

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 the interest on the Bonds is exempt from State of Arkansas income taxes and the Bonds are exempt from property taxation in the State of Arkansas). In the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code. See **LEGAL MATTERS**, Tax Exemption herein.*

\$2,715,000
CITY OF POTTSVILLE, ARKANSAS
WATER AND SEWER REFUNDING
REVENUE BONDS
SERIES 2021

Dated: Date of Delivery

Due: December 1, as described below

The Bonds will not be general obligations of the City of Pottsville, 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 (the "System"). See **THE BONDS**, Security.

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

MATURITY SCHEDULE

\$1,890,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Rate(%)</u>	<u>Yield(%)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate(%)</u>	<u>Yield(%)</u>
2021	\$ 25,000	2.000	0.300	2027	\$190,000	1.125	1.200
2022	170,000	2.000	0.350	2028	190,000	1.250	1.350
2023	175,000	2.000	0.460	2029	195,000	1.375	1.500
2024	180,000	2.000	0.650	2030	195,000	1.500	1.600
2025	185,000	0.750	0.850	2031	200,000	1.625	1.700
2026	185,000	2.000	1.000				

\$405,000 1.875% Term Bonds due December 1, 2033 to Yield 1.920%

\$420,000 2.000% Term Bonds due December 1, 2035 to Yield 2.050%

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 Company, 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: September 23, 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

\$2,715,000
CITY OF POTTSVILLE, 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 exhibits 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 Pottsville, Arkansas (the "City") of its Water and Sewer Refunding Revenue Bonds, Series 2021, in the principal amount of \$2,715,000 (the "Bonds"). The Bonds are being issued to refund the City's Water and Sewer Refunding and Improvement Revenue Bonds, Series 2016 (the "Bonds Refunded"), fund a debt service reserve and 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 Pope County, Arkansas (the "County") which is in west-central 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 system (the "System"). 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. 2021-4 adopted on September 16, 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 an integral multiple thereof. Interest is payable December 1, 2021, and semiannually thereafter on each June 1 and December 1. Principal is payable at the principal office of Citizens Bank & Trust Company, 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.

The Bonds are subject to optional redemption on and after December 1, 2026. The Bonds maturing on December 1 in the years 2033 and 2035 are subject to mandatory sinking fund redemption 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 taxes and (v) the Bonds are exempt from property taxation in the State. See **LEGAL MATTERS, Tax Exemption**.

It is expected that the Bonds will be available for delivery on or about October 20, 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 may be redeemed at the option of the City from funds from any source, on and after December 1, 2026, in whole or in part at any time, at par plus accrued interest to the redemption date. If fewer than all of the Bonds shall be called for redemption, the particular maturities 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 December 1 in the years 2033 and 2035 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on December 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 December 1, 2033

<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>
2032	\$200,000
2033 (maturity)	205,000

Bonds Maturing December 1, 2035

<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>
2034	\$210,000
2035 (maturity)	210,000

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 a copy of the redemption notice, or send a copy of the redemption notice via other standard means, including electronic or facsimile communication, 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 refund the Bonds Refunded, fund a debt service reserve and pay expenses of issuing the Bonds.

A portion of the Bond proceeds and other available funds will be deposited with the trustee for the owners of the Bonds Refunded on the date the bonds are issued in an amount sufficient to pay the principal of and interest on the Bonds Refunded due on December 1, 2021 and to redeem the Bonds Refunded maturing after December 1, 2021 on December 1, 2021.

The Bonds Refunded were issued to (a) current refund (i) indebtedness to the Arkansas Natural Resources Commission (formerly the Arkansas Soil and Water Conservation Commission) evidenced by a Loan Agreement dated as of October 1, 1995 (the "1995 Loan"), (ii) the City's Water and Sewer Revenue Bond, Series 1996 (the "1996 Bond"), (iii) the City's USDA-RD Water Revenue Bonds, Series 2001 (the "2001 Bonds"), and (iv) the City's Water and Sewer Revenue Bond, Series 2003 (the "2003 Bond"); and (b) provide permanent financing for the acquisition and installation of water meters by retiring temporary indebtedness to Simmons Bank (formerly Simmons First National Bank) evidenced by a Promissory Note, a Business Loan Agreement and a Commercial Guaranty, each dated January 11, 2016. The 1995 Loan financed all or a portion of the construction of a sewer collection and wastewater treatment facility. The 1996 Bond financed all or a portion of the construction and installation of betterments and improvements to the System. The 2001 Bonds financed all or a portion of the construction and equipping of extensions, betterments and improvements to the water facilities of the System. The 2003 Bond financed all or a portion of the rehabilitation of the City's wastewater treatment system.

The proceeds of the Bonds and funds held for the Bonds Refunded are estimated to be used by the City as follows:

PROCEEDS:	
Principal Amount of Bonds	\$2,715,000
Funds Held for Bonds Refunded	256,786
Net Original Issue Premium	<u>13,193</u>
 Total Proceeds	 \$2,984,979
USES:	
Refunding Costs	\$2,779,981
Debt Service Reserve	109,925
Underwriter's Discount	54,300
Costs of Issuance	<u>40,773</u>
 Total Uses	 \$2,984,979

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 ("Revenues"). There is a debt service reserve securing the Bonds in an amount equal to one-half of the maximum annual principal and interest requirement on the Bonds. 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 with the pledge of Revenues securing the Bonds and subordinate to the pledge of Revenues securing 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 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 essential services and make all debt service payments.

