

OFFICIAL STATEMENT

This Official Statement has been prepared for use in connection with the District's offering of these Bonds for public sale on sealed bids. Bidding requirements and procedures are set out in the Official Notice of Sale. The District will furnish to the successful bidder a final Official Statement.

NEW ISSUE BOOK-ENTRY ONLY

RATING: Moody's: Aa2

In the opinion of Bond Counsel, under existing law, assuming compliance with certain covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes, (ii) interest on the Bonds is exempt from State of Arkansas income tax and (iii) the Bonds are exempt from property taxes in the State of Arkansas.

\$55,975,000 Pulaski County Special School District of Pulaski County, Arkansas Construction Bonds, Series 2015

Dated: October 15, 2015

Due: February 1

The Bonds are limited, general obligations of the Pulaski County Special School District of Pulaski County, Arkansas. Interest on the Bonds is payable on February 1 and August 1, commencing February 1, 2016, and the Bonds mature (on February 1 of each year), bear interest and are priced as follows:

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2017	\$2,260,000.00	3.000%	0.600%	2027	\$2,960,000.00	3.000%	2.900%*
2018	2,310,000.00	3.000%	0.900%	2028	3,055,000.00	3.000%	3.060%
2019	2,355,000.00	3.000%	1.190%	2029	3,160,000.00	3.000%	3.230%
2020	2,400,000.00	3.000%	1.440%	2030	3,270,000.00	3.250%	3.370%
2021	2,475,000.00	3.000%	1.670%	2031	3,385,000.00	3.250%	3.440%
2022	2,545,000.00	3.000%	1.940%*	2032	3,505,000.00	3.250%	3.500%
2023	2,625,000.00	3.000%	2.180%*	2033	3,635,000.00	3.375%	3.550%
2024	2,700,000.00	3.000%	2.380%*	2034	3,770,000.00	3.375%	3.600%
2025	2,785,000.00	3.000%	2.540%*	2035	3,910,000.00	3.500%	3.650%
2026	2,870,000.00	3.000%	2.720%*				

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 U.S. Bank, Olive Branch, Mississippi, 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 subject to optional redemption on and after February 1, 2021.

THE DISTRICT HAS BEEN CLASSIFIED BY THE ARKANSAS DEPARTMENT OF EDUCATION AS IN FISCAL DISTRESS STATUS. SEE DESCRIPTION OF THE SCHOOL DISTRICT, FISCAL DISTRESS STATUS.

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

The Bonds are offered, subject to prior sale, when, as and if issued and accepted by the Underwriter named below, subject to the approval of legality by Bond Counsel and certain other conditions.

BANK OF AMERICA MERRILL LYNCH

Official Statement dated: October 13, 2015.

*Priced to first optional call date of February 1, 2021.

No dealer, broker, salesman or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any offer, solicitation or sale of the Bonds by or to any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that there has been no change in the matters described herein since the date hereof or that the information herein is correct as of any time subsequent to its date.

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INTRODUCTION TO THE OFFICIAL STATEMENT

This introduction to the Official Statement is only a brief description and is subject in all respects to the more complete information contained in the Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement, including the cover page.

This Official Statement is provided to furnish certain information in connection with the issuance by Pulaski County Special School District of Pulaski County, Arkansas (the “District”), of its Construction Bonds, Series 2015, dated October 15, 2015, in the aggregate principal amount of \$55,975,000 (the “Bonds”).

Fiscal Distress Status. Due to declining cash balances, as well as material State or Federal audit exceptions or violations, the Arkansas Department of Education has classified the District as a Fiscal Distress Status school district. See **DESCRIPTION OF THE SCHOOL DISTRICT, Fiscal Distress Status**.

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

The District. The District is a school district duly established and existing under the Constitution and laws of the State of Arkansas for the purpose of providing public school education for persons residing within the geographic boundaries of the District. See **DESCRIPTION OF THE SCHOOL DISTRICT**.

Litigation Involving the District. For a discussion of certain litigation pending against the District, see **LEGAL MATTERS, Litigation Involving the District**.

Security and Source of Payment. The Bonds will be limited, general obligations of the District. No specific tax has been voted for payment of these Bonds, but the Bonds are secured by a pledge of surplus revenues (being revenues in excess of the amounts necessary to insure the payment when due of principal of, interest on and trustee’s and paying agent’s fees in connection with the bonds for which voted) derived from debt service taxes heretofore or hereafter voted for payment of other bond issues of the District (subject to prior pledges of such surplus revenues) that may legally be used for the purpose of paying the principal of and interest on the Bonds. See **BONDS BEING OFFERED, Security and Source of Payment**.

Litigation Over State Funding for Schools. In an Order issued November 9, 1994, the Honorable Annabelle C. Imber held that the existing state funding system for public education violated the equal protection provision of the Arkansas Constitution and violated Article 14, § 1 of the Arkansas Constitution by “failing to provide a general, suitable and efficient system of free public education.” *Lake View School Dist. No. 25 of Phillips County, Arkansas v. Jim Guy Tucker*, Case No. 92-5318 (1994). Judge Imber stayed the effect of her judgment for two years to allow the General Assembly to adopt and implement legislation consistent with her Order. The case was appealed to the Arkansas Supreme Court. The Supreme Court remanded the case

