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**PRELIMINARY OFFICIAL STATEMENT DATED MARCH 2, 2015**

**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, the Bonds are exempt from property taxation in the State of Arkansas and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code). See **LEGAL MATTERS, Tax Exemption***

**\$4,635,000\***  
**CITY OF WALDRON, ARKANSAS**  
**WATER AND SEWER**  
**REFUNDING AND CONSTRUCTION REVENUE BONDS**  
**SERIES 2015**

Dated: April 1, 2015

Due: June 1, as described below

The Bonds will not be general obligations of the City of Waldron, Arkansas (the "City") but will be special obligations, secured by a pledge of and payable from revenues derived from the operation of the City's water and sewer system, which pledge is senior to the pledge in favor of the City's Water and Sewer Revenue Bond, dated January 26, 2009. See **THE BONDS, Security**.

Interest on the Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2015, and the Bonds mature (on June 1 of each year), bear interest and are priced to yield as follows:

**MATURITY SCHEDULE\***

\$685,000	_____ %	Term Bonds Due June 1, 2020 to Yield _____ %
\$785,000	_____ %	Term Bonds Due June 1, 2025 to Yield _____ %
\$900,000	_____ %	Term Bonds Due June 1, 2030 to Yield _____ %
\$1,035,000	_____ %	Term Bonds Due June 1, 2035 to Yield _____ %
\$1,230,000	_____ %	Term Bonds Due June 1, 2040 to Yield _____ %

(Plus accrued interest from April 1, 2015)

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 Simmons First Trust Company, N.A., Pine Bluff, 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.



Dated: \_\_\_\_\_, 2015

\_\_\_\_\_  
\*Preliminary; subject to change.

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

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

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## OFFICIAL STATEMENT

**\$4,635,000\***  
**CITY OF WALDRON, ARKANSAS**  
**WATER AND SEWER**  
**REFUNDING AND CONSTRUCTION REVENUE BONDS**  
**SERIES 2015**

### INTRODUCTION TO THE OFFICIAL STATEMENT

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

This Official Statement is provided to furnish certain information in connection with the issuance by the City of Waldron, Arkansas (the "City"), of its Water and Sewer Refunding and Construction Revenue Bonds, Series 2015, dated April 1, 2015, in the aggregate principal amount of \$4,635,000\* (the "Bonds"). The Bonds are being issued to current refund the City's Water and Sewer Refunding Revenue Bonds, Series 2007 (the "Series 2007 Bonds"), to finance all or a portion of the costs of acquiring, constructing and equipping betterments and improvements to the City's water and sewer (combined) system (the "System"), to fund a debt service reserve and to pay expenses of issuing the Bonds. See **THE BONDS, Purpose for Bonds**.

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

The Bonds are not general obligations of the City, but are special obligations payable solely from the revenues derived from the operation of the System. The pledge of revenues derived from the operation of the System in favor of the Bonds is senior to the pledge of such revenues in favor of the City's Water and Sewer Revenue Bond, dated January 26, 2009 (the "Subordinate Bond"). See **THE BONDS, Security**. **Tyson Foods, Inc. is a major user of the System**. See **THE SYSTEM, Major Users**.

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. \_\_\_\_\_, adopted on \_\_\_\_\_, 2015 (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 any integral multiple thereof. Interest is payable December 1, 2015, and semiannually thereafter on each June 1 and December 1. Principal is payable at the principal office of Simmons First Trust Company, N.A., Pine Bluff, Arkansas, as trustee and paying agent (the "Trustee"). Interest is payable by check mailed by the Trustee to the registered owners as of the

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\*Preliminary; subject to change.

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 June 1, 2020 and are subject to extraordinary redemption from proceeds of the Bonds not needed for the purposes intended. The Bonds 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 not subject to property taxes in the State. See **LEGAL MATTERS, Tax Exemption**.

It is expected that the Bonds will be available for delivery on or about April 21, 2015, through the facilities of The Depository Trust Company in New York, New York.

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

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

## **THE BONDS**

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which

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\*Preliminary; subject to change.

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](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (referred to herein as "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices will be sent only 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 City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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

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

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

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

Redemption. The Bonds are subject to 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 are subject to redemption at the option of the City from funds from any source on and after June 1, 2020, in whole at any time or in part on any interest payment date at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the 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 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on June 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 June 1, 2020

<u>Years</u>	<u>Principal Amounts</u>
2016	\$115,000
2017	140,000
2018	140,000
2019	145,000
2020 (maturity)	145,000

Bonds Maturing June 1, 2025

<u>Years</u>	<u>Principal Amounts</u>
2021	\$150,000
2022	155,000
2023	155,000
2024	160,000
2025 (maturity)	165,000

Bonds Maturing June 1, 2030

<u>Years</u>	<u>Principal Amounts</u>
2026	\$170,000
2027	175,000
2028	180,000
2029	185,000
2030 (maturity)	190,000

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\*Preliminary; subject to change

Bonds Maturing June 1, 2035

<u>Years</u>	<u>Principal Amounts</u>
2031	\$195,000
2032	200,000
2033	205,000
2034	215,000
2035 (maturity)	220,000

Bonds Maturing June 1, 2040

<u>Years</u>	<u>Principal Amounts</u>
2036	\$230,000
2037	235,000
2038	245,000
2039	255,000
2040 (maturity)	265,000

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.

The Trustee shall give notice of the call for redemption by mailing or sending via other standard means, including electronic or facsimile communication, not less than thirty (30), nor more than sixty (60), days prior to the date fixed for redemption, to the registered owner of any Bond called for redemption. Failure to mail or send an appropriate notice of any such notice to one or more registered owners of Bonds to be redeemed shall not affect the validity of the proceedings for redemption of other Bonds as to which notice of redemption is duly given. After the date specified in such call, the Bond or Bonds so called will cease to bear interest provided funds for their payment have been deposited with the Trustee.

Notwithstanding the above, so long as the 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.**

Purpose for Bonds. The Bonds are being issued to current refund the Series 2007 Bonds (the "Refunding"), finance all or a portion of the costs of acquiring, constructing and equipping extensions, betterments and improvements to the System (the "Project"), fund a debt service reserve and pay expenses of issuing the Bonds.

