NEW ISSUE **BOOK-ENTRY ONLY**

In the opinion of Bond Counsel, based on existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excludable from gross income for federal income tax purposes, subject to the condition that the City comply with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Bonds (and the interest on the Bonds is exempt from State of Arkansas income taxes and the Bonds are exempt from property taxation in the State of Arkansas.) In the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided that with respect to corporations, interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code. See ***LEGAL MATTERS**, Tax Exemption herein.*

$3,775,000
CITY OF MAGNOLIA, ARKANSAS
WATER AND SEWER REFUNDING REVENUE BONDS
SERIES 2014

Dated: July 1, 2014 Due: November 1, as described below

The Bonds will not be general obligations of the City of Magnolia, Arkansas (the "City"), but will be special obligations, secured by a pledge of and payable from revenues derived from the operation of the City's water and sewer system (the "System"). The pledge of revenues of the System in favor of the Bonds is on a parity with the pledge in favor of the City's Water and Sewer Revenue Bonds, Series 2011 and Water and Sewer Refunding Revenue Bonds, Series 2012. The pledge of water revenues of the System in favor of the Bonds is subordinate to the pledge in favor of the City's Water Revenue Bonds, Series 1999. See **THE BONDS**, Security.

Interest on the Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2014, and the Bonds mature (on November 1 of each year), bear interest and are priced to yield as follows:

MATURITY SCHEDULE

$1,590,000 Serial Bonds

Maturity	Amount	Rate(%)	Yield(%)	Maturity	Amount	Rate(%)	Yield(%)
2014	$ 25,000	1.000	0.400	2020	$165,000	2.200	2.200
2015	100,000	1.000	0.500	2021	170,000	2.400	2.400
2016	130,000	1.500	0.800	2022	170,000	2.650	2.650
2017	155,000	2.000	1.250	2023	175,000	2.900	2.900
2018	155,000	2.000	1.500	2024	185,000	3.000	3.000
2019	160,000	2.000	1.850				

$1,000,000 3.500% Term Bonds Due November 1, 2029 to Yield 3.500%
$1,185,000 3.750% Term Bonds Due November 1, 2034 to Yield 3.875%

(Plus accrued interest from July 1, 2014)

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

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

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

Stephens Inc.
Investment Bankers

Dated: June 3, 2014

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

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

CONTENTS OF OFFICIAL STATEMENT

OFFICIAL STATEMENT

$3,775,000
CITY OF MAGNOLIA, ARKANSAS
WATER AND SEWER REFUNDING REVENUE BONDS
SERIES 2014

INTRODUCTION TO THE OFFICIAL STATEMENT

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

This Official Statement is provided to furnish certain information in connection with the issuance by the City of Magnolia, Arkansas (the "City"), of its Water and Sewer Refunding Revenue Bonds, Series 2014, dated July 1 2014, in the principal amount of $3,775,000 (the "Bonds"). The Bonds are being issued to refund the City's outstanding Water and Sewer Refunding and Construction Revenue Bonds, Series 2009 (the "Bonds to be Refunded"), to fund a debt service reserve and to pay expenses of issuing the Bonds. See **THE BONDS**, Purposes for Bonds.

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

The Bonds are not general obligations of the City, but are special obligations payable solely from the revenues derived from the operation of the City's water and sewer system (the "System"). In 2008, the City combined its separate water and sewer systems to form the System. The following outstanding obligations of the City were originally secured by sewer revenues, but water revenues are being cross-pledged to secure the same and such obligations will be secured by System revenues: Sewer Revenue Bonds, Series 1995B and Sewer Revenue Bonds, dated January 14, 2005 (collectively, the "Subordinate Bonds"). The pledge of System revenues in favor of the Bonds is senior to the Subordinate Bonds. The pledge of water revenues of the System in favor of the Bonds is subordinate to the City's Water Revenue Bonds, Series 1999 (the "Senior Bonds"). The pledge of System revenues in favor of the Bonds is on a parity with the pledge in favor of the City's Water and Sewer Revenue Bonds, Series 2011 and Water and Sewer Refunding Revenue Bonds, Series 2012 (collectively, the "Parity Bonds"). See **THE BONDS**, Security.

The Bonds are being issued pursuant to and in full compliance with the Constitution and laws of the State, particularly the Authorizing Legislation, and Ordinance No. 2014-2, adopted on May 27, 2014 (the "Authorizing Ordinance"). See **THE AUTHORIZING ORDINANCE**.

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

The Bonds are issuable only as fully registered bonds, without coupons, in the denomination of $5,000 or an integral multiple thereof. Interest is payable November 1, 2014, and semiannually thereafter on each May 1 and November 1. Principal is payable at the principal office of BancorpSouth Bank, Stuttgart, Arkansas, as trustee and paying agent (the "Trustee"). Interest is payable by check mailed by the Trustee to the registered owners as of the record date for each interest payment date. The record date for payment of interest on the Bonds shall be the fifteenth day of the calendar month next preceding each interest payment date. A Bond may be transferred, in whole or in part (in integral multiples of $5,000), but only upon delivery of the Bond, together with a written instrument of transfer, to the Trustee. See **THE BONDS**, Generally.

The Bonds are subject to optional redemption on and after November 1, 2019, and are subject to extraordinary redemption from proceeds of the Bonds not needed for the purposes intended. The Bonds maturing November 1, 2029 and November 1, 2034 are subject to mandatory sinking fund redemption as described herein. The Trustee shall give at least thirty (30) days notice of redemption. See **THE BONDS**, Redemption.

Under existing law and assuming compliance with certain covenants described herein, (i) interest on the Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (iii) with respect to corporations, interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax, (iv) the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended (the "Code"), (v) interest on the Bonds is exempt from State income tax and (vi) the Bonds are exempt from property taxes in the State. See **LEGAL MATTERS**, Tax Exemption.

It is expected that the Bonds will be available for delivery on or about July 9, 2014, through the facilities of the Depository Trust Company in New York, New York.

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

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

THE BONDS

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Closing 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (referred to herein as "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If fewer than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

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

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

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

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

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

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

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

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

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

(2) Optional Redemption. The Bonds may be redeemed at the option of the City from funds from any source, on and after November 1, 2019, in whole at any time or in part on any interest payment date, at par plus accrued interest to the redemption date. If fewer than all of the Bonds shall be called for redemption, the particular maturities to be redeemed shall be selected by the City in its discretion. If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

(3) Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Bonds maturing on November 1, 2029 and November 1, 2034 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on November 1 in the years and in the amounts set forth below, at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption:

Bonds Maturing November 1, 2029

Year (November 1)	Principal Amount
2025	$190,000
2026	190,000
2027	195,000
2028	210,000
2029 (maturity)	215,000

Bonds Maturing November 1, 2034

Year (November 1)	Principal Amount
2030	$220,000
2031	230,000
2032	235,000
2033	245,000
2034 (maturity)	255,000

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

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

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

Purposes for Bonds. The Bonds are being issued to current refund the Bonds to be Refunded, fund a debt service reserve and pay expenses of issuing the Bonds.

A portion of the Bond proceeds and other available funds will be used to redeem the Bonds to be Refunded on the date the Bonds are issued, at a price of par plus accrued interest.

The proceeds of the Bonds (exclusive of accrued interest) and available funds of the City are estimated to be used as follows:

PROCEEDS:	
Principal Amount of Bonds	$3,775,000
Funds from Bonds to be Refunded	362,665
Net Original Issue Discount	(9,788)
Total Proceeds	$4,127,877
USES:	
Refunding	$3,763,164
Debt Service Reserve	269,988
Underwriter's Discount	56,625
Costs of Issuance	38,100
Total Uses	$4,127,877

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

Security. The Bonds are not general obligations of the City but are special obligations, secured by a pledge of the revenues derived from operation of the System ("Revenues"). There is a debt service reserve (the "Debt Service Reserve") securing the Bonds in an amount equal to the lesser of the maximum annual principal and interest requirement on the Bonds or 10% of the original principal amount on the Bonds. The Bonds are secured under the Authorizing Ordinance. For a summary of the terms of the Authorizing Ordinance, see **THE AUTHORIZING ORDINANCE** herein. The City may issue additional bonds on a parity of security with the Bonds. See **THE AUTHORIZING ORDINANCE**, Parity Bonds.

The Senior Bonds are secured by a pledge of the water revenues of the System. Such pledge of water revenues is senior to the pledge of water revenues in favor of the Bonds. The Senior Bonds are owned by the Arkansas Development Finance Authority as part of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program. The Senior Bonds bear interest at the rate of 2.5% plus a 1.0% financing fee and have a final maturity of October 1, 2031. The Senior Bonds will be in the outstanding principal amount of $2,814,301.12 when the Bonds are issued.

The Parity Bonds are secured by a pledge of water and sewer revenues on a parity with the pledge in favor of the Bonds. The Parity Bonds will be in the outstanding principal amount of $7,920,000 when the Bonds are issued. The outstanding Parity Bonds bear interest at various rates between 2.00% and 4.875%. The final maturity of the Parity Bonds is August 1, 2036.

The Subordinate Bonds were originally secured by a pledge of sewer revenues. The City has cross pledged water revenues to secure the Subordinate Bonds. The Subordinate Bonds consist of the City's Sewer Revenue Bond, Series 1995B (the "Series 1995B Bond") and Sewer Revenue Bond, dated January 14, 2005 (the "2005 Bond"). The Series 1995B Bond is owned by the Arkansas Development Finance Authority as part of the State of Arkansas Clean Water Revolving Loan Fund Program. The Series 1995B Bond bears interest at the rate of 2.5% plus a 1.0% financing fee and has a final maturity of October 15, 2016. The Series 1995B Bond will be in the outstanding principal amount of $49,795.26 when the Bonds are issued. The City has a contractual arrangement with Southern Arkansas University ("SAU") to pay amounts to the City sufficient for the City to pay debt service on the Series 1995B Bond when due. The Series 1995B Bond financed sewer improvements for use by SAU.

