

*In the opinion of Bond Counsel, under existing law, assuming compliance with certain covenants described herein, (i) interest on the 2014 Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the 2014 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (iii) with respect to corporations, interest on the 2014 Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax, (iv) the Series 2014 Bonds are qualified tax-exempt obligations within the meaning of Section 265 of the Internal Revenue Code, (v) interest on the 2014 Bonds is exempt from State of Arkansas income tax, and (vi) the 2014 Bonds are exempt from property taxes in the State of Arkansas. (See **TAX EXEMPTION**)*

\$10,000,000
CARROLL-BOONE (ARKANSAS) WATER DISTRICT
WATER REFUNDING AND IMPROVEMENT
REVENUE BONDS
SERIES 2014

Dated: December 1, 2014

Due: December 1, as shown below

The 2014 Bonds mature on December 1 in the years and in the amounts, bear interest at the rates and are priced to yield as follows:

MATURITY SCHEDULE

\$6,885,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Rate (%)</u>	<u>Yield (%)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate (%)</u>	<u>Yield (%)</u>
2015	\$390,000	1.000	0.500	2023	\$460,000	2.900	2.900
2016	395,000	1.500	0.900	2024	475,000	3.050	3.050
2017	405,000	2.000	1.250	2025	490,000	3.250	3.250
2018	410,000	2.000	1.600	2026	505,000	3.350	3.350
2019	420,000	2.000	1.900	2027	520,000	3.400	3.400
2020	430,000	2.250	2.250	2028	540,000	3.450	3.450
2021	435,000	2.550	2.550	2029	560,000	3.500	3.500
2022	450,000	2.800	2.800				

\$3,115,000 3.875% Term Bonds due December 1, 2034 to Yield 4.000%

(Plus accrued interest from December 1, 2014)

The 2014 Bonds do not constitute an indebtedness for which the faith and credit of the State of Arkansas or any political subdivision thereof are pledged. The District has no taxing power. The payment of principal of and interest on the 2014 Bonds is primarily secured by and payable from a pledge of the District's revenues and other resources pursuant to the terms of a Trust Indenture between the District and Simmons First Trust Company, N.A., as Trustee.

Interest on the 2014 Bonds is payable on June 1 and December 1 of each year, commencing on June 1, 2015. The 2014 Bonds are issuable in fully registered form in the denomination of \$5,000 or integral multiples thereof. The 2014 Bonds are subject to redemption prior to maturity as described herein.

The 2014 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2014 Bonds. Purchases will be made in book-entry form through DTC participants and no physical delivery of the 2014 Bonds will be made to purchasers of the 2014 Bonds, except as described herein. Payment of principal and interest on the 2014 Bonds will be made to purchasers by DTC through its participants.

The 2014 Bonds are offered when, as and if issued, subject to approval as to the legality by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, and subject to satisfaction of certain other conditions. Delivery of the 2014 Bonds is expected in New York, New York, on or about December 18, 2014.

Stephens Inc.

Dated: December 10, 2014

No dealer, broker, salesman or any other person has been authorized by the District 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 2014 Bonds described herein and, if given or made, such information or representations must not be relied upon as having been authorized by the District. 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 affairs of the District 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 2014 Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Trust Indenture 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.

CONTENTS OF OFFICIAL STATEMENT

	<u>Page</u>
Introduction to Official Statement	1
Book-Entry System	1
Authority	3
Purpose of the 2014 Bonds	3
The 2014 Bonds	4
Security for the 2014 Bonds	6
Sources and Uses of Funds	8
The District	8
Financial Information	11
Debt Service Schedule	12
Debt Service Coverage	12
The Participating Cities	13
The Indenture	17
The Continuing Disclosure Agreement	25
Tax Exemption	29
Legality	31
Litigation	31
Enforceability of Remedies	31
Underwriting	32
Miscellaneous	32

Appendix A - Audited financial statements of the District for the fiscal years ended September 30, 2014 and 2013

OFFICIAL STATEMENT

\$10,000,000
CARROLL-BOONE (ARKANSAS) WATER DISTRICT
WATER REFUNDING AND IMPROVEMENT
REVENUE BONDS
SERIES 2014

INTRODUCTION TO OFFICIAL STATEMENT

This Official Statement is furnished to prospective investors in connection with the sale by the Carroll-Boone Water District, a duly existing regional water distribution district and body corporate and public instrumentality under the Constitution and laws of the State of Arkansas (the "District"), of its Water Refunding and Improvement Revenue Bonds, Series 2014, in the principal amount of \$10,000,000 (the "2014 Bonds"). The 2014 Bonds mature and bear interest as shown on the cover page.

The 2014 Bonds are being issued for the purpose of refunding the District's Water Revenue Refunding and Improvement Bonds, Series 1998 (the "Bonds Refunded") and financing all or a portion of the costs of capital improvements (the "2014 Improvements"). See **PURPOSE OF THE 2014 BONDS**. The 2014 Bonds are issued under and are secured by a Trust Indenture between the District and Simmons First Trust Company, N.A., as Trustee (the "Trustee"), dated as of December 1, 2014 (the "Indenture" or the "Trust Indenture"). See **THE INDENTURE**. The only outstanding bonded indebtedness of the District is the Bonds Refunded.

The 2014 Bonds will be issued pursuant to a Resolution adopted by the Board of Directors of the District.

The 2014 Bonds will be initially issued in book-entry form and purchasers of the 2014 Bonds will not receive certificates representing their interest in the Bonds purchased. See **BOOK-ENTRY SYSTEM**. The 2014 Bonds will contain such other terms and provisions as described herein. See **THE 2014 BONDS, Generally**.

The 2014 Bonds are primarily payable from, and secured by a pledge of, the District's revenues and other resources, including particularly, and without limitation, revenues derived pursuant to a contract among the District and the Cities of Eureka Springs, Berryville, Green Forest and Harrison, Arkansas (the "Participating Cities"), and a lien on and security interest in the District's properties. The water contract is not a take, take or pay or requirements contract. The Participating Cities are not in any way obligated to pay the principal of and interest on the 2014 Bonds. See **SECURITY FOR THE 2014 BONDS, THE DISTRICT** and **THE PARTICIPATING CITIES**.

This Official Statement contains brief descriptions of the 2014 Bonds, security for the 2014 Bonds, the District, the Participating Cities, the Indenture and the Continuing Disclosure Agreement (hereinafter identified). The descriptions and summaries herein do not purport to be comprehensive or definitive and reference is made to each document or statute for the complete details of all terms and conditions. Terms not defined herein shall have the meanings set forth in the respective documents.

BOOK-ENTRY SYSTEM

Ownership interests in the 2014 Bonds will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by The Depository Trust Company, New York, New York ("DTC").

DTC, or its successor, will act as securities depository for the 2014 Bonds. The 2014 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 2014 Bond certificate for each maturity and interest rate 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 and www.dtc.org.

Purchases of 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014 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 2014 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 2014 Bonds, except in the event that use of the book-entry system for the 2014 Bonds is discontinued.

To facilitate subsequent transfers, all 2014 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 2014 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 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 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 only to Cede & Co. If fewer than all of the 2014 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 2014 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 District 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 2014 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 2014 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 District 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 District, 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 2014 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2014 Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2014 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 District make any representation or warranty regarding the accuracy or completeness thereof.

So long as the 2014 Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the 2014 Bonds for all purposes under the Indenture, including receipt of all principal of and interest on the 2014 Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture. The District 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 2014 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 Indenture to be given to owners of 2014 Bonds; or (d) other action taken by DTC or Cede & Co. as owner of the 2014 Bonds.

AUTHORITY

The 2014 Bonds are being issued under the authority of the Constitution and laws of the State of Arkansas, including particularly Chapter 116 of Title 14, Arkansas Code of 1987 Annotated (the "Act"). The Board of Directors of the District will authorize by resolution the issuance of the 2014 Bonds and the execution and delivery of the Trust Indenture.

PURPOSE OF THE 2014 BONDS

The 2014 Bonds are being issued to current refund the Bonds Refunded, finance all or a portion of the 2014 Improvements, fund a debt service reserve and pay expenses of issuing the 2014 Bonds.

The 2014 Improvements constitute a portion of "Phase I" of three phases of improvements currently planned by the District as described in the District's Master Plan dated September 2013 (the "Master Plan"). The Phase I improvements consist of the acquisition, construction, installation and equipping of extensions, betterments and improvements to the water facilities of the District, including particularly, without limitation, (a) the acquisition, construction and installation of approximately 38,000 linear feet of 36-inch transmission lines from the water treatment facilities to a point near the City of Eureka Springs, including connections and appurtenances, (b) the acquisition, construction and installation of parallel pipeline under the Kings River, including connections and appurtenances and (c) the acquisition and installation of a high service pump with controls and associated appurtenances at the Westside Treatment Plant. It is expected that the acquisition, construction, installation and equipping of the 2014 Improvements will commence in March 2015 and will be completed by December 2016.

To finance the remainder of the Phase I improvements, the District expects to issue Additional Bonds (defined herein) in 2015 in the approximate principal amount of \$7,500,000.

Based on the Master Plan, the District expects to commence "Phase II" of the improvements in 2018. The Phase II Improvements include approximately 23,000 linear feet of transmission lines and an expansion to the Green-Berry Booster Station. The Phase II improvements are expected to cost approximately \$9,400,000.

Based on the Master Plan, the District expects to commence "Phase III" of the improvements in 2023. The Phase III Improvements include approximately 25,000 linear feet of transmission lines and expansions to the Pine Mountain Booster Station, the raw water pumping facilities and the water treatment facilities. The Phase III improvements are expected to cost approximately \$16,400,000.

A portion of the 2014 Bond proceeds and other available funds will be used to redeem the Bonds Refunded on January 20, 2015, or the first practical date thereafter, at a price of par plus accrued interest.

The Bonds Refunded (a) financed a portion of the cost of improvements to the District's water treatment and distribution facilities, (b) refunded the District's Water Revenue Refunding Bonds, Series 1993 and the District's Water Revenue Bonds, Series 1993B, and (c) prepaid certain loans from the Arkansas Natural Resources Commission (formerly the Arkansas Soil and Water Conservation Commission).

THE 2014 BONDS

Generally. The 2014 Bonds mature and bear interest from their dates at the rates and are payable at the times shown on the cover page. The 2014 Bonds shall be dated as shown on the cover page.

The 2014 Bonds are issued and secured under the Trust Indenture. Additional Bonds may be issued on a parity with the 2014 Bonds upon compliance with certain requirements for the issuance of Additional Bonds. See **SECURITY FOR THE 2014 BONDS**, Additional Bonds.

The 2014 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 Trust Indenture. In the event any 2014 Bond is mutilated, lost or destroyed, the District may execute and the Trustee may authenticate a new 2014 Bond in accordance with the provisions therefor in the Trust Indenture.

Each 2014 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 2014 Bond or Bonds of the same maturity and interest rate, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange therefor.

There shall be no charge to the transferor or transferee for any transfer, except an amount or amounts sufficient to reimburse the District and the Trustee for any tax, fee or other governmental charge required to be paid with respect to such transfer. Neither the District nor the Trustee shall be required to make transfers of registration with respect to any 2014 Bond or portion thereof called for redemption prior to maturity within thirty (30) days prior to its redemption date.

