benton/Washington Regional Public Water Authority (the "Authority") whereby the Authority provides water to the City. The contract, entered into on June 21, 2007, is for a term of 30 years. The water facilities of the System consist of approximately 375 miles of distribution lines and four tanks.

The sewer facilities of the System include a treatment plant that can treat up to 500,000 gallons per day. The collection system includes over 150 miles of collection lines and three pump stations.

Management. The manager of the System is Kendell England. Mr. England is 52 years old and has managed the System since May 2015. He has 24 years of experience in utility work and management. The System has eight employees.

Rates. On January 15, 2019, the City Council adopted an ordinance increasing water rates. The current sewer rates of the System have been in place since March 2015. The current monthly rates for the System are as follows:

Water Rates - City

First 1,000 gallons	\$31.90 (minimum)
1,001 gallons - 10,000 gallons	9.54 per 1,000 gallons
10,001 gallons - 30,000 gallons	8.79 per 1,000 gallons
30,001 gallons - 100,000 gallons	7.69 per 1,000 gallons
100,001 gallons - 200,000 gallons	6.98 per 1,000 gallons
Over 200,000 gallons	6.03 per 1,000 gallons

Water Rates - Country

First 1,000 gallons	\$41.54 (minimum)
1,001 gallons - 10,000 gallons	10.42 per 1,000 gallons
10,001 gallons - 30,000 gallons	9.95 per 1,000 gallons
30,001 gallons - 100,000 gallons	8.38 per 1,000 gallons
100,001 gallons - 200,000 gallons	7.52 per 1,000 gallons
Over 200,000 gallons	7.00 per 1,000 gallons

Water Rates - Rural West and SE Loop

First 1,000 gallons	\$54.52 (minimum)
1,001 gallons - 10,000 gallons	10.42 per 1,000 gallons
10,001 gallons - 30,000 gallons	9.95 per 1,000 gallons
30,001 gallons - 100,000 gallons	8.38 per 1,000 gallons
100,001 gallons - 200,000 gallons	7.52 per 1,000 gallons
Over 200,000 gallons	7.00 per 1,000 gallons

Water Rates - Large User/Agricultural

First 1,000 gallons	\$54.52 (minimum)
1,001 gallons - 200,000 gallons	5.57 per 1,000 gallons
Over 200,000 gallons	4.21 per 1,000 gallons

Sewer Rates

First 1,000 gallons	\$22.08 (minimum)
Over 1,000 gallons	4.50 per 1,000 gallons

Customers. There are approximately 1,452 retail water users located outside the City. The System does not provide sewer services to any user located outside the City. The water and sewer users for each of the past five years are as follows:

<u>Year</u>	<u>Water Users</u>	<u>Sewer Users</u>
2016	2,573	1,012
2017	2,557	998
2018	2,524	928
2019	2,503	920
2020	2,528	921

The total water use for the year in gallons for each of the past five (5) years is as follows:

<u>Year</u>	<u>Total Water Use for Year In Gallons</u>
2016	155,005,854
2017	155,768,514
2018	155,351,682
2019	151,578,965
2020	151,154,842

No user of the System accounts for more than 5% of gross revenues of the System. The following are the five largest users of the System for the fiscal year ended December 31, 2020:

1. Cobb Vantress
2. Donald Umberson
3. Gene Pharr
4. Rob or Cheri Kimbel
5. Toa Chang

Litigation. There is no litigation or administrative proceeding pending or threatened against the System.

THE AUTHORIZING ORDINANCE

The Bonds are being issued and secured pursuant to the Authorizing Ordinance, to which reference may be had in its entirety for a detailed statement of its provisions, the description set forth below being a summary of certain provisions. The City will covenant as set forth below in the Authorizing Ordinance.

Rates and General Covenants to Operate. The City covenants that the rates shall never be reduced, so long as any of the Bonds are outstanding, unless there is obtained from an independent certified public accountant ("Accountant") a certificate that the Net Revenues of the System ("Net Revenues" being defined as gross revenues less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal water and sewer facilities, excluding depreciation, interest and bond amortization expenses), with the reduced rates, will equal the amount required to be set aside for the Depreciation Fund (hereinafter described) and the debt service reserves for all bonds or other obligations payable from the revenues of the System ("System Bonds") and leave a balance equal to 110% of the maximum annual principal and interest requirements for all outstanding System Bonds. The City further covenants that the rates shall, if and when necessary, from time to time, be increased in such manner as will produce Net Revenues at least sufficient to provide the required deposits into the Depreciation Fund and the debt service reserves, and to leave a balance equal to 110% of the amount necessary for paying principal, premium, if any, and interest when due on all System Bonds outstanding.

The City covenants that it will continuously operate the System as a revenue-producing undertaking and will not sell or lease the same, or any substantial portion thereof; provided, however, that nothing shall be construed to prohibit the City from making such dispositions of properties of the System and

such replacements and substitutions for properties of the System as shall be necessary or incidental to the efficient operation of the System as a revenue-producing undertaking.

Funds and Disposition of Revenues. (a) All revenues derived from the operation of the System shall be deposited into a special fund, in the name of the City, designated the "Water and Sewer Fund" (the "Revenue Fund"). All moneys at any time in the Revenue Fund shall be applied to the payment of the reasonable and necessary expenses of operation and maintenance of the System, to the payment of the principal of and interest on outstanding System Bonds, to the maintenance of the debt service reserves at the required levels, to the providing of the Depreciation Fund, to the payment of the Trustee's fees and otherwise as described herein.

(b) There shall first be paid from the Revenue Fund into a fund designated "Water and Sewer Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), on the first business day of each month an amount sufficient to pay the reasonable and necessary monthly expenses of operation, repair and maintenance of the System for such month and from which disbursements shall be made only for those purposes. 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 one-twelfth (1/12) of the amount thereof may be paid into the Operation and Maintenance Fund each month.

If in any month for any reason there shall be a failure to transfer and pay the required amount into the Operation and Maintenance Fund, the amount of any deficiency shall be added to the amount otherwise required to be transferred and paid into the Operation and Maintenance Fund in the next succeeding month. If in any fiscal year a surplus shall be accumulated in the Operation and Maintenance Fund over and above the amount which shall be necessary to defray the reasonable and necessary costs of operation, repair and maintenance of the System during the remainder of the then current fiscal year and the next ensuing fiscal year, such surplus may be transferred to the Revenue Fund.

(c) After making the monthly deposit into the Operation and Maintenance Fund, there shall be transferred from the Revenue Fund into a special fund established with the Trustee and designated "Water and Sewer Revenue Bond Fund, Series 2021" (the "Bond Fund"), the sums in the amounts and at the times set forth below for the purpose of providing funds for the payment of the principal of and interest on the Bonds and as a debt service reserve.

There shall be paid into the Bond Fund on the first business day of each month, commencing in October 2021, until all outstanding Bonds with interest thereon have been paid in full or provision made for such payment, a sum equal to (i) 1/6 of the next installment of interest on the Bonds, plus (ii) 1/12 of the next installment of principal of the Bonds; provided, however, that payments into the Bond Fund in October 2021 shall be in an amount equal to the interest due on the Bonds on November 1, 2021.