back to the Chancery Court to determine whether the system of public school finance was in compliance with Judge Imber's original Order and whether the amount of funding was sufficient to provide all Arkansas students with an adequate education. On May 25, 2001, the Chancery Court ruled that the present system of school funding was inequitable and inadequate under the Arkansas Constitution. On November 21, 2002, the Arkansas Supreme Court affirmed the Chancery Court and held the current school funding system unconstitutional. In order to allow the General Assembly and the Department of Education time to correct the constitutional disability, the Court stayed the issuance of its mandate until January 2004. On January 2, 2004, the Lake View School District, the Class Member, filed a Motion for Writ of Prohibition, requesting that the Supreme Court prohibit the State from spending money until the State corrected the unconstitutional school system. The Class Member also requested that all funds appropriated by the State for the purpose of supporting the school system be held in escrow until the unconstitutional system was corrected. On January 22, 2004, the Supreme Court issued an opinion recalling its mandate and ruling that there had been noncompliance with its November 21, 2002 opinion. As a result, the Court appointed two special masters, charged with the responsibility of overseeing legislative actions regarding school finance. The masters issued their report on April 1, 2004. The Court, on June 18, 2004, released jurisdiction of the case. On April 14, 2005, the Rogers School District asked the Court to reopen the *Lake View* case, arguing that lawmakers "reverted back to their old ways" and had failed to follow the Court's mandate to fund public education adequately. The Rogers School District maintained that the Arkansas General Assembly had not increased foundation funding as they had promised in the extraordinary session of 2004. On April 25, 2005, four additional petitions were filed with the Court by a combined 46 districts asking the Court to reopen the *Lake View* case. On June 9, 2005, the Court once again reopened the case and reappointed the two special masters to assess whether the Governor and the General Assembly had complied with the *Lake View* ruling. On October 3, 2005, the masters issued their findings and concluded that the General Assembly had not complied with the *Lake View* ruling and had not made education the State's first priority. The Supreme Court agreed with the masters and held that the General Assembly had retreated from its prior actions to comply with the Court's directives in *Lake View* and that the public school funding system continued to be inadequate. The Supreme Court further held that the public schools were operating under a constitutional infirmity that must be corrected immediately. The Court stayed the issuance of its mandate until December 1, 2006 to allow the necessary time to correct the constitutional deficiencies. In April 2006, the General Assembly met in special session to address some of the Court's concerns. The General Assembly appropriated more money to the State Department of Education for public school operation and school buildings. The General Assembly, among other things, also increased per-student funding and the minimum teacher salary schedule. On December 1, 2006, the Supreme Court ruled that it would keep jurisdiction over the case and reappointed the two special masters to evaluate whether the State met the constitutional requirements of an adequate and equitable education system. The Court delayed the case deadline for 180 days, to give the State time to provide documents, the masters time to evaluate the State's actions and the Court time to rule. **On May 31, 2007, the Court concluded that the system of public school financing had come into constitutional compliance.**

At the 1996 general election, a Constitutional Amendment was passed ("Amendment No. 74") that establishes a statewide 25-mill property tax minimum for maintenance and operation of the public schools (the "Uniform Rate of Tax"). The Uniform Rate of Tax replaces that portion

of local school district ad valorem taxes available for maintenance and operation. The Uniform Rate of Tax is to be collected in the same manner as other school property taxes, but the revenues generated from the Uniform Rate of Tax are remitted to the State Treasurer for distribution to the school districts. The method for distributing the state aid back to the individual school districts, and the authorized uses of the state aid once received by the school districts are set forth in Act 1300 of 1997.

Jacksonville. Once the detachment of the Jacksonville-North Pulaski School District (“JNPSD”) is complete on July 1, 2016, the area of the District will drop to 681 square miles and the municipality of Jacksonville will no longer be part of the District.

Purpose. The Bonds are being issued to finance capital improvements for the public schools of the District (the “Project”). See **BONDS BEING OFFERED, Purpose.**

Redemption. The Bonds are subject to optional redemption on and after February 1, 2021. The Bonds are also subject to redemption from proceeds of the Bonds not needed for the purposes intended. Term Bonds, if any, will be subject to mandatory sinking fund redemption on February 1 in the year or years immediately prior to the stated maturity of such Term Bonds in such years as are specified by the successful bidder. The Trustee shall give at least thirty (30) days’ notice of redemption and shall redeem Bonds in inverse order of maturity (and by lot within a maturity) in such manner as the Trustee may determine. See **BONDS BEING OFFERED, Redemption.**

Denominations and Registration. The Bonds are issuable only as fully registered bonds, without coupons, in the denomination of \$5,000 or an integral multiple thereof. Interest is payable February 1, 2016, and semiannually thereafter on each August 1 and February 1. Unless the Bonds are in book- entry form, payment of principal of the Bonds will be made to the owners of the Bonds at the principal office of U.S. Bank National Association, Olive Branch, Mississippi (the “Trustee”). Interest is payable by check mailed by the Trustee to the registered owners as of the Record Date (herein defined) for 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 **BONDS BEING OFFERED, Generally and Book-Entry Only System.**

Tax Exemption. In the opinion of Bond Counsel, Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., under existing law, assuming compliance with certain covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (iii) with respect to corporations, interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax, (iv) interest on the Bonds is exempt from State of Arkansas income tax and (v) the Bonds are exempt from property taxes in the State of Arkansas (see **LEGAL MATTERS, Tax Exemption.**)

Fiscal Agent. The District has employed Stephens Inc. as fiscal agent to assist the District in the sale and issuance of the Bonds (the “Fiscal Agent”). See **MISCELLANEOUS, Interest of Certain Persons.**

Authority. The Bonds are being issued under the authority of the Constitution and laws of the State of Arkansas, including particularly Amendments No. 40 and No. 74 to the Arkansas Constitution and A.C.A. §§ 6-20-1201 *et. seq.* (Repl. 2013), and a resolution and approval of the Commissioner of the Department of Education (the “Resolution”). See **BONDS BEING OFFERED**, Authority, and **THE RESOLUTION**.

Delivery of Bonds. It is expected that the Bonds will be available for delivery on or about October 29, 2015.

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

BONDS BEING OFFERED

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). 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 settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (referred to herein as “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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. The deposit of Bonds with DTC and their registration in the name of Cede & Co., effect no 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. will consent or vote with respect to Bonds. 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 and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on the payable date. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Bonds to 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 District 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 District 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 District makes 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 Resolution, 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 Resolution. The District and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Resolution 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 are issuable in the form and denominations and are in the total principal amount shown on the cover page, and will be dated, mature and bear interest as set out on the cover page. The Trustee will maintain books for the registration and transfer of ownership of the Bonds. Interest due on a bond on each interest payment date will be paid to the person in whose name the bond was registered at the close of business on the fifteenth day of the month (whether or not a business day) next preceding the interest payment date (the "Record Date"), irrespective of any transfer of the bond subsequent to the Record Date and prior to the interest payment date. Payment of interest shall be made by check mailed to such registered owner.

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. The transfer instrument must be signed by the registered owner or his attorney-in-fact or legal representative and the signature must be guaranteed by a guarantor acceptable to the Trustee. The transfer instrument shall state the name, mailing address and social security number or federal employer identification number of the transferee. Upon such transfer, the Trustee shall enter the transfer of ownership in the registration books and authenticate and deliver in the name or names of the new registered owner or owners a new fully registered bond or bonds of authorized denomination of the same maturity and interest rate for the aggregate principal amount of the bond transferred.

