NEW ISSUE **BOOK-ENTRY ONLY**

*In the opinion of Bond Counsel, based on existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excludable from gross income for federal income tax purposes, subject to the condition that the City comply with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Bonds (and the interest on the Bonds is exempt from State of Arkansas income taxes and the Bonds are exempt from property taxation in the State of Arkansas). In the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code. See **LEGAL MATTERS**, <u>Tax Exemption</u> herein.*

$3,740,000
CITY OF MAGNOLIA, ARKANSAS
WATER AND SEWER REFUNDING AND IMPROVEMENT REVENUE BONDS
SERIES 2020

Dated: Date of Delivery Due: January 1, as described below

The Bonds will not be general obligations of the City of Magnolia, Arkansas (the "City"), but will be special obligations, secured by a pledge of and payable from revenues derived from the operation of the City's water and sewer system (the "System"). The pledge of revenues of the System in favor of the Bonds is on a parity with the pledge in favor of the City's Water and Sewer Refunding and Improvement Revenue Bonds, Series 2019 and the City's Water and Sewer Refunding Revenue Bonds, Series 2016. See **THE BONDS**, <u>Security</u>.

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

MATURITY SCHEDULE

Maturity	Amount	Rate (%)	Yield (%)	Maturity	Amount	Rate (%)	Yield (%)
2021	$ 40,000	2.000	0.700	2027	$ 125,000	2.000	1.250**
2022	105,000	2.000	0.750	2028	130,000	2.000	1.400**
2023	115,000	2.000	0.800	2030*	255,000	1.625	1.684
2024	120,000	2.000	0.850	2032*	465,000	1.750	1.850
2025	120,000	2.000	0.950	2033	1,055,000	2.000	2.047
2026	125,000	2.000	1.100	2034	1,085,000	2.000	2.100

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

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

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

Stephens Inc.

Dated: October 5, 2020

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* Term Bonds
** Priced to first optional redemption date, January 1, 2026

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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EXHIBIT A - Audited Financial Statements of the System for the Fiscal Year Ended December 31, 2019 with Combining Schedule of Revenues and Expenditures for the Fiscal Year Ended December 31, 2019

OFFICIAL STATEMENT

$3,740,000
CITY OF MAGNOLIA, ARKANSAS
WATER AND SEWER REFUNDING AND
IMPROVEMENT REVENUE BONDS
SERIES 2020

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 Magnolia, Arkansas (the "City") of its Water and Sewer Refunding and Improvement Revenue Bonds, Series 2020, in the aggregate principal amount of $3,740,000 (the "Bonds"). The Bonds are being issued to refund the City's outstanding Water Revenue Bond, Series 1999 (the "Bond to be Refunded"), to finance all or a portion of the costs of the acquisition and installation of betterments and improvements to the water facilities of the System (the "Improvements"), to fund a debt service reserve and to pay expenses of issuing the Bonds. See **THE BONDS**, Purposes for Bonds.

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

The Bonds are not general obligations of the City, but are special obligations payable solely from the revenues derived from the operation of the City's water and sewer system (the "System"). The pledge of System revenues in favor of the Bonds is on a parity with the pledge in favor of the City's Water and Sewer Refunding and Improvement Revenue Bonds, Series 2019 and the City's Water and Sewer Refunding Revenue Bonds, Series 2016 (collectively, the "Parity Bonds"). See **THE BONDS**, Security.

The Bonds are being issued pursuant to and in full compliance with the Constitution and laws of the State, particularly the Authorizing Legislation, and Ordinance No. 2020-3, adopted on September 28, 2020 (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 January 1, 2021, and semiannually thereafter on each January 1 and July 1. Principal is payable at the principal office of Farmers Bank & Trust Company, Magnolia, Arkansas, as trustee and paying agent (the "Trustee"). Interest is payable by check mailed by the Trustee to the registered owners as of the record date for each interest payment date. The record date for payment of interest on the Bonds shall be the fifteenth day of the calendar month next preceding each interest payment date. A Bond may be transferred, in whole or in part (in integral multiples of $5,000), but only upon delivery of the Bond, together with a written instrument of transfer, to the Trustee. See **THE BONDS**, Generally.

The Bonds are subject to extraordinary redemption from proceeds of the Bonds not needed for the purposes intended. The Bonds are subject to optional redemption on and after January 1, 2026. The Bonds maturing on January 1 in the years 2030 and 2032 are subject to mandatory sinking fund redemption as described herein. The Trustee shall give at least thirty (30) days notice of redemption. See **THE BONDS**, Redemption.

Under existing law and assuming compliance with certain covenants described herein, (i) interest on the Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, (iii) the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended (the "Code"), (iv) interest on the Bonds is exempt from State income taxes and (v) the Bonds are exempt from property taxation in the State. See **LEGAL MATTERS**, Tax Exemption.

It is expected that the Bonds will be available for delivery on or about November 10, 2020, through the facilities of The Depository Trust Company in New York, New York.

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

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

THE BONDS

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Closing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

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

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

No charge shall be made to any owner of any Bond for the privilege of registration, but any owner of any Bond requesting any such registration shall pay any tax or other governmental charge required to be paid with respect thereto. Except as otherwise provided in the immediately preceding sentence, the cost of preparing each new Bond upon each exchange or transfer and any other expenses of the

City or the Trustee incurred in connection therewith shall be paid by the City. Neither the City nor the Trustee shall be required to transfer or exchange any Bonds selected for redemption in whole or in part.

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

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

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

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

(2) Optional Redemption. The Bonds may be redeemed at the option of the City from funds from any source, on and after January 1, 2026, in whole or in part at any time, at a price equal to par plus accrued interest to the redemption date. If fewer than all of the Bonds shall be called for redemption, the particular maturities to be redeemed shall be selected by the City in its discretion. If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

(3) Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Bonds maturing on January 1 in the years 2030 and 2032 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on January 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 January 1, 2030

Year (January 1)	Principal Amount
2029	$125,000
2030 (maturity)	130,000

Bonds Maturing January 1, 2032

Year (January 1)	Principal Amount
2031	$135,000
2032 (maturity)	330,000

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

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

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

[Remainder of page intentionally left blank]

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

The Improvements consist of the water line replacements for the System. The Improvements are expected to be completed in September of 2021.

The Bond to be Refunded financed the acquisition, construction and equipping of extensions, betterments and improvements to the water facilities of the System.

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

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

SOURCES:

Principal Amount of Bonds	$3,740,000
Original Issue Premium	4,330
Total Sources	$3,744,330

USES:

Refunding Costs	$1,966,684
Costs of Improvements	1,500,000
Debt Service Reserve	187,000
Underwriter's Discount	46,750
Costs of Issuance	43,896
Total Uses	$3,744,330

The payment of Underwriter's discount and the costs of issuing the Bonds relating to the payment of professional fees will be contingent on the Bonds being issued. See **MISCELLANEOUS**, Underwriting. The Underwriter will also be reimbursed for certain costs of closing and delivering the Bonds. The City will deposit the net proceeds of the Bonds (principal amount plus any original issue premium, less any original issue discount and less Underwriter's discount, Refunding deposit, debt service reserve deposit and certain issuance costs) into a special fund established in a depository that is a member of the Federal Deposit Insurance Corporation ("FDIC") and designated "Water and Sewer Revenue Bond Construction Fund, Series 2020" (the "Construction Fund"). Moneys contained in the Construction Fund will be disbursed by the City solely for the purpose of paying costs of the Improvements, paying necessary expenses incidental thereto and paying expenses of issuing the Bonds. Disbursements shall be on the basis of checks or requisitions which shall contain at least the following information: the person to whom payment is being made; the amount of the payment; and the purpose by general classification of the payment. For a description of how the Bond proceeds are to be invested pending use and the provisions governing those investments, see **THE AUTHORIZING ORDINANCE**, Investments.