The person in whose name any 2014 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 2014 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 2014 Bond to the extent of the sum or sums so paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Optional Redemption. The 2014 Bonds are subject to redemption at the option of the District, on and after June 1, 2020, from funds from any source, in whole at any time or in part on any interest payment date, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the 2014 Bonds shall be called for redemption, the particular maturities of the 2014 Bonds to be redeemed shall be selected by the District in its discretion. If fewer than all of the 2014 Bonds of any one maturity shall be called for redemption, the particular 2014 Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

Extraordinary Redemption. The 2014 Bonds are subject to mandatory redemption prior to maturity, in part, on any interest payment date, from proceeds of the 2014 Bonds deposited into the Construction Fund (hereinafter identified) that are in excess of the amounts necessary to pay costs of the 2014 Improvements and costs incidental thereto and to the issuance of the 2014 Bonds. Redemption shall be in inverse order of maturities and by lot (in such manner as the Trustee shall determine) within a maturity.

Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the 2014 Bonds maturing on December 1, 2034 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, 2034

Year (December 1)	Principal Amount
2030	\$575,000
2031	600,000
2032	625,000
2033	645,000
2034 (maturity)	670,000

Notice of Redemption. The Trustee shall give notice of the call for redemption by first class mail placed in the mails, postage prepaid, or by other standard means, including electronic or facsimile communication, not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption, to the registered owner of any 2014 Bond called for redemption, addressed to such registered owner's registered address. After the date specified in such call, the 2014 Bonds or portions thereof (which must be integral multiples of \$5,000) so called will cease to bear interest provided funds for their payment have been deposited with the Trustee.

Notwithstanding the above, so long as the 2014 Bonds are issued in book-entry only form, if fewer than all the 2014 Bonds of an issue are called for redemption, the particular 2014 Bonds to be redeemed will be selected pursuant to the procedures established by DTC. So long as the 2014 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 2014 Bonds.**

SECURITY FOR THE 2014 BONDS

The 2014 Bonds are secured by a pledge of the revenues and other resources of the District. The 2014 Bonds are further secured by a lien on and security interest in all property now owned by the District and replacements thereof. See **THE INDENTURE, Security for the 2014 Bonds**. The only outstanding bonded indebtedness of the District is the Bonds Refunded.

The District has no taxing power. The resources of the District are limited to the water facilities and the revenues derived from the sale of water produced by said facilities including payment made by the Participating Cities pursuant to the Memorandum of Understanding (hereinafter defined). The Memorandum of Understanding does not constitute a take, take or pay or requirements contract. The Participating Cities are not in any way obligated to pay to principal of and interest on the 2014 Bonds. See **THE DISTRICT** for a discussion of the Participating Cities' obligations under the Memorandum of Understanding.

The District is a public water distribution district organized for the purpose of providing treated drinking water on a regional basis. Specifically, the District takes water from Beaver Reservoir and treats it for sale to the Participating Cities. The District has entered into a water supply contract with the United States Corps of Engineers which entitles the District to withdraw municipal and industrial water from Beaver Reservoir in specified amounts and obligates the District to make certain payments. See **THE DISTRICT**.

The District shall fund, with proceeds of the 2014 Bonds, a debt service reserve in an amount equal to one-half of the maximum annual principal and interest requirements on all outstanding 2014 Bonds and Additional Bonds. See **THE INDENTURE, Debt Service Reserve Fund**.

Additional Bonds. The District has reserved the right to issue additional bonds under the Indenture ("Additional Bonds"). Before any Additional Bonds can be issued, there must be filed with the Trustee the following:

(1) A copy, certified by the Secretary of the District, of the resolution authorizing the Additional Bonds and directing their delivery to or upon the order of purchasers therein named upon payment of the purchase price therein set forth;

(2) A certificate of the President of the District stating that no event of default specified in the Indenture has happened and is then continuing;

(3) An opinion of counsel selected by the District but satisfactory to the Trustee that all required legal action precedent to the issuance of the Additional Bonds have been taken and that, when executed, authenticated and delivered, such bonds will be valid, binding and enforceable obligations of the District secured by the Indenture on a parity with previously issued Bonds secured thereby;

(4) A certificate of an independent certified public accountant to the effect that "adjusted gross revenues" of the District (hereinafter defined) for the fiscal year immediately preceding the delivery of the Additional Bonds (the "immediately preceding fiscal year") were sufficient in amount:

(a) to pay all operation and maintenance expenses of the District (exclusive of depreciation and debt service expenses) for the immediately preceding fiscal year; and

(b) to make all payments into the funds of the District created by the Indenture (exclusive of the Operation and Maintenance Fund and the Bond Fund) required by the provisions of the Indenture to be made during the immediately preceding fiscal year, if any; and

(c) to leave a balance equal to not less than 120% of the combined maximum annual principal and interest requirements during the current or any subsequent fiscal year of the District for (A) the then outstanding 2014 Bonds, (B) any then outstanding Additional Bonds, (C) the Additional Bonds then held by the Trustee for delivery and (D) any then outstanding Parity Obligations (hereinafter defined).

The Additional Bonds shall be dated, interest shall be payable semiannually on the dates, the principal shall mature as serial bonds or as term bonds, or as a combination thereof, and they may contain provisions for redemption prior to maturity as well as other provisions, all as shall be set forth in the resolution authorizing their issuance. The authorizing resolution shall set forth the details concerning the Additional Bonds, which shall be embodied in a supplemental indenture by and between the District and the Trustee. All such Additional Bonds shall be issued on a parity with all other bonds issued under the Indenture, including the 2014 Bonds.

The term "adjusted gross revenues" means:

(1) The gross revenues actually received by the District during the fiscal year immediately preceding the delivery of the Additional Bonds; plus

(2) Any additional revenues (as projected by the accountant executing the certificate as to adjusted gross revenues, on the basis of actual water sales) that would have been derived from a rate increase actually placed into effect after the beginning of such fiscal year if such rate increase had been in effect throughout the fiscal year; plus

(3) Any additional annual revenues as projected in a certificate of an independent consulting engineer (on the basis of the then current water rates) to be derived from new customers to be served upon completion of improvements then under construction or to be financed from the proceeds of the Additional Bonds delivered to the Trustee.

The District may issue bonds or other obligations of indebtedness other than under the Indenture. Such obligations may be issued on a parity with bonds issued under the Indenture, including the 2014 Bonds, subject to meeting the requirements for the issuance of Additional Bonds, as described above ("Parity Obligations"). Otherwise, other obligations shall be subject and subordinate to all bonds then outstanding or thereafter issued under the Indenture.

SOURCES AND USES OF FUNDS

SOURCES:

Principal Amount of 2014 Bonds	\$10,000,000
Funds from Bonds Refunded	418,771
Net Original Issue Discount	<u>(29,810)</u>
 Total Sources	 \$10,388,961

USES:

Costs of 2014 Improvements	\$7,619,578
Refunding Costs	2,244,556
Debt Service Reserve	350,327
Underwriter's Discount	120,000
Costs of Issuance	<u>54,500</u>
 Total Uses	 \$10,388,961

THE DISTRICT

The Carroll County Water District and the Boone County Water District were established by separate circuit court orders, each entered in 1970, as public water distribution districts under The Regional Water Distribution District Act, to develop long-term water supplies for the cities and industries in the two counties. In 1971, after an extensive study by the consulting engineering firm employed by both water districts, the decision was made to initiate the development of a project to utilize Beaver Reservoir as an area-wide water supply and to construct a 55 mile transmission line to serve the two counties. It was at this time that the four major cities (Eureka Springs, Berryville, Green Forest and Harrison) in the two counties made a formal commitment to participate in the project.

During the following five years, the site was selected for the intake structure on Beaver Reservoir. After securing approval of the site by the Corps of Engineers and State regulatory agencies an agreement was secured on the sale of water by the Corps of Engineers, studies were made to determine the engineering and financial feasibility of the project, negotiation and purchase of land required for the intake structure and treatment plant and funding sources were obtained.

In 1976 the two water districts merged (pursuant to Ark. Acts 1975, No. 208, codified as Arkansas Code Annotated 14-116-106) to become Carroll-Boone Water District in an effort to undertake the construction and operation of the area-wide water system.

In 1977 contracts were signed with the Corps of Engineers, after approval by Congress, for water storage in Beaver Reservoir. The four major cities, Eureka Springs, Berryville, Green Forest and Harrison, agreed to underwrite the cost of operation and the debt service requirements of the project.

In order to provide a supplemental supply of treated water to the Cities of Eureka Springs, Berryville, Green Forest and Harrison (collectively the "Participating Cities"), the District acquired and constructed an intake structure, treatment plant and transmission lines (the "Improvements"). The Improvements were completed in phases.

The District (i) constructed, adjacent to Beaver Lake Reservoir, a 24-million gallon per day intake structure and a 6-million gallon per day treatment plant, (ii) constructed a 30-inch transmission line to the City of Eureka Springs, (iii) acquired necessary land and rights of way therefor, and (iv) made related improvements, including a 500,000 gallon concrete treated water storage clearwell (items (i) through (iv) will be hereafter referred to as the "Phase I Improvements").

The District constructed a 30-inch water transmission line to the City of Berryville, constructed a 1-million gallon steel standpipe, made related improvements, and acquired necessary land and rights of way therefor (the "Phase II-A Improvements").

The District constructed a 24-inch water transmission line to the City of Green Forest, constructed a 5-million gallon steel reservoir, made related improvements, and acquired necessary land and rights of way therefor (the "Phase II-B Improvements").

The District constructed a 24-inch water transmission line to the City of Harrison, made related improvements and acquired necessary land and rights of way therefor (the "Phase II-C Improvements").

Funding for the Phase I Improvements, the Phase II-A Improvements, the Phase II-B Improvements and the Phase II-C Improvements was as follows:

Federal grants	\$13,000,000
State grants and subordinated loans	1,100,000
District Bonds	<u>7,392,000</u>
Total	<u>\$21,492,000</u>

Additional water treatment plant expansions have increased the treatment and pumping capacity to 18,000,000 gallons per day.

Debt service on the District's bonds previously issued has been paid from fixed dollar payments made by each Participating City pursuant to a Memorandum of Understanding and Contract Providing for Construction, Maintenance, Operation and Expansion of The Carroll-Boone Water District Water Supply Facilities, dated March 9, 1978, as amended and supplemented (the "Original Memorandum of Understanding"), between the District and the Participating Cities. In addition, each City has paid for water purchased from the District at rates designed to cover on a "break-even" basis the operating costs of the District and to retire certain subordinated loans of the District from the Arkansas Natural Resources Commission (formerly the Arkansas Soil and Water Conservation Commission).

On December 18, 1998, the District and the Participating Cities entered into a Memorandum of Understanding and Contract for Construction, Maintenance, Operation and Expansion of The Carroll-Boone Water District ("Memorandum of Understanding"). This Memorandum of Understanding supercedes the Original Memorandum of Understanding and all other previous agreements between the District and the Participating Cities. Pursuant to the Memorandum of Understanding, the District agrees to construct, operate, maintain and expand a drinking water treatment plant as required to meet the then present and future needs of the Participating Cities. The Participating Cities agree to build and maintain their own water supply lines from the point of the water discharge at the District's distribution line to their respective distribution systems. The Participating Cities are also permitted to serve, through their systems, other approved water distribution agencies within their designated service areas.

