

*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.*

\$3,910,000
CITY OF WARREN, ARKANSAS
WATER AND SEWER REFUNDING AND
IMPROVEMENT 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 Warren, 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

\$540,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Rate (%)</u>	<u>Yield (%)</u>
2022	\$130,000	2.000	0.430
2023	135,000	2.000	0.530
2024	135,000	2.000	0.680
2025	140,000	2.000	0.850

\$285,000 1.125% Term Bonds due December 1, 2027 to Yield 1.180%
 \$290,000 1.500% Term Bonds due December 1, 2029 to Yield 1.530%
 \$300,000 1.750% Term Bonds due December 1, 2031 to Yield 1.780%
 \$810,000 2.000% Term Bonds due December 1, 2036 to Yield 2.080%
 \$710,000 2.250% Term Bonds due December 1, 2040 to Yield 2.280%
 \$975,000 2.450% Term Bonds due December 1, 2045 to Yield 2.450%

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 Union Bank & Trust Company, Monticello, 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: May 17, 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

\$3,910,000
CITY OF WARREN, ARKANSAS
WATER AND SEWER REFUNDING AND
IMPROVEMENT REVENUE BONDS
SERIES 2021

INTRODUCTION TO THE OFFICIAL STATEMENT

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

This Official Statement is provided to furnish certain information in connection with the issuance by the City of Warren, Arkansas (the "City") of its Water and Sewer Refunding and Improvement Revenue Bonds, Series 2021, in the aggregate principal amount of \$3,910,000 (the "Bonds"). The Bonds are being issued to refund the City's outstanding Water and Sewer Revenue Bond, dated November 4, 2014 (the "Bond to be Refunded"), to finance all or a portion of the costs of the acquisition, construction and installation of extensions, betterments and improvements to the sewer facilities of the System (the "Improvements") and to pay expenses of issuing the Bonds. See **THE BONDS, Purposes for Bonds**.

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

The Bonds are not general obligations of the City, but are special obligations payable solely from the revenues derived from the operation of the City's water and sewer (combined) system (the "System"). 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. 934 adopted on May 10, 2021 (the "Authorizing Ordinance"). See **THE AUTHORIZING ORDINANCE**. See **THE BONDS, Security**.

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 any 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 Union Bank & Trust Company, Monticello, Arkansas, as trustee and paying agent (the "Trustee"). Interest is payable by check or draft mailed by the Trustee 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 extraordinary redemption from proceeds of the Bonds not needed for the purposes intended. The Bonds are subject to optional redemption on and after December 1, 2026. The Bonds maturing on December 1 in the years 2027, 2029, 2031, 2036, 2040 and 2045 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 June 24, 2021, through the facilities of The Depository Trust Company in New York, New York.

The City and the Trustee have entered 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, 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 not a Saturday or Sunday or a legal holiday or a day upon which banking institutions are authorized by law to close 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 extraordinary, optional and mandatory sinking fund redemption as follows:

(1) Extraordinary Redemption. The Bonds must be redeemed from proceeds of the Bonds not needed for the purposes intended, in whole or in part on any interest payment date, at a price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity (and by lot within a maturity in such manner as the Trustee may determine).

(2) 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 a price equal to 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.

(3) Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Bonds maturing on December 1 in the years 2027, 2029, 2031, 2036, 2040 and 2045 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, 2027

Year (December 1)	Principal Amount
2026	\$140,000
2027 (maturity)	145,000

Bonds Maturing December 1, 2029

Year (December 1)	Principal Amount
2028	\$145,000
2029 (maturity)	145,000

Bonds Maturing December 1, 2031

Year (December 1)	Principal Amount
2030	\$150,000
2031 (maturity)	150,000

Bonds Maturing December 1, 2036

Year (December 1)	Principal Amount
2032	\$155,000
2033	160,000
2034	160,000
2035	165,000
2036 (maturity)	170,000

Bonds Maturing December 1, 2040

Year (December 1)	Principal Amount
2037	\$170,000
2038	175,000
2039	180,000
2040 (maturity)	185,000

Bonds Maturing December 1, 2045

Year (December 1)	Principal Amount
2041	\$185,000
2042	190,000
2043	195,000
2044	200,000
2045 (maturity)	205,000

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

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

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

Purposes for Bonds. The Bonds are being issued to current refund the Bond to be Refunded (the "Refunding"), to finance all or a portion of the costs of the Improvements and to pay expenses of issuing the Bonds.

The Improvements consist of approximately three miles of new gravity sewer lines and sewer force mains, two new pump stations along an existing waterline route in the City, approximately 1,500 feet of new gravity lines in a residential neighborhood in the City, improvements to an existing pump station in the

City's Industrial Park and improvements to the wastewater treatment plant. The Improvements are expected to be completed by December 31, 2022.

A portion of the proceeds of the Bonds and other available funds will be used to redeem the Bond to be Refunded on the date the Bonds are issued at a price of par plus accrued interest. The Bond to be Refunded financed extensions, betterments and improvements to the water and sewer facilities of the System.