The 2005 Bond will be in the outstanding principal amount of $28,701 when the Bonds are issued. The 2005 Bond bears interest at the rate of 2.5%. The final maturity of the 2005 Bond is December 1, 2014. The 2005 Bond is owned by the Arkansas Natural Resources Commission.

THE CITY AND THE COUNTY

Location. The City of Magnolia, Arkansas is located in Columbia County (the "County") in southwest Arkansas, approximately 135 miles southwest of Little Rock, Arkansas and 80 miles northeast of Shreveport, Louisiana.

The Population. The following table sets forth the population trends for the City and County since 2008:

Year	City	County
2008[1]	11,063	24,104
2009[1]	10,951	23,854
2010[2]	11,577	24,552
2011[1]	11,818	24,697
2012[1]	11,713	24,473

[1] Estimate.
[2] Based on 2010 census.

Transportation. The City is served by U. S. Highway Nos. 79, 82 and 371 and State Highway Nos. 19, 98 and 335. The Louisiana and Northwest Railroad connects with the mainline of Southern Pacific System six miles north of the City and with the Mid-South Rail Corporation 58 miles south of the City.

The Magnolia Municipal Airport has a 4,610 foot runway. The nearest commercial services are in Little Rock, El Dorado and Texarkana. Approximately seven motor freight carries make daily shipments from the City to major cities across the United States.

Government. The government of the City operates under the Mayor-City Council form of government, pursuant to which a Mayor and a City Clerk are elected for four-year terms and eight aldermen are elected for two-year terms. The current Mayor and aldermen of the City, their principal occupations and their terms are as follows:

Name	Occupation	Term Expires
Parnell Vann	Mayor	December 31, 2014
Neil Cheatham	Real Estate Agent	December 31, 2014
Gary Farrar	Insurance Adjustor	December 31, 2014
Jamie Waller	Banker	December 31, 2016
James Moore	Realtor	December 31, 2014
Rodney Peterson	Heating and A/C Company	December 31, 2016
Margie Russ	Hairdresser	December 31, 2016
Larry Talley	Retired	December 31, 2014
Sam Whitelaw	Investments	December 31, 2016

Medical Facilities. The City is served by one hospital (with approximately 50 beds) and approximately 15 physicians and surgeons.

Banks. The City is served by two banks that have their principal offices in the City: Farmers Bank & Trust Company and The Peoples Bank. The City is also served by branches of BancorpSouth Bank and Summit Bank.

Education. Primary and secondary education for the City's inhabitants are provided by a public school system. There is also a parochial school within the City, Columbia Christian School.

Southern Arkansas University is located in the City. South Arkansas Community College located in El Dorado, Arkansas is approximately 26 miles away from the City. Southern Arkansas University-Tech located in Camden, Arkansas is approximately 36 miles from the City. University of Arkansas Community College-Hope located in Hope, Arkansas is approximately 47 miles from the City.

Economy. The economy of the City is a mixture of agriculture, commerce and industry. Set forth below are the characteristics of the major employers (with 100 or more employees) within or near the City.

Company	Number of Employees	Product
Albemarle Corporation	639	Bromine Chemicals
Reliance Well Service	250-500	Oil Well Service
Magnolia Public School System	430	Education
Southern Arkansas University	350	Higher Education
Walmart	330	Retail
Amfuel	320	Coated Fabric Products
Magnolia Hospital	287	Health Services
Weyerhaeuser	282	Plyboard
Deltic Timber	250	Lumber
CMC Steel	200	T-Posts
Southern Aluminum	200	Aluminum Table Manufacturer
Columbia County	137	County Government
Sapa Extrusions	120	Aluminum Fabrication
Farmers Bank	110	Banking

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

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

Year	Total
2009	15
2010	8
2011	11
2012	14
2013	13

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

Year	Per Capita Personal Income
2008	33,096
2009	30,438
2010	31,213
2011	33,560
2012	34,807

Total personal income estimates for the County are as follows:[1]

Year	Total Personal Income
2008	$816,353,000
2009	749,448,000
2010	772,835,000
2011	828,825,000
2012	851,829,000

Set forth below are the annual average unemployment rates for the County and the State since 2008:[2]

	Annual Average Unemployment Rate (%)	
Year	County	State
2008	6.8	5.4
2009	9.3	7.5
2010	9.2	7.9
2011	9.1	7.9
2012	8.5	7.3
2013*	8.1	7.2

*Preliminary as of December 2013.

THE SYSTEM

General. The System is owned by the City and operated under the direct control of the City Council. Operation and maintenance is provided by a utility staff. There are 25 employees of the System. Robert Baxley is the General Manager of the water facilities of the System. He has been employed by the System in various capacities for 36 years. Russell Thomas is the Superintendent for the sewer facilities of the System and has served in that capacity for 26 years.

The System obtains its water from Lake Columbia. The City has an agreement with the Columbia County Rural Development Authority whereby the City pays $50,000 per year as a water quality maintenance fee. This water is treated at the Lacy Sterling Treatment Plant and pumped to customers. The treated water is supplemented by well water from four wells located east of the City.

[1]Bureau of Economic Analysis, United States Department of Commerce, Regional Economic Accounts.
[2]Source: Arkansas Department of Workforce Services.

The water facilities of the System consist of four wells, five high-service pumps, one water treatment plant which discharges into two finished water ground storage reservoirs, four elevated water storage tanks, and a distribution system.

The City owns and operates the Big-Creek Wastewater Treatment Plant, which discharges into Big Creek, a tributary of Bayou Dorcheat. This 2.5 million gallon capacity treatment plant is operated under NPDES Permit No. AR0043613. Plant influent is collected by eleven satellite lift stations which is then pumped to two primary lift stations that feed the headworks of the plant.

In 2013, the treatment plant processed 752,649,000 gallons of wastewater, with the average daily flow of 2.062 million gallons a day.

The Bio-solids plant produced approximately 65 metric tons of Exceptional Quality sludge in 2013. This processed sludge is available to the residents of the City for a soil enhancement at no charge.

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

Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Use for Years in Gallons
2009	1,914,000	3,890,000	698,460,000
2010	2,091,000	3,375,000	763,385,000
2011	2,128,000	4,079,000	776,582,000
2012	1,834,000	3,325,000	671,266,000
2013	1,770,000	2,992,000	646,045,000

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

Year	Residential	Commercial	Other	Total
2009	4,602	683	187	5,422
2010	4,565	717	157	5,439
2011	4,688	585	168	5,441
2012	4,680	586	171	5,437
2013	4,591	564	170	5,325

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

Year	Residential	Commercial	Other	Total
2009	3,660	584	98	4,342
2010	3,580	569	123	4,272
2011	3,717	508	115	4,340
2012	3,710	514	118	4,342
2013	3,611	482	125	4,218

The City has contracts for supplying water with the Lydesdale Water Association, the Free Hope Water Association, the Walker Water Association and the Lakeside Water Association.

The following users of the System accounted for more than 5% of Revenues for the fiscal year ended December 31, 2013:

User	Percentage of Revenues (%)
Southern Arkansas University	5.3

The top ten users of the System are as follows:

1. Southern Arkansas University
2. Lakeside Water Association
3. Walker Water Association
4. Amfuel
5. Free Hope Water Association
6. Albemarle Corporation
7. Magnolia Regional Medical Center
8. Wentworth Place
9. Magnolia Health and Rehabilitation
10. Sonic Drive-In

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

Rates. The City Council adopted ordinances increasing water and sewer rates at its meeting held June 13, 2011. The water rates were increased by approximately 14% and sewer rates by approximately 27%. Set forth below are the monthly rates for the System which became effective for billings on and after July 13, 2011:

Water. The water usage of each customer having a standard size five-eighths (5/8") meter shall be determined each month by metered measurement and each customer shall pay monthly water user charge computed on the basis of the following schedule of rates:

	Within the City	Outside the City*
For the first 1,000 gallons of water consumed per month, or a portion thereof	$10.00 (Minimum)	$20.00 (Minimum)
For all water consumption in excess of 1,000 gallons per month	2.75 per 1,000 gallons	5.50 per 1,000 gallons

*Excluding wholesale contract users which will be billed inside City rates.

The System is operated on a fully metered basis. A meter is installed at each water connection and there is only one user or dwelling unit on a single meter. Each customer having a standard five-eighths (5/8") meter is charged as set forth above. Customers using a non-standard meter pay a minimum monthly water charge based on the size of the water meter and location of the water connection, as follows:

Meter Size	Water Use Minimum	Water Charge Minimum (within the City)	Water Charge Minimum (outside the City)*
3/4"	7,000 gallons	$26.50	$53.00
1" (Residential)	7,000 gallons	26.50	53.00
1"	10,000 gallons	34.75	69.50
1 1/2"	20,000 gallons	62.25	124.50
2"	30,000 gallons	89.75	179.50
3"	60,000 gallons	172.25	344.50
4"	100,000 gallons	282.25	564.50
6"	200,000 gallons	557.25	1,114.50
8"	400,000 gallons	1,107.25	2,214.50

*Excluding wholesale users which will be billed inside City rates.

Sewer. The sewer rates are as follows:

	Within the City	Outside the City*
For the first 1,000 gallons of wastewater processed	$10.00 (Minimum)	$20.00 (Minimum)
For all wastewater processed in excess of 1,000 gallons	2.75 per 1,000 gallons	5.50 per 1,000 gallons

THE AUTHORIZING ORDINANCE

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

Rates and General Covenants to Operate. (a) The rates charged for services of the System heretofore fixed by ordinances of the City, and the conditions, rights and obligations pertaining thereto, as set out in those ordinances are ratified, confirmed and continued. None of the facilities or services afforded by the System shall be furnished without a charge being made therefor.