Under the Memorandum of Understanding, each Participating City agrees to pay for all water purchased from the District at such rates as required to provide revenues sufficient, together with the revenues from demand charges (described below), to enable the District to pay all debt service, purchase water storage rights from the U.S. Army Corps of Engineers, pay actual operation and maintenance costs, maintain all covenants and reserves required by bonds issued by the District, and maintain other reserves as may be established by the District for equipment depreciation, emergencies and capital expansion (collectively, "Total System Costs"). Total System Costs, revenues from demand charges and the volume of water sales will be estimated from time to time and the rates for water purchased by the Participating Cities shall be based on such estimates. At the end of each fiscal year, the revenues of the District from all water sales, the Total System Costs, and

the total water sales shall be confirmed by a certified public accountant's audit. If the Total System Costs exceed the annual revenues of the District, all users of the District shall be charged with the difference in proportion to the actual amounts paid for water purchased. If revenues exceed the Total System Costs, then the Participating Cities shall be credited with the difference in the form of rebate in proportion to actual amounts paid for water purchased.

Any Participating City that chooses to utilize its own water treatment facilities to provide any portion of its water is required to pay a "demand charge" to the District. The demand charge will be applied to all water obtained by the City from sources other than the District. The demand charge will be calculated from time to time, based on the District's debt service, cost of water purchased from the Corps of Engineers, and capital expansion fund needs. The initial demand charge has been established at \$0.35 per 1,000 gallons of water obtained from sources other than the District and is to be paid monthly as part of the City's total water bill. Currently, all Participating Cities obtain all water from the District.

The current charge being made by the District for water purchased by the Participating Cities is \$1.25 per 1,000 gallons. The District expects to increase the rate charged to Participating Cities in 2015. The District expects to determine the increased rate in January 2015 with implementation of the increased rate in February 2015.

While each Participating City has agreed, in principle, to make payments to the District sufficient to pay its proportionate share of the District's cost of providing water, the Participating Cities' sources of payment are limited to revenues from their respective water, or water and sewer, systems. **FURTHER, THE REVENUES DERIVED FROM THE PARTICIPATING CITIES ARE NOT PLEDGED BY THE PARTICIPATING CITIES TO THE REPAYMENT OF THE 2014 BONDS. PAYMENTS MADE TO THE DISTRICT BY THE PARTICIPATING CITIES ARE CONSIDERED BY THE CITIES TO BE OPERATING EXPENSES. (See SECURITY FOR THE 2014 BONDS and THE PARTICIPATING CITIES).**

The volume of water sold by the District for the last five (5) fiscal years was as follows:

	(Gallons in thousands)				
	2014	2013	2012	2011	2010
Eureka Springs ⁽¹⁾	279,897	287,642	294,880	270,136	260,498
Berryville	547,994	534,689	576,367	578,516	569,615
Green Forest	748,649	703,418	694,257	733,868	750,025
Harrison	1,109,605	1,188,048	1,220,263	1,166,015	1,063,544
Other ⁽²⁾	2,794	417	1,624	390	365
Total	2,688,939	2,714,214	2,787,391	2,748,925	2,644,047

⁽¹⁾Includes water delivered to residents of Grassy Knob, an area that includes several subdivisions located approximately 10 miles west of Eureka Springs. The District invoices Eureka Springs for such water, and Eureka Springs invoices the residents.

⁽²⁾Includes water the District sold directly to the U.S. Army Corp of Engineers and to St. Francis Veterinary Clinic in Green Forest.

The District is governed by a six-member Board of Directors composed of three qualified voters from each County elected by Carroll County and Boone County electors for a term of six years. Names and occupations of present members of the Board of Directors are:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires (December 31)</u>
James A. Yates, President	Accountant (Boone County)	2020
Gene Bland, Vice-President	Realtor (Carroll County)	2016
Gene Chafin, Secretary-Treasurer	Farmer (Carroll County)	2018
Frank Brooks, III	Dentist (Boone County)	2018
Howard Collins	Farmer (Carroll County)	2020
Mark Billings	Insurance (Boone County)	2016

The key employees of the District are:

<u>Name</u>	<u>Title</u>	<u>Age</u>	<u>Length with District</u>
Barry Connell	General Manager/Chief Operator	45	6 years
Mike Bailes	Safety Manager	62	30 years
Rick Boling	Operator of Record	61	23 years
Cathy Klein	Office Manager	54	1 year

FINANCIAL INFORMATION

Attached hereto as Exhibit A are the audited financial statements of the District for the fiscal years ended September 30, 2014 and 2013. The following is a summary of the audited financial statements of the District for the fiscal years ended September 30, 2011 through 2014.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$3,363,674	\$3,206,250	\$3,236,530	\$3,262,560
Operating Expenses	(1,908,778)	<u>(1,877,434)</u>	<u>(1,851,650)</u>	<u>(1,830,373)</u>
Operating Income (Before Depreciation)	1,454,896	1,328,816	1,384,880	1,432,187
Depreciation	<u>(1,057,382)</u>	(1,053,160)	(1,018,786)	(988,113)
Non-Operating Revenues (Expenses)	<u>(112,901)</u>	<u>(138,633)</u>	<u>(165,888)</u>	<u>(163,708)</u>
Net Income	<u>\$284,613</u>	<u>\$137,023</u>	<u>\$200,206</u>	<u>\$280,366</u>
Net Assets, Beginning of Year	19,382,011	19,244,988	19,044,782	18,764,416
Net Assets, End of Year	19,666,624	19,382,011	19,244,988	19,044,782

DEBT SERVICE SCHEDULE

The 2014 Bonds mature and interest is payable during each calendar year as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 390,000.00	\$ 305,178.76	\$ 695,178.76
2016	395,000.00	301,278.76	696,278.76
2017	405,000.00	295,353.76	700,353.76
2018	410,000.00	287,253.76	697,253.76
2019	420,000.00	279,053.76	699,053.76
2020	430,000.00	270,653.76	700,653.76
2021	435,000.00	260,978.76	695,978.76
2022	450,000.00	249,886.26	699,886.26
2023	460,000.00	237,286.26	697,286.26
2024	475,000.00	223,946.26	698,946.26
2025	490,000.00	209,458.76	699,458.76
2026	505,000.00	193,533.76	698,533.76
2027	520,000.00	176,616.26	696,616.26
2028	540,000.00	158,936.26	698,936.26
2029	560,000.00	140,306.26	700,306.26
2030	575,000.00	120,706.26	695,706.26
2031	600,000.00	98,425.00	698,425.00
2032	625,000.00	75,175.00	700,175.00
2033	645,000.00	50,956.26	695,956.26
2034	670,000.00	25,962.50	695,962.50
TOTALS	\$10,000,000.00	\$3,960,946.42	\$13,960,946.42

DEBT SERVICE COVERAGE

The revenues of the District for the fiscal year ended September 30, 2014 would provide coverage of debt service on the 2014 Bonds as follows:

Net Revenues Available for Debt Service ⁽¹⁾	\$1,477,521
Maximum Annual Debt Service on the 2014 Bonds ⁽²⁾	700,654
Coverage	2.10X

⁽¹⁾ Operating revenues of the District less operation and maintenance expenses other than depreciation, interest and amortization of deferred bond discount expenses plus \$22,625 of interest income.

⁽²⁾ Using a calendar year.

THE PARTICIPATING CITIES

City of Eureka Springs, Arkansas

Generally. The City of Eureka Springs is located in the Western District, one of the two judicial districts of Carroll County. Eureka Springs is in northwest Arkansas, 183 miles northwest of Little Rock and 160 miles east of Tulsa.

Population. The current population is approximately 2,073.

Economy. The basic economy of Eureka Springs is tourism, agriculture, forestry and industry. Historically, Eureka Springs has been a major center of the tourism industry for Arkansas and surrounding states upon which a substantial portion of the area's economy is based. Selected tourist attractions include the entire downtown shopping district (listed on the National Register of Historic Places), a fully operational trolley system, the Great Passion Play, three country music stage shows, a magic show, vintage railroad, several lakes and rivers available for boating, skiing, swimming and fishing, and museums. There were no significant additions to or losses of employment within the City during 2013 and have been no significant additions to or losses of employment within the City during 2014, and the City has no knowledge of any presently proposed significant employment additions or losses.

Material Litigation. No material lawsuits or regulatory proceedings are pending or, to the knowledge of the City, threatened against the City of Eureka Springs involving its water and sewer system.

Water Customers. The City had approximately 1,668 water customers in 2013, 1,758 water customers in 2012 and 1,743 water customers in 2011. No single customer accounted for more than 5% of gross revenues of the City's water and sewer system during 2013.

Eureka Springs Water and Waste Water Department - Summary of Audited Financial Statements.⁽¹⁾

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	\$1,346,083	\$1,286,910	\$1,308,575	\$1,286,018
Operating Expenses (before depreciation)	<u>(1,245,927)</u>	<u>(1,025,874)</u>	<u>(1,094,819)</u>	<u>(881,024)</u>
Operating Income (before depreciation)	100,156	261,036	213,756	404,994
Depreciation	<u>(758,574)</u>	<u>(767,762)</u>	<u>(762,668)</u>	<u>(731,862)</u>
Non-Operating Income	110,840	44,842	18,941	15,045
Non-Operating Expenses	<u>(109,378)</u>	<u>(129,650)</u>	<u>(202,202)</u>	<u>(270,210)</u>
Change in Net Assets	<u>(\$656,956)</u>	<u>(\$591,534)</u>	<u>(\$732,173)</u>	<u>(\$582,033)</u>

⁽¹⁾The audited financial statements for the year ended 2013 have not yet been prepared.

City of Berryville, Arkansas

Generally. The City of Berryville is the county seat of Carroll County and is located in the Eastern Judicial District of the County. Berryville is situated 173 miles northwest of Little Rock and 175 miles east of Tulsa.

Population. The current population is approximately 5,356.

Economy. Tyson Foods is the major employer in Berryville, employing over 1,323 persons in its chicken processing operation.

Material Litigation. No material lawsuits or regulatory proceedings are pending or, to the knowledge of the City, threatened against the City of Berryville involving its water and sewer system.

Water Customers. The City had an average of 2,288 water customers in 2013, 2,276 water customers in 2012, and 2,273 water customers in 2011. Tyson Foods was the only customer of the City's water and sewer system accounting for more than 5% of gross revenues during 2013. The average dollar water and sewer bill of Tyson Foods has been \$115,917.64, which is about 59% of total gross revenues of the water and sewer system.