THE CITY AND THE COUNTY

Location. The City of Pottsville, Arkansas is located in Pope County (the "County") in west-central Arkansas, approximately 70 miles northwest of Little Rock, Arkansas.

The Population. The following table sets forth the population trends for the City and County since 1970:

<u>Year</u>	<u>City</u>	<u>County</u>
1970	411	28,607
1980	564	39,021
1990	984	45,883
2000	1,271	54,469
2010	2,838	61,754
2020 ⁽¹⁾	3,361	64,334

⁽¹⁾ Estimate as of July 1

Transportation. The City is served by U. S. Highway No. 64 and Interstate No. 40. The nearest commercial airport is approximately 70 miles away in Little Rock, Arkansas. The Russellville Regional Airport, which is located approximately 6 miles away in Russellville, Arkansas, has a 5,094-foot asphalt runway and offers charter service.

The City is served by the Union Pacific Railroad. The City is located near the Arkansas River. There is a barge-rail terminal at the Port of Dardanelle, within eight (8) miles from the City. More than 20 motor freight lines provide service to Russellville.

Government. The government of the City operates under the Mayor-City Council form of government, pursuant to which a Mayor and members of the City Council are elected for four-year terms. The current Mayor and City Council Members of the City, their principal occupations and term expiration dates are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires (December 31)</u>
Randy Tankersley	Mayor	2022
Randall Blalock	Retail Sales	2024
Kevin Burnham	Retired	2022
John Heflin	Retired	2024
Clint Maness	Security	2024
Steve Williamson	Construction	2022
George Woolf	Retired	2022

Medical Facilities. The City is served by 1 clinic and approximately two nurse practitioners. Russellville, Arkansas, which is approximately six miles west of the City, is served by one hospital with approximately 170 beds and 38 general and specialty medical clinics.

Education. Primary and secondary education for the City's inhabitants are provided by a public school system. Arkansas Tech University, a fully accredited four-year institute of higher learning, is located six miles away in Russellville and had an approximate total enrollment of 10,829 students in the fall semester of 2020.

Economy. The economy of the County is a mixture of agriculture, commerce and industry. The primary agricultural crops grown or raised in the County are cattle, soybeans, hay, peaches, chicken and hogs. The City has two employers with 20 or more employees: Pottsville School District (approximately 227 employees) and Industrial Power Inc. (approximately 20 employees).

Set forth below are the characteristics of the major employers (over 100 employees) located within the County:

<u>Employer</u>	<u>Product</u>	<u>Number of Employees</u>
ConAgra	Frozen food	1,575
Entergy Operations	Electric energy	980
St. Mary's Regional Medical Center	Healthcare	958
Arkansas Tech University	Higher education	744
Asurion	Technology protection services	512
Walmart	Retail	506
Atkins Prepared Foods	Food production	500
Tyson Foods	Poultry processing	500
Tyson Foods Valley Distribution Center	Frozen food distribution	319
Mahle Corporation	Heavy duty camshafts	210
West Fraser	Lumber products	176
Hackney/Laddish	Steel forgings/pipe fittings	175
Firestone Tube Co.	Inner tubes	155
International Paper Co.	Corrugated containers	143
Innovation Industries	Photo electric controls/devices	120
Americold Logistics	Freezer/dry storage distribution	112
Russellville Steel Co.	Steel fabrication	100

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

Building Permits. The number of building permits for new construction issued by the City during each of the last five (5) years was as follows:

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
2016	46	1	47
2017	17	6	23
2018	31	5	36
2019	31	3	34
2020	19	1	20

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	\$32,811
2016	32,889
2017	33,811
2018	34,990
2019	35,464

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

<u>Year</u>	<u>Total Personal Income</u>
2015	\$2,087,045,000
2016	2,101,487,000
2017	2,151,522,000
2018	2,225,173,000
2019	2,272,269,000

⁽¹⁾ Source: Bureau of Economic Analysis, United States Department of Commerce, Regional Accounts

Set forth below are the annual average unemployment rates for the County and the 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	4.6	4.0
2017	4.5	3.7
2018	4.4	3.7
2019	4.3	3.5
2020	5.9	6.1
2021*	5.3	5.0

*As of June 2021

THE SYSTEM

General. The System is owned by the City and operated under the direct control of the City Council. Operation and maintenance is provided by a utility staff. The System has 4 full-time employees. Johnny Hart is the Manager of the System and is 29 years of age. He has 8 years of experience in utility work and management.

The City's water supply consists of a surface water lake located in the City but owned and operated by the City of Atkins, which is located approximately seven miles east of the City. The City purchases water from the City of Atkins pursuant to a Water Purchase Contract dated as of April 25, 2016, which has a term of 30 years. The City of Atkins treats the water and distributes it to the City through a main transmission line, through a master meter and pressure plain (consisting of four pumps) and into a water storage tank. The City then transmits the water to its customers.