Authority. The Bonds are being issued under the authority of the Constitution and laws of the State of Arkansas, including particularly Amendments No. 40 and No. 74 to the Arkansas Constitution and Ark. Code Ann. §§ 6-20-1201 *et. seq.* (Repl. 2013), a resolution and approval of the Commissioner of the Department of Education (the "Resolution"). For a summary of the Resolution, see **THE RESOLUTION**.

Amendments No. 40 and No. 74 to the Arkansas Constitution require the Board of Directors of each school district to prepare and make public not less than sixty days in advance of the annual school election a proposed budget of expenditures for the support of the public schools in the District, together with a rate of tax levy sufficient to provide the funds therefor.

The tax rate is divided into (1) maintenance and operation millage, (2) current expenditure millage, (3) continuing debt service millage previously voted for the retirement of existing indebtedness and (4) any additional debt service millage for proposed new bonded indebtedness. If the proposed rate of tax levy is approved at the school election it becomes the rate of tax levy to be collected for the District in the next ensuing calendar year for use in the school fiscal year commencing July 1 of the calendar year in which collected. Debt service millage, once approved, is a continuing levy until retirement of the indebtedness for which voted. Maintenance and operation millage is voted for one year only, except that if the overall rate of tax levy is disapproved in the school election the millage rate for maintenance and operation remains at the rate last approved.

The issuance of construction bonds by a school district is subject to the approval of the Commissioner of the Arkansas State Department of Education. The bonds must be offered for public sale, and the offering is subject to the approval of the Commissioner of the State Department of Education. The Commissioner has approved the offering of the Bonds for sale. The sale and issuance of the Bonds have been, or will be, authorized by resolution of the Board of Directors of the District, the governing body of the District.

School district bonds may be issued for the purposes of acquiring sites for, building and equipping new school buildings, making additions and repairs to and equipping existing school buildings, purchasing and refurbishing school buses and for the purpose of refunding outstanding indebtedness.

Arkansas law authorizes the State Board of Education to set a maximum rate of interest for school bonds (the "Maximum Lawful Rate"). Bonds may be sold at a discount, but in no event shall the District be required to pay more than the Maximum Lawful Rate of interest on the amount received. Bonds may also be sold with the privilege of conversion into bonds bearing a lower rate or rates of interest, provided the District receive no less and pay no more in principal and interest combined than it would receive and pay if the bonds were not converted.

Purpose. The Bonds are being issued for the purpose of financing capital improvements for the public schools of the District (the "Project").

Sources and Uses of Funds. The estimated sources and uses of funds for the Project are as follows:

	<u>Sources</u>	
Par Amount of Bonds		\$55,975,000.00
Net Reoffering Premium		468,250.35
Accrued Interest		<u>68,132.12</u>
Total		<u>\$56,511,382.47</u>
	<u>Uses</u>	
Deposit to Construction Fund		\$55,494,997.58
Bond Issuance Costs (including Underwriter's Discount)		948,252.77
Deposit to Debt Service Fund		<u>68,132.12</u>
Total		<u>\$56,511,382.47</u>

Security and Source of Payment. Pursuant to Ark. Code Ann. § 6-20-1223 (Repl. 2013), the Bonds will be limited, general obligations of the District, secured by a pledge of surplus revenues (being revenues in excess of the amounts necessary to insure the payment when due of principal of, interest on and trustee's and paying agent's fees in connection with the bonds for which voted) derived from debt service taxes heretofore or hereafter voted for payment of other bond issues of the District (subject to prior pledges of such surplus revenues) that may legally be used for the purpose of paying the principal of and interest on the Bonds.

See **DEBT STRUCTURE**, Outstanding Indebtedness, for a description of other debt and debt service taxes pledged.

In addition to the pledged revenues, the District will also covenant to use for payment of principal of and interest on the Bonds, as and to the extent necessary, all other revenues of the District that may legally be used for the purpose. The District may not legally pay debt service from revenues derived from the tax voted for maintenance and operation of schools.

Any surplus of the pledged revenues over and above the amount necessary to insure the payment as due of principal of, interest on and trustee fees in connection with the Bonds of this issue will be released from the pledge in favor of the Bonds and may be used for other school purposes.

The Bonds are not secured by any lien on or security interest in any physical properties of the District.

Developments. Various elected officials, public interest groups and individuals have indicated publicly that they consider ad valorem property taxation reform to be of significant public interest. At the 2000 general election, the electors of the State voted in favor of a new constitutional amendment ("Amendment No. 79"), which does the following:

1. Limits the amount of assessment increases following reappraisal;
2. Limits assessment increases for people who are disabled or who are 65 years of age;
3. Provides for an annual state credit against ad valorem property tax on a homestead;
4. Equalizes real and personal millage rates;
5. Provides that reassessment must occur at least once every five years; and
6. Provides that rollback adjustments under Amendment No. 59 shall be determined after the adjustments are made to assessed value under Amendment No. 79.

The annual state credit began for taxes due in calendar year 2001. The tax reduction is reflected on the tax bill sent to the property owner by the county collector. The taxing units within the county are entitled to reimbursement of the reduction. See **DEBT STRUCTURE, Computation of Dollar Amount of Debt Service Tax Levied.**

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

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

(2) *Optional Redemption.* The Bonds are subject to redemption prior to maturity at the option of the District, in inverse order of maturities (less than all of the bonds of a single maturity to be selected by lot by the Trustee in such manner as it may determine), in whole at any time on or after February 1, 2021, or in part on any interest payment date on or after February 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the redemption date.

The District shall be entitled to reduce any mandatory sinking fund redemption obligation in any year with respect to the Term Bonds of any maturity by the principal amount of any such Term Bond previously redeemed or acquired by the District and surrendered to the Trustee.

Notice of early redemption identifying the bonds or portions thereof (which must be \$5,000 or an integral multiple thereof) to be redeemed and the date fixed for redemption shall be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date, by first-class mail, postage prepaid, to all registered owners of bonds to be redeemed. Failure to mail an appropriate notice or any such notice to one or more registered owners of bonds to be redeemed shall not affect the validity of the proceedings for redemption of other bonds as to which notice of redemption is duly given and in proper and timely fashion. All such bonds or portions thereof thus called for redemption shall cease to bear interest on and after the date fixed for redemption, provided funds for redemption are on deposit with the Trustee at that time.

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.

Redemption of Prior Tax Bonds. The District will covenant that it will not, so long as any of these Bonds remain outstanding, redeem, prior to their maturity, any bonds of another issue for the payment of which a specific debt service tax was voted prior to issuance of these Bonds (all such bonds being hereafter referred to as “Prior Tax Bonds”) unless, after such redemption, a continuing annual tax of not less than the same number of mills and of not less than the same duration as was pledged to the redeemed bonds remains pledged to these Bonds or other bonds of the District.