(b) The System shall be continuously operated as a revenue-producing undertaking and the City will not sell or lease the same, or any substantial portion thereof. However, nothing shall be construed to prohibit the City from making such dispositions of properties of the System and such replacements and substitutions for properties of the System as shall be necessary or incidental to the efficient operation of the System as a revenue-producing undertaking.

(c) The City covenants that the rates shall never be reduced while any of the Bonds are outstanding unless there is obtained from an independent certified public accountant a certificate that the Net Revenues ("Net Revenues" being defined as gross Revenues less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal water and sewer systems other than depreciation, interest and amortization expenses), with the reduced rates, will always be equal to at least 135% of the maximum annual principal and interest requirements on all outstanding bonds to which Revenues are pledged, including the Senior Bonds ("System Bonds"); provided, however, such balance shall be sufficient to make required deposits into the depreciation funds and any debt service reserve fund or account during the current and next ensuing fiscal years. The City further covenants that the rates shall, if and when necessary from time to time, be increased in such manner as will produce Net Revenues at least equal to the amount necessary to pay principal and interest requirements on all System Bonds and to deposit the amounts required to be paid into the depreciation funds and in any debt service reserve fund or account during the current and next ensuing fiscal years.

Funds and Disposition of Revenues. (a) So long as the Senior Bonds are outstanding, all revenues derived from the operation of the water facilities of the System shall be paid into a special fund designated "Water Revenue Fund" (the "Water Fund") and all revenues derived from the operation of the sewer facilities of the System shall be paid into a special fund designated "Sewer Revenue Fund" (the "Sewer Fund"), each such fund to be held by a depository bank selected by the City. When the Senior Bonds are no longer outstanding, all System revenues shall be paid directly into a special fund designated the "Water and Sewer Revenue Fund" (the "Revenue Fund").

(b) While the Senior Bonds are outstanding, there shall be transferred from the Water Fund, monthly, (i) into the bond fund for the Senior Bonds as required by the ordinance authorizing the Senior Bonds (the "Senior Ordinance"), (ii) into a special fund designated "Water Depreciation Fund" (the "Water Depreciation Fund") the sum of 2% of water revenues for the prior month and (iii) into a special fund designated "Water Operation and Maintenance Fund" the amounts required by the Senior Ordinance. All remaining funds in the Water Fund shall be transferred each month into the Revenue Fund.

(c) All revenues in the Sewer Fund shall be transferred each month to the Revenue Fund.

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

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

(e) After making the required monthly deposits set forth above, there shall next be paid from the Revenue Fund, pro rata, into the bond funds (and debt service reserves therein) being maintained in connection with the Parity Bonds and any additional parity bonds, the required monthly deposits pursuant to the ordinances authorizing their issuance and into the 2014 Water and Sewer Revenue Bond Fund created for the Bonds (the "Bond Fund"). Payments into the Bond Fund shall be made on the first business day of each month, commencing in August 2014, until all outstanding Bonds, with interest thereon, have been paid in full or provision made for such payment a sum equal to a sum equal to one-sixth (1/6) of the next installment of interest and one-twelfth (1/12) of the next installment of principal of the Bonds; provided, however, the monthly payments to be made through October 2014 shall be in the amount of one-third (1/3) of the installment of principal and interest due November 1, 2014.

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

There is created, as a part of the Bond Fund, a Debt Service Reserve which the City agrees to continuously maintain in an amount equal to the lesser of the maximum annual principal and interest requirement on the Bonds or 10% of the original principal amount of the Bonds (the "Required Level"). Should the Debt Service Reserve become impaired or be reduced below the Required Level, the deficiency shall be cured by an additional monthly payment equal to one-twelfth (1/12) of the deficiency until the impairment or reduction is corrected.

If for any reason there shall be a deficiency in the payments made into the Bond Fund so that there are unavailable sufficient moneys therein to pay the principal of and interest on the Bonds as the same become due, any sums then held in the Debt Service Reserve shall be used to the extent necessary to pay such principal and interest. The Debt Service Reserve shall be used solely as described in the Authorizing Ordinance.

If Revenues are insufficient to make the required payment by the first business day of the following month into the Bond Fund, then the amount of any such deficiency in the payment made shall be added to the amount otherwise required to be paid into the Bond Fund by the first business day of the next month.

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

(f) There shall next be transferred each month from the Revenue Fund into the bond funds for the Subordinate Bonds the amounts required by the ordinances authorizing such bonds.

(g) After making the payments set forth above, there shall be transferred from the Revenue Fund into a special fund designated the "Water and Sewer Depreciation Fund" (the "Depreciation Fund"), on the first business day of each month, two percent (2%) of gross Revenues for the preceding month; provided, however, that there shall be deducted from such monthly deposit the amount of the monthly deposit into the Water Depreciation Fund for that month, if any. The moneys in the Depreciation Fund shall be used solely for the purpose of paying the cost of replacements made necessary by the depreciation of the System or for the purpose of paying the costs of damage caused by unforeseen catastrophes.

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

(h) Any surplus in the Revenue Fund after making all disbursements and providing for all funds described above may be used, at the option of the City, for any lawful municipal purpose authorized by the City.

(i) The Trustee shall be the depository of the Bond Fund. Other funds described herein shall be deposited in such depositories as designated from time to time by the City, provided that such depository or depositories shall hold membership in the FDIC.

(j) When the Senior Bonds are no longer outstanding, all moneys in the Water Depreciation Fund shall be transferred to the Depreciation Fund and all moneys in the Water Operation and Maintenance Fund shall be transferred to the Operation and Maintenance Fund.

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

The City may issue additional bonds ranking on a parity with the Bonds if, but only if: (1) there shall have been filed with the Trustee a statement by an independent certified public accountant not in the regular employ of the City reciting, based upon necessary investigation, that Net Revenues (as defined under **THE AUTHORIZING ORDINANCE**, Rates and General Covenants to Operate) for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 115% of the maximum annual principal and interest requirements on the then outstanding System Bonds and the additional bonds then proposed to be issued; or (2) there shall have been filed with the Trustee a statement by an independent certified public accountant not in the regular employ of the City reciting the opinion based upon necessary investigation that Net Revenues for the fiscal year next succeeding the fiscal year in which it is proposed to issue such additional bonds, including the Net Revenues to be derived from any extensions, betterments and improvements to be constructed out of the proceeds of the additional bonds then proposed to be issued, as reflected by a certificate of a duly qualified consulting engineer not in the regular employ of the City ("Engineer"), and taking into consideration any rate increase adopted before issuance of the additional bonds, shall be equal to not less than 115% of the maximum annual principal and interest requirements on the then outstanding System Bonds and the additional bonds then proposed to be issued. In making the computation set forth in clause (1) above, the City, and the independent certified public accountant not in the regular employ of the City, on behalf of the City, may, based upon the opinion or report of an Engineer, treat any increase in rates for the System enacted subsequent to the first day of such preceding fiscal year as having been in effect throughout such fiscal year and may include in Net Revenues for such fiscal year the amount that would have been received, based on such opinion or report, had the increase been in effect throughout such fiscal year.

Accounts and Records. The City will keep proper books of accounts and records (separate from all other records and accounts) in which complete and correct entries shall be made of all transactions relating to the operation of the System, and such books shall be available for inspection by the registered owner of any of the Bonds at reasonable times and under reasonable circumstances. The City agrees to have these records audited by an independent certified public accountant at least once each year, and a copy of the audit shall be delivered to the Trustee and made available to registered owners requesting the same in writing. So long as the Senior Bonds are outstanding, there shall be included in the audit, supplemental information reflecting revenues and expenses of the System separately for water and sewer. In the event that the City fails or refuses to make the audit, the Trustee or any registered owner of the Bonds may have the audit made, and the cost thereof shall be charged against one of the operation and maintenance funds, as appropriate.

Maintenance; Insurance. The City covenants and agrees that it will maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. While any of the Bonds are outstanding, the City agrees that, to the extent comparable protection is not otherwise provided to the satisfaction of the Trustee, it will insure and at all times keep insured, in the amount of the full insurable value thereof, in a responsible insurance company or companies authorized and qualified under the laws of the State to assume the risk thereof, properties of the System, to the extent that such properties would be covered by insurance by private companies engaged in similar types of businesses, against loss or damage thereto from fire, lightning, tornados, winds, riot, strike, civil commotion, malicious damage, explosion, extended coverage and against any other loss or damage from any other causes customarily insured against by private companies engaged in similar types of business. The insurance policies are to carry a clause making them payable to the Trustee as its interest may appear, and are either to be placed in the custody of the Trustee or satisfactory evidence of said insurance shall be filed with the Trustee. In the event of loss, the proceeds of such insurance shall be applied solely toward the reconstruction, replacement or repair of the System, and in such event the City will, with reasonable promptness, cause to be commenced and completed the reconstruction, replacement and repair work. If such proceeds are more than sufficient for such purposes, the balance remaining shall be deposited to the credit of one of the revenue funds, as appropriate, and if such proceeds shall be insufficient for such purposes the deficiency shall be supplied first from moneys in one of the depreciation funds, as appropriate, and second from moneys in one of the operation and maintenance funds, as appropriate, and third from surplus moneys in one of the revenue funds, as appropriate. Nothing shall be construed as requiring the City to expend any moneys for operation and maintenance of the System or for premiums on its insurance which are derived from sources other than the operation of the System, but nothing shall be construed as preventing the City from doing so.