The City operates a gravity sewer collection system with one lift station. The sewer treatment plant is an Aeromod extended air system with a treatment capacity of 400,000 gallons per day.

Customers. The average number of water users for each of the past five (5) years is as follows:

<u>Year</u>	<u>Total</u>
2016	1,700
2017	1,447
2018	1,462
2019	1,502
2020	1,561

The average number of sewer users for each of the past five (5) years is as follows:

<u>Year</u>	<u>Total</u>
2016	1,100
2017	662
2018	677
2019	698
2020	727

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

<u>Year</u>	<u>Average Daily Water Use in Gallons</u>	<u>Maximum Daily Water Use in Gallons</u>	<u>Total Use for Year in Gallons</u>
2016	377,000	530,000	137,799,000
2017	381,189	536,000	137,228,278
2018	340,476	468,739	122,571,438
2019	339,863	407,509	124,050,234
2020	359,196	815,000	140,157,000

No user accounts for more than 5% of Revenues. The top five users of the System are as follows:

1. Frank Ferguson (Chicken Farm)
2. Buck Harris (Chicken Farm)
3. Frank Ferguson (Chicken Farm)
4. Frank Ferguson (Chicken Farm)
5. Frank Ferguson (Chicken Farm)

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

Rates. The System's current rate structure is set forth in Exhibit A attached hereto.

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. (a) The rates charged for services of the System heretofore fixed by ordinances of the City, and the conditions, rights and obligations pertaining thereto, as set out in those ordinances are ratified, confirmed and continued.

(b) The System shall be continuously operated as a revenue-producing undertaking and the City will not sell or lease the same, or any substantial portion thereof. However, 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.

(c) The City covenants that the rates shall never be reduced while any of the Bonds are outstanding unless there is obtained from an independent certified public accountant a certificate that the Net Revenues ("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 systems other than depreciation, interest and amortization expenses), with the reduced rates, will always be equal to at least 110% of the maximum annual principal and interest requirements on all outstanding bonds to which Revenues are pledged ("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 equal to 110% of the maximum annual principal and interest requirements on all System Bonds.

Funds and Disposition of Revenues. (a) All Revenues shall be paid directly into a special fund described in the Authorizing Ordinance and designated the "City of Pottsville Water and Sewer Revenue Fund" (the "Revenue Fund").

(b) There shall be paid from the Revenue Fund into a fund described in the Authorizing Ordinance and designated the "City of Pottsville 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 therein during 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 meet the requirements thereof 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) There shall next be transferred from the Revenue Fund into a special fund designated the "2021 Water and Sewer Revenue Bond Fund" (the "Bond Fund"), on the first business day of each month until all outstanding Bonds with interest thereon have been paid in full or provision made for such payment, a sum equal to one-sixth (1/6) of the next installment of interest on the Bonds and one-twelfth (1/12) of the next installment of principal of the Bonds; provided, however, that payments into the Bond Fund in November 2021 shall be in an amount equal to the principal and interest due on the Bonds on December 1, 2021.

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

There is created, 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 maximum annual principal and interest requirement on the Bonds (the "Required Level"). Should the Debt Service Reserve become impaired or be reduced below the Required Level, the deficiency shall be cured by an additional monthly payment equal to one-twelfth (1/12) of the deficiency until the impairment or reduction is corrected.

If for any reason there shall be a deficiency in the payments made into the Bond Fund so that there are unavailable sufficient moneys therein to pay the principal of and interest on the Bonds as the same become due, any sums then held in the Debt Service Reserve shall be used to the extent necessary to pay such principal and interest. The Debt Service Reserve shall be used solely as described in the Authorizing Ordinance and shall secure only the Bonds and not any additional bonds.

If Revenues are insufficient to make the required payment by the first business day of the following month into the Bond Fund, then 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 by the first business day of the next month.

If a surplus shall exist in the Bond Fund over and above the amount required for making all such payments when due and over and above the Required Level for the Debt Service Reserve, such surplus may be applied to the payment of the principal of, redemption premium, if any, and interest on any Bonds that may be called for redemption prior to maturity or deposited into the Revenue

Fund or shall be used to pay any arbitrage rebate due under Section 148(f) of the Code with respect to the Bonds.

(d) After making the payments set forth above, there shall be transferred from the Revenue Fund into a special fund designated the "City of Pottsville Water and Sewer Depreciation Fund" (the "Depreciation Fund"), on the first business day of each month an amount equal to the greater of three percent (3%) of gross Revenues for the preceding month or such other amount as may be required by State law. The moneys in the Depreciation Fund shall be used solely for the purpose of paying the cost of replacements made necessary by the depreciation of the System or for the purpose of paying the costs of damage caused by unforeseen catastrophes.

If in any fiscal year a surplus shall be accumulated in the Depreciation Fund over and above the amount which shall be necessary to defray the cost of the probable replacements during the then current fiscal year and next ensuing fiscal year, such surplus may be deposited into the Revenue Fund.

(e) 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 any lawful municipal purpose authorized by the City.

(f) The Trustee shall be the depository of the Bond Fund. Other funds described herein shall be deposited in such depositories as designated from time to time 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 pledge on Revenues over the pledge securing the Bonds.