Additional Parity Bonds. No additional bonds may be issued on a parity of security with these Bonds.

Priority Among Successive Bond Issues. Other additional bonds may be issued by the District from time to time in accordance with law for the purpose of financing additional capital improvements. If the District, prior to issuance of these Bonds, has reserved the right to issue additional bonds on a parity of security with previously issued bonds, such additional bonds will have a prior claim and pledge over these Bonds as to all revenues pledged to such additional bonds. See **DEBT STRUCTURE**, Parity Debt, for a description of any authorized and unissued parity debt. Otherwise, any additional bonds shall be subordinate to these Bonds and the pledge of revenues to these Bonds.

DESCRIPTION OF THE SCHOOL DISTRICT

Area. The area of the District is approximately 781.81 square miles, of which approximately 729 square miles are located in Pulaski County, approximately 26.43 square miles are located in Lonoke County, approximately 20.25 square miles are located in Saline County, and approximately 6.13 square miles are located in Faulkner County. The incorporated municipalities located, in whole or in part, within the boundaries of the District are Little Rock, Alexander, Jacksonville, Maumelle, North Little Rock, Sherwood and Wrightsville, Arkansas. After July 1, 2016, the effective date of the detachment of the JNPSD, the area of the District will decrease to 681 square miles, and the municipality of Jacksonville will no longer be within the boundaries of the District.

Governmental Organization and Executive Officials. The governing body of the District before June 20, 2011 was a Board of Directors elected for staggered terms at the annual school election. On June 20, 2011, the Commissioner of Education dissolved the District Board of Directors and removed the Superintendent and assumed State control of the District. Arkansas Commissioner of Education Johnny Key, by statute, functions as the District Board. Dr. Jerry Guess was appointed Superintendent as of July 1, 2011. His contract has been extended to June 30, 2016.

Services Provided. The District operates a public school system, consisting of kindergarten and grades 1 through 12, for the purpose of educating the children residing within the District. The principal funding sources for the District are: (1) funds received from the State of Arkansas, (2) ad valorem taxes on the real and tangible personal property located within the boundaries of the District (see **BONDS BEING OFFERED, Developments**), and (3) funds received from the United States of America.

There have been no recent major changes or interruptions in the educational services provided by the District.

School Buildings. The school buildings presently operated by the District are as follows:

Name of School	Grades Housed	Year in Which Construction or Most Recent Renovation Completed	Present Condition (Good, Fair or Poor)
Homer Adkins Pre-K Center School*	Pre-K	1990	Good
Arnold Drive Elementary School*	K-5	1997	Good
Baker Interdistrict Elementary School	K-5	1994	Good
Daisy L. Bates Elementary School	K-5	2000	Good
Bayou Meto Elementary School*	K-5	1997	Good
Cato Elementary School	K-5	1997	Good
Chenal Elementary School	K-5	2008	Good
William Jefferson Clinton Elementary Magnet School	K-5	1994	Good
College Station Elementary School	K-5	1990	Good
Crystal Hill Elementary Magnet School	K-5	1992	Good
Warren Dupree Elementary School*	K-5	1993	Good
Fuller Middle School	6-8	1993	Good
Harris Elementary School	K-5	1988	Good
Jacksonville High School*	9-12	1999	Good
Landmark Elementary School	K-5	1996	Good
Lawson Elementary School	K-5	1980	Good
Maumelle Middle School	6-8	2004	Good
Maumelle High School	9-12	2011	Good
Wilbert D. Mills University Studies High School	9-12	2001	Good
North Pulaski High School*	9-12	1981	Good
Jacksonville Middle School***	6-8	1996	Good
Oakbrooke Elementary School	K-5	1980	Good
Oak Grove Elementary School	K-5	1971	Good
Pine Forest Elementary School	K-5	1997	Good
Pinewood Elementary School*	K-5	1993	Good
Joe T. Robinson Elementary School	K-5	1995	Good

Name of School	Grades Housed	Year in Which Construction or Most Recent Renovation Completed	Present Condition (Good, Fair or Poor)
Joe T. Robinson High School	9-12	2001	Good
Joe T. Robinson Middle School	6-8	1973	Good
Scott Elementary School**	K-5	1987	Good
Sherwood Elementary School	K-5	1994	Good
Sylvan Hills Elementary School	K-5	1995	Good
Sylvan Hills High School	9-12	1996	Good
Sylvan Hills Middle School	6-8	2011	Good
Murrell Taylor Elementary School*	K-5	1994	Good
Tolleson Elementary*	K-5	1997	Good
Administration Building			Good
Auxiliary Building			Good
Maintenance Warehouse			Good
Transportation North*			Good
Transportation South			Good
Fuller Annex			Good
Leased: Adult Learning Center			Good

* Denotes facilities that will be transferred to JNPSD upon the effective date of the detachment, July 1, 2016.

** Due to decreased student enrollment, this school was closed upon the completion of the 2014-2015 academic year.

*** The students that previously attended Jacksonville Middle School and Northwood Middle School have been consolidated into Jacksonville Middle School which now operates from the former Northwood Middle School campus.

School Enrollment and Population. The average daily membership (enrollment) of the District and estimated population of the District for each of the last five years is as follows. The District estimates that approximately 26% of its student population will become part of the JNPSD upon the effective date of the detachment, July 1, 2016.

<u>Fiscal Year Ending June 30</u>	<u>Average Daily Membership</u>	<u>Estimated Population</u>
2015	16,182	64,731
2014	16,560	66,241
2013	16,724	66,896
2012	16,440	65,763
2011	16,372	65,491

Accreditation. In accordance with the requirements of The Quality Education Act of 1983 (Subchapter 2 of Chapter 15, Title 6, Ark. Code Ann. (1987)), the State Board of

Education adopted new, more stringent educational standards that all public elementary and secondary schools in the State must meet to be accredited. The Act provides that any school not meeting these standards will be eliminated, and that any school district operating one or more of such schools is to be dissolved and its territory annexed to another district or districts that operate all schools therein in compliance with the minimum standards. The Arkansas Department of Education (the “ADE”) reviews annual reports to determine whether the school district is in compliance with the standards and conducts an in-depth review every five years.