The Series 2007 Bonds were issued to current refund the City's Water and Sewer Refunding Revenue Bonds, Series 2002 (the "Series 2002 Bonds") and the City's Water and Sewer Revenue Bonds, Series 2002B (the "Series 2002B Bonds"). The Series 2002 Bonds were issued to current refund the City's Water and Sewer Refunding and Construction Revenue Bonds, Series 1995, which financed improvements to the System and refunded outstanding obligations of the City. The Series 2002B Bonds were issued to finance improvements to the System. The Series 2007 Bonds will be redeemed on the date the Bonds are issued at a price of par plus accrued interest.

The Project includes particularly, without limitation, improvements to the wastewater treatment plant and wastewater line extensions and replacements. Work on the Project is expected to be completed by March 31, 2016.

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

**SOURCES:\***

Principal Amount of Bonds	\$4,635,000
Existing Funds for Series 2007 Bonds	524,507
Original Issue Discount	(39,998)
<b>Total Sources</b>	<b>\$5,109,509</b>

**USES:\***

Project Costs	\$2,949,882
Refunding Costs	1,749,273
Debt Service Reserve	274,606
Costs of Issuance and Underwriter's Discount	<u>135,748</u>
<b>Total Uses</b>	<b>\$5,109,509</b>

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. The Underwriter will also be reimbursed for certain costs of closing and delivering the Bonds. The City will deposit the principal amount of the Bonds, less net original issue discount, debt service reserve deposit, Refunding deposit, Underwriter's discount and certain issuance costs into a special fund established with the Trustee and designated "Water and Sewer Revenue Bond Construction Fund, Series 2015" (the "Construction Fund"). Moneys contained in the Construction Fund will be disbursed by the City solely in payment of Project costs, paying necessary expenses incidental thereto and paying expenses of issuing the Bonds. Disbursements shall be on the basis of requisitions which shall contain at least the following information: the person to whom payment is being made; the amount of the payment; and the purpose by general classification of the payment. For a description of how the Bond proceeds are to be invested pending use and the provisions governing those investments, see **THE AUTHORIZING ORDINANCE, Investments**.

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

There is a 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 principal amount of 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 CITY AND THE COUNTY**

**Generally.** The City of Waldron is the county seat of Scott County, Arkansas (the "County") and is located in west-central Arkansas. The City is situated in the center of the County, 48 miles south of Fort Smith, Arkansas, 134 miles north of Texarkana, Arkansas, and 139 miles west of Little Rock, Arkansas.

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\*Preliminary; subject to change.

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

<u>Year</u>	<u>City Population</u>	<u>County Population</u>
1970	2,132	8,207
1980	2,642	9,685
1990	3,024	10,205
2000	3,508	10,996
2010	3,618	11,233

Transportation. The City is served by U.S. Highway No. 71. The City is also served by a local airport located approximately 3 miles from the City. This airport has a surface runway 4,000 feet in length. The landing strip is lighted and private aircraft storage is available. The nearest commercial airport is located 48 miles away in Fort Smith, Arkansas. Several motor freight carriers and the Kansas City Southern Railroad 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 is elected for a 4-year term (term expires December 31, 2018) and six aldermen are elected for two-year terms (terms expire December 31, 2016). The following are the Mayor and aldermen for the City:

<u>Name</u>	<u>Occupation</u>
Neil Cherry	Mayor
June Haas	Business Owner - Restaurant
Lanis Harwell	Business Owner - Massage Therapy
Eddie Hutchens	Business Owner - Auto Shop
Gary Nelson	Retired
Tommy Starr	Construction
David Tull	Technician

Medical Facilities. The City is served by Mercy Hospital (with 24 beds). Two physicians have offices in the City.

Education. Primary and secondary education for the City's inhabitants are provided by a county-wide public school system. Located within the City, there is one elementary school (K-4), one middle school (5-8), and one high school (9-12).

The University of Arkansas at Fort Smith is located within 50 miles of the City. In addition, Arkansas Tech University is located 66 miles away in Russellville, Arkansas. Rich Mountain Community College has a satellite campus in the City.

Financial Institutions. The City is served by branches of Chambers Bank, The First National Bank at Paris and Bear State Bank.

Economy. The County is located in the Ouachita Mountain area and is made up of approximately 570,000 acres with 82% of the land being in timber (62% U.S. Forest Service and 20% private land). The remainder of the land is in agricultural production, mainly livestock and poultry.

Set forth below are the major employers in the City (with 50 or more employees):

<u>Company</u>	<u>Product or Service</u>	<u>Number of Employees</u>
Tyson Foods, Inc.	Poultry Processing	930
Waldron School System	Education	252
Wal-Mart	Retail	110
Waldron Nursing Center	Health Care Services	100
Mercy Hospital	Health Care Services	65

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

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

<u>Year</u>	<u>Per Capital Personal Income</u>
2009	\$22,709
2010	22,580
2011	23,241
2012	25,361
2013	27,118

Total personal income estimates for the County are as follows:<sup>(1)</sup>

<u>Year</u>	<u>Total Personal Income</u>
2009	\$252,005,000
2010	254,384,000
2011	261,138,000
2012	279,175,000
2013	296,939,000

The annual average unemployment rates for the County and State since 2010 are as follows according to the Arkansas Department of Workforce Services:

<u>Year</u>	<u>Annual Average Unemployment Rate (%)</u>	
	<u>County</u>	<u>State</u>
2010	6.9	7.9
2011	7.0	8.0
2012	6.6	7.5
2013	6.4	7.5
2014*	4.1	5.3

\*As of November 2014

Building Permits. The City issued the following number of building permits for new construction during the past five (5) years:

<u>Year</u>	<u>Number</u>
2010	3
2011	3
2012	7
2013	2
2014	3

## **THE SYSTEM**

General. The System is operated under the control of the City Council. The manager of the System is Brandon Nelson who is 40 years old and has managed utility systems for 10 years. The System has 15 full time employees.