The City may issue additional bonds ranking on a parity with the pledge of Revenues in favor of the Bonds if, but only if: (1) there shall have been filed with the Trustee a statement by an independent certified public accountant not in the regular employ of the City reciting, based upon necessary investigation, that Net Revenues (as defined under **THE AUTHORIZING ORDINANCE, Rates and General Covenants to Operate**) for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 110% of the maximum annual principal and interest requirements on the then outstanding System Bonds and the additional bonds then proposed to be issued; or (2) there shall have been filed with the Trustee a statement by an independent certified public accountant not in the regular employ of the City reciting the opinion based upon necessary investigation that Net Revenues for the next ensuing fiscal year, including the Net Revenues to be derived from any extensions, betterments and improvements to be constructed out of the proceeds of the additional bonds then proposed to be issued, as reflected by a certificate of a duly qualified consulting engineer not in the regular employ of the City ("Engineer"), and taking into consideration any rate increase adopted before issuance of the additional bonds, shall be equal to not less than 110% of the maximum annual principal and interest requirements on the then outstanding System Bonds and the additional bonds then proposed to be issued. In making the computation set forth in clause (1) above, the City, and the independent certified public accountant, on behalf of the City, may, based upon the opinion or report of an Engineer, 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 Net 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.

Subordinate bonds may be issued without complying with the terms and conditions set forth above.

Accounts and Records. The City will keep proper books of accounts and records (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 registered owner of any of the Bonds at reasonable times and under reasonable circumstances. The

City agrees to have these records audited by an independent certified public accountant at least once each year, and a copy of the audit shall be delivered to the Trustee and made available to registered owners requesting the same in writing. In the event that the City fails or refuses to make the audit, the Trustee or 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 and agrees 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, to the extent comparable protection is not otherwise provided to the satisfaction of the Trustee, it will insure and at all times keep insured, in the amount of the full insurable 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, lightning, tornados, winds, riot, strike, civil commotion, malicious damage, explosion, extended coverage and against any other loss or damage from any other causes customarily insured against by private companies engaged in similar types of business. The insurance policies are to carry a clause making them payable to the Trustee as its interest may appear, and are either to be placed in the custody of the Trustee or satisfactory evidence of said insurance shall be filed with the Trustee. 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 surplus 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.

Defeasance. Any Bond shall be deemed to be paid within the meaning of the Authorizing Ordinance when payment of the principal of and interest on such Bond (whether at maturity or upon redemption, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (1) cash 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 ("Government 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), such Government Securities 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 any Bonds within the meaning of the Authorizing Ordinance, the Trustee shall hold in trust, for the benefit of the owners of such Bonds, all such moneys and/or Government 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 has been paid or provided for to the satisfaction of the Trustee, the Trustee shall take all appropriate action to cause (i) the pledge and lien of the Authorizing Ordinance to be discharged and cancelled, 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.

Default and Remedies. (a) 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 the 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 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.

(b) 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.

(c) 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.

(d) The Trustee may, and upon the written request of the registered owners of not less than a majority 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.

(e) 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 terms of the Authorizing Ordinance constitute a contract between the City and the owners of the Bonds and no variation or change in the undertaking set forth in the Authorizing Ordinance shall be made while any of the Bonds are outstanding, except as hereinafter set forth below.

The Trustee may consent to any variation or change in the Authorizing Ordinance to cure any ambiguity, defect or omission therein or any amendment thereto or which, in the opinion of the Trustee, is not materially adverse to the interests of the owners of the Bonds, without the consent of the owners of the outstanding Bonds.

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, anything contained in the Authorizing Ordinance to the contrary notwithstanding, to consent to and approve, the adoption by the City of such ordinance supplemental hereto 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; provided, however, that nothing contained in the Authorizing Ordinance shall permit or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) the creation of a lien or 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 giving sixty (60) days' notice in writing to the City Clerk and the registered owners of the Bonds, and 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 designate a new Trustee by a written instrument filed in the office of the City Clerk. Every successor Trustee shall be a trust company or bank in good standing; duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$25,000,000. 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. Notwithstanding the above, neither the removal of the Trustee nor the resignation by the Trustee shall be effective until a successor Trustee shall have been appointed.

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 defined in (d) below, 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 five (5) 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 the Revenue Fund, the Operation and Maintenance Fund and the Depreciation Fund may be invested and reinvested by the City in Permitted Investments as defined in (d) below or other investments permitted by 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 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, except that interest earnings and profits on investments of moneys in the

debt service reserve which increase the amount thereof above the Required Level shall to the extent of any such excess be applied as a credit to monthly payments required to be deposited into the Bond Fund.

(d) "Permitted Investments" are defined as (i) direct or fully guaranteed obligations of the United States of America ("Investment 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) certificates of deposit or demand deposits of banks, including the Trustee, which are insured by the Federal Deposit Insurance Corporation or, if in excess of insurance coverage, collateralized by Investment 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 Investment Securities or obligations described in (ii) above.

(e) The City covenants that it will make all arbitrage rebate payments to the United States in accordance with Section 148 of the Code.

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 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 a continuing disclosure agreement in connection with one outstanding bond issue. The City has been obligated to file certain information with the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access system ("EMMA") within the time period set forth in the agreement. The City has reviewed its past compliance with such agreement. While the City has not made a determination as to materiality, the following constitutes a non-exhaustive summary of the City's review of compliance with its continuing disclosure obligations over the past five years.