The sources and uses of funds to finance the Improvements and to accomplish the Refunding are estimated as follows:

SOURCES:

Principal Amount of Bonds	\$3,910,000
System Contribution	106,631
Funds from Bond to be Refunded	64,546
Net Original Issue Premium	<u>6,366</u>
Total Sources	\$4,087,543

USES:

Costs of Improvements	\$3,130,000
Refunding Costs	736,414
Debt Service Reserve	106,631
Underwriter's Discount	68,425
Costs of Issuance	<u>46,073</u>
Total Uses	\$4,087,543

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**. The Underwriter will also be reimbursed for certain costs of closing and delivering the Bonds. The City will deposit the net proceeds of the Bonds (principal amount plus any original issue premium, less any original issue discount and less Underwriter's discount, Refunding deposit and certain issuance costs) into a special fund established with the Trustee and designated "Water and Sewer Revenue Bond Construction Fund, Series 2021" (the "Construction Fund"). Moneys contained in the Construction Fund will be disbursed by the City solely for the purpose of paying costs of the Improvements, paying necessary expenses incidental thereto and paying expenses of issuing the Bonds. Disbursements shall be on the basis of requisitions which shall contain at least the following information: the person to whom payment is being made; the amount of the payment; and the purpose by general classification of the payment. For a description of how the Bond proceeds are to be invested pending use and the provisions governing those investments, see **THE AUTHORIZING ORDINANCE, Investments**.

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 (the "Debt Service Reserve") securing the Bonds in an amount equal to one-half of the maximum annual debt service requirement on the Bonds. The City will use available funds of the System to fund the Debt Service Reserve. The Bonds are secured under the Authorizing Ordinance. For a summary of the terms of the Authorizing Ordinance, see **THE AUTHORIZING ORDINANCE** herein. The City may issue additional bonds on a parity of security with the Bonds. See **THE AUTHORIZING ORDINANCE, Parity Bonds**.

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

To date, the COVID-19 pandemic has not negatively impacted the 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 is the county seat of the County and is located in southern Arkansas. The City is situated in the northwestern part of the County, approximately 95 miles south of Little Rock, Arkansas.

The Population. The following table sets forth the population trends for the City and County since 2010:

<u>Year</u>	<u>City</u>	<u>County</u>
2010 ⁽¹⁾	6,003	11,508
2011 ⁽²⁾	5,974	11,432
2012 ⁽²⁾	5,875	11,266
2013 ⁽²⁾	5,791	11,120
2014 ⁽²⁾	5,731	11,007
2015 ⁽²⁾	5,722	10,999
2016 ⁽²⁾	5,699	10,959
2017 ⁽²⁾	5,621	10,813
2018 ⁽²⁾	5,631	10,838
2019 ⁽²⁾	5,587	10,763

⁽¹⁾ Based on 2010 census.

⁽²⁾ Estimate.

Transportation. The City is served by U. S. Highway Nos. 278 and 63 and State Highway No. 8.

The City is also served by a municipal airport, which has a 3,199-foot paved runway and a 2,578-foot turf runway. Charter service is available at that airport. The nearest commercial airport is 95 miles away in Little Rock.

Government. The government of the City operates under the Mayor-City Council form of government. The current Mayor and members of the City Council, their principal occupations and their terms are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Denisa Pennington	Mayor	December 31, 2022
Zachary Burks	Retired	December 31, 2022
Memory Frazer	Education	December 31, 2022
Dorothy Henderson	Department of Human Services	December 31, 2022
Angela Marshall	Insurance Agent	December 31, 2022
Emily Mosely	Collector's Office	December 31, 2022
Joel Tolefree	Student	December 31, 2022

Medical Facilities. The City is served by one hospital, Bradley County Medical Center, which has approximately 33 beds.

Banks. The City is served by two banks that have their principal offices in the City: First State Bank of Warren and Warren Bank & Trust Company. The City is also served by a branch of Union Bank & Trust Company.

Education. Primary and secondary education for the City's inhabitants are provided by a public school system. The University of Arkansas at Monticello is located 16 miles from the City.

Economy. Set forth below are the characteristics of the major employers in the City.

<u>Company</u>	<u>Number of Employees</u>	<u>Product</u>
Bradley County Medical Center	290	Health Care
SEA Human Development Center	215	Adult Disability
Warren School District	241	Education
Potlatch/Deltic	204	Lumber
AHF/Armstrong	250	Lumber

Litigation. Other than as described under **THE SYSTEM**, Litigation, there is no material litigation or administrative proceeding pending or threatened against the City.

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

<u>Year</u>	<u>Per Capita Personal Income</u>
2015	\$35,317
2016	36,002
2017	37,412
2018	38,859
2019	39,980

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

<u>Year</u>	<u>Total Personal Income</u>
2015	\$388,456,000
2016	394,548,000
2017	404,535,000
2018	421,157,000
2019	430,310,000

Set forth below are the annual average unemployment rates for the County and the State since 2015:⁽²⁾

<u>Year</u>	<u>Annual Average Unemployment Rate (%)</u>	
	<u>County</u>	<u>State</u>
2015	5.8	5.0
2016	5.0	4.0
2017	4.6	3.7
2018	4.3	3.7
2019	4.1	3.5
2020	5.8	6.1

⁽¹⁾ Bureau of Economic Analysis, United States Department of Commerce; data for 2020 is not yet available.