Security. The Bonds are not general obligations of the City but are special obligations, secured by a pledge of the revenues derived from operation of the System ("Revenues"). The pledge of Revenues securing the Bonds is on a parity with the pledge securing the Parity Bonds. There is a debt service reserve (the "Debt Service Reserve") securing the Bonds in an amount equal to five percent (5%) of the original aggregate 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.

COVID-19 Disclosure. The World Health Organization has declared a pandemic following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, President Trump declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Arkansas Governor Asa Hutchinson (the "Governor") has declared a state of emergency due to the outbreak of COVID-19 in the State. There has been significant volatility in the financial markets in the United States attributed to concerns about the duration of the pandemic and its continued economic impact. If market declines and/or volatility continues, the ability to sell or trade securities in the financial markets could be materially constrained.

In an attempt to slow the spread of COVID-19 in the State, the Governor has taken numerous and wide-spread actions designed to mandate or encourage "social distancing." Developments with respect to COVID-19 and the State's responses to COVID-19 (including governmental mandates) continue to occur at a rapid pace, including on a daily basis, and the swift spread of the outbreak may continue to increase in severity for an unknown period of time.

The full impact of COVID-19 on the City is not known. The City expects that its available funds will be sufficient to fund its essential services and make all debt service payments. The System also expects its available funds are adequate to fund essential services and make all debt service payments. There have not been any material decreases in, or delays in collections of, revenues of the System. To date, the System has not suspended disconnections or waived any late penalties. Furthermore, there has not been a material decrease in water or sewer usage, and the City does not anticipate raising water or sewer rates as a result of COVID-19.

THE CITY AND THE COUNTY

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

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

Year	City	County
2010[1]	11,577	24,552
2011[2]	11,782	24,682
2012[2]	11,601	24,373
2013[2]	11,580	24,247
2014[2]	11,519	24,014
2015[2]	11,623	24,089
2016[2]	11,646	24,983
2017[2]	11,647	23,627
2018[2]	11,477	23,537
2019[2]	11,467	23,457

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

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

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

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

Name	Occupation	Term Expires
Parnell Vann	Mayor	December 31, 2022
Steve Crowell	Life coach	December 31, 2022
Tia Wesson	Teacher	December 31, 2022
Larry Talley	Retired	December 31, 2022
Steve Nipper	Retired	December 31, 2022
James Jefferson	Retired	December 31, 2020
Jamie Waller	Banker	December 31, 2020
Kelli Souter	Retail	December 31, 2020
Jeff White	Banker	December 31, 2020

Medical Facilities. The City is served by one hospital, which has approximately 49 beds and approximately 89 privileged physicians.

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

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

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

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

Company	Number of Employees	Product
Magnolia Public School System	455	Education
Southern Arkansas University	424	Higher education
Albemarle Corporation	367	Chemicals-industrial organic
Walmart	292	Retail
Magnolia Regional Medical Center	275	Health services
Southern Aluminum	240	Aluminum tables
Amfuel	224	Aircraft fuel cells
Weyerhaeuser	220	Hardwood veneer and plywood
Deltic Timber	153	Lumber
Hixson Lumber	140	Sawmill-wood fences
Sapa Extrusions	140	Shower doors and enclosures
Columbia County	132	County government
Farmers Bank & Trust	105	Banking
CMC Steel	103	Bed frames

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

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

Year	Per Capita Personal Income
2014	$35,539
2015	34,671
2016	34,418
2017	36,856
2018	38,749

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

Year	Total Personal Income
2014	$854,564,000
2015	836,477,000
2016	827,722,000
2017	873,479,000
2018	912,029,000

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

	Annual Average Unemployment Rate (%)	
Year	County	State
2015	6.5	5.0
2016	5.7	4.0
2017	5.1	3.7
2018	4.7	3.6
2019	4.5	3.5
2020	8.4*	7.5**

*As of June

** As of July

THE SYSTEM

General. The System is owned by the City and is operated under the direct control of the City Council. Operation and maintenance is provided by a utility staff. There are 22 employees of the System. Robert Chism is the Superintendent for the Water Treatment Plant and has been employed by the System for one and one-half years. Mark Anderson is the Superintendent for Water Maintenance and has been employed by the System for eight years. Russell Thomas is the Superintendent for the sewer facilities of the System and has served in that capacity for 29 years.

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

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(1) Bureau of Economic Analysis; data for 2019 is not yet available.

(2) Source: Arkansas Department of Workforce Services.

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

The City owns and operates the Big-Creek Wastewater Treatment Plant, which discharges into Big Creek, a tributary of Bayou Dorcheat. This 2.5 million gallon capacity treatment plant is operated under National Pollutant Discharge Elimination System Permit #AR0043613. Plant influent is collected by eleven satellite lift stations which is then pumped to two primary lift stations that feed the headworks of the plant.

In 2019, the treatment plant processed 805,772,000 gallons of wastewater, with the average daily flow of 2.2 million gallons a day.

The bio-solids plant produced approximately 67 metric tons of Exceptional Quality sludge in 2019. This processed sludge is available to the residents of the City for a soil enhancement at no charge.

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

Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Use for Year in Gallons
2015	1,756,000	3,470,000	640,912,000
2016	1,771,000	2,952,000	648,255,000
2017	1,761,000	2,557,000	535,393,000
2018	2,080,000	2,600,000	758,720,000
2019	2,047,500	2,550,000	747,300,000

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

Year	Residential	Commercial	Other	Total
2015	4,625	569	171	5,365
2016	4,599	565	170	5,334
2017	4,433	542	165	5,140
2018	5,014	559	206	5,779
2019	4,836	572	189	5,597

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

Year	Residential	Commercial	Other	Total
2015	3,650	471	138	4,259
2016	3,620	480	127	4,227
2017	3,544	463	126	4,133
2018	3,624	507	151	4,282
2019	3,771	596	145	4,512

The City has contracts for supplying water with the Lydesdale Water Association, the Walker Water Association and the Lakeside Water Association. None of the contracts are take, take or pay or requirements contracts. The City also sells water wholesale to the Free Hope Water Association at rates equal to metered rates for customers located within the City.