The continuing disclosure agreement required the City to file the audited financial statements of the System on EMMA by June 30 each year; provided, however, that if such audited financial statements were not available, the City was required to make such filing within 60 days after receiving the audited financial statements. The audited financial statements of the System for the fiscal years ended December 31, 2017 and 2018 were filed 15 days late and 101 days late, respectively. Notices concerning such failures were not filed on EMMA. The audited financial statements of the System for the fiscal years ended December 31, 2016, 2019 and 2020 have all been timely filed.

The continuing disclosure agreement required the City to disclose certain statistical information related to the System in annual reports that are filed with the MSRB. The annual reports for the fiscal years ended December 31, 2016 through 2020 were timely filed and contained all of the required statistical information.

The continuing disclosure agreement 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). No notice of any of such events were required to be filed in the past five years.

Set forth below is a summary of certain portions of the Continuing Disclosure Agreement. This summary does not purport to be comprehensive and reference is made to the full text of the Continuing Disclosure Agreement for a complete description of its provisions.

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 cause the Dissemination Agent to, not later than June 30 of each year (or 180 days after the end of the System's fiscal year if the System's fiscal year changes), 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 sixty (60) 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) Not 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 has been provided to the MSRB by the date required in subsection (a), the Trustee shall file a notice to the MSRB.

Content of Annual Reports. 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) average daily water use in gallons, maximum daily water use in gallons and total annual water use in gallons for the preceding fiscal year and the previous four fiscal years, if available; (ii) the number of water and sewer users for the fiscal year then ended and the four previous fiscal years; and (iii) the top five users of the System for the previous fiscal year and a statement as to which users, if any, accounted for 5% or more of Revenues for the preceding fiscal year.

2. The 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.

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 have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. 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 City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, 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 City, 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 a Listed Event (excluding an event described in (a)8 above), whether by notice from the Trustee or otherwise, 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 captioned "Notice of Listed Event" and 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.

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FINANCIAL INFORMATION

Set forth in Exhibit B to this Official Statement are the audited financial statements for the System for the fiscal years ended December 31, 2020 and 2019. Such financial statements were 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. These financial statements should be read in their entirety, together with any notes and supplemental information affixed thereto.

Set forth below is a Summary Statement of Revenues and Expenses based on the audited financial statements of the System for the fiscal years ended December 31, 2020-2016.

	<u>Summary Statement of Revenues and Expenses</u>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues	\$1,036,765	\$917,078	\$935,457	\$872,234	\$838,953
Operating Expenses (Before Depreciation)	<u>(741,542)</u>	<u>(612,825)</u>	<u>(478,052)</u>	<u>(501,353)</u>	<u>(562,819)</u>
Net Operating Income (Before Depreciation)	295,223	304,253	457,405	370,881	276,134
Depreciation	(180,587)	(167,383)	(151,312)	(154,515)	(166,470)
Net Operating Income	114,636	136,870	306,093	216,366	109,664
Non-Operating Revenue (Expense)	<u>(81,338)</u>	<u>(85,146)</u>	<u>28,424</u>	<u>(96,285)</u>	<u>(281,547)</u>
Net Income (Loss)	<u>\$33,298</u>	<u>\$51,724</u>	<u>\$334,517</u>	<u>\$120,081</u>	<u>(\$171,883)</u>

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ESTIMATED DEBT SERVICE COVERAGE

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

Net Revenues ^{(A)(1)}	\$295,223
Maximum Annual Debt Service Requirements for the Bonds ^(B)	219,850
Estimated Debt Service Coverage ^(A/B)	1.34x

⁽¹⁾Gross Revenues of the System less amounts necessary to pay operation and maintenance expenses of the System (excluding depreciation, interest and amortization of deferred bond discount expenses) based on the audited financial statements of the System for the fiscal year ended December 31, 2020. Includes interest income of \$2,687. See Exhibit B attached hereto.

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DEBT SERVICE REQUIREMENTS

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2021	\$ 25,000	\$ 5,176.25	\$ 30,176.25
2022	170,000	44,950.00	214,950.00
2023	175,000	41,550.00	216,550.00
2024	180,000	38,050.00	218,050.00
2025	185,000	34,450.00	219,450.00
2026	185,000	33,062.50	218,062.50
2027	190,000	29,362.50	219,362.50
2028	190,000	27,225.00	217,225.00
2029	195,000	24,850.00	219,850.00
2030	195,000	22,168.76	217,168.76
2031	200,000	19,243.76	219,243.76
2032	200,000	15,993.76	215,993.76
2033	205,000	12,243.76	217,243.76
2034	210,000	8,400.00	218,400.00
2035	210,000	4,200.00	214,200.00
 TOTALS	 \$2,715,000	 \$360,926.29	 \$3,075,926.29

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 above 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).