There shall be maintained, as a part of the Bond Fund, a Debt Service Reserve which the City agrees to continuously maintain in an amount equal to one-half of the average annual debt service requirement on the Bonds (the "required level"). If the Debt Service Reserve is reduced below the required level, the City's monthly payments shall be increased to 1/5 of the next installment of interest on the Bonds, plus 1/10 of the next installment of principal of the Bonds until the required level is reached.

The City shall also pay into the Bond Fund such additional sums as necessary to provide for Trustee's fees and expenses and any arbitrage rebate due to be paid to the United States Treasury under Section 148(f) of the Code. The City shall receive a credit against monthly payments from interest earnings on moneys in the Bond Fund, transfers of moneys held in connection with the Bonds Refunded and Debt Service Reserve transfers.

If the revenues of the System are insufficient to make the required monthly payment into the Bond Fund, the amount of any such deficiency in the payment made shall be added to the amount otherwise required to be paid into the Bond Fund on the first business day of the next month.

When the moneys held in the Bond Fund shall be and remain sufficient to pay the principal of and interest on all Bonds then outstanding and the Trustee's fees, there shall be no further obligation to make further payments into the Bond Fund. If for any reason the City shall fail at any time to make any of

the required payments into the Bond Fund, any sums then held in the Debt Service Reserve shall be used to the extent necessary in the payment of the principal of and interest on the Bonds.

Simultaneously with making the deposit into the Bond Fund, there shall be transferred from the Revenue Fund into the bond fund for the Parity Bonds (the "Parity Bond Fund") an amount equal to the required monthly deposit into such fund. The obligation to make the required monthly deposits into the Bond Fund and the Parity Bond Fund shall rank on a parity of security. If the City issues any additional parity bonds, the obligation to make payments into debt service and debt service reserve funds for those bonds shall rank on a parity of security with the obligation to make payments into the Bond Fund and the Parity Bond Fund. In the event the revenues of the System remaining after the required monthly deposit into the Operation and Maintenance Fund are insufficient to make the full monthly deposits into the Bond Fund, the Parity Bond Fund and the bond funds for the additional parity bonds, the amount deposited into each shall be reduced proportionately.

(d) There shall next be paid from the Revenue Fund into the bond fund for the Subordinate Bond (the "Subordinate Bond Fund") the amount required by the Ordinance authorizing the Subordinate Bond.

(e) After making the monthly deposit into the Operation and Maintenance Fund, the Bond Fund, the Parity Bond Fund and the Subordinate Bond Fund, there shall next be paid from the Revenue Fund into a fund designated "Water and Sewer Depreciation Fund" (the "Depreciation Fund"), on the first business day of each month while any of the Bonds are outstanding, an amount equal to 3% of the gross revenues of the System for the preceding month. The moneys in the Depreciation Fund shall be used solely for the purpose of paying the cost of necessary repairs or replacements made necessary by the depreciation of the System.

(f) Any surplus in the Revenue Fund after making all disbursements and providing for all funds described above may be used, at the option of the City, for the redemption of the Bonds, for additional extensions, betterments and improvements to the System, or for any other lawful municipal purpose authorized by the City.

Parity Bonds. So long as any of the Bonds are outstanding, the City shall not issue or attempt to issue any bonds claimed to be entitled to a priority of lien on the revenues of the System over the lien securing the Bonds.

The City reserves the right to issue additional bonds to finance or pay the cost of constructing any future extensions, betterments or improvements to the System or to refund outstanding System Bonds, but the City shall not authorize or issue any such additional bonds ranking on a parity with the Bonds unless there has been procured and filed with the Trustee a statement by an Accountant reciting the opinion, based upon necessary investigation, that (1) the Net Revenues of the System for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 120% of the maximum annual principal and interest requirement on all the then outstanding System Bonds and the additional bonds then proposed to be issued or (2) the Net Revenues for the fiscal year next succeeding the fiscal year in which it is proposed to issue such additional bonds, as reflected by a statement by a registered professional engineer not in the regular employ of the City, and taking into account any rate increase then in effect will equal not less than 120% of the maximum annual principal and interest requirements on all then outstanding System Bonds and the additional bonds then proposed to be issued. The term "Net Revenues" means gross revenues of the System less the amounts required to pay the costs of operation, maintenance and repair of the System determined in accordance with generally accepted accounting principles applicable to municipal water and sewer utilities, excluding depreciation, interest and bond amortization expenses. In making the computation set forth in (1) above, the City, and the Accountant on behalf of the City, may, based upon the opinion or report of a registered professional engineer not in the regular employ of the City, treat any increase in rates for the System enacted subsequent to the first day of such preceding fiscal year as having been in effect throughout such fiscal year and may include in gross revenues for such fiscal year the amount that would have been received, based on such opinion or report, had the increase been in effect throughout such fiscal year.

Accounts and Records. The City shall cause proper books of accounts and records to be kept (separate from all other records and accounts) in which complete and correct entries shall be made of all transactions relating to the operation of the System, and such books shall be available for inspection by the owner of any of the Bonds at reasonable times and under reasonable circumstances. The City agrees to have these records audited by an Accountant at least once each year. A copy of the audit shall be delivered to the Trustee and made available to the registered owners of the Bonds. In the event that the City fails or refuses to make the audit, any registered owner of the Bonds may have the audit made, and the cost thereof shall be charged against the Operation and Maintenance Fund.

Maintenance; Insurance. The City covenants that it will maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. While any of the Bonds are outstanding, the City agrees that it will insure and at all times keep insured, in the amount of the actual value thereof, in a responsible insurance company or companies authorized and qualified under the laws of the State to assume the risk thereof, properties of the System, to the extent that such properties would be covered by insurance by private companies engaged in similar types of businesses against loss or damage thereto from fire and other perils included in extended coverage insurance in effect in the State. In the event of loss, the proceeds of such insurance shall be applied solely toward the reconstruction, replacement or repair of the System, and in such event the City will, with reasonable promptness, cause to be commenced and completed the reconstruction, replacement and repair work. If such proceeds are more than sufficient for such purposes, the balance remaining shall be deposited to the credit of the Revenue Fund, and if such proceeds shall be insufficient for such purposes the deficiency shall be supplied first from moneys in the Depreciation Fund and second from moneys in the Operation and Maintenance Fund and third from available moneys in the Revenue Fund. Nothing shall be construed as requiring the City to expend any moneys for operation and maintenance of the System or for premiums on its insurance which are derived from sources other than the operation of the System, but nothing shall be construed as preventing the City from doing so.

The insurance policies are to carry a clause making them payable to the Trustee as its interest may appear, and satisfactory evidence of said insurance shall be filed with the Trustee.

Defeasance. Any Bond shall be deemed paid within the meaning of the Authorizing Ordinance when payment of the principal of and interest on such Bond, either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (1) cash fully insured by the Federal Deposit Insurance Corporation ("FDIC") and/or fully collateralized with Investment Securities (as hereinafter defined) sufficient to make such payment and/or (2) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America ("Investment Securities") (provided that such deposit will not affect the tax exempt status of the interest on any of the Bonds or cause any of the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code), maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the Trustee shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

On the payment of all the Bonds within the meaning of the Authorizing Ordinance, the Trustee will hold in trust, for the benefit of the owners of such Bonds, all such moneys and/or Investment Securities.