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

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

When all the Bonds shall have been paid within the meaning of the Authorizing Ordinance, if the Trustee has been paid its fees and expenses and if any arbitrage rebate due under Section 148 of the Code has been paid or provision made therefor, the Trustee shall take all appropriate action to cause (i) the pledge and lien of the Authorizing Ordinance to be discharged and cancelled, and (ii) all moneys held by it pursuant to the Authorizing Ordinance and which are not required for the payment of such Bonds to be paid over or delivered to or at the direction of the City.

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

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

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

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

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

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

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

The owners of not less than seventy-five percent (75%) in aggregate principal amount of the Bonds then outstanding shall have the right, from time to time, anything contained in the Authorizing Ordinance to the contrary notwithstanding, to consent to and approve, the adoption by the City of such ordinance supplemental hereto as shall be necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Authorizing Ordinance or in any supplemental ordinance; provided, however, that nothing contained in the Authorizing Ordinance shall permit or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) the creation of a lien or pledge superior to the lien and pledge created by the Authorizing Ordinance, or (d) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental ordinance.

The Trustee. The Trustee shall only be responsible for the exercise of good faith and reasonable prudence in the execution of its trust. The Trustee shall not be required to take any action as Trustee unless it shall have been requested to do so in writing by the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding and shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby. The Trustee may resign at any time by giving sixty (60) days' notice in writing to the City Clerk and the registered owners of the Bonds. The majority in value of the registered owners of the outstanding Bonds or the City, so long as it is not in default under the Authorizing Ordinance, at any time, with or without cause, may remove the Trustee. In the event of a vacancy in the office of Trustee, either by resignation or by removal, the City shall designate a new Trustee by a written instrument filed in the office of the City Clerk. Every successor Trustee shall be a trust company or bank in good standing; duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $25,000,000. The original Trustee and any successor Trustee shall file a written acceptance and agreement to execute the trusts imposed upon it or them but only upon the terms and conditions set forth in the Authorizing Ordinance and subject to the provisions of the Authorizing Ordinance, to all of which the respective registered owners of the Bonds agree. Any successor Trustee shall have all the powers granted to the original Trustee. Notwithstanding the above, neither the removal of the Trustee nor the resignation by the Trustee shall be effective until a successor Trustee shall have been appointed.

Investments. (a) Moneys held for the credit of the Bond Fund shall be continuously invested and reinvested pursuant to the direction of the City (or at the discretion of the Trustee in the absence of direction by the City) in Permitted Investments defined in (d) below, all of which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, as follows:

not later than the payment date for interest or principal and interest for moneys in the debt service portion of the Bond Fund; and not later than five (5) years or the final maturity of the Bonds, whichever is earlier, for moneys in the Debt Service Reserve.

(b) Moneys held for the credit of the Revenue Fund, the Operation and Maintenance Fund and the Depreciation Fund may be invested and reinvested by the City in Permitted Investments as defined in (d) below or other investments permitted by law, which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than the date or dates when the moneys held for the credit of the particular fund will be required for purposes intended.

(c) Obligations so purchased as an investment of moneys in any fund shall be deemed at all times to be a part of such fund and the interest accruing thereon and any profit realized from such investments shall be credited to such fund, and any loss resulting from such investment shall be charged to such fund, except that interest earnings and profits on investments of moneys in the Debt Service Reserve which increase the amount thereof above the Required Level shall to the extent of any such excess be applied as a credit to monthly payments required to be deposited into the Bond Fund.

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

CONTINUING DISCLOSURE AGREEMENT

In the past five years, the City has been a party to certain continuing disclosure agreements in connection with its outstanding bonds. Such agreements require the City to disclose in annual reports that are filed with the Municipal Securities Rulemaking Board certain statistical information and audited financial statements of the City or the System, as appropriate for the type of bond issues, e.g., water and sewer revenue and sales and use tax bonds.

In total, the City was obligated to file sixteen annual reports over the past five years. The statistical information required by the sixteen annual reports has been filed; however, the statistical information in one annual report was filed later than the date such report was due, as reflected below:

Annual Report Due[(1)]	Annual Report Filed
June 29, 2009	July 13, 2009

[(1)] The continuing disclosure agreements entered into in connection with the City's outstanding bonds require the City to submit an annual report within 180 days after the end of the fiscal year ending December 31, which is on June 29.

With respect to the audited financial statements of the City or the System, if filed later than the date the annual report for that year is due, the audited financial statements must be filed within 30 days after receipt thereof.

The audited financial statements of the System for the years ended December 31, 2008 through 2012 have been filed; however, the audited financial statements of the System for the fiscal years ending December 31, 2009 and 2012 were neither filed when the annual report was due nor filed within 30 days of receipt. The audit of the System's financial statements for the year ended December 31, 2013 has not yet been conducted.

The audited financial statements of the City for the years ended December 31, 2008 through 2012 have been filed; however, such filings were neither made at the time the annual report was due nor within 30 days of receipt. The audit of the City's financial statements for the year ended December 31, 2013 has not yet been conducted.

The City is taking steps to insure that the required information is filed in a timely manner in the future.

Set forth below is a summary of certain portions of the Continuing Disclosure Agreement to be executed in connection with the Bonds. 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.

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

Provision of Annual Report. (a) The City shall, or cause the Dissemination Agent to, not later than one hundred eighty (180) days after the end of the System's fiscal year (presently December 31), commencing with the report after the end of the 2014 fiscal year, provide to the MSRB, through its continuing disclosure service portal provided through EMMA at http://www.emma.msrb.org or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the System may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted not less than thirty (30) days after receipt thereof by the City. If the System's fiscal year changes, it shall give notice of such change in the manner as for a Listed Event.

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with the first sentence of this subsection (b).

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

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

1. Information of the type set forth in this Official Statement (a) under the caption **THE SYSTEM** with respect to (i) average daily water use in gallons, maximum daily water use in gallons and total annual water use in gallons for the preceding fiscal year and the previous four fiscal years; (ii) the number of water and sewer users for the fiscal year then ended and the four previous fiscal years; and (iii) the top ten users of the System for the previous fiscal year and a statement as to which users, if any, accounted for 5% or more of System revenues for the preceding fiscal year.

2. The annual financial statements of the System prepared using accounting principles generally accepted in the United States of America, which shall be audited in accordance with auditing standards generally accepted in the United States of America.

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

Reporting of 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. Modification 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 City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence.

(c) After the occurrence of a Listed Event (excluding an event described in (a)8 above), whether by notice from the Trustee or otherwise, the City shall file (or shall cause the Dissemination Agent to file), in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event, a notice of such occurrence with the MSRB, through its continuing disclosure service portal provided through EMMA at http://www.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 Bonds pursuant to the terms of the Authorizing Ordinance.

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

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

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

(a) If the amendment or waiver relates to the requirements for providing an Annual Report, to the contents of the Annual Report or the reporting of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

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

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

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

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

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

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

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

FINANCIAL INFORMATION

Set forth in Exhibit A to this Official Statement are audited financial statements of the System for the fiscal year ended December 31, 2012 as well as the Combining Statement for Revenues and Expenses for the fiscal year ended December 31, 2012. Such audited financial statements were prepared using accounting principles generally accepted in the United States of America and were audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Set forth in Exhibit B to this Official Statement are unaudited financial statements for the System for the fiscal year ended December 31, 2013 as well as the Combining Statement for Revenues and Expenses for the fiscal year ended December 31, 2013. Such unaudited financial statements were compiled in accordance with Statements on Standards for Accounting and Review Service issued by the American Institute of Certified Public Accountants. The financial statements should be read in their entirety, together with any notes and supplemental information affixed thereto.

Set forth below is an audited Summary Statement of Revenues and Expenses of the System for the years ending December 31, 2010-2012, and an unaudited Summary Statement of Revenues and Expenses of the System for the year ending December 31, 2013.

Audited Summary Statement of
Revenues and Expenses from Combined
Water and Sewer System

	Fiscal Year Ended December 31, 2010		
	Water	Sewer	Combined
Operating Revenues	$1,946,231	$1,046,951	$2,993,182
Operating Expenses (Before Depreciation)	(1,255,991)	(815,171)	(2,071,162)
Net Operating Income (Loss) (Before Depreciation)	690,240	231,780	922,020
Depreciation	(682,391)	(324,633)	(1,007,024)
Net Operating Income (Loss)	7,849	(92,853)	(85,004)
Non-Operating Revenue (Expense)	(348,192)	(140,347)	(488,539)
Net Income (Loss)	($340,343)	$(233,200)	($573,543)

	Fiscal Year Ended December 31, 2011		
	Water	Sewer	Combined
Operating Revenues	$2,533,604	$1,293,077	$3,826,681
Operating Expenses (Before Depreciation)	(1,078,231)	(862,809)	(1,941,040)
Net Operating Income (Loss) (Before Depreciation)	1,455,373	430,268	1,885,641
Depreciation	(703,407)	(344,854)	(1,048,261)
Net Operating Income (Loss)	751,966	85,414	837,380
Non-Operating Revenue (Expense)	(342,413)	(162,008)	(504,421)
Net Income (Loss)	$409,553	$(76,594)	$332,959

	Fiscal Year Ended December 31, 2012		
	Water	Sewer	Combined
Operating Revenues	$2,611,960	$1,421,539	$4,033,499
Operating Expenses (Before Depreciation)	(1,244,347)	(876,330)	(2,120,677)
Net Operating Income (Loss) (Before Depreciation)	1,367,613	545,209	1,912,822
Depreciation	(718,766)	(359,394)	(1,078,160)
Net Operating Income (Loss)	648,847	185,815	834,662
Non-Operating Revenue (Expense)	(401,596)	(151,379)	(552,975)
Net Income (Loss)	$247,251	$34,436	$281,687

Unaudited Summary Statement of
Revenues and Expenses from Combined
Water and Sewer System

	Fiscal Year Ended December 31, 2013		
	Water	Sewer	Combined
Operating Revenues	$2,544,424	$1,375,791	$3,920,215
Operating Expenses (Before Depreciation)	(1,312,658)	(881,738)	(2,194,396)
Net Operating Income (Loss) (Before Depreciation)	1,231,766	494,053	1,725,819
Depreciation	(622,142)	(386,233)	(1,008,375)
Net Operating Income (Loss)	609,624	107,820	717,444
Non-Operating Revenue (Expense)	(241,317)	(272,236)	(513,553)
Net Income (Loss)	$368,307	$(164,416)	$203,891

DEBT SERVICE COVERAGE

The following table shows the net revenues available for debt service, the estimated amount of maximum annual debt service, and the extent to which debt service is covered by such funds. Estimated debt service coverage is calculated using the unaudited financial statements of the System for the year ended December 31, 2013, which are attached hereto as Exhibit A.