An exception allows a deduction of certain interest expense allocable to "qualified tax-exempt obligations." The City has designated the Bonds as "qualified tax-exempt obligations" and has covenanted not to use the improvements refinanced with proceeds of the Bonds and the proceeds of the Bonds in a manner which would cause the Bonds to be "private activity bonds," within the meaning of the Code, and has represented that the City and its subordinate entities have not and do not expect to issue more than \$10,000,000 of such tax-exempt obligations (other than private-activity bonds (excluding from that term "qualified 501(c)(3) bonds" under Section 145 of the Code)) 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 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 with their tax advisors with respect to the determination and treatment of amortizable 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 a purchase price of \$2,673,893.25 (principal amount plus net original issue premium of \$13,193.25 less Underwriter's discount of \$54,300). 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 POTTSVILLE, ARKANSAS

By /s/ Randy Tankersley
Mayor

Dated: As of the Cover Page hereof.

EXHIBIT A

Current Rate Structure. Set forth below is the monthly rate structure of the System currently in effect (effective May 2016):

Monthly Water Rates

Inside City Limits

For the first 1,000 gallons of water consumption per month, or portion thereof	\$13.00 (minimum)
For the next 5,000 gallons of water consumption per month, or portion thereof	3.25 per 1,000 gallons
For the next 4,000 gallons of water consumption per month, or portion thereof	2.75 per 1,000 gallons
For all monthly water consumption in excess of 10,000 gallons per month	2.25 per 1,000 gallons

Outside City Limits

For the first 1,000 gallons of water consumption per month, or portion thereof	\$17.00 (minimum)
For the next 5,000 gallons of water consumption per month, or portion thereof	4.00 per 1,000 gallons
For the next 4,000 gallons of water consumption per month, or portion thereof	3.50 per 1,000 gallons
For all monthly water consumption in excess of 10,000 gallons per month	2.50 per 1,000 gallons

Monthly Sewer Rates

For the first 1,000 gallons of water consumption per month, or portion thereof	\$12.00 (minimum)
For the next 5,000 gallons of water consumption per month, or portion thereof	4.00 per 1,000 gallons
For the next 4,000 gallons of water consumption per month, or portion thereof	3.50 per 1,000 gallons
For all over 10,000 gallons of water consumption per month, or portion thereof	2.50 per 1,000 gallons

EXHIBIT B

**Audited Financial Statements of the System for the Fiscal Years
Ended December 31, 2020 and 2019**

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT

DECEMBER 31, 2020 AND 2019

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JONES and LAWTON, CPAs, P.A.

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MEMBERS

AMERICAN INSTITUTE OF
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ARKANSAS SOCIETY OF
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INDEPENDENT AUDITORS' REPORT

City Council
Pottsville Municipal Water and Sewer Department
Pottsville, Arkansas

We have audited the accompanying financial statements of Pottsville Municipal Water and Sewer Department (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 August 8, 2019, on our consideration of the Department's internal control over financial reporting and on compliance and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and other matters and not to provide an opinion on the internal control over financial reporting or on compliance or other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Jones and Lawton, CPAs, P.A.

August 13, 2021
Russellville, Arkansas



POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents (Note 2)		
Unrestricted	\$ 141,137	\$ 319,782
Restricted	279,964	335,781
Accounts Receivable - Net	93,151	86,656
Accounts Receivable - General Fund	0	66
	<u>514,252</u>	<u>742,285</u>
Property And Equipment		
Water System	2,420,080	2,330,419
Sewer System	3,733,981	3,694,564
Buildings	269,436	59,246
Automobiles and Equipment	252,341	252,341
Office Equipment	72,226	59,666
Land	112,083	112,083
	<u>6,860,147</u>	<u>6,508,319</u>
Less: Accumulated Depreciation	3,309,407	3,128,820
	<u>3,550,740</u>	<u>3,379,499</u>
	<u>4,064,992</u>	<u>4,121,784</u>
 <u>LIABILITIES</u> 		
Accounts Payable	23,500	20,312
Accrued Expenses	10,044	14,400
Customer Deposits	101,821	155,743
Long-term Liabilities (Note 3)		
Due Within 1 Year	165,000	135,000
Due in More Than 1 Year	2,675,000	2,740,000
	<u>2,975,365</u>	<u>3,065,455</u>
 <u>NET POSITION</u> 		
Unrestricted Net Assets	911,484	876,291
Restricted Net Assets	178,143	180,038
	<u>1,089,627</u>	<u>1,056,329</u>
	<u>\$ 4,064,992</u>	<u>\$ 4,121,784</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES</u>		
Water and Sewer Revenues	\$ 649,543	\$ 580,353
Hook-up Fees and Other Income	384,535	333,166
Interest Income	2,687	3,559
	<u>1,036,765</u>	<u>917,078</u>
<u>OPERATING EXPENSES</u>		
Water Purchases	154,531	134,008
Salaries	178,437	147,112
Utilities	60,463	53,167
Auto	13,382	18,850
Insurance	34,600	28,505
Supplies and Maintenance	174,232	140,788
Office Supplies and Postage	51,391	37,095
Taxes and Permits	15,849	11,993
Depreciation	180,587	167,383
Professional Fees	7,700	6,450
Retirement Expense	24,729	19,850
Miscellaneous	26,228	15,007
	<u>922,129</u>	<u>780,208</u>
Operating Income	114,636	136,870
Interest Expense	<u>(81,338)</u>	<u>(85,146)</u>
INCREASE IN NET POSITION	33,298	51,724
NET POSITION, BEGINNING OF YEAR	<u>1,056,329</u>	<u>1,004,605</u>
NET POSITION, END OF YEAR	<u>\$ 1,089,627</u>	<u>\$1,056,329</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 33,298	\$ 51,724
Adjustments to Reconcile Change in Net Income to Net Cash Provided by Operating Activities:		
Depreciation	180,587	167,383
(Increase) Decrease:		
Accounts Receivable	(6,495)	(2,073)
Increase (Decrease):		
Accounts Payable	3,188	(111,548)
Accrued Expenses	(4,356)	(1,855)
Customer Deposits	(53,922)	15,900
Total Adjustments	<u>119,002</u>	<u>67,807</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>152,300</u>	<u>119,531</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	<u>(351,828)</u>	<u>(213,926)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(351,828)</u>	<u>(213,926)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
(Increase) Decrease in Bonds Payable	(135,000)	(135,000)
Loans from General Fund	<u>100,066</u>	<u>0</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(34,934)</u>	<u>(135,000)</u>
 NET INCREASE (DECREASE) IN CASH	 (234,462)	 (229,395)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>655,563</u>	 <u>884,958</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 421,101</u>	 <u>\$ 655,563</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest	\$ <u>82,663</u>	\$ <u>85,413</u>
 Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	\$ 141,137	\$ 319,782
Restricted Cash	<u>279,964</u>	<u>335,781</u>
	<u>\$ 421,101</u>	<u>\$ 655,563</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Pottsville Municipal Water and Sewer Department is a municipal corporation governed by an elected Mayor-Council form of government. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board (GASB) Statement No. 14 have been considered. These financial statements represent only the Water and Sewer Department ("the Department") fund and do not include data of other funds of the primary government necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Department are grouped in the financial statements into one fund type and one generic fund as follows:

Organization

Enterprise funds-Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Department uses the accrual basis of accounting which recognizes revenues when they are earned and expenses when they are incurred.

Under this basis of accounting and measurement focus, the Department applies all Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) statements and interpretations issued after November 30, 1989 developed for business enterprises. The Department does not apply FASB ASC statements and interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

Cash and Cash Equivalents

The Department considers cash equivalents to be short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. For purposes of the Statements of Cash Flows, cash and cash equivalents include "Cash and cash equivalents" and "Restricted Assets-Cash and cash equivalents".

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Environment

The quality of water emitted from the sewer treatment plants is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department.

Income Tax

The City of Pottsville, Arkansas Water and Sewer System is municipally owned and is exempt from Federal and State income tax.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

	<u>Years</u>
Water and sewer system	40
Building	40
Automobiles and equipment	5
Office equipment	5

Property and Equipment

	<u>Balance</u> <u>12-31-2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-2020</u>
Land	\$ 112,083	\$	\$	\$ 112,083
Water System	2,330,419	89,661		2,420,080
Sewer System	3,694,564	39,417		3,733,981
Vehicles	252,341			252,341
Office Equipment	59,666	12,560		72,226
Building	59,246	210,190		269,436
	<u>\$ 6,508,319</u>	<u>\$ 351,828</u>	<u>\$</u>	<u>\$ 6,860,147</u>

Fair Value of Financial Instruments

The Department's financial instruments include cash, cash equivalents and trade securities. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization of Interest Costs

The Department capitalizes interest costs as part of the total acquisition costs of construction related to the addition to and/or improvement of facilities. Interest costs capitalized include only the interest incurred during the construction period on debt used to finance the project. The interest capitalization period commences with the first expenditure for the project and continues until the constructed project is substantially complete and ready for its intended use, at which time interest capitalization ceases.

Accounts Receivable and Bad Debts

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

NOTE 2: CASH AND CASH EQUIVALENTS

The cash balance is composed of unrestricted and restricted funds as follows:

	<u>2020</u>	<u>2019</u>
<u>Unrestricted</u>		
Water system operating fund	\$ <u>141,137</u>	\$ <u>319,782</u>
<u>Restricted</u>		
Depreciation fund	29,122	29,122
Bond debt service fund	149,021	150,916
Meter deposit fund	<u>101,821</u>	<u>155,743</u>
	<u>279,964</u>	<u>335,781</u>
	<u>\$ 421,101</u>	<u>\$ 655,563</u>

NOTE 3: LONG-TERM DEBT

Long-term debt at December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
City of Pottsville Arkansas Water & Sewer Refunding and Improvement Revenue Bonds – Series 2016		
Interest ranges from 2.0% to 3.25% and are payable semiannually on June 1 and December 1. The bonds are subject to a mandatory sinking fund redemption by lot in such manner as the trustee shall determine on December 1 of each year until December 1, 2039 when the full redemption is due.	\$ 2,740,000	\$ 2,875,000
City of Pottsville – General Fund – Building	<u>100,000</u>	<u>0</u>
	2,840,000	2,875,000
Less: Current maturities	<u>165,000</u>	<u>135,000</u>
	<u>\$ 2,675,000</u>	<u>\$ 2,740,000</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 3: LONG-TERM DEBT (continued)