Water System. The original water system was constructed in 1938. The water system consists of two surface reservoirs with a surface water treatment plant. There are five storage tanks with capacities of 250,000 gallons; 286,000 gallons; 530,000 gallons; 550,000 gallons and 750,000 gallons, respectively. The water system has three high service pumps.

<sup>(1)</sup>Source: Bureau of Economic Analysis, United States Department of Commerce.

Sewer System. The original sewer system was constructed in 1940. The system consists of approximately 100 miles of collection lines, eight pumping stations and a wastewater treatment plant.

Water Rates. The City Council increased water rates on June 10, 2013 (effective for billings collected in July 2013) and on October 15, 2013 (effective for billings collected in January 2014). The current monthly water charges for each customer are determined based on water consumption per 1,000 gallons (except the first 2,000 gallons, which is the minimum for all users except industrial users) as follows:

	Inside City		Outside City	In Home
	<u>Residential</u>	<u>Commercial</u>	<u>Residential and Commercial</u>	<u>Businesses</u>
First 2,000 gallons	\$10.65	\$13.65	\$18.15	\$12.15
2,001-5,000 gallons	5.95	7.45	8.70	6.70
5,001-40,000 gallons	5.20	5.20	5.20	5.20
Over 40,000 gallons	4.45	4.80	4.80	4.45

At the beginning of each year, there will be a five cent increase in each category of user type listed above per water rate classification, unless such an increase is declined by a vote of the City Council before the end of each year.

Industrial users are charged \$2.30 per 1,000 gallons of water usage per month.

Sewer Rates. The monthly sewer charges for each customer are determined by applying the following schedule to the customer's monthly water consumption per 1,000 gallons (except the first 2,000 gallons which is the minimum).

	<u>Residential</u>	<u>Commercial</u>	<u>In Home Businesses</u>
First 2,000 gallons	\$9.00	\$11.00	\$10.00
2,001-10,000 gallons	2.20	2.20	2.20
Over 10,000 gallons	1.25	1.25	1.25

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

<u>Year</u>	<u>Water Users</u>		<u>Sewer Users</u>	
	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>
2010	1,440	279	1,441	4
2011	1,427	291	1,426	6
2012	1,414	287	1,414	6
2013	1,362	297	1,362	6
2014	1,364	280	1,364	7

Major Users. Tyson Foods, Inc. ("Tyson") is the largest customer of the System and purchases a significant amount of the water sold by the System. Tyson accounted for approximately 57% of water revenues, 2% of sewer revenues and 48% of total System revenues for the year ended December 31, 2014. No other user of the System accounted for more than 5% of System revenues in 2014. Tyson is not obligated under a take or pay contract with the City for the purchase of water.

The following were the largest users of the System in 2014:

1. Tyson Foods
2. Waldron Nursing
3. Maverick Trozzi
4. Waldron Housing Authority
5. Waldron Properties

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

### **THE AUTHORIZING ORDINANCE**

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

Rates and General Covenants to Operate. (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.

The City covenants and agrees that the rates shall never be reduced while any of the Bonds are outstanding unless there is obtained from an independent certified public accountant ("Accountant") a certificate that the net revenues of the System (net revenues being defined as gross revenues less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal water and sewer facilities excluding depreciation, interest and amortization of deferred bond discount expenses and pension related expenses in excess of the required annual contribution (in conjunction with the application of GASB 68)), with the reduced rates, will always be equal to the amount required to be set aside for the Depreciation Fund (hereinafter identified), and leave a balance equal to at least 115% of the maximum annual principal and interest requirements on all outstanding obligations payable from System revenues ("System Obligations"). The City further covenants and agrees 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 115% of the maximum annual principal and interest requirements on all System Obligations, which net revenues shall also be sufficient to deposit the amounts required to be paid into the Depreciation Fund in accordance with the Authorizing Ordinance.

(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; provided, however, that nothing shall be construed to prohibit the City from making such dispositions of properties of the System and such replacements and substitutions for properties of the System as shall be necessary or incidental to the efficient operation of the System as a revenue-producing undertaking.

Funds and Disposition of Revenues. (a) All revenues derived from the operation of the System shall be paid into a special fund designated "Waterworks and Sewer Fund" (the "Revenue Fund").

(b) 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 or before the fifth day of each month, an amount sufficient to pay the reasonable and necessary monthly expenses of operation, repair and maintenance of the System for such month and from which disbursements shall be made only for those purposes. Fixed annual charges such as insurance premiums and the cost of major repair and maintenance expenses may be computed and set up on

an annual basis, and one-twelfth (1/12) of the amount thereof may be paid into the Operation and Maintenance Fund each month.

If in any fiscal year any surplus shall be accumulated in the Operation and Maintenance Fund over and above the amount necessary to meet the requirements thereof during the remainder of the then current fiscal year and the next ensuing fiscal year, such surplus may be transferred to the Revenue Fund.

(c) After making the monthly deposit into the Operation and Maintenance Fund, there shall be paid from the Revenue Fund into a fund to be established with the Trustee designated "Water and Sewer Revenue Bond Fund" (the "Bond Fund"), the sums in the amounts and at the times described below for the purpose of providing funds for the payment of the principal of and interest on the Bonds, as they mature, with Trustee's fees, and as a Debt Service Reserve.

There shall be paid into the Bond Fund on the first business day of each month, commencing in June 2015, until all outstanding Bonds, with interest thereon, have been paid in full or provision made for such payment a sum equal to 1/6 of the next installment of the interest due on the Bonds and 1/12 of the next installment of principal due on the Bonds.

The City shall also pay into the Bond Fund such additional sums as necessary to provide for the Trustee's fees and expenses and any arbitrage rebate payment due to be paid to the United States Treasury under Section 148(f) of the Code. The City shall receive a credit against deposits into the Bond Fund from Bond proceeds, funds held in connection with the Series 2007 Bonds, all interest earnings on moneys in the Bond Fund and for transfers into the Bond Fund derived from earnings in the Debt Service Reserve during the preceding month.