Net Sewer Revenues (1)	$505,470
Surplus Water Revenues (2)	968,054
Revenues Available for Debt Service (A)	1,473,524
Maximum Annual Debt Service Requirements for Bonds, Parity Bonds and Subordinate Bonds (B)	874,924
Debt Service Coverage (A/B)	1.68x

(1) "Net Sewer Revenues" means gross revenues of the sewer facilities of the System less amounts necessary to pay operation and maintenance expenses of the sewer facilities of the System (excluding depreciation, interest and amortization of deferred bond discount expenses); includes $11,417 of interest income.

(2) "Surplus Water Revenues" means gross revenues of the water facilities of the System less amounts deposited annually into the Water Depreciation Fund less maximum annual debt service on the Senior Bonds, less water operation and maintenance expenses (excluding depreciation); includes $3,648 of interest income.

DEBT SERVICE REQUIREMENTS

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

Year	Principal	Interest	Total Debt Service
2014	$ 25,000.00	$ 38,292.50	$ 63,292.50
2015	100,000.00	114,627.50	214,627.50
2016	130,000.00	113,627.50	243,627.50
2017	155,000.00	111,677.50	266,677.50
2018	155,000.00	108,577.50	263,577.50
2019	160,000.00	105,477.50	265,477.50
2020	165,000.00	102,277.50	267,277.50
2021	170,000.00	98,647.50	268,647.50
2022	170,000.00	94,567.50	264,567.50
2023	175,000.00	90,062.50	265,062.50
2024	185,000.00	84,987.50	269,987.50
2025	190,000.00	79,437.50	269,437.50
2026	190,000.00	72,787.50	262,787.50
2027	195,000.00	66,137.50	261,137.50
2028	210,000.00	59,312.50	269,312.50
2029	215,000.00	51,962.50	266,962.50
2030	220,000.00	44,437.50	264,437.50
2031	230,000.00	36,187.50	266,187.50
2032	235,000.00	27,562.50	262,562.50
2033	245,000.00	18,750.00	263,750.00
2034	255,000.00	9,562.50	264,562.50
TOTALS	$3,775,000.00	$1,528,960.00	$5,303,960.00

Set forth below are the debt service requirements for the Bonds, the Senior Bonds, the Parity Bonds and the Subordinate Bonds for each year ending December 31, commencing with the year ending December 31, 2014:

Year (Ending December 31)	Bond Debt Service	Senior Bond Debt Service	Subordinate Bond Debt Service	Parity Bond Debt Service	Total Debt Service
2014	$ 63,292.50	$ 216,426.00	$50,403.00	$ 605,183.76	$ 935,305.26
2015	214,627.50	216,426.00	20,984.00	603,433.76	1,055,471.26
2016	243,627.50	216,426.00	20,963.00	606,583.76	1,087,600.26
2017	266,677.50	216,426.00		604,533.76	1,087,637.26
2018	263,577.50	216,426.00		601,983.76	1,081,987.26
2019	265,477.50	216,426.00		603,652.51	1,085,556.01
2020	267,277.50	216,426.00		604,093.76	1,087,797.26
2021	268,647.50	216,426.00		603,413.76	1,088,487.26
2022	264,567.50	216,426.00		606,720.01	1,087,713.51
2023	265,062.50	216,426.00		603,871.26	1,085,359.76
2024	269,987.50	216,426.00		600,176.26	1,086,589.76
2025	269,437.50	216,426.00		605,486.26	1,091,349.76
2026	262,787.50	216,426.00		599,966.26	1,079,179.76
2027	261,137.50	216,426.00		603,321.26	1,080,884.76
2028	269,312.50	216,426.00		599,921.88	1,085,660.38
2029	266,962.50	216,426.00		604,918.76	1,088,307.26
2030	264,437.50	216,426.00		598,800.01	1,079,663.51
2031	266,187.50	216,472.00		219,431.26	702,090.76
2032	262,562.50			221,800.00	484,362.50
2033	263,750.00			223,268.76	487,018.76
2034	264,562.50			219,250.00	483,812.50
2035				219,987.50	219,987.50
2036				220,237.50	220,237.50
TOTALS	$5,303,960.00	$3,895,714.00	$92,350.00	$11,580,035.81	$20,872,059.81

LEGAL MATTERS

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

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

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

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

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

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

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

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

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

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

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

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

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

As shown on the cover page of this Official Statement, certain of the 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 their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Current or future legislative proposals, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent holders of the Bonds from realizing the full current benefit of the tax status of such interest. Recent legislative proposals include provisions that would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

MISCELLANEOUS

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

Underwriting. Stephens Inc., the Underwriter, has agreed, subject to certain conditions precedent, to purchase the Bonds from the City at a purchase price of $3,708,587.35 (principal amount less net original issue discount of $9,787.65 less Underwriter's discount of $56,625) plus accrued interest to the date of delivery. The Underwriter is committed to purchase all of the Bonds if any are purchased.

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

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

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

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

CITY OF MAGNOLIA, ARKANSAS

By /s/ Parnell Vann
Mayor

Dated: As of the Cover Page hereof.

EXHIBIT A

Unaudited Financial Statements of the System for the Fiscal Year
Ended December 31, 2013 with Combining Statement of
Revenues and Expenses for the Fiscal Year Ended
December 31, 2013

CITY OF MAGNOLIA, ARKANSAS UTILITIES

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CITY OF MAGNOLIA, ARKANSAS UTILITIES
FINANCIAL STATEMENTS
DECEMBER 31, 2013

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ROBERT L. EDSTROM
CERTIFIED PUBLIC ACCOUNTANT, P.A.
115 E. MCNEIL, P.O. BOX 672
MAGNOLIA, AR 71753

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Honorable Parnell Vann and
Members of the City Council
City of Magnolia, State of Arkansas

I have compiled the accompanying financial statements of the City of Magnolia, Arkansas Utilities which is a component unit and Proprietary Fund of the City of Magnolia Arkansas, as of and for the year ended December 31, 2013. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation of the financial statements.

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all financial statement disclosures. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Utilities' assets, liabilities, net position, revenues, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The supplementary information contained in the Combining Schedule of Revenues and Expenses and the Combining Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been compiled from information that is the representation of management. I have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

Robert L. Edstrom, CPA
May 5, 2014

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF NET POSITION
December 31, 2013

Current Assets	
Cash and Cash Equivalents	416,780
Certificate of Deposit	41,574
Accounts Receivable-Billed-	
Net of Allowance for Bad Debts	260,671
Accounts Receivable-Unbilled	179,989
Inventory-Supplies	64,677
Total Current Assets	963,691
Restricted Assets	
Cash and Cash Equivalents-Depreciation Fund	73,959
Cash and Cash Equivalents-Lake Columbia Repair	104,452
Cash and Cash Equivalents-Construction Funds	306,322
Cash and Cash Equivalents-Debt Service Funds	1,774,943
Notes Receivable-Current	19,076
Notes Receivable-Long-Term	40,175
U.S. Treasury Bill-Debt Service Fund	341,459
Certificate of Deposit-Depreciation Fund	264,000
Certificates of Deposit-Debt Service Fund	613,780
Total Restricted Assets	3,538,166
Capital Assets	
Property, Plant and Equipment	42,517,824
Less: Accumulated Depreciation	(20,221,044)
Net Capital Assets	22,296,780
Total Assets	26,798,637
Deferred Outflows	
Unamortized Bond Discounts	94,279

See Independent Accountant's Compilaiton Report.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF NET POSITION
December 31, 2013

Current Liabilities	
Accounts Payable	6,342
Accrued Vacation Pay	6,327
Sales Tax Payable	13,054
Accrued Wages Payable	7,089
Meter Deposits	33,271
Unearned Income-Current Portion	19,076
Note Payable-Current Portion	28,701
Total Current Liabilities	113,860
Payables From Restricted Assets	
Accounts Payable	6,076
Accrued Bond Interest Payable	160,354
Current Portion-Bonds Payable	436,348
Total Payable From Restricted Assets	602,778
Long-Term Liabilities	
Unearned Income	40,175
Bonds Payable	14,390,292
Total Long-Term Liabilities	14,430,467
Total Liabilities	15,147,105
Net Position	
Invested in Capital Assets Net of Related Debt	7,329,113
Restricted for Debt Service-Expendable	2,789,433
Restricted for Capital Activity-Expendable	748,733
Unrestricted	878,532
Total Net Position	11,745,811

See Independent Accountant's Compilaiton Report.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the year ended December 31, 2013

Operating Revenues		
Water Revenue		3,726,640
Connection Fees		17,225
Set-Up Fees		58,775
Billing and Collection Fees		4,370
Other Revenues		113,205
Total Operating Revenues		3,920,215
Operating Expenses		3,202,771
Operating Income		717,444
Non-operating Revenues (Expense)		
Interest Income		15,065
Interest Expense		(499,285)
A.D.F.A. Fees		(29,333)
Total Non-operating Expense		(513,553)
Increase in Net Position		203,891
Net Position - Beginning of Year	11,389,250	
Contribution in Aid of Construction	152,670	11,541,920
Net Position - End of Year		11,745,811