⁽²⁾ Arkansas Department of Workforce Services

THE SYSTEM

General. The System, consisting of water and sewer utilities, is owned by the City and operated under the direct control of the Warren Water and Sewer Commission (the "Commission"). The names and occupations of members of the Commission are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Expiration of Term</u>
Boyce Hamlet, Chairman	Retired	January 2022
Kelly Ashcraft	Bank President	January 2025
Andrew Tolbert	Retired	January 2023

Operation and management of the System are provided by a utility staff under the direction of a general manager. Ms. Tenay Reep is the general manager of the System. She has held that position since 2017. The System employs 13 persons.

Water System. The water system is owned by the City and has a maximum pumping capacity of 5,250,000 gallons per day. The water supply is obtained from ground water. Chlorine and fluoride are added. There are two 250,000 gallon elevated storage tanks, one 400,000 gallon elevated storage tank and one 500,000 gallon clearwell.

The City supplies water under long term contracts to the Bradley County Rural Water Association, the Southwest Warren Water Association and the Bradley County, Arkansas Waterworks Facilities Board for the Corinth-Valley Community. There are approximately 140 other water users located outside the City. The approximate number of retail water users by category for each of the past five (5) years is as follows:

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
2016	2,270	338	2,608
2017	2,262	340	2,602
2018	2,255	334	2,589
2019	2,243	333	2,576
2020	2,244	329	2,573

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 Water Use in Gallons</u>
2016	904,808	1,250,000	330,255,000
2017	874,356	1,345,000	319,140,000
2018	913,781	1,680,000	333,530,000
2019	910,973	1,390,000	332,505,000
2020	875,780	1,230,000	319,665,000

Sewer System. The sanitary sewer system provides service inside the corporate boundaries of the City. There are two users located outside the City. The sewage is collected through a collection system consisting of 25 pumping stations which pump the sewage to a treatment plant. An aerated facultative lagoon system is used for treatment. The treatment capacity is 2,000,000 gallons per day.

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

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
2016	2,075	314	2,389
2017	2,070	314	2,384
2018	2,060	305	2,365
2019	2,048	304	2,352
2020	2,049	299	2,348

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

1. Bradley County Rural Water Association
2. AHF, LLC
3. Southwest Warren Water Association
4. Potlatch/Deltic
5. Oasis Trading

Litigation. On December 17, 2020, the Arkansas Department of Energy and Environment Division of Environmental Quality ("ADEQ") and the City entered into a Consent Administrative Order ("CAO") concerning, among other things, the City's failure to remove sludge from its wastewater treatment plant lagoon, violations of permitted effluent discharge limits and unpermitted discharges. The City has submitted to ADEQ a corrective action plan and milestone schedule with a final compliance date of December 31, 2021. The City must submit to ADEQ quarterly progress reports detailing the progress made with a final compliance report due on or before December 31, 2021. In compromise and full settlement of the violations specified in the CAO, the City paid to ADEQ a civil penalty of \$1,000 (subject to an additional \$1,000 due in the event that the City fails to comply with the CAO). Failure to meet any requirement or deadline in the CAO subjects the City to additional monetary penalties ranging from \$100 per day to \$1,000 per day, depending on the length of time such violations remain unresolved.

Rates. Set forth below are the basic monthly rates for the System:

Water Service

<u>Residential</u>	<u>Rate (per 1,000 gallons)</u>
First 1,000 gallons	\$8.50
1,001 to 20,000 gallons	2.40
Over 20,000 gallons	1.75
<u>Commercial</u>	<u>Rate (per 1,000 gallons)</u>
First 1,000 gallons	\$11.50
1,001 to 20,000 gallons	3.75
Over 20,000 gallons	2.00
<u>Wholesale</u>	<u>Rate (per 1,000 gallons)</u>
All usage	\$1.75

Sewer Service

<u>Residential</u>	<u>Rate (per 1,000 gallons)</u>
First 1,000 gallons	\$7.00
Over 1,000 gallons	2.10
<u>Commercial</u>	<u>Rate (per 1,000 gallons)</u>
First 1,000 gallons	\$10.00
Over 1,000 gallons	3.15

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. None of the facilities or services afforded by the System shall be furnished without a charge being made therefor.

(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 135% of the maximum annual principal and interest requirements on all outstanding bonds to which Revenues are pledged ("System Bonds"); provided, however, such balance shall be sufficient to make required deposits into the depreciation funds and any debt service reserve fund or account during the current and next ensuing fiscal years. 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 System revenues shall be paid into a special fund heretofore created and designated "Waterworks and Sewer Revenue Fund" (the "Revenue Fund").

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

If in any month for any reason there shall be a failure to transfer and pay the required amount into the Operation and Maintenance Fund, the amount of any deficiency shall be added to the amount otherwise required to be transferred and paid 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 paid from the Revenue Fund into the 2021 Water and Sewer Revenue Bond Fund created for the Bonds (the "Bond Fund"). Payments into the Bond Fund shall be made on the first business day of each month, commencing in July 2021, 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 and one-twelfth (1/12) of the next installment of principal of the Bonds; provided, however, the monthly payment to be made through November 2021 shall be in an amount equal to one-fifth (1/5) of the installment of interest on the Bonds due December 1, 2021, and the monthly installments for the principal due December 1, 2022 need not commence until December 2021.