There shall be maintained, as a part of the Bond Fund, a Debt Service Reserve which the City agrees to continuously maintain in an amount equal to the lesser of the maximum annual principal and interest requirement on the Bonds or 10% of the principal amount of the Bonds (the "Required Level"). If the Debt Service Reserve is reduced below the Required Level, the City's monthly payments shall be increased to 1/5 of the next installment of interest on the Bonds, plus 1/10 of the next installment of principal of the Bonds until the Required Level is reached.

If the revenues of the System are insufficient to make the required payment on 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 on the first business day of the next month.

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 but the Debt Service Reserve shall be reimbursed from the Revenue Fund in the amount of any such payment as described above. The Debt Service Reserve shall be used solely as described in the Authorizing Ordinance, but the moneys therein may be invested as set forth below.

If a surplus shall exist in the Bond Fund over and above the amount required for making all principal and interest payments during the next succeeding twelve month period and in excess of the Required Level of the Debt Service Reserve, such surplus shall at the option of the City either be applied to the redemption of the Bonds that may be called for redemption prior to maturity, paid to the City for deposit into the Revenue Fund or used to pay any arbitrage rebate due under Section 148(f) of the Code.

The Trustee shall withdraw from the Bond Fund on the due date for the principal and/or interest on any Bond, at maturity or redemption prior to maturity, an amount equal to the amount of such Bond and interest due thereon for the sole purpose of paying the same, together with Trustee's fees. There shall also be withdrawn and paid to the United States Treasury any arbitrage rebate due at the time and in the amounts in accordance with Section 148(f) of the Code. No

withdrawal of funds from the Bond Fund shall be made for any other purpose except as otherwise authorized in the Authorizing Ordinance.

(d) After making the required payments into the Operation and Maintenance Fund and the Bond Fund, there shall be transferred from the Revenue Fund into the bond fund for the Subordinate Bond (the "Subordinate Bond Fund") the amount equal to the required monthly deposit into such fund.

(e) After making the required payments into the Operation and Maintenance Fund, the Bond Fund and the Subordinate Bond Fund, there shall be paid from the Revenue Fund into a special fund designated "Waterworks and Sewer Depreciation Fund" (the "Depreciation Fund"), on or before the fifth day of each month a sum equal to 3% of the gross revenues of the System for the then preceding month. Moneys in the Depreciation Fund shall be used solely from the purpose of paying the costs of necessary repairs or replacements made necessary by the depreciation of the System and for the purpose of paying the cost of economically justifiable extensions to the distribution facilities of the System.

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

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

The City may issue additional bonds to finance or pay the cost of constructing any future extensions, betterments or improvements to the System or to refund bonds payable from revenues of the System. However, the City shall not authorize or issue any such additional bonds ranking on a parity of security with the Bonds, unless and until there shall have been procured and filed with the City Clerk and the Trustee a statement by an Accountant not in the regular employ of the City reciting, based upon necessary investigation, that (1) net revenues of the System for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 115% of the maximum annual principal and interest requirements on all of the then outstanding System Obligations and the additional bonds then proposed to be issued or (2) net revenues of the System for the fiscal year next succeeding the fiscal year in which it is proposed to issue such additional bonds, taking into account any rate increase then in effect and any additional revenues to be derived from the completion of a project to be financed by such additional bonds, as reflected by a statement by an independent consulting engineer not in the regular employ of the City, will equal not less than 115% of the maximum annual principal and interest requirements on all then outstanding System Obligations and the additional bonds then proposed to be issued. The term "net revenues" means gross revenues of the System less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal water and sewer facilities, excluding depreciation, interest and amortization of deferred bond discount expenses and pension related expenses in excess of the required annual contribution (in conjunction with the application of GASB 68). For the purpose of the computation in (1) above, additional amounts may be added to the net revenues of the completed fiscal year immediately preceding the issuance of additional bonds, as follows: if, prior to the issuance of the additional bonds and subsequent to the first day of such preceding fiscal year, the City shall have increased its rates or charges imposed for services of the System, there may be added to the net revenues of such fiscal year the additional net revenues which would have been received from the operation of the System during such fiscal year had such increase been in effect throughout such fiscal year, as reflected by a certificate of a duly qualified consulting engineer not in the regular employ of the City.

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 Accountant at least once each year, and a copy of the audit shall be delivered to the Trustee and made available to interested registered owners requesting the same in writing. In the event that the City fails or refuses to make the audit, the Trustee or any registered owner of the Bonds may have the audit made, and the cost thereof shall be charged against the Operation and Maintenance Fund.

Maintenance; Insurance. The City covenants and agrees that it will maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. While any of the Bonds are outstanding, the City agrees that 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 and other perils included in extended coverage insurance in effect in the State. The insurance policies are to carry a clause making them payable to the Trustee as its interest may appear, and satisfactory evidence of said insurance shall be filed with the Trustee. In the event of loss, the proceeds of such insurance shall be applied solely toward the reconstruction, replacement or repair of the System, and in such event the City will, with reasonable promptness, cause to be commenced and completed the reconstruction, replacement and repair work. If such proceeds are more than sufficient for such purposes, the balance remaining shall be deposited to the credit of the Revenue Fund, and if such proceeds shall be insufficient for such purposes the deficiency shall be supplied first from moneys in the Depreciation Fund and second from moneys in the Operation and Maintenance Fund and third from surplus moneys in the Revenue Fund. Nothing shall be construed as requiring the City to expend any moneys for operation and maintenance of the System or for premiums on its insurance which are derived from sources other than the operation of the System, but nothing shall be construed as preventing the City from doing so.

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

When all the Bonds shall have been paid within the meaning of the Authorizing Ordinance, if any arbitrage rebate due the United States Treasury under Section 148(f) of the Code has been paid or provided for to the satisfaction of the Trustee, and if the Trustee has been paid its fees and expenses, the Trustee will take all appropriate action to cause (i) the pledge and lien of the Authorizing Ordinance to be discharged and canceled, and (ii) all moneys held by it pursuant to the Authorizing Ordinance and which are not required for the payment of such Bonds to be paid over or delivered to or at the direction of the City. In determining the sufficiency of the deposit of Investment Securities there will be considered the principal amount of such Investment Securities and interest to be earned thereon until the maturity of such Investment Securities.