See Independent Accountant's Compilation Report.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

SCHEDULE OF OPERATING EXPENSES
For the year ended December 31, 2013

Wages	836,774
Power Cost	283,024
General Operating Supplies	87,877
Distribution Materials and Supplies	56,482
Treatment Plant Supplies	209,967
Repairs and Maintenance	164,228
Fuel, Oil, and Tires	48,515
Depreciation	1,008,375
Insurance	143,637
Retirement Expense	118,701
Water Source Protection Cost	50,000
Legal and Accounting Fees	19,870
Bad Debts (Net of Recoveries)	37,703
Postage	22,231
Payroll Taxes	62,291
Telephone	15,550
Office Expense	37,546
Total Operating Expenses	3,202,771

See Independent Accountant's Compilation Report.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMBINING SCHEDULE OF REVENUES AND EXPENSES
For the year ended December 31, 2013

Operating Revenues	Water	Wastewater	Total
Water and Wastewater Revenue	2,362,723	1,363,917	3,726,640
Connection Fees	17,225	-	17,225
Set-Up Fees	58,775	-	58,775
Billing and Collection Fees	4,370	-	4,370
Other Revenues	101,331	11,874	113,205
Total Operating Revenues	2,544,424	1,375,791	3,920,215
Operating Expenses	1,934,800	1,267,971	3,202,771
Operating Income	609,624	107,820	717,444
Non-operating Revenues (Expense)			
Interest Income	3,648	11,417	15,065
Interest Expense	(215,632)	(283,653)	(499,285)
A.D.F.A. Fees	(29,333)	-	(29,333)
Total Non-Operating Expense	(241,317)	(272,236)	(513,553)
Increase in Net Position	368,307	(164,416)	203,891

See Independent Accountant's Compilation Report

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMBINING SCHEDULE OF OPERATING EXPENSES
For the year ended December 31, 2013

	Water	Sewer	Total
Wages	432,067	404,707	836,774
Power Cost	166,420	116,604	283,024
General Operating Supplies	50,001	37,876	87,877
Distribution Materials and Supplies	56,482	-	56,482
Treatment Plant Supplies	151,894	58,073	209,967
Repairs and Maintenance	98,705	65,523	164,228
Fuel, Oil, and Tires	38,075	10,440	48,515
Depreciation	622,142	386,233	1,008,375
Insurance	87,428	56,209	143,637
Retirement Expense	69,714	48,987	118,701
Water Source Protection Cost	50,000	-	50,000
Legal and Accounting Fees	9,935	9,935	19,870
Bad Debts (Net of Recoveries)	24,440	13,263	37,703
Postage	11,115	11,116	22,231
Payroll Taxes	39,834	22,457	62,291
Telephone	7,775	7,775	15,550
Office Expense	18,773	18,773	37,546
Total Operating Expenses	1,934,800	1,267,971	3,202,771

See Independent Accountant's Compilation Report

EXHIBIT B

Audited Financial Statements of the System for the Fiscal Year Ended December 31, 2012 with Combining Statement of Revenues and Expenses for the Fiscal Year Ended December 31, 2012

ROBERT L. EDSTROM,
CERTIFIED PUBLIC ACCOUNTANT, PROFESSIONAL ASSOCIATION

Member American Institute of Certified Public Accountants and Arkansas Society of C.P.A.'s

August 7, 2013

To Mayor and City Council of Magnolia, Arkansas

I have audited the financial statements of the City of Magnolia, Arkansas Utilities (the System) for the year ended December 31, 2012, and have issued my report thereon dated August 7, 2013. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of my audit. I communicated such information in my letter to you dated July 10, 2013. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Magnolia, Arkansas Utilities are described in Note B to the financial statements. Effective January 1, 2012 the System adopted GASB 63 and 65. The application of existing policies not affected by GASB 63 and 65 were not changed during 2012. I noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the System's financial statement was:

> Management's estimate of depreciation expense is based on estimated useful lives of the buildings and equipment owned by the System. I evaluated the assumptions used to develop the estimate of useful lives in determining that they were reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detect as a result of audit procedures were corrected by management:

115 E. McNeil, P.O. Box 672, Magnolia, AR 71754-0672
Telephone (870) 234-7611 * Fax (870) 234-8529

Various repairs and expenses originally classified as fixed assets were reclassified as repairs and expenses.

Various fixed assets originally classified as repairs and expenses were reclassified as fixed assets.

Depreciation expense for the year was recorded.

Accrued interest payable was adjusted to the balance at December 31, 2012.

Capitalized interest was recorded.

Unbilled accounts receivable were adjusted to the balance at December 31, 2012.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated August 7, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to my retention as the System's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Mayor and City Council of Magnolia, Arkansas and is not intended to be and should not be used by anyone other than these specified parties.

Robert L. Edstrom, CPA

115 E. McNeil, P.O. Box 672, Magnolia, Arkansas 71754-0672
Telephone (870) 234-7611 * Fax (870) 234-8529

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

FINANCIAL STATEMENTS
December 31, 2012

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

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ROBERT L. EDSTROM,
CERTIFIED PUBLIC ACCOUNTANT,
PROFESSIONAL ASSOCIATION

Member American Institute of Certified Public
Accountants and Arkansas Society of C.P.A.'s

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council of
Magnolia, Arkansas

Report on the Financial Statements

I have audited the accompanying financial statements listed in the table of contents of the City of Magnolia, Arkansas Utilities, as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

115 E. McNeil, P.O. Box 672, Magnolia, AR 71754-0672
Telephone (870) 234-7611 * Fax (870) 234-8529

Opinion

In my opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the City of Magnolia, Arkansas Utilities as of December 31, 2012 and the results of its operations, changes in net position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note A, the financial statements of the City of Magnolia, Arkansas Utilities present only the financial position, results of operations, and cash flows of the City of Magnolia, Arkansas Utilities and are not intended to present fairly the financial position of the governmental activities and the aggregate remaining fund information of the City of Magnolia, Arkansas, as of December 31, 2012 and the respective changes in financial position in conformity with accounting principles general accepted in the United States of America.

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

As discussed in Note K to the financial statements GASB 65 was adopted effective January 1, 2012. As such, Net Position at the beginning of the year was reduced by the unamortized bond costs at that date.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 7, 2013 on my consideration the City of Magnolia, Arkansas Utilities' internal control over financial reporting and my tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Robert L. Edstrom
Certified Public Accountant, P.A.

August 7, 2013

FINANCIAL STATEMENTS

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF NET POSITION
December 31, 2012

Current Assets	
Cash and Cash Equivalents	80,812
Certificate of Deposit	41,479
Accounts Receivable-Billed-	
Net of Allowance for Bad Debts	203,886
Accounts Receivable-Unbilled	170,961
Inventory-Supplies	64,677
Total Current Assets	561,815
Restricted Assets	
Cash and Cash Equivalents-Depreciation Fund	260,672
Cash and Cash Equivalents-Lake Columbia Repair	88,353
Cash and Cash Equivalents-Construction Funds	1,461,495
Cash and Cash Equivalents-Debt Service Funds	1,705,047
Notes Receivable-Current	18,425
Notes Receivable-Long-Term	59,251
U.S. Treasury Bill-Debt Service Fund	341,050
Certificate of Deposit-Depreciation Fund	264,000
Certificates of Deposit-Debt Service Fund	613,780
Total Restricted Assets	4,812,073
Capital Assets	
Property, Plant and Equipment	41,131,454
Less: Accumulated Depreciation	(19,216,116)
Net Capital Assets	21,915,338
Total Assets	27,289,226
Deferred Outflows	
Unamortized Bond Discounts	99,397

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF NET POSITION
December 31, 2012

Current Liabilities	
Accounts Payable	9,447
Accrued Vacation Pay	4,344
Sales Tax Payable	8,554
Meter Deposits	33,579
Unearned Income-Current Portion	18,425
Note Payable-Current Portion	28,004
Total Current Liabilities	102,353
Payables From Restricted Assets	
Accounts Payable	383,902
Accrued Bond Interest Payable	162,272
Current Portion-Bonds Payable	436,348
Total Payable From Restricted Assets	982,522
Long-Term Liabilities	
Unearned Income	59,251
Bonds Payable	14,826,546
Notes Payable	28,701
Total Long-Term Liabilities	14,914,498
Total Liabilities	15,999,373
Net Position	
Invested in Capital Assets Net of Related Debt	6,089,711
Restricted for Debt Service-Expendable	2,737,553
Restricted for Capital Activity-Expendable	2,074,520
Unrestricted	487,466
Total Net Position	11,389,250

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended December 31, 2012

Operating Revenues	
Water Revenue	3,856,795
Connection Fees	20,492
Set-Up Fees	56,094
Billing and Collection Fees	4,650
Other Revenues	95,468
Total Operating Revenues	4,033,499
Operating Expenses	3,198,837
Operating Income	834,662
Non-operating Revenues (Expense)	
Interest Income	23,818
Interest Expense	(440,581)
A.D.F.A. Fees	(30,477)
Amortization of Deferred Bond Costs	(105,735)
Total Non-operating Expense	(552,975)
Increase in Net Position	281,687
Net Position - Beginning of Year	11,107,563
Net Position - End of Year	11,389,250