Berryville Water and Waste Water System - Summary of Audited Financial Statements.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	\$2,177,444	\$2,210,864	\$2,216,145	\$2,160,462	\$2,145,229
Operating Expenses	<u>(2,034,460)</u>	<u>(1,866,384)</u>	<u>(1,928,762)</u>	<u>(1,767,119)</u>	<u>(2,025,000)</u>
Operating Income (before depreciation)	142,984	344,480	287,383	393,343	120,229
Depreciation	(574,090)	(584,192)	(493,790)	(498,212)	(493,977)
Non-Operating Revenues (Expenses)	<u>204,967</u>	<u>221,019</u>	<u>178,502</u>	<u>214,454</u>	<u>201,444</u>
Net Income (Loss)	<u>(\$226,139)</u>	<u>(\$18,693)</u>	<u>(\$27,905)⁽²⁾</u>	<u>\$109,585⁽¹⁾</u>	<u>(\$172,304)</u>

⁽¹⁾Prior to an "Operating Transfer Out" of \$111,000.

⁽²⁾Prior to an "Operating Transfer Out" of \$10,000.

City of Green Forest, Arkansas

Generally. The City of Green Forest is in the Eastern District of Carroll County, located about 165 miles northwest of Little Rock and 168 miles east of Tulsa.

Population. The current population is approximately 2,761.

Economy. Tyson Foods has a chicken processing facility and a chicken hatchery within the City, employing a total of over 1,400 employees.

Material Litigation. No material lawsuits or regulatory proceedings are pending or, to the knowledge of the City, threatened against the City of Green Forest involving its water and sewer system.

Water Customers. The City had approximately 2,171 water customers in 2013, 2,200 water customers in 2012 and 2,235 water customers in 2011. Tyson Foods is the only customer that accounted for more than 5% of gross revenues of the City's water and sewer system during 2013. Average monthly bills to Tyson are \$240,542.77, which amounts to 84% of total gross revenues of the water and sewer system.

Green Forest Water and Waste Water Department - Summary of Audited Financial Statements.⁽¹⁾

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	\$3,671,698	\$3,593,905	\$3,721,592	\$3,495,751
Operating Expenses (before depreciation and amortization)	<u>(2,830,890)</u>	<u>(3,043,631)</u>	<u>(2,808,470)</u>	<u>(2,894,514)</u>
Operating Income (before depreciation and amortization)	840,808	550,274	913,122	601,237
Depreciation and Amortization	(442,954) ⁽²⁾	(409,401)	(412,676)	(384,632)
Non-Operating Income (Expenses)	<u>(183,457)</u>	<u>(168,617)</u>	<u>(172,139)</u>	<u>228,806</u>
Increase/(Decrease) in Net Assets	<u>\$214,397</u>	<u>(\$27,744)</u>	<u>\$328,307</u>	<u>\$445,411</u>

⁽¹⁾The audited financial statements for the year ended 2013 have not yet been prepared.

⁽²⁾Depreciation only.

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City of Harrison, Arkansas

Generally. The City of Harrison is located in Boone County, which is adjacent to Carroll County. Harrison is approximately 140 miles northwest of Little Rock and 201 miles east of Tulsa.

Population. The current population is approximately 18,000.

Material Litigation. No material lawsuits or regulatory proceedings are pending or, to the knowledge of the City, threatened against the City of Harrison involving its water and sewer system.

Economy. The major employers within or near Harrison are as follows:

<u>Company</u>	<u>Approximate No. of Employees</u>	<u>Product</u>
FedEx Freight, Inc.	1,500	Trucking and distribution
North Arkansas Regional Medical Center	573	Medical services
Pace Industries	474	Aluminum die-casting
Claridge Products and Equipment, Inc.	300	Marker boards, chalk boards and bulletin boards
Wabash Wood Products	300	Trailer floor manufacturing
Walmart	244	Retail
Rock Tenn Company	200	Folding paperboard cartons
Windstream	194	Telecommunications
North Arkansas College	120	Education

There have been no significant recent additions to or loss of employment within the City. None are expected.

Water Customers. The City had approximately 7,000 water customers in 2013, 7,000 water customers in 2012 and 7,000 water customers in 2011. No single customer accounts for more than 5% of the gross revenues of the water and sewer system of the City.

Harrison Water and Sewer Department - Summary of Audited Financial Statements.⁽¹⁾

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenue	\$5,755,989	\$5,710,683	\$5,463,028	\$5,016,334
Operating Expenses (before depreciation)	<u>(5,351,784)</u>	<u>(5,184,643)</u>	<u>(5,107,385)</u>	<u>(4,654,075)</u>
Operating Income (before depreciation)	404,205	526,040	355,643	362,259
Depreciation	(579,606)	(568,161)	(577,839)	(570,057)
Non-Operating Revenues (Expenses)	<u>1,322,119</u>	<u>803,285</u>	<u>486,453</u>	<u>1,028,687</u>
Increase (Decrease) in Net Position	<u>\$1,146,718</u>	<u>\$761,164</u>	<u>\$264,257</u>	<u>\$820,889</u>

⁽¹⁾The audited financial statements for the year ended 2013 have not yet been prepared.

THE INDENTURE

The following is a brief summary of the Indenture pursuant to which the 2014 Bonds will be issued. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture copies of which are on file with the Trustee. For purposes of this caption, the term "Bonds" includes the 2014 Bonds and any outstanding Additional Bonds.

Security for the Bonds. Under the Indenture, the District grants to the Trustee in order to secure the payment of the principal of, premium, if any, and interest on the Bonds, a lien on and security interest in the following:

(a) All real estate and premises, rights of way and easements, with all buildings, additions and improvements of every nature now located thereon or therein situated in Carroll and Boone Counties, Arkansas, with the tenements, hereditaments, appurtenances, rights, privileges and immunities thereunto belonging or appertaining now owned by the District.

(b) All other properties of whatever nature now owned by the District and not covered by the properties described in (a) above, including, without limitation, all assets, franchises, rights, privileges, licenses, and rights of way.

(c) All revenues and income received while any bonds issued under the Indenture are outstanding, including particularly, the income received by the District from the Participating Cities and all other persons, firms, associations, corporations or organizations of any nature.

(d) All moneys in the Bond Fund and any other fund established by the Indenture that contains proceeds of the Bonds and all investments therein and earnings thereon.

(e) Replacement properties (as described in Section 409 of the Indenture) and any and all other property of every name and nature from time to time heretofore or hereafter by delivery or by writing of any kind, conveyed, mortgaged, pledged, assigned or transferred, as and for additional security for the Bonds, by the District or by any other person, firm or corporation to the Trustee, which is authorized to receive any and all such property at any time and at all times and to hold and to apply the same subject to the terms of the Indenture.

Rate Covenant. Under the Indenture, the District covenants and agrees that it will fix, charge and collect rates, fees and charges for water and services furnished by the District which shall produce total revenues in each fiscal year sufficient to (1) pay the District's operation, repair and maintenance expenses, (2) make all required deposits to the Debt Service Reserve Fund and the Depreciation Fund, and (3) leave a balance equal to 120% of the debt service requirements for that fiscal year of all outstanding Bonds and Parity Obligations. The District covenants that it will revise the rates, fees and charges from time to time as necessary to comply with this covenant.

If the District fails to comply with its rate covenant in any fiscal year, it will undertake a study of the rate revisions necessary to again be in compliance with the rate covenant. The study shall be completed and filed with the Trustee not later than the 15th day of the sixth month of the following fiscal year. Revised rates, fees and charges, as indicated in the study, shall be placed into effect not later than the 15th day of the sixth month of the fiscal year immediately following the fiscal year in which the study is made. If the District complies with this provision it shall not be deemed in default for the fiscal year in which the rate study is made and the immediately following fiscal year, provided that the total revenues in each of these fiscal years are sufficient to make the payments and deposits provided for in clauses (1) and (2) above and leave a balance equal to 100% of the debt service requirements for such fiscal year of all outstanding Bonds and Parity Obligations.

Funds. The following Funds are to be established under the Indenture.

Gross Receipts Fund. All revenues and income received by the District from any source whatever shall be paid upon receipt into a special fund designated "Gross Receipts Fund."

Operation and Maintenance Fund. Under the Indenture, there is required to be paid from the Gross Receipts Fund into a fund designated "Operation and Maintenance Fund," not later than the 15th day of each month while any Bonds issued under the Indenture are outstanding, an amount sufficient, together with existing moneys held for the credit of the Fund, to pay the reasonable monthly expenses of operation, repair and maintenance (exclusive of depreciation expense and debt service charges and expenses) of the properties of the District for the following month, and, to the extent determined by the District, to pay costs of betterments and improvements to the properties of the District, and from which disbursement shall be made only for those purposes. Fixed annual charges, such as insurance premiums, and the cost of major repair and maintenance expenses and costs of betterments and improvements, may be computed and set up on an annual basis and one-twelfth (1/12) of the amount thereof may be paid into the Operation and Maintenance Fund each month. If in any month for any reason there shall be a failure to transfer and pay the required amount into the Operation and Maintenance Fund, the amount of any deficiency shall be added to the amount otherwise required to be transferred and paid into the fund in the next succeeding month. If in any fiscal year, a surplus shall be accumulated in the Operation and Maintenance Fund over and above the amount which shall be necessary to defray the reasonable and necessary costs of operation, repair and maintenance of the properties of the District during the next succeeding four (4) months, such surplus may be transferred and deposited in the Bond Fund.

Bond Fund. (a) After the required deposit has been made in the Operation and Maintenance Fund, there shall be paid from the Gross Receipts Fund into the Bond Fund, not later than the 15th day of each month, an amount equal to the sum of:

(1) one-sixth (1/6) of the next installment of interest on the outstanding Bonds, plus an amount sufficient to provide for Trustee's and Paying Agent's fees (the required payments for the months after delivery, and before the first interest payment date, of any series of Bonds shall be adjusted if necessary, so that the deposits made and any accrued or capitalized interest from the sale of the Bonds will be sufficient to cover the interest due and Trustee's and Paying Agent's fees); plus

(2) one-twelfth (1/12) of the next installment of principal on the outstanding Bonds; provided, however, the monthly deposits under this paragraph for the months after delivery and before the first principal payment date, of any series of Bonds shall be adjusted if necessary so that the deposits made will be sufficient to cover the principal due. The additional deposits required in the event of the issuance of Additional Bonds need not commence until the time necessary to accumulate the first principal maturity of the Additional Bonds in twelve monthly installments.

(b) The District may, from time to time, withdraw from the Bond Fund any moneys held therein which exceed an amount equal to required deposits pursuant to paragraph (a) ("Excess Bond Fund Moneys"). The District shall receive a credit against required monthly deposits into the Bond Fund to the extent of Excess Bond Fund Moneys on the date the deposit is due.

(c) If for any reason the funds in the Bond Fund shall at any time be insufficient to meet any required payment, then the amount of any such deficiency shall be paid immediately from the Gross Receipts Fund into the Bond Fund.

(d) When the moneys in the Bond Fund, together with moneys in the Debt Service Reserve Fund shall be and remain sufficient to pay the principal of and interest on all outstanding Bonds issued under the Indenture, and the Trustee's and Paying Agent's fees, there shall be no obligation to make any further payments into the Bond Fund.

(e) The moneys in the Bond Fund shall be used solely for the payment of the principal of the interest on the Bonds and the Trustee's and Paying Agent's fees and for no other purpose, except as provided in paragraph (b).