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

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

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

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

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

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

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

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

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

Investments. (a) Moneys held for the credit of the Bond Fund (other than for the Debt Service Reserve therein) shall be invested and reinvested pursuant to the direction of the City, or in the absence of such direction by the Trustee in its discretion, in Permitted Investments (as hereinafter defined), all of which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than the next payment date for interest or principal and interest on the Bonds.

(b) Moneys held for the credit of the Debt Service Reserve shall be invested and reinvested pursuant to the direction of the City, or in the absence of such direction by the Trustee in its discretion, in Permitted Investments, all of which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than five (5) years after the date of investment or the final maturity date of the Bonds, whichever is earlier.

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

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

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

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

## **CONTINUING DISCLOSURE AGREEMENT**

The City has not failed, in the previous five years, to materially comply with any prior continuing disclosure undertakings.

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

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

"Annual Report" shall mean any Annual Report provided to 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 days (180) after the end of the System's fiscal year (presently December 31), commencing with the report after the end of the 2015 fiscal year, provide to the MSRB through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the System may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the City.

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

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

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

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

2. The annual financial statements of the System audited in accordance with auditing standards accepted in the United States and applicable State law.

Any or all of the items above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet website or filed with the Securities and Exchange Commission. 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, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence.

(c) After the occurrence of any of the Listed Events, the City shall file (or 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 (i) the MSRB through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org>, or any other similar system that is acceptable to the Securities and Exchange Commission and (ii) the Trustee (if the Trustee is not the Dissemination Agent). Notwithstanding the foregoing, notice of the Listed Event described in clause (a)(8) 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. Each notice of the occurrence of a Listed Event shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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

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

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

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

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

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

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

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

Default. In the event of a failure of the City or the Trustee to comply with any provision of the Continuing Disclosure Agreement, the Trustee, the City or any Beneficial Owner may (and the Trustee, at the request of the Underwriter or the Beneficial Owners of at least 25% aggregate principal amount of outstanding Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City, the Dissemination Agent 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, the Dissemination Agent 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 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 the audited financial statements of the System for the fiscal years ended December 31, 2014 and 2013. These financial statements were prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States, and were audited in accordance with auditing standards generally accepted in the United States of America. These financial statements should be read in their entirety, together with any notes and supplemental information affixed thereto.

Revenues and expenses of the System are summarized below by management of the City for the fiscal years ended December 31, 2010-2014.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues	\$1,761,680	\$1,504,896	\$1,434,052	\$1,525,685	\$1,525,758
Operating Expenses (Excluding Depreciation)	<u>(1,388,318)</u>	<u>(1,264,516)</u>	<u>(1,168,984)</u>	<u>(1,387,991)</u>	<u>(1,328,423)</u>
Operating Income Before Depreciation	373,362	240,380	265,068	137,694	197,335
Depreciation	(438,138)	(435,143)	(457,400)	(471,429)	(443,666)
Interest Expense	(100,389)	(109,350)	(117,601)	(125,496)	(133,141)
Nonoperating Income (Including Interest Income)	<u>155</u>	<u>273</u>	<u>841</u>	<u>1,112</u>	<u>3,178</u>
Net Gain (Loss) Before Capital Contributions and Operating Transfers	(165,010)	(303,840)	(309,092)	(458,119)	(376,294)
Capital Contributions, Water Development Fees and Operating Transfers from (to) City	<u>(6,796)</u>	<u>314,541</u>	<u>104,827</u>	<u>187,638</u>	<u>1,216,677</u>
Net Gain (Loss)	<u>\$(171,806)</u>	<u>\$10,701</u>	<u>\$(204,265)</u>	<u>\$(270,481)</u>	<u>\$840,383</u>

## DEBT SERVICE COVERAGE

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

Net Revenues <sup>(1)(A)</sup>	\$373,517
Maximum Annual Debt Service on the Bonds <sup>(2)(B)</sup>	274,606
Debt Service Coverage <sup>(A/B)</sup>	1.36x
Maximum Annual Debt Service on the Bonds and the Subordinate Bond <sup>(2)(C)</sup>	296,800
Debt Service Coverage <sup>(A/C)</sup>	1.26x

<sup>(1)</sup>"Net Revenues" means gross revenues of the System less amounts necessary to pay operation, maintenance and repair of the System (excluding depreciation, interest and bond amortization expenses) based upon the audited financial statements of the System for the fiscal year ended December 31, 2013. Includes interest income of \$155.

<sup>(2)</sup>Using a year ending June 1. Assumes an average coupon rate of 3.21% on the Bonds.

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## DEBT SERVICE REQUIREMENTS

Set forth below are the debt service requirements for the Bonds and the Subordinate Bond for each calendar year while the Bonds are outstanding:

<u>Year</u> <u>(Ending June 1)</u>	<u>Bond</u> <u>Principal*</u>	<u>Bond</u> <u>Interest</u>	<u>Subordinate Bond</u> <u>Debt Service</u>	<u>Total</u> <u>Debt Service</u>
2016	\$ 115,000		\$22,212	
2017	140,000		22,212	
2018	140,000		22,212	
2019	145,000		22,212	
2020	145,000		22,212	
2021	150,000		22,212	
2022	155,000		22,212	
2023	155,000		22,212	
2024	160,000		22,212	
2025	165,000		22,212	
2026	170,000		22,212	
2027	175,000		22,212	
2028	180,000		22,212	
2029	185,000		22,212	
2030	190,000		22,212	
2031	195,000		22,212	
2032	200,000		22,212	
2033	205,000		22,212	
2034	215,000		22,212	
2035	220,000		22,212	
2036	230,000		22,212	
2037	235,000		22,212	
2038	245,000		22,212	
2039	255,000		22,212	
2040	265,000		14,808	
<b>TOTALS</b>	<b>\$4,635,000</b>		<b>\$547,896</b>	

## 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 (a) is excludable from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions

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\*Preliminary; subject to change.

set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. These requirements generally relate to arbitrage, the use of the proceeds of the Bonds and the System. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements in the Authorizing Ordinance.