Under the ADE regulations and guidelines, schools may be classified as accredited, accredited-cited or probationary. Schools that meet all policies and standards promulgated by the ADE are classified as accredited. Schools that meet all policies and standards, with the exception of certification requirements or ratio/class size discrepancies related to unexpected population shifts, are classified as accredited-cited. Schools that have previously met all applicable policies and standards, and subsequently fall below those standards, are classified as accredited-probationary. For those schools classified as accredited-cited or accredited-probationary, the ADE has promulgated maximum times allowable for correction of particular violations of standards. A school that has been classified as accredited-cited and does not correct the violation in the allowable time will be placed on probation. If a school in probationary status fails to comply within the allotted time frame, the school falls into loss of accreditation status. A school or district that is in loss of accreditation status for two years is subject to dissolution and annexation. The two-year period begins on the date the school was placed on probation.

The District currently meets all the standards and policies of the ADE and is fully accredited.

Schools that meet the standards of AdvancED may, upon request, be admitted to AdvancED membership. AdvancED was created through a merger of the PreK-12 divisions of the North Central Association Commission on Accreditation and School Improvement (NCA CASI) and the Southern Association of Colleges and Schools on Accreditation and School Improvement (SACS CASI) and subsequently expanded through the addition of the Northwest Accreditation Commission (NWAC). Eligible schools in Arkansas and other states hold membership in AdvancED. Prior to its affiliation with AdvancED, the District’s schools were previously members of the North Central Association of Colleges and Schools. The following schools in the District hold membership in AdvancED:

Fuller Middle School	Jacksonville High School*
Jacksonville Middle School*	Wilber D. Mills University Studies High School
Maumelle Middle School	North Pulaski High School*
Northwood Middle School**	Joe T. Robinson High School
Sylvan Hills Middle School	Sylvan Hills High School
Maumelle High School	Joe T. Robinson Middle School

* Denotes schools that will be part of JNPSD upon the effective date of the detachment, July 1, 2016.

** Closed upon the completion of the 2014-2015 academic year.

Assessed Valuation. Taxable property is valued for tax purposes as of January 1 of each year. However, the assessment process is not completed until November of the year of assessment. See **FINANCIAL INFORMATION**, Assessment of Property and Collection of Property Taxes. The assessed valuation of taxable property located within the boundaries of the District (as of January 1) has been as follows. **The District estimates a reduction of approximately 14% of its assessed valuation upon the effective date of the detachment of the JNPSD on July 1, 2016.**

<u>Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Utilities and Regulated Carriers</u>	<u>Total Assessed Value</u>
2014	\$2,081,700,549	\$535,073,705	\$119,851,556	\$2,736,625,810
2013	2,011,280,322	519,824,809	113,890,073	2,644,995,204
2012	1,931,567,528	486,552,095	107,419,456	2,525,539,079
2011	1,916,119,287	454,223,360	97,696,469	2,468,039,116
2010	1,847,161,615	414,358,850	90,810,532	2,352,330,997

The most recent reassessment for Pulaski County was completed in 2012, for Saline County in 2012, for Lonoke County in 2011 and for Faulkner County in 2011. The next reassessments are scheduled for Pulaski County in 2017, for Saline County in 2017, for Lonoke County in 2016 and for Faulkner County in 2016.

Financial Institution Deposits. The total deposits of banks with principal offices within the boundaries of the District as of the end of each year have been as follows:

<u>Year</u>	<u>Bank Deposits</u>
2010	\$6,292,915,000
2011	\$5,169,335,000
2012	\$5,252,209,000
2013	\$5,616,373,000
2014	\$5,476,926,000

Major Employers. The principal industries, commercial and governmental entities, and other major employers within the boundaries of the District are as follows. Upon the effective date of the detachment of the JNPSD on July 1, 2016, some of the employers currently located within the boundaries of the District will be located within the boundaries of the JNPSD.

<u>Company</u>	<u>Business or Product</u>	<u>Number of Employees</u>
Little Rock Air Force Base	Military Training Base	4,500
St. Vincent Rehab	Rehab Hospital	2,600
Pulaski County Special School District	Public School	2,368
Maverick Trucking	Trucking Industry	1,300
Molex Inc.	Electrical Connectors	1,100
Wal-Mart	Retail Sales	1,015
Welspun Tubular	Steel Pipes	830
Bank of the Ozarks	Banking	672
Caterpillar	Construction equipment	600

<u>Company</u>	<u>Business or Product</u>	<u>Number of Employees</u>
Pathfinder, Inc.	Services for Disabled	600
ABC Financial	Financial Services	507
The Kroger Company	Grocery stores	500
L'Oreal USA (f/k/a Maybelline Company)	Cosmetics	450
North Metro Medical Center	Hospital	450
The Heritage Company	Non Profit Fundraising Organization	450
United Parcel Service (UPS)	Delivery	420
LM Wind Power Blades (Arkansas)	Windmill Blades	400
Cardinal Health	Healthcare	350
City of Sherwood	City	350
McGeorge Contracting	Construction contractors	350
Ace Hardware Retail Support Center	Wholesale distribution	250
City of Jacksonville	Government	250
Kimberly Clark Corporation	Baby Wipes	250
St. Vincent's North	Healthcare	250
First Electric Cooperative Corp.	Utility Company	226
Lomanco, Inc.	Ventilators, Fans, Louvers and Vents	194
De Wafelbakkers	Food Processing	185
Delta Dental	Dental Insurance	175
BEI Precision Systems and Space Company, Inc.	A company of Schneider Electric	160
Little Rock National Airport	Airport	155
Academy Sports	Retail	150
Russell Chevrolet	Automotive dealership	150
Sherwood Nursing and Rehab Center	Nursing and Rehabilitation facility	130
Cintas Corporation	Industrial Laundry	125
Conestoga Wood Specialties	Wood Moldings, Cabinets and Doors	125
Gwatney Chevrolet	Automobile Dealership	116
Leader Publishing	Newspaper	100
Wright's Cabinet Shop	Carpentry Contractor	81
First Arkansas Bank and Trust	Banking	20
Arkansas Federal Credit Union	Banking	11
Superior Protection	Security services	5

The District has no knowledge of any presently proposed significant additions to or losses of employment within the District.

Employees. The number of persons presently employed by the District are as follows:

	<u>Number</u>
Superintendent and Central District Staff	46
Principals	70
Classroom Teachers	1,126
Other Non-Teaching Personnel	<u>1,126</u>
Total:	2,368

Upon the effective date of the detachment of the JNPSD, there will be an immediate reduction of employees in each identified category of personnel. The District will continue evaluating changes that will be necessitated by the detachment; however, currently the District

anticipates a reduction of approximately 400 positions that are related to the direct operation of the facilities that will become part of the JNPSD. In addition, the District currently estimates a reduction of approximately 122 other personnel in connection with the detachment of the JNPSD.