Debt Service Reserve Fund. The Indenture provides for the establishment of a Debt Service Reserve Fund in an amount equal to one-half of the maximum annual principal and interest requirements on all outstanding Bonds (the "Required Level").

(a) Upon the issuance of each series of Bonds, there shall be deposited in the Debt Service Reserve Fund the amount necessary to maintain the Debt Service Reserve Fund at the Required Level after issuance of that series of Bonds.

(b) Moneys held for the credit of the Debt Service Reserve Fund shall be used for payment of principal of and interest on Bonds for which Bond Fund moneys are not available and for no other purpose except as specifically permitted herein. If the amount held in the Debt Service Reserve Fund shall ever be less than the Required Level, the Fund shall be restored in twenty-four (24) equal monthly installments.

(c) Moneys held for the credit of the Debt Service Reserve Fund on June 2 and December 2 of each year which exceed the Required Level shall be withdrawn from the Debt Service Reserve Fund and deposited into the Bond Fund.

Depreciation Fund. After the required monthly deposits into the Operation and Maintenance Fund, the Bond Fund and the Debt Service Reserve Fund, there shall be paid from the Gross Receipts Fund into the Depreciation Fund, not later than the 15th day of each month, an amount calculated as provided below. Moneys in the Depreciation Fund shall be used solely for the purpose of paying the costs of replacements made necessary by the depreciation of the properties of the District, paying the costs of improvements to the District's existing water system, or paying the costs of facilities for enhancement of the existing system. Moneys in the Depreciation Fund may also be used to the extent necessary to prevent a default in the payment of bonds issued under the Indenture. The required monthly minimum payments into the Depreciation Fund shall be based on total water sales to the Participating Cities during the previous month, as follows:

- \$0.10 per 1,000 gallons until the balance in the Depreciation Fund is \$500,000;
- \$0.09 per 1,000 gallons until the balance in the Depreciation Fund is \$600,000;
- \$0.08 per 1,000 gallons until the balance in the Depreciation Fund is \$700,000;
- \$0.07 per 1,000 gallons until the balance in the Depreciation Fund is \$800,000;
- \$0.06 per 1,000 gallons until the balance in the Depreciation Fund is \$900,000; and
- \$0.05 per 1,000 gallons so long as the Depreciation Fund balance is no less than \$900,000.

Construction Fund. The proceeds of the 2014 Bonds shall be applied as follows: The amount necessary, after taking into account the available funds of the District held in connection with the Bonds Refunded, to refund the Bonds Refunded shall be applied for that purpose; the accrued interest received upon issuance of the 2014 Bonds shall be deposited into the Bond Fund; an amount necessary to establish the Debt Service Reserve Fund at the Required Level shall be deposited into the Debt Service Reserve Fund; and the balance shall be deposited into the Construction Fund. Moneys in the Construction Fund shall be expended for costs and expenses of the 2014 Improvements (see **PURPOSE OF THE 2014 BONDS**) and costs and expenses of issuing the 2014 Bonds.

Gross Receipts Fund Surplus. Any surplus remaining in the Gross Receipts Fund, on the first business day of each month, after making full provisions for the other funds described above, may be used for any lawful purpose. The monthly surplus shall be withdrawn and deposited in such fund or account as specified by the Board of Directors of the District.

Depositories of Funds. The Bond Fund, the Construction Fund and the Debt Service Reserve Fund shall be established and maintained in the Trustee. The Gross Receipts Fund, the Operation and Maintenance Fund and the Depreciation Fund shall be maintained in such banks or trust companies that are from time to time designated by the District, provided each must be a member of the Federal Deposit Insurance Corporation.

All moneys in any of the above funds in excess of the amount insured by the Federal Deposit Insurance Corporation shall be secured by perfected pledges of Government Securities or invested as authorized by the Indenture.

Nonpresentment of Bonds. In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, if there shall have been deposited with the Paying Agent for the purpose, or left in trust if previously so deposited, funds sufficient to pay the principal thereof, together with all interest unpaid and due thereon, to the date of maturity thereof, or to the date fixed for redemption thereof, as the case may be, for the benefit of the holder thereof, all liability of the District to the holder thereof for the payment of the principal thereof and interest thereon shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Paying Agent to hold such fund or funds, without liability for interest thereon, for the benefit of the holder of the Bond, who shall thereafter be restricted exclusively to such fund or funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, said Bond.

Rebate Fund. The Rebate Fund shall be held in trust by the Trustee and, except as provided below, shall be held for the benefit of the United States of America. The Rebate Fund shall not be held for the benefit of the bondholders or the Trustee.

Determination and Payment of Rebate. The District shall, unless and until the District delivers to the Trustee a written opinion of counsel as described below, make the determinations and take the actions required as are necessary, in the opinion of counsel, to comply with the requirements of Section 148(f) of the Internal Revenue Code of 1986 and the regulations pertaining thereto. The District shall rebate to the United States, not later than sixty (60) days after the end of the five-year period for each series of Bonds, and not later than sixty (60) days after the end of each five-year period thereafter, an amount which insures that at least ninety percent (90%) of the Rebate Amount at the time of such payment will have been paid to the United States, and, within sixty (60) days after the payment or redemption of all principal of the 2014 Bonds, an amount sufficient to pay the remaining unpaid balance of the Rebate Amount, all in the manner and as required by Section 148 of the Code and the regulations pertaining thereto.

Upon receipt by the Trustee of a written request of the District certifying that certain amounts in the Rebate Fund are not subject to rebate and an opinion of Bond Counsel (hereinafter defined) to the effect that failure to rebate such amounts will not cause interest on the Bonds to become includable in gross income of the bondholders for federal income tax purposes under existing laws, regulations, rulings and decisions, the Trustee shall transfer any such amounts to the credit of the Bond Fund. Except as provided in the previous sentence, moneys in the Rebate Fund shall be applied solely to meet the District's rebate obligations.

Exemption from Rebate. Notwithstanding the foregoing, in the event the Trustee is furnished with a written opinion of Bond Counsel, to the effect that it is not necessary under existing laws, regulations, rulings and decisions to pay any portion of earnings on investments held under the Indenture or otherwise to the United States in order to assure the exclusion from gross income for federal income tax purposes of interest on the Bonds, the requirements for arbitrage rebate compliance set forth in the Indenture need not be complied with and shall no longer be effective with respect to any series of Bonds that is the subject of the opinion.

Investment of Funds. Moneys held as part of the funds under the Indenture shall be invested in "Eligible Investments" pursuant to the terms of the Indenture.

(a) Moneys held for the credit of the Debt Service Reserve Fund shall, at the direction of the District, be invested and reinvested by the Trustee in Eligible Investments maturing (except in the case of money market funds) within ten (10) years from the date of investment.

(b) Moneys held for the credit of the Rebate Fund shall be invested and reinvested by the Trustee in Government Securities which shall mature not later than the date or dates on which the money held for the credit of the Rebate Fund will be required for the purposes intended.

(c) Moneys held for the credit of any other fund under the Indenture may be invested and reinvested, as directed by the District, in Eligible Investments which shall mature (except in the case of money market funds) not later than the date or dates on which the money held for the credit of the particular fund will be required for the purposes intended as determined by the District.

(d) Obligations so purchased as an investment of moneys in any fund shall be deemed at all times a part of such fund and the interest accruing thereon and any profit realized from such investment, shall be credited to such fund, and any loss resulting from such investment shall be charged to such fund, except that interest and profits derived from the investment of moneys in the Debt Service Reserve Fund which are received prior to completion of the Project shall be credited to the Construction Fund.

(e) "Eligible Investments," as used in Section 701 of the Indenture, include only:

(1) Direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America ("Government Securities");

(2) Direct obligations of an agency, instrumentally or government-sponsored enterprise created by 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;

(3) Money market funds comprised exclusively of Government Securities or other securities authorized by Arkansas law to secure public deposits, provided such funds are registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and have a rating by Standard & Poor's Ratings Services of AAAM-G, AAAM or AAM, or by Moody's Investors Service of P-1 or P-2; and

(4) Certificates of deposit issued by banks that are members of the Federal Deposit Insurance Corporation ("FDIC") and, to the extent not insured by FDIC, secured by a valid and enforceable pledge of Government Securities or other securities authorized by State law to secure public funds having a market value, at all times while the certificate of deposit is outstanding, at least equal to the principal and interest to become due on the certificate of deposit.

(f) The Trustee shall determine the market value of all investments each year and shall report the market value to the District. The District shall cooperate with the Trustee by providing the necessary information about investments of moneys not held by the Trustee.

Events of Default. Each of the following is an event of default under the Indenture:

(a) Default in the due and punctual payment of any interest on any Bond or any Parity Obligation and the continuance thereof for a period of thirty (30) days;

(b) Default in the due and punctual payment of any moneys required to be paid into the Bond Fund, the Debt Service Reserve Fund or the Rebate Fund and the continuation thereof for a period of thirty (30) days;

(c) Default in the due and punctual payment of the principal of any Bond whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon the maturity thereof by declaration;

(d) Default in the performance or observance of any other of the covenants, agreements or conditions in the Indenture, or in the Bonds, or in Parity Obligations or documents securing Parity Obligations, and the continuance thereof for a period of sixty (60) days after written notice to the District by the Trustee or by the holders of not less than ten percent (10%) in aggregate principal amount of Bonds.

(e) Any other "event of default" as defined in a Parity Obligation or a document securing a Parity Obligation.

The term "default" shall mean default by the District in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture, in the Bonds, in any Parity Obligation, or in any document securing a Parity Obligation, exclusive of any period of grace required to constitute a default an "event of default."

Acceleration. Upon the occurrence of an event of default, the Trustee may, and upon the written request of the holders of twenty-five percent (25%) in aggregate principal amount of Bonds outstanding under the Indenture (regardless of series) shall, by notice in writing delivered to the District, declare the principal of all Bonds secured and then outstanding under the Indenture and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable.

Remedies.

(a) **Right of Entry.** Upon the occurrence of any event of default, the District, upon demand of the Trustee, shall forthwith surrender to it the actual possession of all or any part of the mortgaged properties with the books, papers and accounts of the District pertaining thereto and to hold, operate and manage the same, and from time to time to make all needful repairs and improvements as by the Trustee shall be deemed wise; and the Trustee, with or without such permission, may collect, receive and sequester the revenues, earnings, income, products and profits therefrom and out of the same and any moneys received from any receiver of any part thereof pay, and/or set up proper reserves for the payment of, all proper costs and expenses of so taking, holding and managing the properties, including reasonable compensation to the Trustee, its agents and counsel, and any charges of the trustee, and all taxes, assessments and other charges prior to the lien of the Indenture which the Trustee may deem it wise to pay, all expenses of such repairs and improvements, and apply the remainder of the money so received by the Trustee in accordance with the applicable provisions of the Indenture. Whenever all that is due upon such Bonds and installments of interest under the terms of the Indenture shall have been paid and all defaults made good, the Trustee shall surrender possession to the District, its successors or assigns.

While in possession of such property, the Trustee shall render annually to the registered owners a summarized statement of income and expenditures in connection therewith.