The City shall also pay into the Bond Fund such additional sums as necessary to provide the Trustee's fees and expenses and other administrative charges and to pay any arbitrage rebate due under Section 148(f) of the Code. 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 therein derived from earnings on the Debt Service Reserve received during the preceding month and for transfers therein from funds held in connection with the Bond to be Refunded, if any.

There is created, as a part of the Bond Fund, a Debt Service Reserve which the City agrees to initially fund with available moneys of the System and continuously maintain in an amount equal to one-half of the maximum annual debt service 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.

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.

(d) After making the payments set forth above, there shall be transferred from the Revenue Fund into a special fund designated the "Water and Sewer Depreciation Fund" (the "Depreciation Fund"), on the first business day of each month, three percent (3%) of gross Revenues for the preceding month. 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 (including the Debt Service Reserve therein) and the Construction Fund. Other funds described herein shall be deposited in such depositories as designated from time to time by the City, provided that such depository or depositories shall hold membership in the Federal Deposit Insurance Corporation ("FDIC").

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 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 fiscal year next succeeding the fiscal year in which it is proposed to issue such additional bonds, 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 not in the regular employ of the City, 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.

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 one of the operation and maintenance funds, as appropriate.

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 one of the revenue funds, as appropriate, and if such proceeds shall be insufficient for such purposes the deficiency shall be supplied first from moneys in one of the depreciation funds, as appropriate, and second from moneys in one of the operation and maintenance funds, as appropriate, and third from surplus moneys in one of the revenue funds, as appropriate. 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) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America ("Investment Securities") and/or (2) cash sufficient to make such payment (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 Investment 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 Investment Securities.

When all the Bonds shall have been paid within the meaning of the Authorizing Ordinance, if the Trustee has been paid its fees and expenses and if any arbitrage rebate due under Section 148 of the Code has been paid or provision made therefor, 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 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. 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 as defined in (e) 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 Construction Fund may be continuously invested and reinvested by the City, in Permitted Investments as defined in (e) below or other investments as may from time to time be 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 Construction Fund will be required for the purposes intended.

(c) 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 (e) 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 the purposes intended.

(d) 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.

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

CONTINUING DISCLOSURE AGREEMENT

The City will enter into a Continuing Disclosure Agreement with the Trustee in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). During the past five years, the City has had no outstanding bonds for which it has had continuing disclosure obligations.

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 the 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 one hundred eighty (180) days after the end of the System's fiscal year (presently December 31), commencing with the report after the end of the 2021 fiscal year, provide to the MSRB through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the System may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the City. If the System's fiscal year changes, it shall give notice of such change in the manner as for a Listed Event.

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

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

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

1. Information of the type set forth in this Official Statement under the caption **THE SYSTEM** with respect to (i) 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 four previous fiscal years; (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 annual financial statements of the System prepared using accounting principles generally accepted in the United States of America, which shall be 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 are available to the public on the MSRB's website or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so incorporated by reference.

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security.
7. Modifications to rights of security holders, if material.
8. Bond calls (excluding mandatory sinking fund redemptions), if material.
9. Defeasances and tender offers.
10. Release, substitution, or sale of property securing repayment of the securities, if material.
11. Rating changes.

12. Bankruptcy, insolvency, receivership or similar event of the obligated person.
13. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material.
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

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

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

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

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

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

(a) If the amendment or waiver relates to the requirements for providing an Annual Report, to the contents of the Annual Report or the reporting of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change

in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

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

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

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

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

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

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

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

FINANCIAL INFORMATION

Set forth in Exhibit A to this Official Statement are audited financial statements of the System for the fiscal years ended December 31, 2020 and 2019. Such audited financial statements were prepared using accounting principles generally accepted in the United States of America and were 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.

Revenues and expenses of the System are summarized as follows for the preceding five (5) years:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues	\$1,510,581	\$1,519,555	\$1,573,661	\$1,427,523	\$1,354,015
Operating Expenses	<u>(1,048,505)</u>	<u>(1,080,037)</u>	<u>(1,135,593)</u>	<u>(1,347,449)</u>	<u>(1,189,798)</u>
Income Before Depreciation	462,076	439,518	438,068	80,074	164,217
Depreciation	<u>(218,563)</u>	<u>(202,587)</u>	<u>(192,389)</u>	<u>(185,170)</u>	<u>(184,694)</u>
Operating Income (Loss)	243,513	236,931	245,679	(105,096)	(20,477)
Other Revenue (Expense)	<u>(74,112)</u>	<u>(94,571)</u>	<u>(18,469)</u>	<u>(30,672)</u>	<u>(32,151)</u>
Change in Net Position	<u>\$169,401</u>	<u>\$142,360</u>	<u>\$227,210</u>	<u>(\$135,768)</u>	<u>(\$52,628)</u>

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DEBT SERVICE COVERAGE

The following table shows the net revenues available for debt service, the estimated amount of maximum annual debt service, and the extent to which debt service is covered by such funds. Estimated debt service coverage is calculated using the audited financial statements of the System for the years ended December 31, 2020 and 2019, which are attached hereto as Exhibit A.