Approximately thirty-five percent (35%) of the District's employees belong to organized unions. Currently, no union is recognized by the District for collective bargaining. The total number of District employees has decreased by more than fifteen percent (15%) within the previous three years. The decrease in the number of employees results from a decrease in the student population within the District. The District anticipates a significant reduction in the number of District employees contemporaneous with the effective date of the detachment of the JNPSD.

Fiscal Distress Status. On May 16, 2011, the District was classified as being in fiscal distress by the State Board of Education. The reasons cited for the classification were:

Material state or federal audit exceptions or violations.

The District completed a Fiscal Distress Improvement Plan and submitted it to the Department May 26, 2011. That plan included corrective actions for the material state and federal audit exceptions and violations and has been implemented.

A January 19, 2012, letter from Kathleen Crain, Interim Assistant Commissioner, Fiscal and Administrative Services, Arkansas Department of Education, provided notice that an additional indicator of fiscal distress had been identified:

- A declining balance determined to jeopardize the fiscal integrity of a school district. (Ark. Code Ann. §6-20-1904(a)(1)(A)).

This additional indicator was based upon a joint review of the District's finances by the Department and the District, and the administration of the District agreed with this determination. A balance decline of \$5,500,000 was identified for the 2010-2011 school year.

On April 20, 2012, ADE via the commissioner of education, made binding recommendations upon the District. These included directives to the superintendent to:

1. Withdraw recognition of both the teacher organization, PACT, and the support staff organization, PASS; and
2. To terminate recognition of the so-called professionally negotiated agreements which had theretofore existed between the District, PACT, and PASS which, among other things, detailed compensation, benefits and most "working conditions."

The superintendent did so on the same day.

Thereafter, personnel policy committees were established in the District to take over various functions previously performed by PACT and PASS. The authority of these committees

was challenged by certain individuals' lawsuits filed in Pulaski County Circuit Court. Later, these actions were consolidated in Pulaski County Circuit Court Ninth Division. Amendments have been made to add PACT, PASS, the superintendent of the District and the Commissioner of Education as parties. Subsequent to the commencement of the above-referenced cases, another action was brought in Pulaski County Circuit Court and assigned to a judge outside the Ninth Division. This case seeks class action status. On October 18, 2012, this subsequent case was transferred to the Ninth Division, but the Court has declined to consolidate it with the cases discussed above. On October 31, 2012, State Circuit Judge Mary McGowan dismissed the Arkansas Department of Education and the Commissioner of Education as parties to these cases. The plaintiffs appealed but the dismissal was affirmed.

Further, on November 2, 2012 yet a fourth case was filed that is largely identical to the class action described above except that it primarily involves support staff rather than certified staff. In the spring of 2014, Judge McGowan recused, and the case was reassigned to Judge Chris Piazza. The Court granted the District's motion for judgment on the pleadings and dismissed the case on May 12, 2015. The case was not appealed, and all matters with respect thereto have been resolved in favor of the District.

DEBT STRUCTURE

Outstanding Indebtedness. The principal categories of indebtedness that the District is authorized to incur are commercial bonds (offered at public sale on competitive bids), revolving loan bonds and certificates of indebtedness (representing loans from the State Department of Education), installment contracts (payable in subsequent fiscal years) and postdated warrants (warrants drawn in one fiscal year for payment in a subsequent fiscal year). In addition, the District is authorized to lease property from the owner under lease agreements giving the District the option to purchase the property leased. Commercial bonds and revolving loan indebtedness are payable from debt service tax revenues. Installment contracts, postdated warrants and lease-purchase obligations are payable from maintenance and operation tax revenues.

The present outstanding debt of the District is as follows:

COMMERCIAL BONDS

<u>Date of Obligations</u>	<u>Maturity Date</u>	<u>Principal Amount Outstanding</u>	<u>Mills Pledged</u>
February 15, 2010	February 1, 2032	\$14,045,000	Continuation of 14.0
October 1, 2010	February 1, 2019	\$830,000	0.92
October 15, 2010	February 1, 2035	\$11,295,000	0.8 plus continuation of 14.0
January 1, 2011	February 1, 2032	\$16,145,000	Continuation of 14.0
April 1, 2012	February 1, 2035	\$21,860,000	0.8 plus continuation of 14.0
November 1, 2012	February 1, 2035	\$3,690,000	Surplus
September 1, 2015	February 1, 2035	\$69,705,000	Surplus
October 15, 2015	February 1, 2035	\$55,975,000	Surplus

REVOLVING LOAN BONDS AND/OR CERTIFICATES OF INDEBTEDNESS

None.

POST-DATED WARRANTS-CONTRACTS

None.

INSTALLMENT CONTRACTS

None.

LEASE-PURCHASE OBLIGATIONS

<u>Date of Lease-Purchase Agreement</u>	<u>Type of Property</u>	<u>End of Term</u>	<u>Principal Amount Outstanding</u>
February 23, 2011	Equipment	March 24, 2016	\$355,656.85
February 14, 2011	Equipment	February 14, 2016	\$63,367.65

Parity Debt. The District has not reserved the right to issue additional bonds on a parity of security with the outstanding debt listed above.

Debt Ratio. The ratio of outstanding debt after issuance of these Bonds (\$193,964,024.50) to current assessed valuation (\$2,736,625,810) will be 7.09%.

Computation of Dollar Amount of Debt Service Tax Levied. The most recent county-wide reassessment of taxable property was completed in Pulaski County in 2012. **The next county-wide reassessment is scheduled to be completed in 2017.** The most recent county-wide reassessment for Saline County was completed in 2012, for Lonoke County in 2011 and for Faulkner County in 2011. The next county-wide reassessments are scheduled for Saline County in 2017, for Lonoke County in 2016 and for Faulkner County in 2016. For purposes of Amendment 59, the year in which the reassessment is completed is known as the “Base Year”. For a general discussion of the reassessment requirement and its effect on assessed value and tax rates, see **FINANCIAL INFORMATION, Constitutional Amendment No. 59**, infra.