The following users of the System accounted for more than 5% of Revenues for the fiscal year ended December 31, 2019:

User	Percentage of Revenues (%)
Southern Arkansas University	11

The top ten users of the System are as follows:

1. Southern Arkansas University
2. Lakeside Water Association
3. Magnolia Health Care
4. Amfuel
5. Magnolia Regional Medical Center
6. Albemarle Corporation
7. Magnolia Public Schools
8. Lydesdale Water Association
9. Free Hope Water Association
10. Walker Water Association

Litigation. On May 7, 2019, the Arkansas Department of Health issued a Consent Order against the City for failure to monitor and report water treatment plant operating conditions. The Consent Order was amended on July 3, 2019. At December 31, 2019, the violations were corrected and the Consent Order was lifted so long as no subsequent violations occurred. In June 2020, the City was placed under a Consent Decree for additional violations of the Consent Order and was assessed a monetary penalty of $167,200 for failure to comply with the Consent Order. The imposition of the monetary penalty has been suspended upon the condition that the City complies with the provisions of the Consent Decree, and the monetary penalty will be removed altogether upon the City's compliance with the Consent Decree for 12 consecutive months from its date. Upon a subsequent violation of the Consent Decree, the monetary penalty will be immediately due and payable.

Other than as set forth above, there is no material litigation or regulatory proceedings pending or threatened against the City relating to the System.

Rates. Set forth below are the monthly rates for the System. The water rates became effective for billings in July of 2011, and the sewer rates became effective for billings in December of 2017.

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

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

*Excluding wholesale users which are billed inside City rates.

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

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

*Excluding wholesale users which are billed inside City rates.

Sewer. The sewer rates are as follows:

	Within the City	Outside the City
For the first 1,000 gallons of wastewater processed	$11.75 (Minimum)	$23.50 (Minimum)
For all wastewater processed in excess of 1,000 gallons	4.50 per 1,000 gallons	9.00 per 1,000 gallons

THE AUTHORIZING ORDINANCE

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

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

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

(c) The City covenants that the rates shall never be reduced while any of the Bonds are outstanding unless there is obtained from an independent certified public accountant a certificate that the Net Revenues ("Net Revenues" being defined as gross Revenues less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal water and sewer systems other than depreciation, interest and amortization expenses), with the reduced rates, will always be equal to at least 135% of the maximum annual principal and interest requirements on all outstanding bonds to which Revenues are pledged ("System Bonds"); provided, however, such balance shall be sufficient to make required deposits into the depreciation funds and any debt service reserve fund or account during the current and next ensuing fiscal years. The City further covenants that the rates shall, if and when necessary from time to time, be increased in such manner as will produce Net Revenues at least equal to 110% of the maximum annual principal and interest requirements on all System Bonds, which Net Revenues shall also be sufficient to deposit the amounts required to be paid into the depreciation funds and in any debt service reserve fund or account during the current and next ensuing fiscal years.

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

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

(c) After making the required monthly deposits set forth above, there shall next be paid from the Revenue Fund, pro rata, into the bond funds (and debt service reserves therein) being maintained in connection with the Parity Bonds and any additional parity bonds, the required monthly deposits pursuant to the ordinances authorizing their issuance and into the 2020 Water and Sewer Revenue Bond Fund created for the Bonds (the "Bond Fund"). Payments into the Bond Fund shall be made on the first business day of each month, commencing in December 2020, until all outstanding Bonds, with interest thereon, have been paid in full or provision made for such payment a sum equal to one-sixth (1/6) of the next installment of interest and one-twelfth (1/12) of the next installment of principal of the Bonds; provided, however, the monthly payment to be made in December 2020 shall be in an amount equal to the principal and interest on the Bonds due January 1, 2021.

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

There is created, as a part of the Bond Fund, a Debt Service Reserve which the City agrees to continuously maintain in an amount equal to five percent (5%) of the original aggregate principal amount of the Bonds (the "Required Level"). Should the Debt Service Reserve become impaired or be reduced below the Required Level, the deficiency shall be cured by an additional monthly payment equal to one-twelfth (1/12) of the deficiency until the impairment or reduction is corrected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Authorizing Ordinance. All proceedings at law or in equity shall be instituted, had and maintained in the manner herein described and for the benefit of all registered owners of the outstanding Bonds.

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

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

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

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

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

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

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

Investments. (a) Moneys held for the credit of the Bond Fund shall be continuously invested and reinvested pursuant to the direction of the City (or at the discretion of the Trustee in the absence of direction by the City) in Permitted Investments as defined in (e) below, all of which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, as follows: not later than the payment date for interest or principal and interest for moneys in the debt service portion of the Bond Fund; and not later than five (5) years or the final maturity of the Bonds, whichever is earlier, for moneys in the Debt Service Reserve.

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

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

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

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

CONTINUING DISCLOSURE AGREEMENT

In the past five years, the City has been a party to certain continuing disclosure agreements in connection with its outstanding bonds. Such agreements require the City to file annual reports with the Municipal Securities Rulemaking Board on its Electronic Municipal Market Access system ("EMMA") within the time periods set forth in the agreements. The following summarizes a non-exhaustive discussion of the City's compliance with its continuing disclosure obligations over the past five years.

As part of its annual reports, the City has been obligated to file on EMMA certain statistical information concerning the City or the System, as appropriate for the type of bonds issued (e.g., water and sewer revenue bonds or sales and use tax bonds). During the past five years, all required statistical information of the City and the System was filed in a timely manner.

Also as part of its annual reports, the City has been obligated to file on EMMA audited financial statements of the City and the System, as appropriate for the type of bonds issued. If the audited financial statements were not available at the time the annual report was due, the City was obligated to file such audited financial statements within 30 days after receipt thereof.

The audited financial statements of the System for the years ended December 31, 2015 through 2019 have been filed. The audited financial statements of the System for the years ended December 31, 2015 and December 31, 2016 were filed in a timely manner. The audited financial statements of the System for the year ended December 31, 2017 were neither filed when the annual report was due nor filed within 30 days of receipt. Such audited financial statements were filed on EMMA approximately 36 days late. A notice concerning the City's failure to timely file such audited financial statements was not filed on EMMA. The audited financial statements of the System for the years ended December 31, 2018 and December 31, 2019 were filed in a timely manner.

The audited financial statements of the City for the years ended December 31, 2014, 2015, 2016 and 2018 have been filed. The audited financial statements of the City for the years ended December 31, 2014 and December 31, 2015 were filed in a timely manner. The audited financial statements of the City for the fiscal year ended December 31, 2016 were neither filed when the annual report was due nor filed within 30 days of receipt. Such audited financial statements were filed on EMMA approximately 18 days late. A notice concerning such late filing was not filed on EMMA. The audited financial statements of the City for the year ended December 31, 2017 were not required to be filed on EMMA. The audited financial statements of the City for the year ended December 31, 2018 were filed in a timely manner. The audited financial statements of the City for the year ended December 31, 2019 are not yet available.

The continuing disclosure agreements also obligated the City to file a notice of the occurrence of any event listed in Securities and Exchange Commission Rule 15c2-12(b)(5). Included in such listed events are bond calls. During the past five years, the City has failed to file notices concerning the mandatory redemption of its bonds from surplus sales and use tax collections. A notice of such failures was filed on EMMA; however, such notice was not timely filed.

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

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

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

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

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

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

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

"Financial Obligation" shall mean a

(A) debt obligation;

(B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(C) guarantee of obligations described in (A) or (B).