When all the Bonds shall have been paid within the meaning of the Authorizing Ordinance, if the Trustee has been paid its fees and expenses and if any arbitrage rebate due the United States Treasury has been paid or provided for to the satisfaction of the Trustee, the Trustee will take all appropriate action to cause (i) the pledge and lien of the Authorizing Ordinance to be discharged and canceled, and (ii) all moneys held by it pursuant to the Authorizing Ordinance and which are not required for the payment of such Bonds to be paid over or delivered to or at the direction of the City. In determining the sufficiency of the deposit of Investment Securities there will be considered the principal amount of such Investment Securities and interest to be earned thereon until the maturity of such Investment Securities.

Default and Remedies. If there be any default in the payment of the principal of or interest on any of the Bonds, or if the City defaults in any Bond Fund requirement or in the performance of any of the other covenants contained in the Authorizing Ordinance, the Trustee may, and upon the written request of the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding shall, by proper suit, compel the performance of the duties of the officials of the City under the laws of the State. And in the case of a default in the payment of the principal of and interest on any of the Bonds, the Trustee may, and upon the written request of registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding shall, apply in a proper action to a court of competent jurisdiction for the appointment of a receiver to administer the System on behalf of the City and the registered owners of the Bonds with power to charge and collect (or by mandatory injunction or otherwise to cause to be charged and collected) rates sufficient to provide for the payment of the expenses of operation, maintenance and repair and to pay any Bonds and interest outstanding and to apply the revenues in conformity with the laws of the State and with the Authorizing Ordinance. When all defaults in principal and interest payments have been cured, the custody and operation of the System shall revert to the City.

No registered owner of any of the outstanding Bonds shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any power or right unless such owner previously shall have given to the Trustee written notice of the default on account of which such suit, action or proceeding is to be taken, and unless the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding shall have made written request of the Trustee after the right to exercise such power or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted to the Trustee, or to institute such action, suit or proceeding in its name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are, at the option of the Trustee, conditions precedent to the execution of any remedy. No one or more registered owners of the Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Authorizing Ordinance, or to enforce any right thereunder except in the manner described in the Authorizing Ordinance. All proceedings at law or in equity shall be instituted, had and maintained in the manner herein described and for the benefit of all registered owners of the outstanding Bonds.

No remedy conferred upon or reserved to the Trustee or to the registered owners of the Bonds is intended to be exclusive of any other remedy or remedies, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Authorizing Ordinance or by law.

The Trustee may, and upon the written request of the registered owners of not less than fifty percent (50%) in principal amount of the Bonds then outstanding shall, waive any default which shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted under the provisions of the Authorizing Ordinance or before the completion of the enforcement of any other remedy, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

In any proceeding to enforce the provisions of the Authorizing Ordinance, the Trustee or any plaintiff Bondholder shall be entitled to recover costs of such proceeding, including reasonable attorneys' fees.

Amendment of Authorizing Ordinance. The Authorizing Ordinance provides that it shall constitute a contract between the City and the registered owners of the Bonds and no variation or change shall be made while any of the Bonds are outstanding except as provided below.

The Trustee may consent to any variation or change in the Authorizing Ordinance to cure any ambiguity, defect or omission in the Authorizing Ordinance or any amendment thereto or any other change or variation that the Trustee determines is not to the material prejudice of the owners of the Bonds without the consent of the owners of the Bonds then outstanding.

The owners of not less than seventy-five percent (75%) in aggregate principal amount of the Bonds then outstanding shall have the right, from time to time, to consent to and approve the adoption by the City of such ordinance supplemental to the Authorizing Ordinance as shall be necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions contained in the Authorizing Ordinance or in any supplemental ordinance, except that there shall not be permitted (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 or the rate of interest thereon, or (c) the creation of a lien upon or a pledge superior to the lien and pledge created by the Authorizing Ordinance, or (d) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental ordinance.

The Trustee. The Trustee shall only be responsible for the exercise of good faith and reasonable prudence in the execution of its trust. The Trustee shall not be required to take any action as Trustee unless it shall have been requested to do so in writing by the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding and shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby. The Trustee may resign at any time by sixty (60) days' notice in writing to the City Clerk and to the registered owners of the outstanding Bonds. The majority in value of the registered owners of the outstanding Bonds or the City, so long as it is not in default under the Authorizing Ordinance, at any time, with or without cause, may remove the Trustee. In the event of a vacancy in the office of Trustee either by resignation or by removal, the City shall forthwith designate a new Trustee by a written instrument filed in the office of the City Clerk. The original Trustee and any successor Trustee shall file a written acceptance and agreement to execute the trusts imposed upon it or them but only upon the terms and conditions set forth in the Authorizing Ordinance and subject to the provisions of the Authorizing Ordinance, to all of which the respective registered owners of the Bonds agree. Any successor Trustee shall have all the powers granted to the original Trustee. The Trustee's resignation shall become effective upon the acceptance of the trusts by the successor Trustee.

Investments. (a) Moneys held for the credit of the Bond Fund shall be continuously invested and reinvested pursuant to the direction of the City, or at the discretion of the Trustee in the absence of direction by the City, in Permitted Investments (as hereinafter defined), all of which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, as follows: not later than the payment date for interest or principal and interest for moneys in the debt service portion of the Bond Fund; and not later than seven (7) years or the final maturity of the Bonds, whichever is earlier, for moneys in the Debt Service Reserve.

(b) Moneys held for the credit of any other fund shall be continuously invested and reinvested by the City or by the Trustee in its discretion in the absence of direction by the City, in Permitted Investments or other investments as may, from time to time, be permitted by State law, which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than the date or dates when the moneys held for the credit of the particular fund will be required for the purposes intended.

(c) Obligations so purchased as an investment of moneys in any fund shall be deemed at all times to be a part of such fund and the interest accruing thereon and any profit realized from such investments shall be credited to such fund, and any loss resulting from such investment shall be charged to such fund, provided, however, that if earnings on investments of moneys in the Debt Service Reserve in the Bond Fund increase the amount thereof in excess of the required level, the earnings to the extent of the excess shall be transferred out of the Debt Service Reserve and into the debt service portion of the Bond Fund.

(d) "Permitted Investments" are defined as (i) direct or fully guaranteed obligations of the United States of America (including any such securities issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) ("Government Securities"), (ii) direct obligations of an agency, instrumentality or government-sponsored enterprise created by an act of the United States Congress and authorized to issue securities or evidences of indebtedness, regardless of whether the securities or evidences of indebtedness are guaranteed for repayment by the United States Government, (iii) demand deposits or certificates of deposit of banks, including the Trustee, which are insured by the FDIC, or, if in excess of insurance coverage, collateralized by Government Securities or other securities authorized by State law to secure public funds or (iv) money market funds, including funds managed by the Trustee, invested exclusively in Government Securities or investments described in (ii) above.

Nonarbitrage. The City covenants that it shall not take any action or suffer or permit any action to be taken or conditions to exist which causes or may cause the interest payable on the Bonds to be included in gross income for federal income tax purposes. Without limiting the generality of the foregoing, the City covenants that the proceeds of the sale of the Bonds and System revenues will not be used directly or indirectly in such manner as to cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code. The City covenants to pay to the United States Treasury any arbitrage rebate due at the time and in the amounts required by Section 148(f) of the Code.