(b) **Other Remedies.** Upon the occurrence of an event of default the Trustee may, as an alternative, proceed either after entry or without entry, to pursue any available remedy by suit at law or equity to enforce the payment of the principal of and interest on the Bonds then outstanding, including, without limitation, foreclosure and mandamus.

If an event of default shall have occurred, and if the Trustee shall have been requested so to do by the holders of twenty-five percent (25) in aggregate principal amount of Bonds then outstanding and shall have been indemnified as provided in the Indenture, the Trustee shall be obliged to exercise such one or more of the rights and powers conferred upon it by the Indenture as the Trustee, being advised by counsel, shall deem most expedient in the interest of the bondholders.

No remedy conferred upon or reserved to the Trustee (or to the bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default, whether by the Trustee or by the bondholders, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

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

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

Applications of Moneys. Available moneys shall be applied by the Trustee as follows:

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

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

Second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order

of their due dates, with interest on such Bonds from the respective dates upon which they become due, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

Third: to the payment of the interest on and the principal of the Bonds, and to the redemption of bonds.

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

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled, then, subject to the provisions of paragraph (b) above in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Limitation of Bondholder Rights. No holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust or for the appointment of a receiver or any other remedy, unless a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which it is deemed to have notice, nor unless such default shall have become an event or default and the holders of twenty-five percent (25%) in aggregate principal amount of Bonds outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name, nor unless also they have offered to the Trustee indemnity as provided in the Indenture nor unless the Trustee shall thereafter fail or refuse to exercise the powers granted, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every such case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Indenture and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy.

Waivers by Trustee. The Trustee may in its discretion waive any event of default under the Indenture and its consequences and rescind any declaration or maturity of principal, and shall do so upon the written request of the holders of fifty percent (50%) in principal amount of all Bonds outstanding (of all series but not necessarily of each series); provided, however, that there shall not be waived (a) any event of default in the payment of principal of any Bonds outstanding at the date of maturity specified therein or (b) any default in the payment of the interest or of deposits into the Bond Fund unless prior to the waiver or rescission all arrears of interest, with interest at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of Bond Fund payments, as the case may be, and all expenses of the Trustee shall have been paid or provided for and in case of any such waiver or rescission or in case any proceeding taken by the Trust on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Trustee, the District and the bondholders shall be restored to their former positions and rights, respectively, but no such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

Supplemental Indentures Not Requiring Consent of Bondholders. The District and the Trustee may, from time to time and at any time, enter into such supplemental indenture as shall not be inconsistent with the terms and provisions of the Indenture (a) to cure any ambiguity or formal defect or omission in the Indenture or in any supplemental indentures, or (b) to grant to or confer upon the

Trustee for the benefit of the holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders or the Trustee, or (c) in connection with the issuance of Additional Bonds or (d) to make any other change determined by the Trustee to be not materially adverse to the interests of the bondholders or which does not involve a change which requires consent of specific bondholders.

Supplemental Indentures Requiring Consent of Bondholders. The holders of not less than two-thirds (2/3) in aggregate principal amount of the Bonds then outstanding (of all series but not necessarily each series) shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the District and the Trustee of such supplemental indenture or indentures as shall be deemed necessary and desirable by the District for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that no supplemental indenture 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 upon the mortgaged properties or a pledge of the revenues pledged to Bonds issued under the Indenture other than the lien and pledge created and authorized by the Indenture or which purports to be on a parity with the lien and pledge created by and authorized by the Indenture other than as authorized by the original indenture, 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 indenture.

THE CONTINUING DISCLOSURE AGREEMENT

The District has been a party to two continuing disclosure agreements during the past five years. While the District has not made a determination as to materiality, the following constitutes a non-exhaustive summary of the District's compliance with its continuing disclosure obligations over the past five years.

The District's continuing disclosure agreements required the District to disclose certain operating data in annual reports that were to be filed with the Municipal Securities Rulemaking Board on its Electronic Municipal Market Access system ("EMMA"). The District failed to file all such annual reports during the previous five years.

The continuing disclosure agreements also obligated the District to file on EMMA audited financial statements within 180 days after the end of the District's fiscal year. If the audited financial statements were not prepared by the due date, they were to be filed within 30 days after receipt. The audited financial statements of the District for the years 2009 through 2013 have been filed; however, the audited financial statements for the fiscal years ended 2011 and 2012 were filed approximately 23 days and 41 days late, respectively.

In addition, the continuing disclosure requirements obligated the District to file on EMMA a notice of the occurrence of any significant event listed in Securities and Exchange Commission, Rule 15c2-12(b)(5). During the past five years, the District failed to file certain notices related to the occurrence of significant events, including particularly, without limitation, notices of bond calls.

The District has taken steps to insure that the required information is filed in a timely manner in the future.

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

Generally. The District will enter into a Continuing Disclosure Agreement with respect to the 2014 Bonds.

Purpose of the Continuing Disclosure Agreement. The Continuing Disclosure Agreement will be executed and delivered by the District and the Trustee for the benefit of the Beneficial Owners of the 2014 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 an Annual Report provided by the District pursuant to, and as described in, the Continuing Disclosure Agreement.

"Beneficial Owner" of a 2014 Bond shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the 2014 Bond (including persons holding 2014 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 District 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.

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

"MSRB" shall mean the Municipal Securities Rulemaking District.

"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 Reports. (a) The District shall, or cause the Dissemination Agent to, not later than 180 days after the end of the District's fiscal year (presently September 30) commencing with the report after the end of the 2015 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. Each 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 District 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 District. If the fiscal year of the District changes, it shall give notice of such change in the manner as for a Listed Event.

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing each Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent and the Trustee for the issue (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 District and the Dissemination Agent to determine if the District is in compliance with the first sentence of this subsection (b).

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

Content of Annual Reports. Each of the District's Annual Reports shall contain or incorporate by reference the following:

Any amendment to or termination of the Memorandum of Understanding between the District and the Participating Cities, as described under the caption **THE DISTRICT**, and the then current charges to the Participating Cities for water and for the demand charge (as described under such caption); the number of gallons of water sold by the District for the most recent fiscal year; and the annual financial statements of the District prepared in accordance with generally accepted accounting principles and audited in accordance with auditing standards generally accepted in the United States of America.

Any or all of the items above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

Reporting of Significant 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.

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

(c) After the occurrence of a Listed Event (excluding an event described in (a)8 above), whether by notice from the Trustee or otherwise, the District 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.msrb.emma.org> or any other similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Trustee (if the Trustee is not the Dissemination Agent). Each notice of the occurrence of a Listed Event shall be captioned "Notice of Listed Event" and shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. In the event of a Listed Event described in (a)8 above, the Trustee shall make the filing and notice thereof need not be given any earlier than the notice for the underlying event is given to registered owners of affected 2014 Bonds pursuant to the terms of the Indenture.

Termination of Reporting Obligations. The District's obligations under the Continuing Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all the affected 2014 Bonds.

Dissemination Agents. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under a Continuing Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. A Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to a 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 a Continuing Disclosure Agreement, the District 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 2014 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 2014 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 affected 2014 Bonds in the same manner as provided in the Indenture for the affected 2014 Bonds for amendments to the Indenture 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 2014 Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, the District shall describe such amendment in the next Annual Report with respect to that issue, and shall include, as applicable, a narrative explanation of the reason of 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 District. 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 District 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 District 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 District 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 District or the Trustee to comply with any provision of the Continuing Disclosure Agreement, the Trustee, the District 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 2014 Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District 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 Indenture, and the sole remedy under a Continuing Disclosure Agreement in the event of any failure of the District or the Trustee to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

Duties of Trustees and Dissemination Agents and Rights of Indemnity. The Dissemination Agent (if other than a 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 District 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 District, the Trustee for the affected issue, the Dissemination Agent, the Underwriter and the Beneficial Owners of the affected 2014 Bonds and shall create no rights in any other person or entity.

TAX EXEMPTION

In the opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, under existing law, the interest on the 2014 Bonds is exempt from all State income taxes and the 2014 Bonds are exempt from property taxation in the State.

Also, in the opinion of Bond Counsel, interest on the 2014 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 imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Code that

must be satisfied subsequent to the issuance of the 2014 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 and the use of the proceeds of the 2014 Bonds, the 2014 Improvements and the improvements financed and refinanced by the Bonds Refunded. Failure to comply with certain of such requirements could cause the interest on the 2014 Bonds to be so included in gross income retroactive to the date of issuance of the 2014 Bonds. The District has covenanted to comply with all such requirements in the Indenture.

Prospective purchasers of the 2014 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 2014 Bonds, (ii) interest on the 2014 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 2014 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 2014 Bonds.

Prospective purchasers of the 2014 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 2014 Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2014 Bonds, except with respect to certain financial institutions (within the meaning of Section 265(b)(5) of the Code).

An exemption allows a deduction for certain interest expense allocable to "qualified tax-exempt obligations." The District has designated the 2014 Bonds as "qualified tax-exempt obligations" and has covenanted not to use the 2014 Improvements, the improvements financed and refinanced by the Bonds Refunded or the proceeds of the 2014 Bonds in a manner which would cause the 2014 Bonds to be "private activity bonds," within the meaning of the Code, and has represented that the District and its subordinate entities have not and do not expect to issue more than \$10,000,000 of such tax-exempt obligations (other than private-activity bonds (excluding from that term "qualified 501(c)(3) bonds" under Section 145 of the Code)) during calendar year 2014.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on or disposition of the 2014 Bonds.

As shown on the cover page of this Official Statement, certain of the 2014 Bonds are being sold at a 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 2014 Bonds are being sold at an original issue discount (collectively, the "Discount Bonds"). The difference between the initial public offering prices, as set forth inside the front 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.

LEGALITY

Legal matters incident to the authorization and issuance of the 2014 Bonds are subject to the approving opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel.

LITIGATION

There is no litigation pending seeking to restrain or enjoin the issuance or delivery of the 2014 Bonds or questioning or affecting the legality of the 2014 Bonds or the proceedings and authority under which the 2014 Bonds are to be issued, or questioning the right of the District to execute and deliver the Indenture or to issue the 2014 Bonds.

There is no action, suit or proceeding known to be pending or threatened against the District which in any way could have material adverse effect on the District's financial affairs.

ENFORCEABILITY OF REMEDIES

Rights of the registered owners of the 2014 Bonds and the enforceability of the remedies available under the Indenture authorizing the 2014 Bonds 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 of Arkansas or other governmental units having jurisdiction, and to the application of federal bankruptcy laws or other debtor relief or moratorium laws. 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 Trust Indenture authorizing the 2014 Bonds 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 2014 Bonds from the District at an aggregate purchase price of \$9,850,190.20 (principal amount less net original issue discount of \$29,809.80 and less Underwriter's discount of \$120,000) plus accrued interest. The Underwriter is committed to purchase all of the 2014 Bonds if any are purchased.

The 2014 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 2014 Bonds to certain dealers (including dealers depositing 2014 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.