The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

Provision of Annual Report. (a) The City shall, or cause the Dissemination Agent to, not later than one hundred eighty (180) days after the end of the System's fiscal year (presently December 31), commencing with the report after the end of the 2020 fiscal year, provide to the MSRB through its continuing disclosure service portal provided through EMMA at http://www.emma.msrb.org or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the System may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the City. If the System's fiscal year changes, it shall give notice of such change in the manner as for a Listed Event.

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

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

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

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

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

Any or all of the items above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's website or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so incorporated by reference.

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security.

7. Modifications to rights of security holders, if material.

8. Bond calls (excluding mandatory sinking fund redemptions), if material.

9. Defeasances and tender offers.

10. Release, substitution, or sale of property securing repayment of the securities, if material.

11. Rating changes.

12. Bankruptcy, insolvency, receivership or similar event of the obligated person.

13. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material.

16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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FINANCIAL INFORMATION

Set forth in Exhibit A to this Official Statement are audited financial statements of the System for the fiscal year ended December 31, 2019 as well as the Combining Schedule for Revenues and Expenses for the fiscal year ended December 31, 2019. Such audited financial statements were prepared using accounting principles generally accepted in the United States of America and were audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Set forth below is an Audited Summary Statement of Revenues and Expenses of the System for the years ending December 31 2016-2019.

Audited Summary Statement of
Revenues and Expenses of the System

	Fiscal Year Ended December 31, 2016		
	Water	Sewer	Combined
Operating Revenues	$ 2,608,476	$ 1,328,663	$ 3,937,139
Operating Expenses (Before Depreciation)	(1,455,971)	(1,104,509)	(2,560,480)
Net Operating Income (Before Depreciation)	1,152,505	224,154	1,376,659
Depreciation	(637,163)	(535,877)	(1,173,040)
Net Operating Income (Loss)	515,342	(311,723)	203,619
Net Non-Operating Expense	(214,717)	(312,556)	(527,273)
Net Income (Loss)	$300,625	($624,279)	($323,654)

	Fiscal Year Ended December 31, 2017		
	Water	Sewer	Combined
Operating Revenues	$ 2,411,706	$ 1,562,066	$ 3,973,772
Operating Expenses (Before Depreciation)	(1,388,080)	(1,002,210)	(2,390,290)
Net Operating Income (Before Depreciation)	1,023,626	559,856	1,583,482
Depreciation	(625,015)	(498,181)	(1,123,196)
Net Operating Income	398,611	61,675	460,286
Net Non-Operating Expense	(204,155)	(186,140)	(390,295)
Net Income (Loss)	$194,456	($124,465)	$69,991

	Fiscal Year Ended December 31, 2018		
	Water	Sewer	Combined
Operating Revenues	$2,562,798	$1,817,436	$4,380,234
Operating Expenses (Before Depreciation)	(1,486,921)	(982,297)	(2,469,218)
Net Operating Income (Before Depreciation)	1,075,877	835,139	1,911,016
Depreciation	(630,432)	(508,695)	(1,139,127)
Net Operating Income (Loss)	445,445	326,444	771,889
Net Non-Operating Expense	(192,105)	(169,144)	(361,249)
Net Income (Loss)	$253,340	$157,300	$410,640

	Fiscal Year Ended December 31, 2019		
	Water	Sewer	Combined
Operating Revenues	$2,484,883	$1,803,276	$4,288,159
Operating Expenses (Before Depreciation)	(1,881,601)	(1,177,800)	(3,059,401)
Net Operating Income (Before Depreciation)	603,282	625,476	1,228,758
Depreciation	(616,340)	(517,795)	(1,134,135)
Net Operating Income (Loss)	(13,058)	107,681	94,623
Net Non-Operating Expense	(154,441)	(165,404)	(319,845)
Net Income (Loss)	($167,499)	($57,723)	($225,222)

DEBT SERVICE COVERAGE

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

Funds Available for Debt Service (A) [1]	$1,274,952
Maximum Annual Debt Service on the Bonds and the Parity Bonds (B) [2]	1,095,850
Debt Service Coverage (A/B)	1.16x

[1] "Funds Available for Debt Service" means gross revenues of the System less amounts necessary to pay operation, maintenance and repair of the System (excluding depreciation expenses, interest and bond amortization expenses) based upon the audited financial statements of the System for the fiscal year ended December 31, 2019; includes $46,194 of interest income.
[2] Based on a year ending December 31.

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DEBT SERVICE REQUIREMENTS

Set forth below are the debt service requirements for the Bonds for each year ending January 1:

Year (January 1)	Principal	Interest	Total Debt Service
2021	$ 40,000	$ 10,296.51	$ 50,296.51
2022	105,000	71,881.26	176,881.26
2023	115,000	69,781.26	184,781.26
2024	120,000	67,481.26	187,481.26
2025	120,000	65,081.26	185,081.26
2026	125,000	62,681.26	187,681.26
2027	125,000	60,181.26	185,181.26
2028	130,000	57,681.26	187,681.26
2029	125,000	55,081.26	180,081.26
2030	130,000	53,050.00	183,050.00
2031	135,000	50,937.50	185,937.50
2032	330,000	48,575.00	378,575.00
2033	1,055,000	42,800.00	1,097,800.00
2034	1,085,000	21,700.00	1,106,700.00
TOTALS	$3,740,000	$737,209.09	$4,477,209.09

Set forth below are the debt service requirements for the Bond and the Parity Bonds for each year ending December 31:

Year (December 31)	Bond Debt Service	Parity Bond Debt Service	Total Debt Service
2021	$ 86,237.14	$ 909,956.26	$ 996,193.40
2022	175,831.26	916,686.26	1,092,517.52
2023	183,631.26	907,868.76	1,091,500.02
2024	186,281.26	902,431.26	1,088,712.52
2025	183,881.26	911,331.26	1,095,212.52
2026	186,431.26	904,568.76	1,091,000.02
2027	183,931.26	902,293.76	1,086,225.02
2028	186,381.26	900,006.26	1,086,387.52
2029	179,065.63	913,128.13	1,092,193.76
2030	181,993.75	903,900.00	1,085,893.75
2031	184,756.25	902,887.50	1,087,643.75
2032	375,687.50	716,187.50	1,091,875.00
2033	1,087,250.00		1,087,250.00
2034	1,095,850.00		1,095,850.00
TOTALS	$4,477,209.09	$10,691,245.71	$15,168,454.80

LEGAL MATTERS

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

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

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

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

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

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

An exception allows a deduction of certain interest expense allocable to "qualified tax-exempt obligations." The City has designated the Bonds as "qualified tax exempt obligations" and has covenanted not to use the improvements financed by the Bond to be Refunded and the proceeds of the Bonds in a manner which would cause the Bonds to be "private activity bonds" within the meaning of the Code, and has represented that the City and its subordinate entities have not and do not expect to issue more than $10,000,000 of such tax exempt obligations (other than private-activity bonds (excluding from that term "qualified 501(c)(3) bonds" under the Section 145 of the Code)) during calendar year 2020.