CONTINUING DISCLOSURE AGREEMENT

Past Compliance. In the past five years, the City has been a party to certain continuing disclosure agreements in connection with its outstanding bonds. Such agreements require the City to file annual reports with the Municipal Securities Rulemaking Board on its Electronic Municipal Market Access system ("EMMA") within the time periods set forth in the agreements. The following summarizes a non-exhaustive discussion of the City's compliance with its continuing disclosure obligations over the past five years.

As part of its annual reports, the City has been obligated to file on EMMA certain statistical information concerning the City or the System, as appropriate for the type of bonds issued (e.g., water and sewer revenue bonds or sales and use tax bonds).

The City was required to provide statistical information concerning the System for the fiscal years ended December 31, 2016 through 2020 for the 2016 Bonds and for the fiscal years ended December 31, 2019 and 2020 for the Parity Bonds. All required statistical information for those fiscal years was timely filed.

The statistical information for the City's outstanding sales and use tax bonds for the fiscal years ended December 31, 2016 through 2020 was timely filed.

As part of its annual reports, the City has also been obligated to file on EMMA audited financial statements of the City and the System, as appropriate for the type of bonds issued. If the audited financial statements were not available at the time the annual report was due, the City was obligated to file (a) for the 2016 Bonds and the Parity Bonds, the audited financial statements of the System within 30 days after receipt thereof and (b) for the outstanding sales and use tax bonds, the audited financial statements of the City within 30 days after receipt thereof.

All required audited financial statements of the System have been timely filed.

The audited financial statements of the City for the fiscal years ended December 31, 2016, 2018 and 2019 were filed approximately 13, 16, and 105 days late, respectively. The audited financial statements of the City for the fiscal year ended December 31, 2017 were timely filed. The audited financial statements of the City for the fiscal year ended December 31, 2020 are not yet available.

The continuing disclosure agreements have also obligated the City to file a notice of the occurrence of any event listed in Securities and Exchange Commission, Rule 15c2-12(b)(5)(i)(C). Included in the list of events are bond calls. During the past five years, the City has failed to timely file three notices

concerning mandatory redemption of its bonds from surplus sales and use tax collections. Notices of the City's failure to timely file the notices of such events were not timely filed.

Notices concerning the City's failure to timely file the audited financial statements of the City were not timely filed on EMMA.

The following is a summary, which does not purport to be comprehensive and definitive, of certain provisions of the Continuing Disclosure Agreement.

Purpose of the Continuing Disclosure Agreement. The Continuing Disclosure Agreement is executed and delivered by the City and the Trustee for the benefit of the Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Securities and Exchange Commission, Rule 15c2-12(b)(5).

Definitions. In addition to the definitions set forth in this Official Statement, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, the Continuing Disclosure Agreement.

"Beneficial Owner" of a Bond shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

"Financial Obligation" shall mean a

- (A) debt obligation;
- (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
- (C) guarantee of obligations described in (A) or (B).

The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Events" shall mean any of the events listed hereunder.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Provision of Annual Report. (a) The City shall, or shall cause the Dissemination Agent to, not later than one hundred eighty (180) days after the end of the System's fiscal year (presently December 31), commencing with the report after the end of the 2021 fiscal year, provide to the MSRB through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate

documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the System may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the City. If the System's fiscal year changes, it shall give notice of such change in the manner as for a Listed Event.

(b) No later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report (containing the information required in 1 under Content of Annual Report, below) has been provided to the MSRB by the date required in subsection (a), the Trustee shall send a notice to the MSRB.

Content of Annual Report. The City's Annual Report shall contain or incorporate by reference the following:

1. Information of the type set forth in this Official Statement under the caption **THE SYSTEM** with respect to (i) the number of water and sewer users for the fiscal year then ended and the four previous fiscal years and (ii) the top five users of the System for the previous fiscal year and a statement as to which users accounted for 5% or more of System revenues for the preceding fiscal year.

2. The annual financial statements of the System prepared in accordance with accounting principles generally accepted in the United States of America and audited 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. If there are no accounting principles generally accepted in the United States of America at the time the annual financial statements are prepared, then the annual financial statements shall be prepared in accordance with State law. If there are no auditing standards generally accepted in the United States of America at the time the annual financial statements are audited, then the annual financial statements shall be audited in accordance with State law.

Any or all of the items above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's website or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so incorporated by reference.

Reporting of Listed Events. (a) This caption describes the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies.
2. Non-payment 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-exempt status of the security.

7. Modifications to rights of security holders, if material.
8. Bond calls (excluding mandatory sinking fund redemptions), if material.
9. Defeasances and tender offers.
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 obligated person.
13. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material.
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) After the occurrence of a Listed Event (excluding an event described in (a)8 above), the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence.

(c) After the occurrence of any of the Listed Events (excluding an event described in (a)8 above), the City shall file (or shall cause the Dissemination Agent to file), in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event, a notice of such occurrence with the MSRB through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org>, or any other similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Trustee (if the Trustee is not the Dissemination Agent). Each notice of the occurrence of a Listed Event shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. In the event of a Listed Event described in (a)8 above, the Trustee shall make the filing in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event.

Termination of Reporting Obligation. The City's obligations under the Continuing Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all the Bonds.

Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to the Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee.

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Agreement, the City and the Trustee may amend the Continuing Disclosure Agreement, and any provisions of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the requirements for providing an Annual Report, to the contents of the Annual Report or the reporting of Listed Events, it may only be 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 an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Beneficial Owners of the Bonds in the same manner as provided in the Authorizing Ordinance for amendments to the Authorizing Ordinance with the consent of Beneficial Owners, or (ii) does not, in the opinion of the Trustee, materially impair the interests of the Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information. Nothing in the Continuing Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Continuing Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, the City shall have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Default. In the event of a failure of the City or the Trustee to comply with any provision of the Continuing Disclosure Agreement, the Trustee, the City or any Beneficial Owner may (and the Trustee, at the request of the Underwriter or the Beneficial Owners of at least 25% aggregate principal amount of outstanding Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed a default under the Authorizing Ordinance, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City or the Trustee to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

Duties of Trustee and Dissemination Agent and Right of Indemnity. The Dissemination Agent (if other than the Trustee) and the Trustee in its capacity as Dissemination Agent shall have only such duties as are specifically set forth in the Continuing Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including

attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's gross negligence or willful misconduct.

Beneficiaries. The Continuing Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Underwriter and the Beneficial Owners and shall create no rights in any other person or entity.

FINANCIAL INFORMATION

Set forth in Exhibit A are the audited financial statements of the System for the years ended December 31, 2020 and 2019. These financial statements were prepared in accordance with accounting principles generally accepted in the United States and were audited in accordance with auditing standards generally accepted in the United States. These financial statements should be read in their entirety, together with any notes and supplemental information affixed thereto.