Constitutional Amendment No. 79 provides for an annual state credit against ad valorem property tax on a homestead in an amount not less than \$300. Effective with the assessment year 2007, the amount of the credit was increased to \$350. The tax reduction is reflected on the tax bill sent to the property owner by the county collector. Amendment No. 79 provides that the credit shall be applied in a manner that would not impair a bondholder’s interest in ad valorem debt service revenue. In addition, Amendment No. 79 provides that the “General Assembly shall, by law, provide for procedures to be followed with respect to adjusting ad valorem taxes or millage pledged for bonded indebted purposes, to assure that the tax or millage levied for bonded indebtedness purposes will, at all times, provide a level of income sufficient to meet the current requirements of all principal, interest, paying agent fees, reserves, and other requirements of the bond indenture.”

Pursuant to Act 1492 of 1999, the taxing units within the county are entitled to reimbursement of the reduction from the annual state credit. However, questions were raised concerning the constitutionality of Act 1492. On December 14, 2000, the Governor of the State called a special legislative session to head off potential lawsuits challenging Act 1492. As a result, House Bill 1002 was passed by both the House and Senate and signed by the Governor.

Under Act 1492 and House Bill 1002, the state sales tax increased from 4.625% to 5.125%. The purpose of the legislation is to raise revenues that the State sends back to school districts to replace the money lost as a result of the state credit. Therefore, for purposes of calculating projected revenues available for debt service discussed below, the District has assumed that it will receive debt service revenues equal to the debt service revenues it would have received prior to the adoption of Amendment No. 79.

The debt service tax levied for collection in 2015 for use in the 2015-2016 school year and thereafter, has been computed by multiplying the 2014 assessment (\$2,736,625,810) by the number of debt service mills (14.8 mills).

For purposes of calculating revenues available for debt service, it has also been assumed that the assessed value of all property in the District will remain the same, without increase or decrease. On this basis, the total debt service tax levied in each year will be as shown under Debt Service Schedule and Coverage, below.

Debt Service Schedule and Coverage. For purposes of the following table, it is assumed that the assumptions made in the Section hereof titled Computation of Dollar Amount of Debt Service Tax Levied are accurate and that the annual rate of tax collections in each year will be 100% (see **FINANCIAL INFORMATION, Collection of Taxes**, for the actual historical rate of collection). On this basis, the annual debt service requirements for previously issued bonds and these Bonds, the revenues available for debt service and coverage are as follows:

Fiscal Year	Total Principal & Interest of Previously Issued Bonds	Total Principal & Interest of These Bonds	Total Principal & Interest of all Outstanding Bonds	Total Revenues Available for Debt Service	Coverage
2016	\$8,856,192.61	\$515,857.47	\$9,372,050.08	\$40,502,062	4.32
2017	6,917,232.52	4,011,968.76	10,929,201.28	40,502,062	3.71
2018	7,281,902.52	3,994,168.76	11,276,071.28	40,502,062	3.59
2019	9,180,117.52	3,969,868.76	13,149,986.28	40,502,062	3.08
2020	10,347,200.02	3,944,218.76	14,291,418.78	40,502,062	2.83
2021	10,341,093.76	3,947,218.76	14,288,312.52	40,502,062	2.83
2022	10,338,143.76	3,942,968.76	14,281,112.52	40,502,062	2.84
2023	10,348,541.26	3,946,618.76	14,295,160.02	40,502,062	2.83
2024	10,355,615.02	3,942,868.76	14,298,483.78	40,502,062	2.83
2025	10,349,752.52	3,946,868.76	14,296,621.28	40,502,062	2.83
2026	10,365,103.78	3,948,318.76	14,313,422.54	40,502,062	2.83
2027	10,370,260.02	3,952,218.76	14,322,478.78	40,502,062	2.83
2028	10,378,397.52	3,958,418.76	14,336,816.28	40,502,062	2.83
2029	10,385,516.28	3,971,768.76	14,357,285.04	40,502,062	2.82

2030	10,390,018.78	3,986,968.76	14,376,987.54	40,502,062	2.82
2031	10,392,006.28	3,995,693.76	14,387,700.04	40,502,062	2.82
2032	10,399,756.26	4,005,681.26	14,405,437.52	40,502,062	2.81
2033	9,870,106.26	4,021,768.76	13,891,875.02	40,502,062	2.92
2034	9,887,668.76	4,034,087.50	13,921,756.26	40,502,062	2.91
2035	9,905,575.00	4,046,850.00	13,952,425.00	40,502,062	2.90

Pledge of State Aid. A.C.A. §6-20-1204 provides that the State Board of Education shall cure any delinquencies in payment on any school bond by withholding state aid that is available and due the District. If the Trustee does not receive payment when due pursuant to the Resolution, the Trustee is entitled to payment from the withheld state aid in any amount sufficient to cure the payment deficiency. **The unencumbered amount of state aid that may be intercepted by the State Board of Education for purposes of making debt service payments is unclear. It is also unclear whether revenues produced by the Uniform Rate of Tax may be intercepted. Amendment No. 74 provides that revenues from the Uniform Rate of Tax distributed to the school districts shall be used solely for maintenance and operation of schools. The phrase “maintenance and operation” has not been defined.**

Uniform Rate of Tax. Amendment No. 74 establishes a statewide 25-mill property tax minimum for maintenance and operation of the public schools (the “Uniform Rate of Tax”). The Uniform Rate of Tax replaces that portion of local school district ad valorem taxes available for maintenance and operation of schools. The method for calculating the portion of the local tax that will be replaced by the Uniform Rate of Tax is set forth in §26-80-204(18). On November 21, 2002, the Arkansas Supreme Court held that §26-80-204(18)(c), which deals with excess debt service mills being utilized to meet the Uniform Rate of Tax, violates Amendment No. 74 of the Arkansas Constitution and is void and of no effect.

Defaults. No debt obligations of the District have been in default as to principal or interest payments or in any other material respect at any time in the last 25 years.

THE RESOLUTION

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

Bond Fund. The pledged revenues will be deposited into a Bond Fund that will be held by, or under the direction of, the District. Moneys in the Bond Fund will be used solely for the payment of principal of, interest on and Trustee’s fees in connection with the Bonds, except as otherwise specifically provided in the Resolution. Any surplus of the pledged revenues over and above the amount necessary to insure the payment as due of principal of, interest on and Trustee’s fees in connection with the Bonds will be released from the pledge and may be withdrawn from the Bond Fund and used for other school purposes. The Treasurer of the District will withdraw from the Bond Fund and deposit with the trustee, on or before the maturity date of any Bond, on or before each interest payment date and on or before the due date of any trustee fees, moneys in an amount equal to the amount of such Bonds or interest, or Trustee’s

fees, for the sole purpose of paying the same, and the Trustee shall apply such moneys for such purpose.