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

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

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

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

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

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent holders of the Bonds from realizing the full current benefit of the tax status of such interest. On December 20, 2017, Congress passed The Tax Cuts and Jobs Act (the "Tax Legislation"), which, for tax years beginning after December 31, 2017, among other things, significantly changed the income tax rates for individuals and corporations, modified the current provisions relative to the federal alternative minimum tax on individuals and eliminated the federal alternative minimum tax for corporations. The Tax Legislation or the introduction or enactment of any other legislative proposals or clarification of the Code or court decisions may affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any proposed or enacted federal or state tax legislation (including particularly, without limitation, the Tax Legislation), regulations or litigation, as to which Bond Counsel expresses no opinion.

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

MISCELLANEOUS

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

Underwriting. Stephens Inc., the Underwriter, has agreed, subject to certain conditions precedent, to purchase the Bonds from the City at a purchase price of $3,697,580.25 (principal amount plus net original issue premium of $4,330.25 less Underwriter's discount of $46,750). The Underwriter is committed to purchase all of the Bonds if any are purchased.

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

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

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

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

CITY OF MAGNOLIA, ARKANSAS

By /s/ Parnell Vann
Mayor

Dated: As of the Cover Page hereof.

EXHIBIT A

Audited Financial Statements of the System for the Fiscal Year Ended December 31, 2019 with Combining Schedule of Revenues and Expenditures for the Fiscal Year Ended December 31, 2019

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

FINANCIAL STATEMENTS
December 31, 2019

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

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ROBERT L. EDSTROM,
CERTIFIED PUBLIC ACCOUNTANT,
PROFESSIONAL ASSOCIATION

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

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council of
Magnolia, Arkansas

Report on the Financial Statements

I have audited the accompanying financial statements and the related notes to the financial statements listed in the table of contents of the City of Magnolia, Arkansas Utilities, as of and for the year ended December 31, 2019.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the City of Magnolia, Arkansas Utilities as of December 31, 2019 and the results of its operations, changes in net position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

The Governmental Accounting Standards Board requires that the Schedule of the System's Proportionate Share of the Net Pension Liability and the Schedule of System Contributions be presented to supplement the basic financial statements. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note A, the financial statements of the City of Magnolia, Arkansas Utilities present only the financial position, results of operations, and cash flows of the City of Magnolia, Arkansas Utilities and are not intended to present fairly the financial position of the governmental activities and the aggregate remaining fund information of the City of Magnolia, Arkansas, as of December 31, 2019 and the respective changes in financial position in conformity with accounting principles general accepted in the United States of America.

Subsequent Events

In July 2020 the System was issued a Consent Order for failure to monitor and report treatment plant operating conditions. A penalty of $167,000 was proposed. The penalty will be waived if the conditions are corrected. At December 31, 2019 the liability was not recorded.

My audit was conducted for the purpose of forming an opinion on the City of Magnolia, Arkansas Utilities financial statements as a whole. The supplementary financial information described in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 28, 2020 on my consideration the City of Magnolia, Arkansas Utilities' internal control over financial reporting and my tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

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

August 28, 2020

FINANCIAL STATEMENTS

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF NET POSITION
December 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and Cash Equivalents	177,634
Certificate of Deposit	43,793
Accounts Receivable-Billed- Net of Allowance for Bad Debts	246,490
Accounts Receivable-Unbilled	158,220
Total Current Assets	626,137
Restricted Assets	
Cash and Cash Equivalents-Depreciation Fund	180,018
Cash and Cash Equivalents-Lake Columbia Repair	99,468
Cash and Cash Equivalents-Debt Service Funds	2,241,920
Certificate of Deposit-Depreciation Fund	265,696
Certificates of Deposit-Debt Service Fund	462,827
Total Restricted Assets	3,249,929
Capital Assets	
Property, Plant and Equipment	44,477,518
Less: Accumulated Depreciation	(25,206,937)
Net Capital Assets	19,270,581
Total Assets	23,146,647
Deferred Outflows	
Deferred Pension Outflows	180,222
Deferred Bond Refunding Costs	129,567
Total Deferred Outflows	309,789

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF NET POSITION
December 31, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities	
Accounts Payable	67,780
Accrued Vacation Pay Payable	8,889
Sales Tax Payable	14,548
Accrued Wages Payable	23,850
Meter Deposits	32,210
Current Portion-Notes Payable	50,000
Total Current Liabilities	197,277
Payables From Restricted Assets	
Accounts Payable	4,455
Accrued Bond Interest Payable	121,454
Current Portion-Bonds Payable	443,948
Total Payable From Restricted Assets	569,857
Long-Term Liabilities	
Notes Payable	96,017
Net Pension Liability	1,205,785
Bonds Payable	10,971,982
Total Long-Term Liabilities	12,273,784
Total Liabilities	13,040,918
Deferred Inflows of Resources	
Deferred Bond Refunding Premium	143,486
Deferred Pension Inflows	75,965
	219,451
Net Position	
Invested in Capital Assets Net of Related Debt	7,568,806
Restricted for Debt Service-Expendable	2,704,747
Restricted for Capital Activity-Expendable	545,182
Unrestricted	(622,668)
Total Net Position	10,196,067

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

Operating Revenues	
Water Revenue	4,134,199
Connection Fees	61,120
Set-Up Fees	3,265
Billing and Collection Fees	10,185
Other Revenues	79,390
Total Operating Revenues	4,288,159
Operating Expenditures	(4,193,536)
Operating Income	94,623
Non-operating Revenues (Expenditures)	
Interest Income	46,194
Interest Expense	(344,228)
A.D.F.A. Fees	(21,811)
Total Non-operating Expenditures	(319,845)
Increase in Net Position	(225,222)
Net Position - Beginning of Year	10,421,289
Net Position - End of Year	10,196,067

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Customers	4,256,640
Cash Payments for Goods and Services	(1,898,523)
Cash Payments to Employees	(887,231)
Cash from Operating Activities	1,470,886
Cash Flows from Capital and Related Financing Activities	
Payments of Revenue Bonds	(7,249,059)
Payment of Long-Term Debt	(100,000)
Bond Refunding Premium	156,530
Proceeds from Issuance of Revenue Bonds	7,110,000
Interest Paid	(338,752)
Bond Service Fees	(22,105)
Cash from Financing Activities	(443,386)
Cash Flows from Investing Activities	
Sale of U.S. Treasury Bill	270,000
Purchases of Certificates of Deposit	(351,953)
Proceeds from Cashing Certificates of Deposit	390,174
Purchases of Equipment and Facilities	(1,616,997)
Interest Income	43,492
Cash from Investing Activities	(1,265,284)
Net Change in Cash and Cash Equivalents	(237,784)
Cash and Cash Equivalents, Beginning of Year	2,936,824
Cash and Cash Equivalents, End of Year	2,699,040

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating Income	94,623
Adjustments to Reconcile Operating Income to Cash From Operating Activities:	
Non-Cash Items	
Book Value of Assets Traded or Sold	6,294
Depreciation	1,134,135
	1,140,429
(Increase) Decrease in Assets:	
Accounts Receivable	16,250
Inventory	73,878
	90,128
Increase (Decrease) in Liabilities:	
Accounts Payable	35,683
Compensation Payable	1,979
Pension Outflows, Inflows, and Liabilities	106,076
Other Payables	1,968
	145,706
Cash from Operating Activities	1,470,886

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

Note A: Nature of Organization

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

Note B: Summary of Significant Accounting Policies

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

(1) The Reporting Entity

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

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

(2) Proprietary Fund Type-Enterprise Fund

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

(3) Basis of Presentation and Accounting

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

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

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

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

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

(4) Cash and Cash Equivalents and Certificates of Deposit

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

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

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

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

(5) Property, Plant, and Equipment

Property, plant, and equipment in service are recorded at cost, if purchased or constructed. Donated property, plant, and equipment are valued at their estimated fair market value on the date donated.