Funds Available for Debt Service (A) ⁽¹⁾	\$462,076
Maximum Annual Debt Service on the Bonds (B)	213,263
Debt Service Coverage (A/B)	2.17x

⁽¹⁾ "Funds Available for Debt Service" means gross revenues of the System less amounts necessary to pay operation, maintenance and repair of the System (excluding depreciation expenses, interest and bond amortization expenses) based upon the audited financial statements of the System for the fiscal years ended December 31, 2020 and 2019.

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DEBT SERVICE REQUIREMENTS

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

<u>Year</u> <u>(December 31)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2021	-	\$ 34,744.43	\$ 34,744.43
2022	\$ 130,000	79,668.76	209,668.76
2023	135,000	77,068.76	212,068.76
2024	135,000	74,368.76	209,368.76
2025	140,000	71,668.76	211,668.76
2026	140,000	68,868.76	208,868.76
2027	145,000	67,293.76	212,293.76
2028	145,000	65,662.50	210,662.50
2029	145,000	63,487.50	208,487.50
2030	150,000	61,312.50	211,312.50
2031	150,000	58,687.50	208,687.50
2032	155,000	56,062.50	211,062.50
2033	160,000	52,962.50	212,962.50
2034	160,000	49,762.50	209,762.50
2035	165,000	46,562.50	211,562.50
2036	170,000	43,262.50	213,262.50
2037	170,000	39,862.50	209,862.50
2038	175,000	36,037.50	211,037.50
2039	180,000	32,100.00	212,100.00
2040	185,000	28,050.00	213,050.00
2041	185,000	23,887.50	208,887.50
2042	190,000	19,355.00	209,355.00
2043	195,000	14,700.00	209,700.00
2044	200,000	9,922.50	209,922.50
2045	205,000	5,022.50	210,022.50
TOTALS	\$3,910,000	\$1,180,381.99	\$5,090,381.99

LEGAL MATTERS

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

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

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

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

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

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

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 financed by the Bond to be Refunded 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 the 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 corporation 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 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.

As shown on the cover page 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 excluded 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.

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 \$3,847,940.85 (principal amount plus net original issue premium of \$6,365.85 less Underwriter's discount of 68,425). 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 WARREN, ARKANSAS

By /s/ Denisa Pennington
Mayor

Dated: As of the Cover Page hereof.

EXHIBIT A

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

CITY OF WARREN WATER & SEWER SYSTEM

FINANCIAL STATEMENTS

December 31, 2020 and 2019

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Commission of the
City of Warren Water & Sewer System

We have audited the accompanying financial statements of the Water and Sewer System, "the Organization", a component unit of the City of Warren, Arkansas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

As discussed in Note 1, the financial statements present only the Organization and do not purport to, and do not, present fairly the financial position of the City of Warren, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis and Budget to Actual Comparison required by accounting principles generally accepted in the United States of America to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Organization's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Searcy & Associates, LLC
Monticello, Arkansas
March 17, 2021

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
STATEMENT OF NET POSITION
December 31, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 1,399,396	\$ 1,728,768
Accounts receivable (net)	307,594	303,870
Prepaid expenses	-	10,839
Total current assets	<u>1,706,990</u>	<u>2,043,477</u>
Commission restricted cash and cash equivalents	2,023,285	1,424,098
<u>Restricted cash and investments</u>		
Meter deposits	154,400	148,125
Debt reserve funds	131,503	132,241
Total restricted cash and investments	<u>285,903</u>	<u>280,366</u>
Fixed assets, net of accumulated depreciation	4,256,122	4,382,548
Deferred outflow of resources related to pension	120,910	57,509
Total assets	<u>\$ 8,393,210</u>	<u>\$ 8,187,998</u>
<u>Liabilities and Net Position</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 27,030	\$ 27,030
Accrued interest	2,596	2,596
Accrued payroll	3,605	2,383
Accrued compensating absences	13,931	7,821
Accrued taxes payable	15,238	11,550
Solid waste payments due to city	56,962	53,938
Other accrued expenses	529	559
Current portion of bonds payable	47,323	45,547
Total current liabilities	<u>167,214</u>	<u>151,424</u>
<u>Long term liabilities</u>		
Bonds payable, net of current amount	673,242	720,567
Pension liability	633,361	539,571
Customer deposits	154,400	148,125
Total long term liabilities	<u>1,461,003</u>	<u>1,408,263</u>
Deferred inflow of resources related to pension	54,929	87,648
<u>Net position</u>		
Invested in capital assets, net of related debt	3,535,557	3,616,434
Restricted	131,503	132,241
Unrestricted	<u>3,043,004</u>	<u>2,791,988</u>
Total net position	<u>6,710,064</u>	<u>6,540,663</u>
Total liabilities and net position	<u>\$ 8,393,210</u>	<u>\$ 8,187,998</u>