Revenues and expenses of the System are summarized as follows for the fiscal years ended December 31, 2016-2020:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues	\$2,939,868	\$2,854,397	\$2,485,429	\$2,429,994	\$2,421,473
Operating Expenses	<u>(1,826,527)</u>	<u>(1,842,941)</u>	<u>(1,772,166)</u>	<u>(1,655,709)</u>	<u>(1,643,902)</u>
Operating Income Before Depreciation and Amortization	1,113,341	1,011,456	713,263	774,285	777,571
Depreciation and Amortization	<u>(437,778)</u>	<u>(426,208)</u>	<u>(426,912)</u>	<u>(425,566)</u>	<u>(451,830)</u>
Operating Income (Loss)	675,563	585,248	286,351	348,719	325,741
Interest Expense	(412,455)	(377,517)	(274,502)	(279,683)	(308,630)
Other Income (Expense)	<u>(16,195)</u>	<u>(70,169)</u>	<u>18,512</u>	<u>(19,088)</u>	<u>(135,443)</u>
Net Income (Loss)	246,913	137,562	\$30,361	\$49,948	\$(118,332)

DEBT SERVICE COVERAGE

The following table shows the net revenues available for debt service, the maximum annual amount of debt service expected to be due and the extent to which debt service is covered by such funds:

Net Revenues ^{(A)(1)}	\$1,128,347
Maximum Annual Debt Service Requirement on the Bonds and the Parity Bonds ^{(B)(2)}	626,346
Debt Service Coverage ^{(A)(B)}	1.80X
Maximum Annual Debt Service Requirement on the Bonds, the Parity Bonds and the Subordinate Bond ^{(C)(2)}	753,638
Debt Service Coverage ^{(A)(C)}	1.50X

⁽¹⁾ "Net Revenues" means gross revenues of the System less amounts necessary to pay operation, maintenance and repair of the System (excluding depreciation expenses, interest and bond amortization expenses) based upon the audited financial statements of the System for the fiscal year ended December 31, 2020. Includes interest income of \$15,006.

⁽²⁾Using a year ending December 31.

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DEBT SERVICE REQUIREMENTS

Set forth below are the annual debt service requirements for the Bonds:

<u>Year</u> <u>(Ending December 31)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	--	\$ 16,798.09	\$ 16,798.09
2022	\$ 245,000	99,136.26	344,136.26
2023	250,000	94,236.26	344,236.26
2024	255,000	89,236.26	344,236.26
2025	255,000	84,136.26	339,136.26
2026	265,000	79,036.26	344,036.26
2027	270,000	73,736.26	343,736.26
2028	275,000	70,698.76	345,698.76
2029	275,000	67,261.26	342,261.26
2030	280,000	63,686.26	343,686.26
2031	285,000	59,626.26	344,626.26
2032	285,000	54,995.00	339,995.00
2033	295,000	50,150.00	345,150.00
2034	185,000	44,250.00	229,250.00
2035	190,000	40,550.00	230,550.00
2036	190,000	36,750.00	226,750.00
2037	195,000	32,950.00	227,950.00
2038	170,000	28,562.50	198,562.50
2039	170,000	24,737.50	194,737.50
2040	180,000	20,912.50	200,912.50
2041	180,000	16,862.50	196,862.50
2042	185,000	12,587.50	197,587.50
2043	190,000	8,193.76	198,193.76
2044	155,000	3,681.26	158,681.26
Total	\$5,225,000	\$1,172,770.71	\$6,397,770.71

[Remainder of page intentionally left blank]

Set forth below are the debt service requirements for the Bonds, the Parity Bonds and the Subordinate Bond:

<u>Year</u> <u>(Ending December 31)</u>	<u>Bonds</u>	<u>Parity Bonds</u>	<u>Subordinate Bond</u>	<u>Total</u>
2021	\$ 16,798.09	\$ 278,310.00	\$ 127,292.00	\$ 422,400.09
2022	344,136.26	279,410.00	127,292.00	750,838.26
2023	344,236.26	280,360.00	127,292.00	751,888.26
2024	344,236.26	281,160.00	127,292.00	752,688.26
2025	339,136.26	281,810.00	127,292.00	748,238.26
2026	344,036.26	282,310.00	127,292.00	753,638.26
2027	343,736.26	277,660.00	127,292.00	748,688.26
2028	345,698.76	278,010.00	127,292.00	751,000.76
2029	342,261.26	278,210.00	127,292.00	747,763.26
2030	343,686.26	278,095.00	127,292.00	749,073.26
2031	344,626.26	277,825.00	127,292.00	749,743.26
2032	339,995.00	282,400.00	127,292.00	749,687.00
2033	345,150.00	281,156.26	127,292.00	753,598.26
2034	229,250.00	279,743.76	127,292.00	636,285.76
2035	230,550.00	278,162.50	127,292.00	636,004.50
2036	226,750.00	281,162.50	127,292.00	635,204.50
2037	227,950.00	278,812.50	127,292.00	634,054.50
2038	198,562.50	281,287.50	127,292.00	607,142.00
2039	194,737.50	277,850.00	127,292.00	599,879.50
2040	200,912.50	279,225.00	127,292.00	607,429.50
2041	196,862.50	280,225.00	127,292.00	604,379.50
2042	197,587.50	280,537.50	127,288.00	605,413.00
2043	198,193.76	280,462.50	--	478,656.26
2044	158,681.26	--	--	158,681.26
Total	\$6,397,770.71	\$6,434,185.02	\$2,800,420.00	\$15,632,375.73

LEGAL MATTERS

Legal Proceedings. There is no litigation pending seeking to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the legality of the Bonds or the proceedings and authority under which the Bonds are to be issued, or questioning the right of the City to adopt the Authorizing Ordinance or to issue the Bonds.

Legal Opinions. Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel.

Tax Exemption. In the opinion of Bond Counsel, under existing law, the interest on the Bonds is exempt from all State income taxes and the Bonds are exempt from property taxation in the State.

Also, in the opinion of Bond Counsel, interest on the Bonds under existing law is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. These requirements generally relate to arbitrage, the use of the proceeds of the Bonds and the System. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements in the Authorizing Ordinance.

Prospective purchasers of the Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (ii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Bonds.

Prospective purchasers of the Bonds should be further aware that Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, except with respect to certain financial institutions (within the meaning of Section 265(b)(5) of the Code).

The City has designated the Bonds as "qualified tax-exempt obligations. Under the Code, such term includes any obligation which (1) is not a "private activity bond" within the meaning of the Code (excluding from that term "qualified 501(c)(3) bonds"), (2) is issued by an issuer (and subordinate entities) which reasonably anticipates to issue not more than \$10,000,000 of tax-exempt obligations (other than private activity bonds (excluding from that term "qualified 501(c)(3) bonds" under Section 145 of the Code)) during the calendar year, and (3) is so designated by the issuer. The City has (1) covenanted not to use the System in a manner which would cause the Bonds to be "private activity bonds," and (2) represented that the City and its subordinate entities have not and will not issue more than \$10,000,000 of such tax-exempt obligations during calendar year 2021.

Prospective purchasers of the Bonds should also be aware that Section 17 of Act 785 of the Acts of Arkansas of 1993 added new subsections (b) and (c) to Section 26-51-431 of the Arkansas Code of 1987 Annotated. Subsection (b) states that Section 265(a) of the Internal Revenue Code is adopted for the purpose of computing Arkansas individual income tax liability. Subsection (c) provides that in computing Arkansas corporation income tax liability, no deduction shall be allowed for interest "on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by Arkansas law." On December 8, 1993, the Arkansas Department of Finance and Administration Revenue Division issued Revenue Policy Statement 1993-2, which provides in part:

Financial institutions may continue to deduct interest on indebtedness incurred or continued to purchase or carry obligations which generate tax-exempt income to the same extent that the interest was deductible prior to the adoption of Section 17 of Act 785 of 1993.