The principal and interest payments due on long-term debt for the years succeeding December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 165,000	\$ 79,963	\$ 244,963
2022	165,000	77,163	242,163
2023	170,000	72,963	242,963
2024	175,000	68,613	243,613
2025	155,000	65,238	220,238
Thereafter	<u>2,010,000</u>	<u>398,296</u>	<u>2,408,296</u>
	<u>\$ 2,840,000</u>	<u>\$ 762,236</u>	<u>\$ 3,602,236</u>

NOTE 4: SCHEDULE OF RATES

Monthly Water Rates:

Inside City Limits

- a. Minimum charge on first 1,000 gallons, \$13.00.
- b. Charge of \$3.25 per 1,000 gallons for the next 5,000 gallons.
- c. Charge of \$2.75 per 1,000 gallons for the next 4,000 gallons.
- d. Charge of \$2.25 per 1,000 gallons for the usage over 10,000 gallons.

Outside City Limits

- a. Minimum charge on first 1,000 gallons, \$17.00.
- b. Charge of \$4.00 per 1,000 gallons for the next 5,000 gallons.
- c. Charge of \$3.50 per 1,000 gallons for the next 4,000 gallons.
- d. Charge of \$2.50 per 1,000 gallons for the usage over 10,000 gallons.

Monthly Sewer Rates:

- a. Minimum charge on first 1,000 gallons, \$12.00.
- b. Charge of \$4.00 per 1,000 gallons for the next 5,000 gallons.
- c. Charge of \$3.50 per 1,000 gallons for the next 4,000 gallons.
- d. Charge of \$2.50 per 1,000 gallons for the usage over 10,000 gallons.

NOTE 5: INSURANCE COVERAGE

Company: Arkansas Municipal League
 Policy No.: 03250
 Expiration: 12-19-21
 Coverage: Water and sewer buildings, and equipment - \$1,926,000

Company: Arkansas Municipal League
 Policy No.: 03250
 Expiration: 11-08-21
 Coverage: Automobile liability and physical damage

Company: Arkansas Fidelity Bond Trust Fund
 Policy No.: FBTF12
 Expiration: 06-30-21
 Coverage: \$300,000

Company: Municipal League Worker's Compensation Trust
 Policy: Workers compensation
 Expiration: 12-31-20

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 6: RETIREMENT PLAN

The Department maintains a 403(b) Retirement Plan administered by the Arkansas Public Retirement System. All employees who choose to participate are required to make a 5% salary reduction contribution to the Plan. The Department makes a contribution of 15.32% of salary. The Department contributions for 2020 and 2019 were \$24,729 and \$19,850 respectively.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 13, 2021, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020

Pottsville Municipal Water and Sewer Department discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the Department's financial activity
- Identify changes in the Department's financial position
- Identify individual fund issues or concerns

Overview of the Financial Statements

The financial statements of the Department reports information about the Department using accounting methods similar to those used by private business enterprises. These statements provide both long-term and short-term information about the Department's overall financial status.

The Statements of Net Position present information on all the Department's assets and liabilities with the difference between the two reported as net position.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Department's net position changed during the most recent and current years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operations, financing, and investing activities. These statements provide information regarding sources of cash and use of cash.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Department

The assets of the Department exceeded its liabilities at the close of the most recent fiscal year by \$1,089,627 (net position).

Total assets amounted to \$4,064,992 consisting of net capital assets of \$3,550,740 and other assets of \$514,252. Total assets decreased by \$56,792 during the current fiscal year. This change was due to an increase in capital assets of \$351,828, which was offset by a net decrease in other assets of \$228,033 and an increase in accumulated depreciation of \$180,587.

Total liabilities amounted to \$2,975,365 consisting of long-term liabilities of \$2,840,000 and other liabilities of \$135,365. Total liabilities decreased by \$90,090 during the current fiscal year. \$35,000 of this change was due to net decrease in long term debt, and a net decrease in other liabilities of \$ \$55,090.

The Department experienced a decrease in total cash in the amount of \$234,462 during the current year. This decrease consisted of a decrease in unrestricted cash in the amount of \$178,645 a decrease in restricted cash in the amount of \$55,817.

Economic Factors

The Department indicated no changes due to current economic factors.

Request for Information

This report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pottsville Municipal Water and Sewer, 173 E Ash Street, Pottsville, Arkansas 72858.

JONES and LAWTON, CPAs, P.A.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Council
Pottsville Municipal Water and Sewer Department
Pottsville, Arkansas

We have audited the financial statements of Pottsville Municipal Water and Sewer Department as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon dated August 13, 2021. The report on the Department as of and for the years ended December 31, 2020 and 2019 was qualified because the Department elected not to implement GASB Statement No. 34. Except as discussed in the preceding sentence, 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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Segregation of Duties

A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute and record the same transaction. Due to having a limited number of personnel to handle accounting functions, some duties and functions performed are contrary to ideal control procedures. However, the Department has attempted to segregate duties to the extent management feels possible with the limited number of staff available.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Purpose of this Report

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 entity'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 and is intended for the information and use of management and the City Council of Pottsville, Arkansas. Accordingly, this report is not intended to be, and should not be, used by anyone other than these specified parties, for any other purposes.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
August 13, 2021

A handwritten signature in black ink that reads "Jones and Lawton". The signature is written in a cursive, flowing style.