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

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

An exception allows a deduction of certain interest expense allocable to "qualified tax-exempt obligations." The City has designated the Bonds as "qualified tax-exempt obligations." Under the Code, such term includes any obligation which (1) is not a "private activity bond" within the meaning of the Code (excluding from that term "qualified 501(c)(3) bonds"), (2) is issued by an issuer (and subordinate entities) which reasonably anticipates to issue not more than \$10,000,000 of tax-exempt obligations (other than private activity bonds (excluding from that term "qualified 501(c)(3) bonds" under Section 145 of the Code)) during the calendar year, and (3) is so designated by the issuer. The City has (1) covenanted not to use the System in a manner which would cause the Bonds to be "private activity bonds," and (2) represented that the City and its subordinate entities have not and will not issue more than \$10,000,000 of such tax-exempt obligations during calendar year 2015.

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

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

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

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

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

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

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

Current 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 an aggregate purchase price of \$\_\_\_\_\_ (principal amount \_\_\_\_\_ original issue \_\_\_\_\_ of \$\_\_\_\_\_ and less Underwriter's discount of \$\_\_\_\_\_), 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 WALDRON, ARKANSAS

By \_\_\_\_\_  
Mayor

Dated: As of the Cover Page hereof.



**City of Waldron, Arkansas  
Water and Sewer Department**

**FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**(With Independent Auditor's Report Thereon)**

**Thomas &  
Thomas LLP**  

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**Certified Public Accountants**

**City of Waldron, Arkansas  
Water and Sewer Department**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council  
City of Waldron, Arkansas

We have audited the accompanying modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department (the Department)** as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1(b); this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

**Opinion on the Department**

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Department as of December 31, 2014 and 2013, and the changes in modified cash basis financial position and cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 1(b).

**Basis of Accounting**

We draw attention to Note 1(b) of the financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Emphasis of Matter**

As discussed in Note 1(a), these financial statements present the modified cash basis financial position and the modified cash basis changes in financial position and cash flows that are directly attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Waldron, Arkansas as of December 31, 2014 and 2013, the changes in its financial position or its cash flows for the years then ended in conformity with the modified basis of accounting or accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Thomas & Thomas LLP*  
Certified Public Accountants

January 22, 2015  
Little Rock, Arkansas

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**STATEMENTS OF NET POSITION – MODIFIED CASH BASIS**  
**December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 50,703	\$ 212,022
<b>Restricted Assets</b>		
Cash and cash equivalents	466,383	456,965
<b>Property, Plant and Equipment, Net</b>	10,527,455	10,667,151
<b>Total Assets</b>	11,044,541	11,336,138
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding of Bonds Payable	61,963	74,183
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 11,106,504</b>	<b>\$ 11,410,321</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities Payable from Current Assets</b>		
Customer deposits	\$ 80,205	\$ 78,273
Due to State of Arkansas	13,545	3,690
Due to City of Waldron	90,000	-
<b>Current Liabilities Payable from Restricted Assets</b>		
Current portion of long-term debt	244,105	233,781
<b>Total Current Liabilities</b>	427,855	315,744
<b>Long-Term Debt</b>	1,841,159	2,085,281
<b>Total Liabilities</b>	2,269,014	2,401,025
<b>Net Position</b>		
Net investment in property, plant and equipment	8,504,154	8,422,272
Restricted for:		
Debt service	466,028	456,784
Acquisitions, repairs and maintenance of property, plant and equipment	342	100
Construction of drainage project	13	81
Unrestricted	(133,047)	130,059
<b>Total Net Position</b>	8,837,490	9,009,296
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 11,106,504</b>	<b>\$ 11,410,321</b>

See accompanying notes to financial statements.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION –  
MODIFIED CASH BASIS**

**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUES</b>		
Water sales	\$ 1,503,191	\$ 1,243,379
Sewer services	245,388	251,609
User fees and other	13,101	9,908
<b>Total Operating Revenues</b>	<b>1,761,680</b>	<b>1,504,896</b>
<b>OPERATING EXPENDITURES</b>		
Salaries and wages	383,833	342,418
Fringe benefits	188,476	170,568
Depreciation	438,138	435,143
Utilities	163,659	146,078
Repairs and maintenance	142,476	94,064
Professional services	87,611	83,707
Operating supplies	341,487	339,687
Insurance	12,734	12,191
Vehicle operations	15,415	15,095
Office supplies	8,068	4,944
Miscellaneous	14,754	15,297
Dues and subscriptions	23,353	28,313
Uniforms	1,914	2,474
Travel and education	4,538	9,680
<b>Total Operating Expenditures</b>	<b>1,826,456</b>	<b>1,699,659</b>
<b>Operating Loss</b>	<b>(64,776)</b>	<b>(194,763)</b>
<b>NONOPERATING REVENUES (EXPENDITURES)</b>		
Interest income	155	273
Interest expenditures	(100,389)	(109,350)
<b>Net Nonoperating Expenditures</b>	<b>(100,234)</b>	<b>(109,077)</b>
<b>Loss Before Capital Contributions and Operating Transfers</b>	<b>(165,010)</b>	<b>(303,840)</b>
<b>CAPITAL CONTRIBUTIONS</b>		
Federal awards grant	36,404	93,425
<b>Loss Before Operating Transfers</b>	<b>(128,606)</b>	<b>(210,415)</b>
<b>OPERATING TRANSFERS (TO) FROM CITY OF WALDRON</b>	<b>(43,200)</b>	<b>221,116</b>
<b>(Decrease) Increase in Net Position</b>	<b>(171,806)</b>	<b>10,701</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>9,009,296</b>	<b>8,998,595</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 8,837,490</b>	<b>\$ 9,009,296</b>

See accompanying notes to financial statements.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts from</b>		
Water sales	\$ 1,503,191	\$ 1,243,379
Sewer services	245,388	251,609
User fees and other	15,033	7,521
<b>Total Operating Receipts</b>	<b>1,763,612</b>	<b>1,502,509</b>
<b>Disbursements for</b>		
Salaries, wages, and fringe benefits	572,309	512,986
Goods and services	716,154	752,744
<b>Total Operating Disbursements</b>	<b>1,288,463</b>	<b>1,265,730</b>
<b>Net Cash Provided by Operating Activities</b>	<b>475,149</b>	<b>236,779</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating transfers (to) from the City of Waldron	(43,200)	221,116
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term debt	(233,798)	(218,485)
Purchases of property, plant and equipment	(298,442)	(221,507)
Receipts from federal awards grant	36,404	93,425
Interest paid	(88,169)	(97,130)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(584,005)</b>	<b>(443,697)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts from interest income	155	273
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(151,901)</b>	<b>14,471</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>668,987</b>	<b>654,516</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 517,086</b>	<b>\$ 668,987</b>