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

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

(7) Restricted Assets

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

Depreciation Fund	445,714
Repair and Replacement Reserve-Lake Columbia	99,468
Debt Service Reserve	2,704,747
Total	3,249,929

(8) Credit Risk

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

(9) Estimates

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The System has two items that qualify for reporting in this category: bond refunding costs and changes regarding pension liabilities. A deferred outflow on bond refunding costs results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note K for additional information.

In addition to liabilities, the statement of net position will sometimes report a separate section of deferred

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

(10) Deferred Inflows and Outflows of Resources (Cont.)

inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The System has two items that qualify for reporting in this category. One is the deferred inflows of resources related to pension liabilities. See Note K for additional information. The other is Bond Refunding Premium.

(11) Accounts Receivable

Accounts receivable-billed are stated at estimated net realizable values; that is, the gross amount of the receivable is reduced by allowances for estimated uncollectible accounts. Accounts receivable-billed represents charges due the System for water and wastewater services as well as connection and set up fees and penalties. At December 31, 2019 the accounts receivable-billed were $259,186 and the allowance for bad debts was $12,696. Bad debt expense, net of recoveries, for the year was $53,769.

(12) Net Position

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

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

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

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

(10) Deferred Inflows and Outflows of Resources (Cont.)

inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The System has two items that qualify for reporting in this category. One is the deferred inflows of resources related to pension liabilities. See Note K for additional information. The other is Bond Refunding Premium.

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

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

(14) Capitalization of Interest Costs

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

(15) Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (APERS) and additions to and deductions from the APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Note C: Cash Deposits and Certificates of Deposit

State statutes and ordinances of the City of Magnolia govern investment policies of the System. They require the System to contract with financial institutions in which funds will be deposited to secure those deposits with FDIC insurance or pledged securities backed by the U.S. government. The pledged securities must be pledged in the name of the governmental entity and held by the entity or its agent. At December 31, 2019 the System's deposits were fully secured. The System does not have any further policies regarding credit risk, custodial credit risk for investments, concentration of credit risk, or interest rate risk. At December 31, 2019 the System held certificates of deposit.

Note D: Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2019:

Note D: Long-Term Liabilities (Cont.)

	Bonds	Notes Payable
Beginning of year	11,554,989	246,017
Additions	7,110,000	-0-
Deductions	(7,249,059)	(100,000)
End of year	11,415,930	146,017
Amounts due within one year	443,948	50,000

BONDS PAYABLE

Bonds payable at December 31, 2019 were as follows:

1999 Series Water Revenue Bonds, interest rate of 2.5% and service fee of 1%, maturity 2031	2,105,930
2016 Series Water and Wastewater Revenue Bonds, interest rates of 1.375%-3.25%, Maturity 2032	2,200,000
2019 Series Water and Wastewater Revenue Bonds, interest rates of 2.50%-3.000%, maturity 2030	7,110,000

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

2016 Series Water & Wastewater Revenue Bonds - The 2016 bonds were issued to advance refund the Series 2011 Bonds.

2019 Series Water & Wastewater Revenue Bonds - The 2019 bonds were issued to advance refund the Series 2014 and 2012 Bonds and to obtain $1,065,000 of cash. The cash is being used to replace all meters with meters that can be read by a computer.

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

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

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

Note D: Long-Term Liabilities (Cont.)

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

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

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

NOTES PAYABLE

The System has one note payable, the funds of which were used to purchase capital assets. The note has a yearly payment of $50,000. There is no interest being charged on this note.

ANNUAL DEBT SERVICE REQUIREMENTS:

The following schedule shows the annual debt service requirements to pay principal and interest on the revenue bonds and notes payable outstanding at December 31, 2019:

Bonds Payable:

Year	Principal	Interest	Total
2020	443,967	319,842	763,809
2021	804,050	322,332	1,126,382
2022	834,313	298,800	1,133,113
2023	849,761	274,534	1,124,295
2024	870,401	248,456	1,118,857
2025-2029	4,788,837	825,461	5,614,298
2030-2034	2,824,601	130,703	2,955,304
	11,415,930	2,420,128	13,836,058

Notes Payable:

Year	Principal	Interest	Total
2020	50,000	-0-	50,000
2021	50,000	-0-	50,000
2021	46,017	-0-	46,017
Totals	146,017	-0-	146,017

Note D: Long-Term Liabilities (Cont.)

BOND DISCOUNTS

	Bond Discount
Total Discount	155,185
Accumulated Amortization	(25,618)
Net Discount	129,567

BOND PREMIUM

	Bond Discount
Total Premium	156,530
Accumulated Amortization	(13,044)
Net Premium	143,486

INTEREST EXPENSE AND CAPITALIZED INTEREST

The System incurred $359,781 of interest paid on indebtedness. Amortized bond discount of $10,038 was added to the interest paid and amortized bond premium of $13,044 was subtracted from the interest paid interest, making the total $356,775. The System expensed $344,228 of the interest and capitalized $12,547 of the interest.

Note E: Inventories

In 2019 the System began replacing all of its water meters with meters read by a computer. This eliminates the need for meter readers. The System did a review of its inventories and determined that most of the inventory is now obsolete. This resulted in a write-off of the inventory to Distribution Materials Expense amounting to $73,878.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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

A summary of changes in fixed assets follows:

	Balance December 31, 2018	Additions	Reclassed or Retirement	Balance December 31, 2019
Leases	60,611	-	-	60,611
Land	99,882	-	-	99,882
Plant Buildings	4,738,218	-	-	4,738,218
Wells & Well Equipment	911,870	16,959	-	928,829
Pumping Equipment	2,251,446	-	-	2,251,446
Reservoirs	5,479,313	-	-	5,479,313
Clarifying Tank	1,463,012	-	-	1,463,012
Disposal Plant	127,450	-	-	127,450
Interceptors	3,144,108	-	-	3,144,108
Treatment Plant	7,635,069	32,903	-	7,667,972
Wastewater Mains	3,707,491	211,808	-	3,919,299
Water Plant-Equip	118,457	41,195	-	159,652
Distribution Mains	10,738,282	-	-	10,738,282
Meters & Services	1,000,480	-	-	1,000,480
Fire Hydrants	142,731	-	-	142,731
Other Plant Equipment	1,145,316	163,753	63,717	1,245,352
Office Equipment	120,455	43,313	-	163,768
Equalization Pond	-	373,021	-	373,021
Sub-Total	42,884,191	882,952	63,717	43,703,426
Construction-In-Progress	33,097	774,092	33,097	774,092
Total Fixed Assets	42,917,288	1,657,044	96,814	44,477,518

Note F: Property, Plant, Equipment, and Construction-In Progress (Cont.)