MISCELLANEOUS

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

CARROLL-BOONE WATER DISTRICT

By: /s/ James A. Yates
President

APPENDIX A

Carroll-Boone Water District
Eureka Springs, Arkansas

Audited Financial Statements
September 30, 2014 and 2013

**CARROLL-BOONE WATER DISTRICT
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

Table of Contents

	<u>Page</u>
Management's Discussion and Analysis	1
Independent Auditors' Report	3
<i>Basic Financial Statements</i>	
Statements of Net Assets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8
<i>Supplemental Information</i>	
Schedule of Operating Revenues and Expenses Compared to Budget	14

**CARROLL-BOONE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

Our discussion and analysis of Carroll-Boone Water District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2014 and 2013. Please read it in conjunction with the Water District's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

- The District's net operating revenue increased approximately \$157,000 in 2014.
- The District's total operating expenses in 2014 increased by approximately \$36,000.
- The District ended 2014 with unrestricted and restricted cash balances of approximately \$270,000 and \$4,673,000. The District ended 2013 with unrestricted and restricted cash balances of approximately \$1,002,000 and \$4,322,000, respectively.
- The District's fixed assets, net of accumulated depreciation at September 30, 2014 and 2013 were approximately \$17,721,000 and \$17,260,000, respectively.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets (on pages 5 and 6) provide information about the activities of the District and present a longer-term view of the District's finances.

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the District and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's long range goals and the condition of the economy in which the District is located, to assess the overall health of the District.

BALANCE SHEET

Unrestricted Cash – The District's unrestricted cash balances decreased by \$731,628 from 2013 to 2014. This decrease was due primarily to financing the preliminary bond expenses and other capital projects. The offset to cash is in Construction in Progress.

Fixed Assets – During 2014, the District made fixed assets additions of \$1,589,987 and disposals of \$91,374 for a net increase of \$1,498,613.

Restricted Assets – Restricted Assets, consisting of cash, cash equivalents and certificates of deposit, increased by \$350,994 in 2014.

Accounts Payable – Accounts Payable increased by \$189,727 due to a construction invoice outstanding at year end.

Accrued Liabilities – Accrued Liabilities increased by \$5,351 due primarily to a nonrecurring liability which was not outstanding at September 30, 2013.

**CARROLL-BOONE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Net Assets – The District's Net Assets increased by \$284,613 in 2014, from \$19,382,011 to \$19,666,624 as a result of current year operations.

Revenue and Income – The District's water sales revenues decreased by \$30,881, from \$2,675,462 to \$2,644,581 in 2013 and 2014, respectively. Reserve payment revenues increased by \$2,305 for the year ended September 30, 2014. Rebates to member cities decreased \$186,000 for the year ended September 30, 2014. Interest Income increased by \$1,927 due increase in deposits.

Operating Expenses – The total operating expenses increased by \$35,566 due primarily to increases in production and distribution equipment repairs, travel, utilities and telephone offset by decreases in engineering and administrative costs and repairs and maintenance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected officials considered many factors when setting the fiscal year 2015 budget. Those factors include current and projected water needs of the member cities. The District is committed to the continued improvement and expansion of its water system. The management and reduction of the District's debt is a focus and when possible and economically feasible, the District may elect to use excess funds to repay debt before stated maturity dates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, primary government, the quorum court, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Office at Carroll-Boone Water District, 11510 Highway 187, Eureka Springs, Arkansas 72631.



**PORTERFIELD
KILLINGSWORTH CPA, PLLC**
accountants • auditors • advisors

INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners of
Carroll-Boone Water District
Eureka Springs, Arkansas

We have audited the accompanying financial statements of Carroll-Boone Water District (the District) as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District'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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Carroll-Boone Water District, as of September 30, 2014 and 2013, and the respective changes in financial position and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

200 E. Rush, Suite 4
Harrison, Arkansas 72601
870-741-3135
Fax: 870-741-9064

414 N. Springfield Street
Berryville, Arkansas 72616
870-423-3135
Fax: 870-423-7485

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 & 2 and 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Porterfield Killingsworth CPA, PLLC

Harrison, Arkansas
November 9, 2014

**CARROLL-BOONE WATER DISTRICT
STATEMENTS OF NET ASSETS
AS OF SEPTEMBER 30, 2014 AND 2013**

ASSETS

	2014	2013
Current Assets		
Cash and Cash Equivalents	\$ 270,034	\$ 1,001,662
Accounts Receivable	402,939	290,316
Prepaid Expenses	43,313	41,278
Inventory	80,701	77,038
Total Current Assets	796,987	1,410,294
Restricted Assets		
Cash and Cash Equivalents	2,272,134	1,952,618
Certificates of Deposit	2,401,334	2,369,856
Total Restricted Assets	4,673,468	4,322,474
Property, Plant and Equipment		
Property, Plant and Equipment, at Cost	38,972,331	37,473,718
Accumulated Depreciation	(21,251,373)	(20,213,986)
Net Property, Plant and Equipment	17,720,958	17,259,732
Other Assets		
Unamortized Bond Issue Costs	13,271	16,521
Total Other Assets	13,271	16,521
Total Assets	\$ 23,204,684	\$ 23,009,021

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 197,545	\$ 7,818
Accrued Liabilities	9,217	3,866
Accrued Compensated Absences	17,793	32,843
Rebate Payable	-	186,000
Total Current Liabilities	224,555	230,527
Current Liabilities Payable from Restricted Assets		
Accrued Interest Payable	45,782	53,241
Current Portion of Long-Term Debt	580,000	555,000
Total Current Liabilities Payable from Restricted Assets	625,782	608,241
Other Liabilities		
Deferred Grants	475,201	-
Total Other Liabilities	475,201	-
Long-Term Debt, Net of Current Portion	2,212,522	2,788,242
Total Liabilities	3,538,060	3,627,010
Net Assets		
Invested in Capital Assets, Net of Related Debt	14,928,436	13,916,489
Restricted	4,673,468	4,322,474
Unrestricted	64,720	1,143,048
Total Net Assets	19,666,624	19,382,011
Total Liabilities and Net Assets	\$ 23,204,684	\$ 23,009,021

See Independent Auditors' Report and Notes to Financial Statements.

CARROLL-BOONE WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Operating Revenues		
Water Sales	\$ 2,644,581	\$ 2,675,462
Reserved Payments	719,093	716,788
Less: Rebates	-	(186,000)
Net Operating Revenue	3,363,674	3,206,250
Operating Expenses		
Auto and Truck Expense	11,816	16,848
Depreciation	1,057,382	1,053,160
Director's Fees	3,444	2,400
Engineering and Administrative Costs	18,168	36,153
Insurance	48,411	31,749
Licenses, Dues, and Subscriptions	17,595	13,750
Office Expense	13,236	14,879
Production Supplies	206,806	200,835
Professional Fees	36,970	27,380
Maintenance and Repairs	39,272	45,343
Production and Distribution Equipment Repairs	69,437	73,474
Salaries and Benefits	804,737	794,254
Sludge Disposal	84,844	97,220
Travel	17,641	14,316
Utilities and Telephone	499,404	464,720
Water Storage Expense	36,997	44,113
Total Operating Expenses	2,966,160	2,930,594
Operating Income	397,514	275,656
Other Income (Expense)		
Interest Income	22,625	24,552
Interest Expense and Related Fees	(147,868)	(172,791)
Miscellaneous Income (Expense)	15,592	12,856
Amortization of Bond Issue Costs	(3,250)	(3,250)
Total Other Income (Expense)	(112,901)	(138,633)
Increase (Decrease) in Net Assets	284,613	137,023
Net Assets, Beginning of Year	19,382,011	19,244,988
Net Assets, End of Year	\$ 19,666,624	\$ 19,382,011

See Independent Auditors' Report and Notes to Financial Statements.

**CARROLL-BOONE WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	2014	2013
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 3,251,051	\$ 3,401,728
Cash Paid for:		
Rebate Paid to Member Cities	(186,000)	(250,000)
Payroll and Related Expenses	(819,787)	(800,343)
Goods and Services	(381,576)	(588,497)
Water Storage Expense	(31,645)	(80,462)
Other Operating Expenses	(26,237)	(481,461)
Net Cash Provided by (Used In) Operating Activities	1,805,806	1,200,965
Cash Flows from Investing Activities		
Capital Expenditures	(1,498,613)	(184,863)
Transfers (to) from Restricted Cash	(350,994)	(503,904)
Interest Received	22,625	24,552
Miscellaneous Income (Expense)	15,492	12,857
Net Cash Provided by (Used in) Investing Activities	(1,811,490)	(651,358)
Cash Flows from Financing Activities		
Interest Paid	(178,474)	(183,903)
Principal Payments on Long-Term Debt	(547,470)	(522,470)
Net Cash Provided by (Used in) Financing Activities	(725,944)	(706,373)
Net Increase (Decrease) in Cash and Cash Equivalents	(731,628)	(156,766)
Cash and Cash Equivalents, Beginning of Year	1,001,662	1,158,428
Cash and Cash Equivalents, End of Year	\$ 270,034	\$ 1,001,662
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 397,514	\$ 275,656
Depreciation	1,057,382	1,053,160
Changes in Assets and Liabilities:		
Accounts Receivable	(112,623)	9,478
Prepaid Expenses	(2,035)	(16,741)
Inventory	(3,666)	(1,357)
Accounts Payable	189,731	(12,794)
Accrued Liabilities	5,352	(36,349)
Accrued Compensated Absences	(15,050)	(6,088)
Deferred Revenue	475,201	
Rebate Payable	(186,000)	(64,000)
Net Cash Provided by Operating Activities	\$ 1,805,806	\$ 1,200,965

Supplemental Information

Cash Paid for Interest	\$ 178,474	\$ 183,903
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See Independent Auditors' Report and Notes to Financial Statements

**CARROLL-BOONE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The Carroll-Boone Water District (the District) was created by agreement of the Boone County Water District and the Carroll County Water District to operate as a single entity for the purpose of acquiring, selling and distributing water stored in Beaver Lake Reservoir. The District is a political subdivision of the State of Arkansas.

Basis of Accounting and Measurement Focus

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses for the District include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budget Comparison

The budget of the District is based upon depreciation funding. Actual depreciation is recorded based upon fixed asset depreciation according to Generally Accepted Accounting principles. Therefore, the Statement of Operating Revenues and Expenses Compared to Budget is presented excluding depreciation expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Income of the District is derived from the exercise of essential governmental functions and accrues to the District, a political subdivision of the State of Arkansas. The District is not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

Comparative Data

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

Restricted Assets

Amounts designated as restricted assets have been restricted by either bond indenture, by law, by contractual obligations such as servicing bond debt or by board designation and are to be used for specified purposes such as servicing the bond debt, construction or purchase of capital assets, payment of insurance, sludge disposal and water storage fees.

Cash Equivalents

For purposes of the Statements of Cash Flows, the District considers all unrestricted, highly liquid investments with maturity of three months or less to be cash equivalents.

**CARROLL-BOONE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Accounts Receivable

Water usage is billed to the member cities in monthly cycles. Accounts receivable represents water usage billed for the month of September and amounts due from the Delta Dental of Arkansas Foundation as follows:

	<u>2014</u>	<u>2013</u>
Due from member cities	\$ 288,601	\$ 290,316
Due from the Delta Dental of Arkansas Foundation	114,338	-
Total accounts receivable	<u>\$ 402,939</u>	<u>\$ 290,316</u>

No allowance for doubtful accounts has been established, as all receivables are considered collectible. If necessary, the District uses the direct write-off method for uncollectible accounts.