The accompany notes are an integral part of these financial statements.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	3,931,388
Cash Payments for Goods and Services	(1,233,925)
Cash Payments to Employees	(831,162)
Cash from Operating Activities	1,866,301
Cash Flows from Capital and Related Financing Activities	
Payments of Notes Payable	(27,321)
Payments of Revenue Bonds	(5,526,870)
Interest Paid	(484,984)
Bond Service Fees	(30,672)
Bond Issuance Costs	(105,735)
Proceeds from Issuance of Bonds	5,069,529
Purchases of Equipment and Facilities	(1,501,112)
Cash from Financing Activities	(2,607,165)
Cash Flows from Investing Activities	
Decrease in Certificates of Deposit	1,673
Sale of U.S. Treasury Bills	210
Decrease in Notes Receivable	17,798
Interest Income	23,818
Cash from Investing Activities	43,499
Net Change in Cash and Cash Equivalents	(697,365)
Cash and Cash Equivalents, Beginning of Year	4,293,744
Cash and Cash Equivalents, End of Year	3,596,379

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

CITY OF MAGNOLIA, ARKANSAS MUNICIPAL WATER SYSTEM
Magnolia, Arkansas

STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating Income	834,662
Adjustments to Reconcile Operating Income to Cash From Operating Activities:	
Non-Cash Items	
Amortization of Unearned Income	(17,798)
Underwriting Bond Costs	65,471
Depreciation	1,078,160
	1,125,833
(Increase) Decrease in Assets:	
Accounts Receivable	(42,708)
Inventory	801
	(41,907)
Increase (Decrease) in Liabilities:	
Accounts Payable	(16,750)
Compensation Payable	(31,986)
Other Payables	(3,551)
	(52,287)
Cash from Operating Activities	1,866,301

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

Note A: Nature of Organization

The City of Magnolia, Arkansas, operates under the Mayor-Council form of government. The City of Magnolia, Arkansas Utilities (the System) is a component unit of the City of Magnolia, Arkansas. The System sells water and provides wastewater services to residents and businesses in Magnolia and the surrounding areas.

Note B: Summary of Significant Accounting Policies

The accounting policies of the System are designed to conform to accounting principles generally accepted in the United States of America that are applicable to governmental proprietary fund types.

(1) The Reporting Entity

The System, a component unit of the City of Magnolia, Arkansas, reports only the System's financial position, results of operations, and cash flows for financial purposes.

The System does not have oversight responsibility for any other government unit and no other government entities are considered to be controlled by or dependent upon the System.

(2) Proprietary Fund Type-Enterprise Fund

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

(3) Basis of Presentation and Accounting

The System's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The System applies all required Governmental Accounting Standards Board (GASB) pronouncements and GASB 65.

Note B: Summary of Significant Accounting Policies (cont.)

(3) Basis of Presentation and Accounting (cont.)

The System applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The accounting and financial reporting treatment applied to the System's financial statements is determined by its measurement focus. The transactions of the System are accounted for on a flow of economic resources measurement focus. With the use of the measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position is segregated into "invested in capital assets, net of related debt"; "restricted for debt service"; "restricted for capital activity;" and "unrestricted" components.

(4) Cash and Cash Equivalents and Certificates of Deposit

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit and certificates of deposit with an initial maturity of three months or less.

Certificates of deposit and U.S. Treasury Bills with initial maturity of more than three months are reported at cost which approximates fair market value.

Restricted cash and certificates of deposit represent assets restricted for use as to payments of debt service and capital activity.

Generally, state laws require that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings, and/or time deposits.

(5) Inventories

Inventories are stated at the lower of cost or market, based on the first-in first-out method.

(6) Property, Plant, and Equipment

Property, plant, and equipment in service are recorded at cost, if purchased or constructed. Donated property,

Note B: Summary of Significant Accounting Policies (cont.)

(6) Property, Plant, and Equipment (cont.)

plant, and equipment are valued at their estimated fair market value on the date donated.

The System usually capitalizes assets costing $2,000 or more with an estimated life of more than one year. Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred. Depreciation is calculated using the straight-line method.

(7) Restricted Assets

The System has restricted assets for payment of debt services and cost of replacements made necessary by depreciation.

Depreciation Fund	524,672
Repair and Replacement Reserve-Lake Columbia	88,353
Debt Service Reserve	2,659,877
Bond Fund Accounts	1,461,495
Notes Receivable	77,676
Total	4,812,073

(8) Credit Risk

The System provides water and wastewater services to individuals and commercial businesses of the City of Magnolia and rural areas outside the City. No single customer accounts for a material portion of the sales.

(9) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, allowance for doubtful accounts, and certain claims and judgments liabilities, among other accounts. Actual results could differ from those estimates.

Note B: Summary of Significant Accounting Policies (cont.)

(10) Long-term Obligations and Costs

Long-term obligations are reported at face value. Discounts are deferred and amortized over the life of the bonds using a method that approximates the effective interest method. Unamortized discounts are reported as deferred outflows.

(11) Accounts Receivable

Accounts receivable are stated at estimated net realizable values; that is, the gross amount of the receivable is reduced by allowances for estimated uncollectible accounts. Accounts receivable represent charges due the System for water and wastewater services as well as connection and set up fees and penalties. At December 31, 2012 the accounts receivable were $209,795 and the allowance for bad debts was $5,909. Bad debt expense, net of recoveries, for the year was $38,269.

(12) Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following four components: invested in capital assets, net of related debt; restricted for debt service; restricted for capital activity; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, and improvement of those assets. Restricted for debt service and capital activity consists of assets for which constraints are placed thereon by the bond agreements. Unrestricted consists of all other net assets not included in the above categories.

(13) Operating, Non-operating Revenues and Capital Contributions

Non-operating revenues include interest income. Capital contributions are contributions in aid of construction. Contributions in aid of construction are distribution mains and other improvements to the System that are constructed by developers and contributed to the System. All other revenues are considered to be operating revenues.

Note C: Cash Deposits and Certificates of Deposit

State statutes and ordinances of the City of Magnolia govern investments policies of the System. They require the System to

Note C: Cash Deposits and Certificates of Deposit (cont.)

contract with financial institutions in which funds will be deposited to secure those deposits with FDIC insurance or pledged securities backed by the U.S. government. The pledged securities must be pledged in the name of the governmental entity and held by the entity or its agent. At December 31, 2012 the System had $59,209 of unsecured funds. The System does not have any further policies regarding credit risk, custodial credit risk for investments, concentration of credit risk, or interest rate risk. At December 31, 2012 the only investments held by the System were certificates of deposit and U.S. Treasury Bills.

Note D: Long-Term Liabilities

The following is a summary of changes in long-term liabilities net of bond discounts for the year ended December 31, 2012:

	Bonds	Notes Payable
Beginning of year	15,654,764	84,026
Additions	5,135,000	-
Deductions	(5,526,870)	(27,321)
End of year	15,262,894	56,705
Amounts due within one year	418,710	28,004

BONDS PAYABLE

Bonds payable at December 31, 2012 were as follows:

1995B Series Wastewater Revenue Bonds, interest rate of 2.5% and service fee of 1%, maturity 2016	77,676
1999 Series Water Revenue Bonds, interest rate of 2.5% and service fee of 1%, maturity 2031	2,985,218
2009 Series Wastewater Revenue Bonds, interest rates of 2.00%-4.50%, maturity 2034	3,810,000
2011 Series Water and Wastewater Revenue Bonds, interest rates of 2.00%-4.875%, maturity 2036	3,255,000
2012 Series Water and Wastewater Revenue Bonds, interest rates of 1.00%-3.875%, maturity 2030	5,135,000

Note D: Long-Term Liabilities (cont.)

1995B Series Wastewater Revenue Bonds - The 1995B bonds were issued to construct wastewater lines connecting to Southern Arkansas University.

1999 Series Water Revenue Bonds - The 1999 bonds were issued to construct a treatment plant for the water system.

2009 Series Wastewater Revenue Bonds - The 2009 bonds were issued to advance refund the Series 1995 Bonds, Series 1996 Bonds, and one of the 1999 Series Bonds and to construct new wastewater lines.

2011 Series Water & Wastewater Revenue Bonds - The 2011 bonds were issued to construct a wastewater interceptor and make improvements at the wastewater treatment plan.

2012 Series Water & Wastewater Revenue Bonds - The 2012 bonds were issued to advance refund the Series 2007 Bonds.

All bonds are collateralized by a pledge of the System's revenues, the funds created under the indenture and all monies and investments held therein. The bonds require annual sinking fund payments sufficient to redeem principal plus interest. The major provisions and funds required of the bond indentures are as follows:

Rates: The System will maintain water and wastewater rates sufficient to produce net revenues equal to the annual debt service.

Revenue Fund: All revenues derived from the operation of the System shall be deposited in this fund. Revenues deposited shall be expended into the following funds:

Revenue Bond Fund: There shall be paid to this fund a sum equal to one-sixth of the next installment of interest and one-sixth of the next installment of principal (for bonds paid semi-annually) or one-twelfth of the next installment of principal (for bonds paid annually).

Operation and Maintenance Fund: There shall be paid to this fund an amount sufficient to pay the reasonable monthly expenses of operations, repair, and maintenance of the System.

Depreciation Fund: There shall be paid into this fund an amount equal to 2% of the pledged revenues derived from the operation of the System. Monies in this fund shall be used solely for paying the cost of replacements made necessary by the depreciation of the System' assets and for the acquisition of capital assets of the System.

Note D: Long-Term Liabilities (cont.)

NOTES PAYABLE

The System has one note payable the funds of which were used to purchase capital assets. The note has an annual payment of $29,422, including interest, and an interest rate of 2.5% interest.

ANNUAL DEBT SERVICE REQUIREMENTS:

The following schedule shows the annual debt service requirements to pay principal and interest on the revenue bonds and notes payable outstanding at December 31, 2012.