A summary of accumulated depreciation follows:

	Cost	Accumulated Depreciation	Estimated Useful Life
Leases	60,611	-	-
Land	99,882	-	-
Plant Buildings	4,738,218	2,910,734	20-40
Wells & Well Equipment	928,829	807,177	10-20
Pumping Equipment	2,251,446	2,092,790	20
Reservoirs	5,479,313	2,894,330	10-33
Clarifying Tank	1,463,012	771,075	40
Disposal Plant	127,450	107,332	30-40
Interceptors	3,144,108	1,293,953	40
Treatment Plant	7,667,973	4,975,544	30
Water Plant Equipment	159,652	47,988	40
Wastewater Mains	3,919,297	2,250,790	40
Distribution Mains	10,738,282	4,998,576	50
Meters & Services	1,000,480	797,864	25
Fire Hydrants	142,731	141,965	25
Other Plant Equipment	1,245,352	1,001,106	5-10
Office Equipment	163,768	109,496	5-10
Equalization Pond	373,201	6,217	20
Total	43,703,605	25,206,937	

Note G: Risk Management

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

Note H: Contingencies

As mentioned in Note D, the System is required to maintain a Depreciation Fund. At December 31, 2019 the Depreciation Fund was over funded by $445,714. This was shown as restricted assets on the balance sheet but becomes unrestricted when transferred out of the account.

In 2016, the Arkansas Department of Environmental Quality (ADEQ) found the Wastewater Department to be in violation of its National Pollutant Discharge Elimination System (NPDES) parameters 32 times. Each violation carries a potential penalty of $10,000. City officials and ADEQ agreed to one $10,000 fine which was accrued as a liability at December 31, 2015. In 2016, the System was required to purchase $45,004 of equipment to "smoke" and video the wastewater lines. In 2016 the System performed $3,172 of services to adjacent city water systems in lieu of paying cash. In 2017 the System paid $3,000 in cash and performed $1,840 of services to adjacent City water systems in lieu of paying cash. The payment and those services satisfied the ADEQ penalty. At December 31, 2019 the Consent Order had been lifted as long as there were no further violations.

The System was initially put under a Consent Order by the Arkansas Department of Health in 2018. The Consent Order was for failure to monitor and report treatment plant operating conditions. At December 31, 2018 the violations were corrected and the Consent Order was lifted as long as there were no additional violations. In June 2019 the System the System was again, placed under a Consent Decree for the same violation. At December 31, 2019 the violations were corrected and the Consent Order was lifted as long as there were no additional violations. In June 2020 the System was again placed under the Consent Order for the same violation and a penalty of $167,000 was proposed. The penalty will be waived if the conditions are corrected. At December 31, 2019 the System did not report the penalty as a Liability.

Note I: Subsequent Events

Magnolia Utilities has evaluated subsequent events through August 28, 2020, the date which the financial statements were available to be issued.

Note J: Related Party Transactions

Magnolia Utilities paid the City of Magnolia $30,000 for rent of office space in City Hall. There is no written lease agreement with the City. Magnolia Utilities also paid 56% of the City Treasurer's salary.

Note K: Public Employees Retirement System

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information. APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

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

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

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

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

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

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service

Note K: Public Employees Retirement System (Cont.)

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

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). The System contributed 15.32% of compensation from July 1, 2018 to June 30, 2019 and 15.32% of compensation from July 1, 2019 to June 30, 2020. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

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

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

The state-wide, collective Net Pension Liability of $2,412,528,797 was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Deferred outflows of resources and deferred inflows of resources related to pensions for the System are as follows:

Note K: Public Employees Retirement System (Cont.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	32,816	$(1,792)
Changes of assumptions	65,447	(46,352)
Changes in proportion and differences between employer contributions and proportionate share	17,439	(18,663)
Net difference between projected and actual earnings on pension plan investments	-0-	(9,158)
Total	115,702	(75,965)

Deferred Pension Outflows include the $115,702 shown above plus $64,520 of contributions to APERS from July 1, 2019 to December 31, 2019 for a total of $180,222.

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

2020	64,107
2021	(36,110)
2022	(4,600)
2023	16,340
2024	-0-
2025 and thereafter	-0-

Actuarial Assumptions
The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)

Note K: Public Employees Retirement System (Cont.)

Actuarial Assumptions (Cont.)

Remaining Amortization Period	30 years (8.6 years for District Judges New Plan/Paid Off Old Plan and 19 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market: 25% Corridor (Market Value for Still Paying Old Plan)
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25% - 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Average Service Life of All Members	4.1431

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2019 are summarized in the table as follows:

Note K: Public Employees Retirement System (Cont.)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.20%
International Equity	24%	6.33%
Real Assets	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	18%	1.54%
Total	100%	

Total Real Rate of Return	4.80%
Plus: Price Inflation-Actuary Assumption	2.50%
Net Expected Return	7.30%

Discount Rate

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

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

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

Sensitivity of Discount Rate

1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
1,923,573	1,205,785	606,152

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MAGNOLIA, ARKANSAS UTILITIES
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY

Last 10 Years*

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
System's proportion of the net pension liability	0.0500%	0.0505%	0.0515%	0.0491%
System's proportionate share of the net pension liability	1,205,785	1,113,558	1,330,022	1,174,274
System's covered-employee payroll	876,769	905,458	920,161	895,019
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	137.53%	122.98%	144.54%	131.20%
Plan fiduciary net position as a percentage of the total pension liability	78.55%	79.59%	75.65%	75.50%

* The pension plan has a fiscal year end of June 30. Therefore, the information is being presented at that date instead of December 31, which is the System's fiscal year end. This schedule is presented to illustrate the requirement to show information for 10 years. However, only four years of information is available from the pension plan at this time.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
SCHEDULE OF SYSTEM CONTRIBUTIONS

Last 10 Years*

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contribution	134,321	133,555	133,423	129,778	124,126	126,190
Contributions in relation to the contractually required contribution	134,321	133,555	133,423	129,778	124,126	126,190
Contribution deficiency	-	-	-	-	-	-
System's covered employee payroll	876,769	905,458	920,161	895,019	840,963	848,049
Contributions as a percentage of covered-employee payroll	15.32%	14.75%	14.50%	14.50%	14.76%	14.88%

* The pension plan has a fiscal year end of June 30. Therefore, the information is being presented at that date instead of December 31, which is the System's fiscal year end. This schedule is presented to illustrate the requirement to show information for 10 years. However, only six years of information is available from the pension plan at this time.