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

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Operating revenues</u>		
Water sales	\$ 882,768	\$ 900,895
Sewer sales	585,966	591,012
Rural water operating fees	26,733	25,615
Other operating revenue	15,114	2,033
Total operating revenue	1,510,581	1,519,555
 <u>Operating expenses</u>		
Plant operations and distribution	865,169	906,273
General and administrative	183,336	173,764
Depreciation	218,563	202,587
Total operating expenses	1,267,068	1,282,624
Income / (loss) from operations	243,513	236,931
 <u>Other revenue / (expenses)</u>		
Interest income	21,993	35,109
Pension expense	(65,429)	(97,467)
Interest expense	(30,676)	(32,213)
Total other revenue / (expenses)	(74,112)	(94,571)
<u>Excess (deficit) of revenues over expenses</u>	169,401	142,360
<u>Change in net position</u>	169,401	142,360
<u>Net position, beginning of year</u>	6,540,663	6,398,303
Change in net invested in capital assets	(80,877)	(71,255)
Change in restricted assets	(738)	39,599
Change in unrestricted assets	251,016	174,016
Change in net position	169,401	142,360
<u>Net position, end of year</u>	\$ 6,710,064	\$ 6,540,663

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

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 1,506,857	\$ 1,520,657
Payments for salaries and benefits	(559,125)	(545,943)
Payments for operating and administrative expenses	(464,527)	(532,167)
Net cash provided by (used for) operating activities	<u>483,205</u>	<u>442,547</u>
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(92,137)	(87,493)
Interest income	21,993	35,109
Net cash provided by (used for) investing activities	<u>(70,144)</u>	<u>(52,384)</u>
<u>Cash flows from financing activities</u>		
Principal payments on debt	(45,549)	(43,839)
Interest payments	(30,676)	(32,213)
Change in pension liability	93,790	(11,969)
Pension expense	(65,429)	(97,467)
Change in deferred outflows / inflows	(96,120)	43,282
Change in customer deposits	6,275	5,752
Net cash provided by (used for) financing activities	<u>(137,709)</u>	<u>(136,454)</u>
<u>Change in cash and cash equivalents</u>	275,352	253,709
<u>Cash and cash equivalents, beginning of year</u>	3,433,232	3,179,523
<u>Cash and cash equivalents, end of year</u>	<u>3,708,584</u>	<u>3,433,232</u>
<u>Cash and cash equivalents</u>	1,399,396	1,728,768
<u>Commission restricted cash and cash equivalents</u>	2,023,285	1,424,098
<u>Restricted cash and cash equivalents</u>	285,903	280,366
	<u>\$ 3,708,584</u>	<u>\$ 3,433,232</u>

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

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
STATEMENT OF CASH FLOWS (Continued)

For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Reconciliation of operating income to net cash from operating activities:</u>		
Operating income (loss)	\$ 243,513	\$ 236,931
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	218,563	202,587
Changes in assets and liabilities:		
Accounts receivable	(3,724)	1,102
Prepaid expenses	10,839	(5,059)
Accounts payable	-	-
Accrued interest	-	-
Accrued payroll	1,222	2,383
Accrued compensating absences	6,110	7,821
Accrued taxes payable	3,688	1,943
Solid waste payments due to city	3,024	2,528
Other accrued expenses	(30)	(7,689)
Total adjustments	239,692	205,616
Net cash provided by (used for) operating activities	\$ 483,205	\$ 442,547

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

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Water and Sewer System (the “Organization”) is a component unit of the City of Warren, Arkansas. The Organization is governed by a commission, which is appointed by the City Council. The Organization provides water and sewer services to the City of Warren and certain surrounding areas. The Commission approves the rate changes of the Organization’s services. The debt of the Organization is maintained in the name of the City of Warren.

B. Fund Type

The Organization is an enterprise fund, 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 the costs (expenses, including depreciation) 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 policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Organization. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Organization.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Organization applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

D. Use of Estimate

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the 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 expenditures during the reporting period. Actual results could differ from those estimates.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

E. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

Accounts Receivable

Accounts receivable relate to water and sewer service billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of the past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant	20-40 years
Wells & Water Tanks	20-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and over \$1,000. The cost basis of fully depreciated property and equipment still in use by the Organization at December 31, 2020 amounted to \$343,831.

Compensated Absences

The Organization's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Vacation and sick leave benefits are recognized as an expense when incurred. Any portion of the incurred benefit not paid at the end of the accounting period is recorded as a liability in the financial statements. Accrued compensated absences as of December 31, 2020 and 2019 were \$13,931 and \$7,821, respectively.

Deferred Outflow / Inflow of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources(expense) until then. The Organization has qualifying items for reporting in this category. Deferred outflows of resources include those related to pension changes for the Organization.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an increase to net position that applies to a future period and is recognized as an inflow of resources (revenue) until that time. The Organization has qualifying items for reporting in this category. Deferred inflows of resources include those related to pension changes for the Organization.

Pension

The Organization maintains one cost-sharing, multiple employer, defined benefit retirement plan. The plan is sponsored by the Arkansas Public Employee Retirement System.

For purposes of measuring the net pension asset or liability, deferred outflow of resources and deferred inflow of resources related to pension, and pension expense have been determined on the same basis as they are reported by the actuary. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the plan. Expenses of the plans, such as investment fees, trustee fees, and audit fees, are paid by the plan. However, certain administrative functions are performed by employees of the Organization and are not reimbursed by the plan.