As shown on the front cover of this Official Statement, certain of the Bonds are being sold at an original issue discount (collectively, the "Discount Bonds"). The difference between the initial public offering prices, as set forth on the cover page, of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated as interest which is excludable from gross income for federal income tax purposes, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption, or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield of maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of the Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

As shown on the front cover of this Official Statement, certain of the Bonds are being sold at an original issue premium (collectively, the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent holders of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any other legislative proposals or clarification of the Code or court decisions may affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any proposed or enacted federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is not an event of default on the Bonds if legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

MISCELLANEOUS

Enforceability of Remedies. Rights of the registered owners of the Bonds and the enforceability of the remedies available under the Authorizing Ordinance may depend on judicial action and may be subject to the valid exercise of the constitutional powers of the United States of America and of the sovereign police powers of the State or other governmental units having jurisdiction, and to the application of federal bankruptcy laws or other debtor relief or moratorium laws in general. Therefore, enforcement of those remedies may be delayed or limited, or the remedies may be modified or unavailable, subject to the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel expresses no opinion as to any effect upon any right, title, interest or relationship created by or arising under the Authorizing Ordinance resulting from the application of state or federal bankruptcy,

insolvency, reorganization, moratorium or similar debtor relief laws affecting creditors' rights which are presently or may from time to time be in effect.

Underwriting. Stephens Inc., the Underwriter, has agreed, subject to certain conditions precedent, to purchase the Bonds from the City at an aggregate purchase price of \$5,171,577 (principal amount plus \$24,952 of net original issue premium less \$78,375 of Underwriter's discount). The Underwriter is committed to purchase all of the Bonds if any are purchased.

The Bonds are being purchased by the Underwriter for reoffering in the normal course of the Underwriter's business activities. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment accounts) and others at prices lower than the offering price stated on the cover page hereof. After the initial public offering, the public offering price may be changed from time to time by the Underwriter.

Information in the Official Statement. 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 and the purchasers or owners of any of the Bonds.

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 undersigned the 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 therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

The execution and delivery of this Official Statement on behalf of the City has been authorized by the City.

CITY OF LINCOLN, ARKANSAS

By /s/ Doug Hutchens
Mayor

Dated: As of the Cover Page hereof.

EXHIBIT A

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
Lincoln, Arkansas
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2020 and 2019
and
INDEPENDENT AUDITOR'S REPORT

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
Lincoln, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2020 and 2019

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BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

Page 1

**Members of the City Council
City of Lincoln Water and Sewer Department
Lincoln, Arkansas**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the City of Lincoln Water and Sewer Department, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, as listed on 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 opinions on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Lincoln Water and Sewer Department as of December 31, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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**Members of the City Council
City of Lincoln Water and Sewer Department
Lincoln, Arkansas**

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln Water and Sewer Department's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

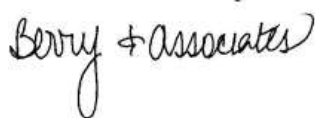
The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2021 on our consideration of the City of Lincoln Water and Sewer 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 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 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 City of Lincoln Water and Sewer Department's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Department and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Arkansas, as of December 31, 2020 and 2019, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Berry & Associates, P.A.
Little Rock, Arkansas
June 14, 2021

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2020 and 2019**

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,132,327	\$ 1,016,203
Accounts receivable	354,667	335,065
Prepaid insurance	1,207	1,228
Inventory	91,380	53,218
Total current assets	1,579,581	1,405,714
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	1,304,366	3,446,341
Capital assets, net of accumulated depreciation	13,902,821	12,531,125
TOTAL ASSETS	\$ 16,786,768	\$ 17,383,180

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 432,100	\$ 411,100
Accounts payable	133,641	74,467
Sales tax payable	17,532	16,473
Accrued compensation	19,948	27,745
Accrued interest payable	67,537	71,359
Other current liabilities	18,447	25,391
Total current liabilities	689,205	626,535
LONG-TERM DEBT, net of current maturities	11,204,560	11,636,274
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	161,025	139,845
Accounts payable	-	537,437
Retainage payable	188,995	103,019
Total liabilities payable from restricted assets	350,020	780,301
TOTAL LIABILITIES	12,243,785	13,043,110
NET POSITION		
Net investment in capital assets	1,735,356	3,364,498
Temporarily restricted	541,467	491,818
Unrestricted	2,266,160	483,754
TOTAL NET POSITION	4,542,983	4,340,070
TOTAL LIABILITIES AND NET POSITION	\$ 16,786,768	\$ 17,383,180

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Water revenue	\$ 2,393,689	\$ 2,334,742
Sewer revenue	355,142	359,123
Connections	47,292	41,805
Penalties	68,785	63,585
Other revenue	74,960	55,142
Total operating revenues	2,939,868	2,854,397
OPERATING EXPENSES		
Salaries	454,183	509,864
Payroll expenses	34,050	51,709
Water purchased	671,107	659,495
Utilities	63,760	76,203
Repairs and maintenance	61,809	91,997
Supplies and tools	156,845	74,827
Office expense	22,568	21,850
Chemicals	6,018	7,284
Professional fees	24,822	29,651
Insurance	61,543	83,065
Uniforms	10,163	9,700
Depreciation and amortization	437,778	426,208
Retirement	69,947	70,638
Fees and dues	38,479	60,300
Advertising	-	702
Vehicle expense	21,280	26,215
Bank charges	10,528	1,223
Miscellaneous	119,425	68,218
Total operating expenses	2,264,305	2,269,149
OPERATING INCOME	675,563	585,248
NON-OPERATING REVENUES (EXPENSES)		
Interest income	15,006	32,540
Interest expense	(412,455)	(377,517)
Bad debt	(31,201)	(18,555)
Debt issuance costs	-	(84,154)
Net non-operating revenues (expenses)	(428,650)	(447,686)
INCOME BEFORE TRANSFERS	246,913	137,562
Transfers out	(44,000)	(44,000)
CHANGE IN NET POSITION	202,913	93,562
NET POSITION - BEGINNING OF YEAR, ORIGINALLY STATED	4,340,070	4,383,035
Prior period adjustment	-	(136,527)
NET POSITION - BEGINNING OF YEAR, RESTATED	4,340,070	4,246,508
NET POSITION - ENDING OF YEAR	\$ 4,542,983	\$ 4,340,070