Bonds Payable:

Year	Principal	Interest	Total
2013	436,348	526,798	963,146
2014	550,986	520,713	1,071,699
2015	560,786	506,761	1,067,547
2016	605,737	492,541	1,098,278
2017	624,735	477,228	1,101,963
2018-2022	3,387,703	2,106,187	5,493,890
2023-2027	3,990,236	1,502,977	5,493,213
2028-2032	3,801,363	705,239	4,506,602
2033-2037	1,305,000	133,070	1,438,070
	15,262,894	6,971,514	22,234,408

Notes Payable:

Year	Principal	Interest	Total
2013	28,004	1,418	29,422
2014	28,701	718	29,419
Totals	56,705	2,136	58,841

BOND DISCOUNTS

	Bond Discount
Total Discount	105,299
Accumulated Amortization	5,902
Net Discount	99,397

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note D: Long-Term Liabilities (cont.)

INTEREST EXPENSE AND CAPITALIZED INTEREST

The System incurred $562,581 of interest paid on indebtedness. The System capitalized interest of $122,000 and expensed $440,581.

Note E: Property, Plant, Equipment, and Construction-In Progress

A summary of changes in fixed assets follows:

	December 31, 2011	Additions	Retirement	December 31, 2012
Leases	60,611	-	-	60,611
Land	84,882	-	-	84,882
Plant Buildings	4,657,189	11,717	-	4,668,906
Wells & Well Equipment	718,453	45,903	-	764,356
Pumping Equipment	2,216,890	-	-	2,216,890
Reservoirs	4,619,616	-	-	4,619,616
Clarifying Tank	1,463,012	-	-	1,463,012
Disposal Plant	389,664	-	-	389,664
Interceptors	2,064,761	1,079,347	-	3,144,108
Treatment Plant	4,553,515	16,677	-	4,570,192
Sludge Project	1,528,499	-	-	1,528,499
Wastewater Mains	3,467,631	16,433	-	3,484,064
Distribution Mains	10,269,714	-	-	10,269,714
Meters & Services	932,679	20,492	-	953,171
Fire Hydrants	142,731	-	-	142,731
Other Plant Equipment	1,084,412	110,637	-	1,195,049
Office Equipment	189,302	2,872	-	192,174
Sub-Total	38,443,561	1,304,078	-	39,747,639
Construction in Progress	890,369	1,572,793	1,079,347	1,383,815
Total Fixed Assets	39,333,930	2,876,871	1,079,347	41,131,454

Note E: Property, Plant, Equipment, and Construction-In Progress (cont.)

A summary of accumulated depreciation follows:

	Cost	Accumulated Depreciation	Estimated Useful Life
Leases	60,611	-	-
Land	84,882	-	-
Plant Buildings	4,668,906	2,303,665	20-40
Wells & Well Equipment	764,356	704,378	10-20
Pumping Equipment	2,216,890	1,815,182	20
Reservoirs	4,619,616	1,644,582	10-33
Clarifying Tank	1,463,012	515,048	40
Disposal Plant	389,664	347,242	30-40
Interceptors	3,144,108	743,955	40
Treatment Plant	4,570,192	3,353,689	30
Sludge Project	1,528,499	641,463	40
Wastewater Mains	3,484,064	1,774,852	40
Distribution Mains	10,269,714	3,542,945	50
Meters & Services	953,171	632,856	25
Fire Hydrants	142,731	135,466	25
Other Plant Equipment	1,195,049	901,302	5-10
Office Equipment	192,174	159,491	5-10
Total	39,747,639	19,216,116	

Note F: Retirement Plan

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

Note F: Retirement Plan (cont.)

APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the APERS based on the annual actuarial valuation. The System's retirement expense for 2012 was $114,498.

Note G: Risk Management

The System is exposed to various risks of losses relating to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters and job related injury and illness (workers' compensation) of its employees. The System insures against these risks to the extent it deems necessary with commercial insurance companies. The System does not maintain property insurance coverage at full replacement cost. Uninsured losses are charged to expense in the period the loss is determinable. The System is self-insured for unemployment claims filed with the State. Unemployment claims are charged to expense when paid to the State. No accrual of the expense has been made in the financial statement.

Note H: Contingencies

As mentioned in Note D the System is required to maintain a Depreciation Fund. At December 31, 2012 the Depreciation Fund was over funded by $524,672. This was shown under restricted assets on the balance sheet, but becomes unrestricted when transferred out of the account.

Note I: Subsequent Events

Magnolia Utilities has evaluated subsequent events through August 7, 2013, the date which the financial statements were available to be issued.

Note J: Related Party Transactions

Magnolia Utilities paid the City of Magnolia $30,000 for rent of office space in City Hall. There is no written lease agreement with the City. Magnolia Utilities also paid 50% of the City Treasurer's and City receptionist's salary.

Note K: Adoption of GASB 65

Magnolia Utilities adopted the Governmental Accounting Standards Board Statements 65 effective January 1, 2012. This statement requires bond costs to be expensed as opposed to being amortized over the life of the bond. It also requires net position at the end of the prior year to be restated by subtracting from it any unamortized bond costs at that date. Net position at December 31, 2011 was originally stated as $11,426,976. Unamortized bond costs at December 31, 2011 were $319,412. Net position at December 31, 2011 has been restated to be $11,107,563.

SUPPLEMENTARY FINANCIAL INFORMATION

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

SCHEDULE OF OPERATING EXPENSES
For the year ended December 31, 2012

Wages	799,176
Power Cost	293,629
General Operating Supplies	89,447
Distribution Materials and Supplies	48,509
Treatment Plant Supplies	195,042
Repairs and Maintenance	156,868
Fuel, Oil, and Tires	43,232
Depreciation	1,078,160
Insurance	138,364
Retirement Expense	114,498
Water Source Protection Cost	50,000
Legal and Accounting Fees	12,820
Bad Debts (Net of Recoveries)	38,269
Postage	22,809
Payroll Taxes	59,544
Telephone	14,724
Office Expense	43,746
Total Operating Expenses	3,198,837

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMBINING SCHEDULE OF REVENUES AND EXPENSES
For the year ended December 31, 2012

	Water	Sewer	Total
Operating Revenues			
Water Revenue	2,439,337	1,417,458	3,856,795
Connection Fees	20,492	-	20,492
Set-Up Fees	56,094	-	56,094
Billing and Collection Fees	4,650	-	4,650
Other Revenues	91,387	4,081	95,468
Total Operating Revenues	2,611,960	1,421,539	4,033,499
Operating Expenses	1,963,113	1,235,724	3,198,837
Operating Income	648,847	185,815	834,662
Non-operating Revenues (Expense)			
Interest Income	9,652	14,166	23,818
Interest Expense	(275,036)	(165,545)	(440,581)
A.D.F.A. Fees	(30,477)	-	(30,477)
Bond Issuance Costs	(105,735)	-	(105,735)
Total Non-Operating Expense	(401,596)	(151,379)	(552,975)
Increase in Net Position	247,251	34,436	281,687

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMBINING SCHEDULE OF OPERATING EXPENSES
For the year ended December 31, 2012

	Water	Sewer	Total
Wages	428,880	370,296	799,176
Power Cost	173,790	119,839	293,629
General Operating Supplies	48,747	40,700	89,447
Distribution Materials and Supplies	48,509	-	48,509
Treatment Plant Supplies	122,411	72,631	195,042
Repairs and Maintenance	77,867	79,001	156,868
Fuel, Oil, and Tires	27,490	15,742	43,232
Depreciation	718,766	359,394	1,078,160
Insurance	85,707	52,657	138,364
Retirement Expense	69,284	45,214	114,498
Water Source Protection Cost	50,000	-	50,000
Legal and Accounting Fees	6,410	6,410	12,820
Bad Debts (Net of Recoveries)	23,296	14,973	38,269
Postage	11,404	11,405	22,809
Payroll Taxes	41,317	18,227	59,544
Telephone	7,362	7,362	14,724
Office Expense	21,873	21,873	43,746
Total Operating Expenses	1,963,113	1,235,724	3,198,837

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

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

ROBERT L. EDSTROM,
CERTIFIED PUBLIC ACCOUNTANT,
PROFESSIONAL ASSOCIATION

Member American Institute of Certified Public
Accountants and Arkansas Society of C.P.A.'s

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

Mayor and City Council of the
City of Magnolia, Arkansas

I have audited the financial statements of the City of Magnolia, Arkansas Utilities (the System) as of and for the year ended December 31, 2012, and have issued my report thereon dated August 7, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Magnolia, Arkansas Utilities' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exit that have not been identified. I did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item Y-1.

115 E. McNeil, P.O. Box 672, Magnolia, AR 71754-0672
Telephone (870) 234-7611 * Fax (870) 234-8529

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Magnolia, Arkansas Utilities' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item Y-2.

The System's Response to Findings

The System's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robert L. Edstrom, CPA

August 7, 2013

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the year ended December 31, 2012

Section II - Financial Statements Findings

Internal Control

Y-1

Finding:
The employee responsible for processing disbursement checks from the Operating Account is an authorized check signer for this account.

Recommendation:
The employee responsible for preparing disbursement checks should not be an authorized check signer.

Management Response:
The employee responsible for processing disbursement checks is still an authorized check signer. We have a small office staff and there are times when another employee is not available to sign checks.

Compliance and Other Matters

Y-2

Finding:
The present-day System was formed from the combination of the Magnolia Municipal Water System and the Magnolia Wastewater System. The two former entities were dissolved by a City ordinance prior to 2010. The System still has bank accounts that use the federal identification numbers of the former entities. Banks allocate FDIC insurance based on federal identification numbers. Funds in one bank were not adequately collateralized because of this.

Recommendation:
The federal identification number assigned to bank accounts should be the City's federal identification number.

Management Response:
The System is in the process of changing the federal identification numbers as recommended.