*(Continued)*

See accompanying notes to financial statements.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS (Continued)**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (64,776)	\$ (194,763)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	438,138	435,143
Loss on disposal of property, plant and equipment	-	386
Net increase (decrease) in customer deposits	1,932	(2,387)
Net increase (decrease) in due to State of Arkansas	9,855	(1,600)
Net increase in due to City of Waldron	90,000	-
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 475,149</b>	<b>\$ 236,779</b>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION - MODIFIED CASH BASIS</b>		
Current Assets - Cash and Cash Equivalents	\$ 50,703	\$ 212,022
Restricted Assets - Cash and Cash Equivalents	466,383	456,965
<b>Total Cash and Cash Equivalents</b>	<b>\$ 517,086</b>	<b>\$ 668,987</b>

See accompanying notes to financial statements.

# City of Waldron, Arkansas

## Water and Sewer Department

### NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Reporting Entity**

The City of Waldron, Arkansas Water and Sewer Department (the Department) provides water sales and sewer treatment services, on an unsecured credit basis, to the citizens of the City of Waldron, Arkansas (the City), and to commercial and industrial customers located within the Department's service area. The City Council serves as the governing board of the Department and approves rates and fees for user charges.

These financial statements present only balances and transactions that are directly attributable to the City of Waldron, Arkansas Water and Sewer Department, and are not intended to present, and do not present, the financial position and changes therein of the City or its proprietary funds.

##### **(b) Measurement Focus and Basis of Accounting**

The Department is an enterprise fund of the City. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department's transactions are recorded on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under the modified cash basis of accounting, the Department generally recognizes assets, liabilities, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivable and revenues for services billed or provided but not collected. In addition, these financial statements do not reflect liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are depreciation of the Department's property, plant and equipment over the estimated useful lives of the assets.

##### **(c) Basis of Presentation**

The presentation of the Department's financial statements follows the requirements of GASB Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into net investment in property, plant and equipment, restricted and unrestricted, as applicable.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Basis of Presentation (Continued)**

In addition, operating revenues and expenditures derived from or related directly to the distribution of water and treatment of wastewater, are distinguished from nonoperating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenses and changes in net position – modified cash basis. Operating revenues consist primarily of user charges, and operating expenditures include the costs of maintaining and operating the water distribution and wastewater systems. Nonoperating revenues and expenditures consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities, including those fees and charges levied for the purpose of capital improvements.

When an expenditure is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's policy to first apply that expenditure to restricted net position to the extent available and then to unrestricted net position.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposit accounts and money market mutual funds.

**(e) Property, Plant and Equipment**

Property, plant and equipment is reported at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to fifty years.

The Department capitalizes all significant direct costs, including salaries, materials and supplies, related to construction and improvements completed by Department personnel, while costs of repairs and maintenance that do not add significant value or extend the useful life of the related asset are expensed as incurred. Interest cost related to acquiring or constructing property, plant and equipment is capitalized as part of the cost of the related asset, when applicable.

**(f) Deferred Outflows of Resources**

In addition to assets, the statements of net position – modified cash basis will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The Department only has one item that qualifies for reporting in this category. It is the deferred loss on an advance refunding of bonds payable. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. These deferred charges are amortized using the straight-line method over the life of the bonds.

**(g) Tax Status**

The City, and thus the Department, is exempt from income taxes under Section 115 of the Internal Revenue Code.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(h) Estimates**

The preparation of financial statements in accordance with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**(i) Recently Issued Accounting Standards**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, issued June 2012, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, issued November 2013, will be effective for the Department on January 1, 2015. This statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope set forth in the statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. Management of the Department has not yet determined the impact that adoption of this statement will have on the Department’s financial statements or related disclosures.

**NOTE 2: CASH AND CASH EQUIVALENTS**

State of Arkansas (the State) statutes require the City, and thus the Department, to maintain cash balances on deposit with financial institutions located within the State of Arkansas. There is risk that, in the event of a bank failure, these deposits may not be returned to the Department. To mitigate this risk, it is generally the Department’s policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the City’s name by an agent of the City. At December 31, 2014 and 2013, all balances held in demand deposit accounts were secured by collateral held in the City’s name by the City’s agent. The money market mutual fund is a U. S. Treasury obligation fund and has a rating of AAAm/Aaa-mf.

Restricted cash and cash equivalents are as follows as of December 31:

	<b>2014</b>	<b>2013</b>
Bond funds	\$ 158,718	\$ 151,429
Debt service reserves	307,310	305,355
Depreciation fund	342	100
Water supply source and drainage	13	81
	<b>\$ 466,383</b>	<b>\$ 456,965</b>

The long-term debt agreements require the establishment and maintenance of certain reserve accounts (see Note 4). Debt covenants require monthly deposits into a bond fund account for the next installment of debt service and monthly deposits into a depreciation fund account restricted for acquisitions, repairs and maintenance of property, plant and equipment.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of the major components of the Department's property, plant and equipment at December 31, 2014 and 2013, and related activities resulting from modified cash basis transactions for the years then ended:

	<b>2014</b>				
	<b>Estimated Useful Life</b>	<b>Balance Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance End of Year</b>
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	152,486	35,119	(91,042)	96,563
Depreciable:					
Water treatment plants	50 years	7,626,433	350,780	-	7,977,213
Wastewater treatment plant	50 years	2,204,268	3,585	-	2,207,853
Water and sewer lines	50 years	7,693,866	-	-	7,693,866
Equipment	3-7 years	452,292	-	-	452,292
		<u>18,662,269</u>	<u>389,484</u>	<u>(91,042)</u>	<u>18,960,711</u>
Accumulated depreciation		<u>(7,995,118)</u>	<u>(438,138)</u>	<u>-</u>	<u>(8,433,256)</u>
Property, plant and equipment, net		<u>\$ 10,667,151</u>	<u>\$ (48,654)</u>	<u>\$ (91,042)</u>	<u>\$ 10,527,455</u>
<b>2013</b>					
	<b>Estimated Useful Life</b>	<b>Balance Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance End of Year</b>
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	18,818	135,181	(1,513)	152,486
Depreciable:					
Water treatment plants	50 years	7,602,640	23,793	-	7,626,433
Wastewater treatment plant	50 years	2,191,123	13,145	-	2,204,268
Water and sewer lines	50 years	7,642,965	50,901	-	7,693,866
Equipment	3-7 years	458,440	-	(6,148)	452,292
		<u>18,446,910</u>	<u>223,020</u>	<u>(7,661)</u>	<u>18,662,269</u>
Accumulated depreciation		<u>(7,565,737)</u>	<u>(435,143)</u>	<u>5,762</u>	<u>(7,995,118)</u>
Property, plant and equipment, net		<u>\$ 10,881,173</u>	<u>\$ (212,123)</u>	<u>\$ (1,899)</u>	<u>\$ 10,667,151</u>

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 4: LONG-TERM DEBT**

Balances and repayment terms of the Department's long-term debt are as follows at December 31:

	<u>2014</u>	<u>2013</u>
\$3,080,000 Refunding Revenue Bonds, Series 2007 (Series 2007); payable in annual installments; interest payable semiannually at rates ranging from 4.0% to 4.2%, through 2022; secured by the Department's operating revenues.	\$ 1,720,000	\$ 1,945,000
\$413,000 Revenue Bond, Series 2009 (Series 2009); payable in monthly installments including interest at 3.625%, through 2040; secured by the Department's operating revenues (subordinate to the Series 2007 Bonds).	365,264	374,062
	2,085,264	2,319,062
Less current portion	<u>(244,105)</u>	<u>(233,781)</u>
Long-term debt	<u>\$ 1,841,159</u>	<u>\$ 2,085,281</u>

Long-term debt activity is summarized as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Beginning principal balance	\$ 2,319,062	\$ 2,537,547
Principal payments	<u>(233,798)</u>	<u>(218,485)</u>
Ending principal balance	<u>\$ 2,085,264</u>	<u>\$ 2,319,062</u>

Scheduled principal and interest payments of long-term debt are as follows at December 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 244,105	\$ 78,650	\$ 322,755
2016	249,441	68,814	318,255
2017	254,778	58,705	313,483
2018	270,149	48,052	318,201
2019	280,523	36,814	317,337
2020 - 2024	528,728	74,460	603,188
2025 - 2029	70,381	40,619	111,000
2030 - 2034	84,342	26,655	110,997
2035 - 2039	101,076	9,923	110,999
2040	1,741	4	1,745
	<u>\$ 2,085,264</u>	<u>\$ 442,696</u>	<u>\$ 2,527,960</u>

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

***NOTE 4: LONG-TERM DEBT (Continued)***

Both the Series 2009 and 2007 bond agreements require the Department to maintain rates sufficient to provide for the payment of the reasonable expenses of operation and maintenance of the Department in addition to the payment of the principal of and interest on all outstanding bonds to which revenues are pledged. At December 31, 2013, rates were not sufficient to satisfy the related bond covenant requirements that net revenues, as defined, at least equal 110 percent of the average annual debt service. In response, the City Council approved rate increases effective January 1, 2013, July 1, 2013 and October 1, 2013 in order to provide sufficient net revenue to meet compliance requirements at December 31, 2014. The Department was in compliance with the related bond service requirements for the year ended December 31, 2014.

The Series 2009 and the 2007 bond agreements also require the establishment and maintenance of certain reserve accounts (See Note 2). At December 31, 2014 and 2013, these account balances were sufficient to satisfy the related debt covenant requirements.

***NOTE 5: ECONOMIC DEPENDENCY***

Water sales to one industrial customer accounted for approximately 57% and 53% of total operating revenues of the Department for the years ended December 31, 2014 and 2013, respectively.

***NOTE 6: RETIREMENT PLANS***

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multi-employer defined benefit plan created by the State Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by state statute. APERS issues a stand-alone financial report which may be obtained by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Employees covered by APERS have the option to contribute a portion of their salary. Those that choose to contribute must contribute 5.00% of their salary. From July 1, 2012 through June 30, 2013, the City was required to contribute 14.24% of eligible payroll for employees covered by APERS. From July 1, 2013 through June 30, 2014, the City was required to contribute 14.88% of eligible payroll for employees covered by APERS. Beginning July 1, 2014, the required contribution rate was changed to 14.75%. Contributions attributable to Department employees for the years ended December 31, 2014, 2013 and 2012 were approximately \$55,800, \$49,700 and \$44,800, respectively, and were equal to the annual required contributions.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

***NOTE 7: TRANSACTIONS WITH THE CITY OF WALDRON***

Certain employees of the City may perform administrative duties for the Department. The cost of these services are not reflected in the Department's financial statements as management believes that any amounts allocable to the Department are not readily determinable and would not be material. At times during the year, transfers may be made to and from the City's general fund, as needed, to meet certain cash flow requirements of the Department or the City. As of December 31, 2014, \$90,000 of these transfers are reported as "due to City of Waldron" on the statements of net position – modified cash basis, as management of the Department has determined these transfers will be paid back to the City.

In December 2013, the City entered into a financing agreement for general obligation debt to purchase equipment for the Department. During the year ended December 31, 2014, the Department transferred \$43,200 to the City for debt service on this obligation, and are reported as "operating transfers to the City of Waldron" on the statements of revenues, expenditures and changes in net position – modified cash basis. The Department's future operating revenue may be transferred to the City for future debt service on this obligation if cash flow is sufficient.

***NOTE 8: RISK MANAGEMENT***

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased insurance to address these risks. There have been no significant reductions in the Department's coverage during the years ended December 31, 2014 and 2013. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.