The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,959,470	\$ 2,795,345
Cash payments for supplies	(1,865,674)	(727,800)
Cash payments to employees	(454,183)	(509,864)
Net cash provided by operating activities	<u>639,613</u>	<u>1,557,681</u>
Cash flows from investing activities:		
Interest received	15,006	32,540
Change in restricted cash and cash equivalents	2,141,975	(2,829,149)
Net cash provided (used) by investing activities	<u>2,156,981</u>	<u>(2,796,609)</u>
Cash flows from non-capital financing activities:		
Operating transfers out	(44,000)	(44,000)
Net cash used by non-capital financing activities	<u>(44,000)</u>	<u>(44,000)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,809,474)	(2,345,346)
Proceeds from long-term debt	-	4,555,000
Principal payments on long-term debt	(410,714)	(327,834)
Interest payments on long-term debt	(416,282)	(353,111)
Net cash provided (used) by financing activities	<u>(2,636,470)</u>	<u>1,444,555</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	116,124	161,627
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,016,203</u>	<u>854,576</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,132,327</u>	<u>\$ 1,016,203</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 675,563	\$ 585,248
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	437,778	426,208
(Increase) Decrease in:		
Accounts receivable	(50,803)	(77,607)
Prepaid expenses	21	3,469
Inventory	(38,162)	(11,266)
Increase (Decrease) in:		
Accounts payable and retainage payable	(392,287)	607,331
Customer meter deposits	21,180	1,855
Sales tax payable	1,059	2,915
Other current liabilities	(6,939)	21,207
Accrued compensation and payroll taxes	(7,797)	(1,679)
Net cash provided by operating activities	<u>\$ 639,613</u>	<u>\$ 1,557,681</u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		
Non-cash capital and related financing activities:		
Removal of bond fees due to GASB 65 changes	<u>\$ -</u>	<u>\$ (136,527)</u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Department is a component unit of the City of Lincoln, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Lincoln and certain properties outside the city limits.

Basis of Presentation and Accounting

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Department is determined by its measurement focus. The transactions of the Department are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Department considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Inventories

Inventories consist of expendable supplies held for consumption. Inventory is valued at the lower of cost or market, on a first-in, first-out basis. Cost is deemed to approximate market value.

Allowance for Bad Debts

Allowance for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles, but use of this method is not considered a material misstatement of the financial statements.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't):

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

	<u>Years</u>
Water and Sewer System	40
Machinery and Equipment	5-7
Vehicles	5
Buildings	40
Office Equipment	5-7

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Equity Classifications

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Temporarily Restricted- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted."

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Department. The budget of the Department is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at the fiscal year-end.

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't):

Compensated Absences

Financial Accounting Standards Board statement No. 43 requires employers to accrue a liability for future vacation and other leave benefits that meet all of the following conditions:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- b. The obligation relates to rights that vest or accumulate.
- c. Payment of compensation is probable.
- d. The amount can be reasonably estimated.

Employees' vacation and holiday leave does accumulate and sick leave is not normally paid without an illness related absence. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination.

At December 31, 2020 and 2019, the Department's unused accrued vacation, other leave, and accrued salaries amounted to \$19,948 and \$27,745, as recorded as liabilities at December 31, 2020 and 2019, respectively.

Date of Management's Review

Subsequent events have been evaluated through June 14, 2021, which is the date the financial statements were available to be issued.

NOTE 2- RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 3).

The following is a list of the restricted cash at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Meter deposits	\$ 167,824	\$ 146,308
Debt service reserves	541,467	491,819
Construction accounts	453,686	2,671,972
Bond funds	141,389	136,242
	<u>\$ 1,304,366</u>	<u>\$ 3,446,341</u>

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 3 - LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
Arkansas Natural Resources Loan 00551-CGO-L, due in semi-annual installments of \$18,120, including interest at 4.9%, beginning December 2007 through June 2037. (1)	\$ 414,814	\$ 430,166
Arkansas Natural Resources General Obligation Bond 00898-CGO-L, due in semi-annual installments of \$63,646, including interest at 3.29%, beginning June 2013 through December 2042. (1)	1,981,846	2,037,208
Water and Sewer Revenue Refunding Bonds Series 2016, due in annual installments of variable amounts, including interest at a variable rate through November 2044. (2)	4,890,000	5,100,000
Water and Sewer Revenue Refunding Bonds Series 2019, due in annual installments of variable amounts, including interest at a variable rate through November 2043. (3)	<u>4,350,000</u>	<u>4,480,000</u>
	11,636,660	12,047,374
Less: Current portion	<u>(432,100)</u>	<u>(411,100)</u>
Long-term portion	<u>\$ 11,204,560</u>	<u>\$ 11,636,274</u>

(1) The loans/bonds have restrictive covenants, including the requirements to begin accumulating a depreciation reserve in monthly installments of 3% of gross revenues for the life of the bond. As of December 31, 2020, \$783,358 should be accumulated.

(2) The revenue bond has a restrictive covenant, including the requirement to maintain a debt service reserve of \$149,623 for the life of the bond, as well as the requirement to begin accumulating a depreciation reserve in monthly installments of 3% of gross revenues for the life of the bond. As of December 31, 2020, \$317,988 should be accumulated.

(3) The revenue bond has a restrictive covenant, including the requirement to maintain a debt service reserve of \$141,200 for the life of the bond. As of December 31, 2020, \$141,200 should be accumulated.

The total cumulative debt service requirements were \$1,392,168 as of December 31, 2020. At December 31, 2020 the cash restricted for debt service requirements totaled \$541,467; leaving \$850,701 underfunded.

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 3 - LONG-TERM DEBT (con't):

Annual maturities of long-term debt at December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 432,100	\$ 382,887	\$ 814,987
2022	437,000	379,895	816,895
2023	455,000	368,555	823,555
2024	468,100	355,217	823,317
2025	481,300	341,498	822,798
2026-2030	2,515,600	1,506,245	4,021,845
2031-2035	2,596,500	1,049,623	3,646,123
2036-2040	2,501,614	603,819	3,105,433
2041-2044	1,749,446	121,160	1,870,606
	<u>\$ 11,636,660</u>	<u>\$ 5,108,899</u>	<u>\$ 16,745,559</u>

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

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>12/31/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/20</u>	<u>One Year</u>
Long Term Debt					
Loans	\$ 430,162	\$ -	\$ (15,348)	\$ 414,814	\$ 24,500
Water Revenue Bonds	<u>11,617,212</u>	<u>-</u>	<u>(395,366)</u>	<u>11,221,846</u>	<u>407,600</u>
	<u>\$ 12,047,374</u>	<u>\$ -</u>	<u>\$ (410,714)</u>	<u>\$ 11,636,660</u>	<u>\$ 432,100</u>
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>12/31/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/19</u>	<u>One Year</u>
Long Term Debt					
Loans	\$ 444,785	\$ -	\$ (14,623)	\$ 430,162	\$ 15,700
Water Revenue Bonds	<u>7,375,423</u>	<u>4,555,000</u>	<u>(313,211)</u>	<u>11,617,212</u>	<u>395,400</u>
	<u>\$ 7,820,208</u>	<u>\$ 4,555,000</u>	<u>\$ (327,834)</u>	<u>\$ 12,047,374</u>	<u>\$ 411,100</u>

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$11,636,660 in loans and revenue bonds. Proceeds from the loans/bonds were used for building of the Department's water system. Principal and interest on the bonds are payable through 2044, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2020 were \$410,714 and \$416,282, respectively. Principal and interest paid in the year ended December 31, 2019 were \$327,834 and \$353,111, respectively.