Inventories

Inventory consists of replacement parts and crucial repair items. Inventory is carried at cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but charged to expense as incurred.

Unamortized Bond Issuance Costs

Costs related to the issuance of debt is capitalized and amortized over the life of the bond issued using the straight-line method. Bond discounts are also amortized over the life of the bond issue on the straight-line method.

Compensated Absences

The District has a policy whereby employees accumulate unused sick and vacation leave. Sick leave is to be used for periods of illness and can be accrued up to 60 days; however, upon termination or retirement, the District will pay no more than ten days accrued sick leave and all accrued vacation days. The District has accrued the separation portion of this liability as accrued compensated absences, which totals \$17,793 and \$32,843 for September 30, 2014 and 2013, respectively.

Net Asset Classifications

Net Assets are classified and presented as follows:

Net Assets Invested in Capital Assets, Net of Related Debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, law through constitutional provision or enabling legislation, or by action by the Board of Commissioners.

Unrestricted Net Assets consists of all other fund equity balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**CARROLL-BOONE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 2 – RESTRICTED CASH AND CERTIFICATES OF DEPOSITS

Restricted cash and certificates of deposit are held for specific purposes as follows:

	2014	2013
Bond sinking reserve	\$ 531,915	\$ 516,524
Capital improvement reserve	1,508,846	1,320,894
Debt service reserve	356,670	357,170
Depreciation reserve	1,153,515	1,191,167
Deposits on account	2,403	-
Emergency fund	175,689	524,767
Revenue reserve	1,500	1,500
Money market	405,923	-
Prepaid insurance	20,000	27,891
Sludge disposal fund	80,000	24,806
Water storage fund	437,007	357,755
Total Restricted Reserves	\$ 4,673,468	\$ 4,322,474

NOTE 3 - FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

Financial instruments that could potentially subject the District to a risk of accounting loss consist of restricted and unrestricted Cash and Cash Equivalents and Certificates of Deposit, carried at fair market value, as follows:

	Bank Balance	Carrying Balance
Insured (FDIC)	\$ 750,000	\$ 750,000
Collateralized by pledged securities	3,585,031	3,554,917
Other Assets held in Trusts	638,900	638,585
Total	\$ 4,973,931	\$ 4,943,502

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Major classifications of property, plant and equipment are as follows:

	Balance September 30, 2013	Additions/ Transfers	Disposals	Balance September 30, 2014
Land and land rights	\$ 1,100,977	\$ -	\$ (400)	\$ 1,100,577
Intake structures	632,977	-	-	632,977
Water treatment plant	16,810,938	-	-	16,810,938
Transmission lines	14,776,763	70,979	-	14,847,742
Storage tanks	3,050,097	-	-	3,050,097
Vehicles	249,417	8,165	(19,995)	237,587
Furniture and equipment	723,492	332,538	-	1,056,030
Construction in progress	129,057	1,178,305	(70,979)	1,236,383
Total Property, Plant and Equipment	37,473,718	1,589,987	(91,374)	38,972,331
Accumulated depreciation	(20,213,986)	(1,037,387)	-	(21,251,373)
Total Property, Plant and Equipment, net	\$ 17,259,732	\$ 552,600	\$ (91,374)	\$ 17,720,958

**CARROLL-BOONE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 5 - LONG-TERM DEBT

Long-term debt, net of deferred refunding and discounts, consists of the following:

	<u>2014</u>	<u>2013</u>
3.5 % to 4.85% water revenue bonds, Series 1998, issued December 1998, secured by all assets and revenue Less current portion	\$ 2,792,522 <u>(580,000)</u>	\$ 3,343,242 <u>(555,000)</u>
Long-term portion	<u>\$ 2,212,522</u>	<u>\$ 2,788,242</u>

Maturities of long-term debt for the years ending September 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 580,000	\$ 120,430	\$ 700,430
2016	605,000	92,879	697,879
2017	635,000	63,414	698,414
2018	665,000	31,889	696,889
2019	<u>325,000</u>	<u>7,881</u>	<u>332,881</u>
Total	2,810,000	<u>\$ 316,493</u>	<u>\$ 3,126,493</u>
Bond Discount and Deferred Refunding	<u>(17,478)</u>		
	<u>\$ 2,792,522</u>		

Interest expense during the years ended September 30, 2014 and 2013 totaled \$147,868 and \$172,791, respectively.

NOTE 6 - WATER SALES

The District has contracts with the cities of Harrison, Berryville, Green Forest, and Eureka Springs whereby the cities agree to buy water. Water sales and reserved payments were as follows for the years ended September 30, 2014 and 2013.

	<u>2014</u>		<u>2013</u>	
	<u>(GA in 000's)</u>	<u>Amount</u>	<u>(GA in 000's)</u>	<u>Amount</u>
Harrison	1,109,604	\$ 1,387,006	1,188,047	\$ 1,483,354
Berryville	547,994	684,993	534,689	668,361
Green Forest	748,649	935,812	703,418	879,273
Eureka Springs	279,896	349,870	286,083	357,604
Other Water Sales	<u>2,794</u>	<u>5,993</u>	<u>2,203</u>	<u>3,658</u>
	<u>2,688,937</u>	<u>\$ 3,363,674</u>	<u>2,714,440</u>	<u>\$ 3,392,250</u>

NOTE 7 - RETIREMENT PLAN

The District sponsors an employee retirement plan. Employees with two years of service are eligible to participate. The District contributes up to 10% of employee wages with a maximum of \$5,000 per employee per year.

The District's plan contributions for the years ended September 2014 and 2013 were \$49,539 and \$50,144, respectively.

**CARROLL-BOONE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 8 - LONG-TERM COMMITMENTS

Engineering Services

On November 26, 2013, the District entered into an agreement with McGoodwin, Williams and Yates, Inc. to provide engineering services related to the construction of approximately 37,000 linear feet of parallel transmission piping from the water treatment facilities to the east metering station of Eureka Springs (Section I) and approximately 1,500 linear feet of parallel transmission piping under the Kings River (Section II). The cost of the services for Section I is \$615,000 and is payable in five monthly installments of \$102,500 beginning December 18, 2013, and one final installment of \$102,500 due when final plans and specifications were delivered to the District. The cost of the services for Section II is \$35,000 and is payable after bids are received and contract award recommendations are made to the District.

Delta Dental Grant Agreement

The District has been awarded a grant by the Delta Dental of Arkansas Foundation (Delta) up to, but not to exceed \$1,032,425. The grant, which is for the period January 29, 2014 through July 29, 2015, will be used to pay for the buildings, equipment and labor associated with fluoridating the District's water system. Proceeds received under the grant agreement are recorded as deferred grants on the statement of net assets until the equipment is placed into service.

Master Plan Report

In 2012, the Board of Directors authorized McGoodwin, Williams and Yates, Inc. to update the existing Master Plan Report (the Plan). The primary purposes for updating the Plan is to comply with the guidelines of the Arkansas Department of Health, to project the future needs of the District and its member cities, and to evaluate the current capacity of the District and to make recommendations for needed improvements. The Plan, which is divided into three phases, covers a twenty year period. Phase I, which focuses on improvements through 2018, is in the easement procurement phase and is estimated to cost approximately \$17.1 million. The District will fund the projected costs using a combination of existing funds, bonds sales and rate increases.

Water Storage Expense

The District has entered into an agreement with the United States Government for water storage rights in sufficient quantities to yield six million gallons per day. The contract requires fifty consecutive annual payments of \$26,497 for project investment costs plus 0.735% of the costs of joint use major capital replacement items, operations and maintenance. Payments under this agreement totaled \$36,997 and \$44,113 in 2014 and 2013, respectively.

Solids (Sludge) Removal

In July, 2013, the District entered into an agreement with Miller Lagoon Service (Miller) for the removal of solids from the East and West Plants. Miller will be paid based upon actual gallons removed during the calendar years 2013, 2014 and 2015 at the rate of \$.039, \$.040 and \$.041 per gallon respectively. It is estimated that 7.5 million gallons at an approximate cost of \$300,000 will be removed during the three year period.

NOTE 9 - CONCENTRATIONS

The District's business activities are with cities located in Northwest and North Central Arkansas. Although the economy is diversified, all accounts receivable and future revenue is concentrated within the above-mentioned geographic region. The District is dependent on four major customers and one source of water.

**CARROLL-BOONE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 10 - NONCASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing and financing activities consisted of amortization of bond issuance costs and amortization of bond discounts. Amortization of bond issuance costs was \$3,250 for the years ended September 30, 2014 and 2013. Amortization of bond discounts was \$4,280 for the years ended September 30, 2014 and 2013 and is reported as a component of interest expense.

NOTE 11 - REBATES AND AGREEMENT WITH MEMBER CITIES

Under the District's agreement with member cities, the District is required to pay rebates to the extent that operating revenues exceed expenses and required reserve contributions. Rebates are paid to member cities proportionate to water purchases. For the years ending September 30, 2014 and 2013, the District accrued rebates in the amounts of \$0 and \$186,000, which are paid in the subsequent year.

NOTES 12 - SUBSEQUENT EVENT

Management has evaluated subsequent events through November 17, 2014, the date on which the financial statements were available to be issued.

CARROLL-BOONE WATER DISTRICT
SCHEDULE OF OPERATING REVENUES AND EXPENSES COMPARED TO BUDGET
FOR THE YEAR ENDED SEPTEMBER 30, 2014

UNAUDITED

	<u>Actual</u>	<u>Budget</u>	<u>Over (Under) Budget</u>
Revenues			
Water Sales	\$ 3,363,674	\$ 3,432,797	\$ (69,123)
Total Revenues	<u>3,363,674</u>	<u>3,432,797</u>	<u>(69,123)</u>
Operating Expenses			
Auto and Truck Expense	11,816	17,400	(5,584)
Director's Fees	3,444	2,400	1,044
Engineering and Administrative Costs	18,168	39,600	(21,432)
Insurance	48,411	45,200	3,211
Licenses, Dues, and Subscriptions	17,595	18,017	(422)
Office Supplies	13,236	-	13,236
Production Supplies	206,806	197,622	9,184
Professional Fees	36,970	29,195	7,775
Maintenance and Repairs	39,272	52,220	(12,948)
Production and Distribution Equipment Repairs	69,437	73,410	(3,973)
Salaries and Benefits	804,737	864,805	(60,068)
Sludge Disposal	84,844	92,000	(7,156)
Travel and Training	17,641	18,400	(759)
Utilities and Telephone	499,404	495,337	4,067
Water Storage Expense	36,997	40,000	(3,003)
Total Operating Expenses	<u>1,908,778</u>	<u>1,985,606</u>	<u>(76,828)</u>
Operating Income before Depreciation	<u>\$ 1,454,896</u>	<u>\$ 1,447,191</u>	<u>\$ 7,705</u>

NOTE TO SCHEDULE

Depreciation is budgeted each year based on depreciation reserve funding. Actual depreciation is recorded based on fixed asset depreciation according to Generally Accepted Accounting Principles. Therefore, the statement of operating revenues and expenses compared to budget presents operating income before depreciation.