Net Position Classifications

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.
- Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

F. Date of Management’s Review

The Organization evaluated its December 31, 2020 financial statements for subsequent events through March 17, 2021, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

Arkansas Code Annotated 19-1-501 outlines the eligible investments allowed by a municipality along with Certificates of Deposits when secured in compliance with Arkansas Code 19-8-202. Deposits in excess of Federal Deposit Insurance (FDIC) are required to be secured by qualified pledged securities allowed by the Code to mitigate custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure a government’s deposits may not be returned to it.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2020.

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions' trust Organization in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust Organization or agent in the Organization's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Organization's bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 3,153,756	\$ 250,000	\$ 2,903,756	\$ -
Bank B	383,654	250,000	\$ 133,654	-
Bank C	239,868	239,868	-	-
Total	<u>\$ 3,777,278</u>	<u>\$ 739,868</u>	<u>\$ 3,037,410</u>	<u>\$ -</u>

The amounts shown are bank ledger balances of the referenced bank's deposits and may differ from the Organization's general ledger balances.

The Organization has certain amounts of its cash accounts restricted at December 31, 2020 and 2019 as follows:

	2020	2019
Meter deposits	\$ 154,400	\$ 148,125
Debt reserve requirements	131,503	132,241
Total restricted cash	<u>\$ 285,903</u>	<u>\$ 280,366</u>

The debt reserve cash requirements are restricted for use of replacement of certain equipment securing the bonded indebtedness or for their repairs during the term of the debt and for the use of annual debt service payments for the Organization's indebtedness.

Customers' meter deposits are restricted for the use of refunding a departing customers' refund upon leaving the Organization or for off-setting any amounts owed by the customer upon departure.

It is the Organization's policy to use other available cash for equipment replacement or repairs rather than the restricted amounts.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

NOTE 3 – CHANGES IN FIXED ASSETS

	Balance December 31, 2018	Transfers	Additions	Disposals	Balance December 31, 2019
Land	158,419	-	-	-	158,419
System improvements	5,853,933	183,180	63,850	-	6,100,963
Equipment	132,298	-	-	-	132,298
Sewer plant	3,673,740	-	-	-	3,673,740
Trucks	153,925	-	19,129	-	173,053
Office	8,626	-	4,515	-	13,141
Wells	597,371	-	-	-	597,371
Construction in progress	183,180	(183,180)	-	-	-
	<u>10,761,492</u>	<u>-</u>	<u>87,494</u>	<u>-</u>	<u>10,848,985</u>
Accumulated depreciation	<u>(6,263,850)</u>	<u>-</u>	<u>(202,587)</u>	<u>-</u>	<u>(6,466,437)</u>
	<u>\$ 4,497,642</u>	<u>\$ -</u>	<u>\$ (115,093)</u>	<u>\$ -</u>	<u>\$ 4,382,548</u>

	Balance December 31, 2019	Transfers	Additions	Disposals	Balance December 31, 2020
Land	158,419	-	9,894	-	168,313
System improvements	6,100,963	-	37,179	-	6,138,142
Equipment	132,298	-	32,597	-	164,895
Sewer plant	3,673,740	-	-	-	3,673,740
Trucks	173,053	-	-	-	173,053
Office	13,141	-	6,467	-	19,608
Wells	597,371	-	-	-	597,371
Construction in progress	-	-	6,000	-	6,000
	<u>10,848,985</u>	<u>-</u>	<u>92,137</u>	<u>-</u>	<u>10,941,122</u>
Accumulated depreciation	<u>(6,466,437)</u>	<u>-</u>	<u>(218,563)</u>	<u>-</u>	<u>(6,685,000)</u>
	<u>\$ 4,382,548</u>	<u>\$ -</u>	<u>\$ (126,426)</u>	<u>\$ -</u>	<u>\$ 4,256,122</u>

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2020 and 2019

NOTE 4 – LONG-TERM DEBT

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

	2020	2019
Note payable to the Arkansas Natural Resource Commission for the purchase of property and equipment, payable in annual installments of \$75,425, including principal and interest through December 2033; interest at 3.9%, secured by property and equipment	\$ 720,565	\$ 766,115

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the year ending December 31, 2020:

	Principal	Interest
2020	\$ 47,323	\$ 28,102
2021	49,169	26,256
2022	51,086	24,339
2023	53,079	22,346
2024	55,149	20,276
2025-2029	309,734	67,392
2030-2034	155,025	9,915
	\$ 720,565	\$ 198,626

NOTE 5 – PENSION

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Organization of Finance and Administration.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2020. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

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

The collective Net Pension Liability of \$2,863,584,500 was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Deferred outflows of resources and deferred inflows of resources related to pensions for your employer are as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 8,408	\$ (419)
Changes in proportion and differences between employer contributions and proportionate share of contribution	3,170	(43,658)
Changes of assumptions	7,935	(10,852)
Contributions subsequent to measurement date	34,379	-
Net difference between projected and actual earnings on pension plan investments	67,018	-
Total	\$ 120,910	\$ (54,929)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

2021	2022	2023	2024	2025	Thereafter
\$(15,331)	\$ 3,190	\$ 23,970	\$ 19,773	\$ -	\$ -

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	26 years (7.6 years for District Judges New Plan/Paid Off Old Plan and 16 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 – 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Average Service Life of All Members	4.0486

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2020 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	100%	
Total Real Rate of Return		4.93%
Plus: Price Inflation- Actuary Assumption		2.50%
Net Expected Return		7.43%

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)
 December 31, 2020 and 2019

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Lower	Discount Rate	1% Higher
6.15%	7.15%	8.15%
\$ 964,656	\$ 633,361	\$ 359,968

NOTE 6 – RISK MANAGEMENT

The Organization is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 7 – DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PROCEDURES

Management has elected to omit the Budget to Actual Comparison and the Management Discussion and Analysis of the Organization from the financial statements which are required by GAAP.