NOTE 4 –PUBLIC FUNDS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Department's name. As of December 31, 2020, deposited funds were adequately insured and collateralized.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 5 – CAPITAL ASSETS:

A summary of changes in capital assets for the years ended December 31, 2020 and 2019 is as follows:

	Balance 12/31/19	Additions	Disposals / Transfers	Balance 12/31/20
Building	\$ 114,214	\$ -	\$ -	\$ 114,214
Improvements	18,121	-	-	18,121
Land	34,541	-	-	34,541
Machinery and equipment	332,282	-	-	332,282
Office equipment	26,058	5,658	-	31,716
Vehicles	128,103	-	-	128,103
Water and sewer system	17,670,983	-	-	17,670,983
Construction in progress	2,325,431	1,803,816	-	4,129,247
	<u>20,649,733</u>	<u>\$ 1,809,474</u>	<u>\$ -</u>	<u>22,459,207</u>
Less: Accumulated Depreciation	(8,118,608)			(8,556,386)
Total Capital Assets	<u>\$ 12,531,125</u>			<u>\$ 13,902,821</u>

	Balance 12/31/18	Additions	Disposals / Transfers	Balance 12/31/19
Building	\$ 114,214	\$ -	\$ -	\$ 114,214
Improvements	18,121	-	-	18,121
Land	34,541	-	-	34,541
Machinery and equipment	223,806	108,476	-	332,282
Office equipment	23,006	3,052	-	26,058
Vehicles	128,103	-	-	128,103
Water and sewer system	17,656,042	14,941	-	17,670,983
Construction in progress	106,554	2,218,877	-	2,325,431
	<u>18,304,387</u>	<u>\$ 2,345,346</u>	<u>\$ -</u>	<u>20,649,733</u>
Less: Accumulated Depreciation	(7,692,399)			(8,118,608)
Total Capital Assets	<u>\$ 10,611,988</u>			<u>\$ 12,531,125</u>

NOTE 6 – PENSION PLAN:

Plan Description. The City of Lincoln contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Department's contributions to APERS for the years ending December 31, 2020 and 2019 were \$69,947 and \$70,638, respectively, equal to the required contributions for the year.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 6 – PENSION PLAN (con't):

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its' proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal, but would be included in the government wide financial statements and not the individual fund financial statements.

NOTE 7 – COMMITMENTS:

The Department started a construction project for a new elevated storage tank during the year ended December 31, 2019 and completed a portion of the project as of December 31, 2020. The Department has entered into a contract with a construction company for the amount of \$3,787,000 and total costs of \$3,756,896 were incurred on this contract as of December 31, 2020. The Department has also entered into a contract with an engineering firm for the amount of \$265,000 and total costs of \$252,000 were incurred on this contract.

The Department started a construction project for a new dechlorination system during the year ended December 31, 2020 and completed a portion of the project as of December 31, 2020. The Department has entered into a contract with a construction company for the amount of \$95,486 and total costs of \$23,000 were incurred on this contract as of December 31, 2020. The Department has also entered into a contract with an engineering firm for the amount of \$15,000 and total costs of \$13,598 were incurred on this contract.

BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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**Members of the City Council
City of Lincoln Water and Sewer Department
Lincoln, Arkansas**

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*

Independent Auditor's Report

We have audited, 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, the financial statements of the City of Lincoln Water and Sewer Department, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Lincoln Water and Sewer Department's financial statements and have issued our report thereon dated June 14, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 in a timely basis. *A significant deficiency* is a deficiency, or a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Members of the City Council
Lincoln Water and Sewer Department
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department’s financial statements are free of 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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2020-01.

Departments’ Response to Findings

The Department’s responses to the findings identified in our audit are described in the accompanying Schedule of Finding and Responses. The Department’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Berry & Associates, P.A.
Little Rock, Arkansas
June 14, 2021

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020**

2020-01 Compliance –Loan Covenants

Criteria: The Department was not in compliance with the loan covenants established by Arkansas Natural Resources Commission and the Water and Sewer Revenue Refunding Bonds Series 2016.

Condition: Loan covenants with Arkansas Natural Resources Commission and the Water and Sewer Revenue Refunding Bonds Series 2016 each require a depreciation reserve in the amount of three percent of gross monthly revenues to be accumulated for the life of the loan. This condition was also noted in 2019.

Cause: The monthly deposits made to the depreciation reserve account are not adequate to comply with the loan covenant.

Effect or Potential Effect: Without having the proper reserve accounts, the Department risks having the ability to pay for any major repair, and is not in compliance with the loan covenant.

Recommendation: We recommend that the Department start making the required monthly transfers to the depreciation accounts.

View of Responsible Officials: The Department concurs with the recommendation.

SUPPLEMENTARY INFORMATION

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
SUPPLEMENTARY INFORMATION
December 31, 2020

MEMBERS OF THE COUNCIL:

- Doug Hutchens, Mayor
- Becky Carter, Clerk/Treasurer
- Doug Moore, Council Member
- Pam Christian, Council Member
- Terry Bryson, Council Member
- Bobby McDonald, Council Member
- Doyle Dixon, Council Member
- Troy Myers, Council Member
- Gary Eoff, Council Member
- Johnny Stowers, Council Member

WATER AND SEWER RATE SCHEDULES:

<u>WATER RATES</u>	<u>PER 1,000 GALLONS</u>
RESIDENTIAL AND COMMERCIAL:	
City Water Rate:	
0-1,000 gallons	\$ 31.90 minimum
Next 9,000 gallons	\$ 9.54 per 1,000 gallons
Next 20,000 gallons	\$ 8.79 per 1,000 gallons
Next 70,000 gallons	\$ 7.69 per 1,000 gallons
Next 100,000 gallons	\$ 6.98 per 1,000 gallons
All over 200,000 gallons	\$ 6.03 per 1,000 gallons
Country Water Rates:	
0-1,000 gallons	\$ 41.54 minimum
Next 9,000 gallons	\$ 10.42 per 1,000 gallons
Next 20,000 gallons	\$ 9.95 per 1,000 gallons
Next 70,000 gallons	\$ 8.38 per 1,000 gallons
Next 100,000 gallons	\$ 7.52 per 1,000 gallons
All over 200,000 gallons	\$ 7.00 per 1,000 gallons
SE/Rural West Water Rate	
0-1,000 gallons	\$ 54.52 minimum
Next 9,000 gallons	\$ 10.42 per 1,000 gallons
Next 20,000 gallons	\$ 9.95 per 1,000 gallons
Next 70,000 gallons	\$ 8.38 per 1,000 gallons
Next 100,000 gallons	\$ 7.52 per 1,000 gallons
All over 200,000 gallons	\$ 7.00 per 1,000 gallons

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
SUPPLEMENTARY INFORMATION, (CON'T)
December 31, 2020**

WATER AND SEWER RATE SCHEDULES (con't):

<u>SEWER RATES</u>	<u>PER 1,000 GALLONS</u>
RESIDENTIAL AND COMMERCIAL:	
0-1,000 gallons of water used	\$ 22.08
All over 1,000 gallons	\$ 4.50

As of December 31, 2020, water and sewer service was provided to 2,832 and 913 active users, respectively.

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are not being properly maintained.

INSURANCE SCHEDULE:

<u>INSURANCE COMPANY</u>	<u>COVERAGE</u>	
Arkansas Municipal League	Building, Personal Property	\$ 4,952,889
Arkansas Municipal League	Vehicle	\$ 216,136