SUPPLEMENTARY FINANCIAL INVORMATION

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

SCHEDULE OF OPERATING EXPENDITURES
For the Year Ended December 31, 2019

Wages	889,210
Power Cost	343,602
General Operating Supplies	156,532
Distribution Materials and Supplies	184,647
Treatment Plant Supplies	145,956
Repairs and Maintenance	463,590
Fuel, Oil, and Tires	45,723
Depreciation	1,134,135
Insurance	125,327
Retirement Expense	236,812
Water Source Protection Cost	50,000
Legal and Accounting Fees	32,515
Bad Debts (Net of Recoveries)	53,769
Postage	19,365
Payroll Taxes	66,749
Telephone	27,074
Bond Issuance Costs	154,648
Office Expense	63,882
Total Operating Expenditures	4,193,536

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMBINING SCHEDULE OF REVENUES AND EXPENDITURES
For the Year Ended December 31, 2019

	Water	Sewer	Total
Operating Revenues			
Water Revenue	2,334,179	1,800,020	4,134,199
Connection Fees	61,120	-	61,120
Set-Up Fees	3,265	-	3,265
Billing and Collection Fees	10,185	-	10,185
Other Revenues	76,134	3,256	79,390
Total Operating Revenues	2,484,883	1,803,276	4,288,159
Operating Expenditures	(2,497,941)	(1,695,595)	(4,193,536)
Operating Income	(13,058)	107,681	94,623
Non-Operating Revenues (Expenditures)			
Interest Income	21,720	24,474	46,194
Interest Expense	(154,350)	(189,878)	(344,228)
A.D.F.A. Fees	(21,811)	-	(21,811)
Total Non-Operating Expense	(154,441)	(165,404)	(319,845)
Increase in Net Position	(167,499)	(57,723)	(225,222)

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMBINING SCHEDULE OF OPERATING EXPENDITURES
For the Year Ended December 31, 2019

	Water	Sewer	Total
Wages	448,292	440,918	889,210
Power Cost	184,175	159,427	343,602
General Operating Supplies	111,141	45,391	156,532
Distribution Materials and Supplies	184,647	-	184,647
Treatment Plant Supplies	75,588	70,368	145,956
Repairs and Maintenance	355,343	108,247	463,590
Fuel, Oil, and Tires	26,170	19,553	45,723
Depreciation	616,340	517,795	1,134,135
Insurance	85,455	39,872	125,327
Retirement Expense	123,197	113,615	236,812
Water Source Protection Cost	50,000	-	50,000
Legal and Accounting Fees	16,257	16,258	32,515
Bad Debts (Net of Recoveries)	30,358	23,411	53,769
Postage	9,682	9,683	19,365
Payroll Taxes	46,122	20,627	66,749
Telephone	13,537	13,537	27,074
Bond Issuance Costs	89,696	64,952	154,648
Office Expense	31,941	31,941	63,882
Total Operating Expenditures	2,497,941	1,695,595	4,193,536

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
For the Years Ended December 31, 2019 and 2018

	2019	2018	Difference
Operating Revenues			
Water Revenue	4,134,199	4,185,811	(51,612)
Connection Fees	61,120	19,325	41,795
Set-Up Fees	3,265	45,209	(41,944)
Billing and Collection Fees	10,185	4,310	5,875
Other Revenues	79,390	125,579	(46,189)
Total Operating Revenues	4,288,159	4,380,234	(92,075)
Operating Expenses			
Wages	889,210	912,157	(22,947)
Power Cost	343,602	278,252	65,350
General Operating Supplies	156,532	120,261	36,271
Distribution Materials and Supplies	184,647	130,925	53,722
Treatment Plant Supplies	145,956	218,088	(72,132)
Repairs and Maintenance	463,590	147,962	315,628
Fuel, Oil, and Tires	45,723	50,444	(4,721)
Depreciation	1,134,135	1,139,127	(4,992)
Insurance	125,327	137,038	(11,711)
Retirement Expense	236,812	175,239	61,573
Water Source Protection Cost	50,000	50,000	-
Legal and Accounting Fees	32,515	28,580	3,935
Bad Debts (Net of Recoveries)	53,769	46,012	7,757
Postage	19,365	18,628	737
Payroll Taxes	66,749	69,981	(3,232)
Telephone	27,074	24,542	2,532
Bond Issuance Costs	154,648	-	154,648
Office Expense	63,882	61,109	2,773
Total Operating Expenditures	4,193,536	3,608,345	585,191
Non-operating Revenues (Expenditures)			
Interest Income	46,194	23,289	22,905
Interest Expense	(344,228)	(361,363)	17,135
A.D.F.A. Fees	(21,811)	(23,175)	1,364
Total Non-operating Expenditures	(319,845)	(361,249)	41,404
Increase in Net Position	(225,222)	410,640	(635,862)

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

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

ROBERT L. EDSTROM,
CERTIFIED PUBLIC ACCOUNTANT,
PROFESSIONAL ASSOCIATION

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

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

Mayor and City Council of the
City of Magnolia, Arkansas

I have audited the financial statements and the related notes of the City of Magnolia, Arkansas Utilities (the System) as of and for the year ended December 31, 2019, and have issued my report thereon dated August 28, 2020. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Magnolia, Arkansas Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, I do not express an opinion on the effectiveness of the System's internal control.

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

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify two deficiencies in internal control, described in the accompanying schedule of findings and responses as items Y-1 and Y-2.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Magnolia, Arkansas Utilities' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The instance of noncompliance is described in the accompanying schedule of findings and responses as items Y-3.

The System's Response to Findings

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

Purpose of this Report

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

Robert L. Edstrom, CPA

August 28, 2020

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the year ended December 31, 2019

Section II - Financial Statements Findings

Internal Control

Y-1

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

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

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

Y-2

Finding:
There is no one manager over the entire System who is ultimately responsible for day-to-day operations. The City Treasurer is the accountant. There are an accounts receivable manager, a water treatment manager, a water distribution manager, and a wastewater manager. Employees spend the majority of their time "putting out fires." In prior years, uncollectible accounts were written-off at year-end. For a second year the uncollectible accounts receivable were not written-off until the auditor brought it to the attention of the accountant. The City Treasurer does not have enough time to manage the water department.

Recommendation:
A general manager needs to be hired who can oversee the day-to-day operations and coordinate the activities of the water maintenance plant, the water treatment plant, the accounts receivable department, and the accountant for the System.

Management Response:
The Mayor has decided to keep the four department heads as they are. He intends to have bi-weekly meetings to coordinate the activities of the System. He feels he has the right personnel to handle the tasks.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Magnolia, Arkansas

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the year ended December 31, 2019

Section II - Compliance and Other Matters Findings

Y-3

Finding:
Magnolia Utilities water division (the System) was initially put under a Consent Order by the Arkansas Department of Health in 2018. The Consent Order was for failure to monitor and report treatment plant operating conditions. At December 31, 2018 the violations were corrected and the Consent Order was lifted as long as there were no additional violations. In June 2019 the System the System was again placed under a Consent Decree for the same violation. At December 31, 2019 the violations were corrected and the Consent Order was lifted as long as there were no additional violations. In June 2020 the System was again placed under the Consent Order for the same violation.

Recommendation:
The System needs to adopt a policy of hiring more qualified personnel as full-time employees.

Management Response:
In September 2019 the System hired a fully licensed water operator as a consultant. In January 2020 the System hired, as an employee, a former instructor for ADEQ who is working toward all the necessary water operator licenses. At the present, all the required reports are being filed on a timely basis.