REQUIRED SUPPLEMENTARY INFORMATION

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Years Ended December 31, 2020 through 2015

	2020	2019	2018	2017	2016	2015 *
Proportion of the net pension liability	0.022%	0.022%	0.025%	0.027%	0.025%	0.024%
Proportionate share of the net pension liability	\$ 633,361	\$ 539,571	\$ 551,540	\$ 692,976	\$ 594,716	\$ 437,319
Covered - employee payroll	\$ 448,369	\$ 441,530	\$ 447,512	\$ 490,801	\$ 463,639	\$ 437,355
Proportionate share of the net pension liability as percentage of covered - employee payroll	141.26%	122.20%	123.25%	141.19%	128.27%	99.99%
Plan's fiduciary net position as a percentage of the total pension liability	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%

* Fiscal Year 2015 was the first year of implementation, and is based on actuarial valuation as of June 30, 2014, therefore only six years are shown.

See independent auditor's report.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
SCHEDULE OF CONTRIBUTIONS

For the Years Ended December 31, 2020 through 2015

	2020	2019	2018	2017	2016	2015 *
Contractually required contribution	\$ 66,114	\$ 66,154	\$ 66,358	\$ 71,174	\$ 67,297	\$ 63,135
Contributions in relation to the contractually required contribution	\$ (66,114)	\$ (66,154)	\$ (66,358)	\$ (71,174)	\$ (67,297)	\$ (63,135)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department's covered - employee payroll	\$ 448,369	\$ 441,530	\$ 447,512	\$ 490,801	\$ 463,639	\$ 437,355
Contributions as a percentage of covered - employee payroll	14.75%	14.98%	14.83%	14.50%	14.51%	14.44%

* Fiscal Year 2015 was the first year of implementation, therefore only six years are shown. Information in this schedule has been determined as of the most recent fiscal year-end.

See independent auditor's report.

SUPPLEMENTARY INFORMATION

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
SCHEDULE OF OPERATING EXPENSES

For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Plant operations and distributions</u>		
Salaries, wages, and benefits	\$ 426,622	\$ 419,101
Payroll taxes	26,543	25,817
Repairs and maintenance	76,483	109,415
Utilities	178,375	189,749
Insurance	27,689	21,851
Travel expenses	38,572	33,646
License, permits, fees	32,213	30,711
Contract labor	17,413	17,105
Operating supplies and other	41,258	58,878
Total plant operations and distributions	865,169	906,273
 <u>General and administrative</u>		
Salaries, wages, and benefits	106,656	104,775
Payroll taxes	6,636	6,454
Office supplies	42,253	39,980
Professional fees	6,350	6,419
Communication	5,011	5,217
Bad debt	16,431	10,919
Total general and administrative	183,336	173,764
 <u>Depreciation</u>	218,563	202,587
 Total operating expenses	\$ 1,267,068	\$ 1,282,624

See independent auditor's report.

WATER & SEWER SYSTEM OF THE CITY OF WARREN, ARKANSAS
SCHEDULE OF CASH ACCOUNTS

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Cash and Cash Equivalents</u>		
Water and sewer operations and maintenance account	\$ 111,250	\$ 111,250
Water and sewer fund account	798,192	1,132,149
Water and sewer payroll account	100	100
Water and sewer tax account	10,000	10,000
Water and sewer APERS account	5,000	5,000
Certificates of deposit, water and sewer fund	<u>474,854</u>	<u>470,269</u>
Total cash and cash equivalents	<u>\$ 1,399,396</u>	<u>\$ 1,728,768</u>
 <u>Commission Restricted Funds</u>		
Certificates of deposit meter funds	\$ 97,072	\$ 100,019
2002 bond reserve	134,049	131,632
Certificates of deposit WWS bond fund	50,000	50,000
Certificates of deposit depreciation fund	238,776	235,734
New meter deposit account	287,683	253,874
New construction relocation project	<u>1,215,705</u>	<u>652,839</u>
Total commission restricted funds	<u>\$ 2,023,285</u>	<u>\$ 1,424,098</u>

See independent auditor's report.

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Commission of the
City of Warren Water & Sewer System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the Water and Sewer System ("the Organization"), a component unit of the City of Warren, Arkansas, which comprise the statement of net position as of December 31, 2020 and 2019 and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated March 17, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Searcy & Associates LLC". The signature is written in a cursive, flowing style.

Searcy & Associates, LLC
Monticello, Arkansas
March 17, 2021