Deposit of Sale Proceeds. The Bonds will be delivered to the Trustee upon payment by the purchaser of the Bonds in cash of the purchase price, plus accrued interest from the date of the Bonds to the date of delivery (“total sale proceeds”). The accrued interest, if any, will be deposited in the Bond Fund. The balance of the total sale proceeds will be deposited in the Construction Fund created by the Resolution (the “Construction Fund”). Amounts in the Construction Fund will be disbursed for costs and expenses of the Project upon filing in the official records pertaining to said Fund of a certificate of the District setting forth the information provided for in the Resolution.

Investments.

(a) The District may, from time to time invest moneys held for the credit of the Construction Fund in Authorized Investments or in bank certificates of deposit.

(b) The District may, from time to time, invest moneys held for the credit of the Bond Fund in Authorized Investments or in bank certificates of deposit the principal of and interest on which are fully insured by the Federal Deposit Insurance Corporation.

(c) Investments shall remain a part of the Fund from which the investment was made. All earnings and profits from investments shall be credited to and all losses charged against, the Fund from which the investment was made.

(d) The term “Authorized Investments” means direct obligations of the United States of America or obligations the principal of and interest on which are fully guaranteed by the United States of America or units of participation in a common trust fund created pursuant to the Local Government Joint Investment Trust Act (Subchapter 3 of Chapter 8, Title 19, Arkansas Code of 1987 Annotated).

Trustee. The Trustee was designated by the Underwriter.

The Trustee shall only be responsible for the exercise of good faith and reasonable prudence in the execution of its trust. The Trustee is not required to take any action for the protection of Bondholders unless it has been requested to do so in writing by the holders of not less than 10% in principal amount of the Bonds then outstanding and offered reasonable security and indemnity against the cost, expenses and liabilities to be incurred therein or thereby.

The Trustee may resign by giving notice in writing to the Secretary of the Board of Directors. Such resignation shall be effective upon the appointment of a successor Trustee by the District and acceptance of appointment by the successor. If the District fails to appoint a successor Trustee within 30 days of receiving notice of resignation, the Trustee may apply to a court of competent jurisdiction for appointment of a successor. The holders of a majority in principal amount of outstanding Bonds may at any time, with or without cause, remove the Trustee and appoint a successor Trustee.

Modification of Terms of Bonds. The terms of the Bonds and the Resolution will constitute a contract between the District and the registered owners of the Bonds. The owners of not less than 75% in aggregate principal amount of the Bonds then outstanding have the right, from time to time, to consent to the adoption by the Commissioner or the District of resolutions modifying any of the terms or provisions contained in the bonds or the Resolution; provided, however, there shall not be permitted (a) any extension of the maturity of the principal of or 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 any additional pledge on the revenues pledged to the Bonds other than as authorized in the Resolution, 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 such consent.

Defeasance. When all of the Bonds shall have been paid or deemed paid, the pledge in favor of the Bonds (see **BONDS BEING OFFERED**, Security and Source of Payment, supra) shall be discharged and satisfied. A Bond shall be deemed paid when there shall have been deposited in trust with the Trustee or with another bank or trust company (which other bank or trust company must be a member of the Federal Reserve System), as escrow agent under an escrow deposit agreement requiring the escrow agent to apply the proceeds of the deposit to pay the principal of and interest on the Bond as due at maturity or upon redemption prior to maturity, moneys or Government Securities sufficient to pay when due the principal of and interest on the bond. If the principal of the Bond is to become due by redemption prior to maturity, notice of such redemption must have been duly given or provided for. "Government Securities" shall mean direct or fully guaranteed obligations of the United States of America, noncallable, maturing on or prior to the maturity or redemption date of the bond. In determining the sufficiency of a deposit there shall be considered the principal amount of such Government Securities and interest to be earned thereon until their maturity.

Defaults and Remedies. If there is any default in the payment of the principal of or interest on any Bond, or if the District defaults in the performance of any other covenant in the Resolution, the Trustee may, and upon the written request of the owners of not less than 10% in principal amount of the Bonds then outstanding shall, by proper suit compel the performance of the duties of the officials of the District under the Constitution and laws of the State of Arkansas and under the Resolution and protect and enforce the rights of the owners by instituting appropriate proceedings at law or in equity or by other action deemed necessary or desirable by the Trustee. If any default in the payment of principal or interest continues for 30 days the Trustee may, and upon the request of the owners of not less than 10% in principal amount of the then outstanding Bonds shall, declare all outstanding Bonds immediately due and payable together with accrued interest thereon.

No owner of any bond 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 right under the Bonds or the Resolution or under the Constitution and laws of the State of Arkansas, unless such owner previously shall have given written notice to the Trustee of the default, and unless the owners of not less than 10% in principal amount of the then outstanding Bonds shall have made written request of the Trustee to take action, shall have afforded the Trustee a reasonable opportunity to take such action, and shall have offered to the Trustee reasonable security and indemnity against the cost, expenses and liabilities to be incurred and the Trustee shall have

refused or neglected to comply with such request within a reasonable time. No one or more owners of the Bonds shall have any right in any manner by his or their action to affect, disturb or prejudice the security of the Resolution, or to enforce any right thereunder except in the manner provided in the Resolution. All proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Resolution and for the benefit of all owners of outstanding Bonds. Any individual rights of action are restricted by the Resolution to the rights and remedies therein provided. Nothing shall, however, affect or impair the right of any owner to enforce the payment of the principal of and interest on any bond at and after the maturity thereof.

Action may be taken by the Trustee without possession of any bond, and any such action shall be brought in the name of the Trustee and for the benefits of all the owners of bonds.

No delay or omission of the Trustee or any owner of a bond to exercise any right or power accrued upon any default shall impair any such right or power or be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given to the Trustee and to the owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

The Trustee may, and upon the written request of the owners of not less than 10% in principal amount of the Bonds then outstanding shall, waive any default that shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding or before the completion of the enforcement of any other remedy. No such waiver shall extend to or affect any other existing or subsequent default or defaults or impair any rights or remedies consequent thereon.

There is no requirement that the District furnish periodic evidence as to the absence of default or as to the compliance with the terms of the Bonds, the Resolution or law.

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FINANCIAL INFORMATION

Sources and Uses of Funds. The following combined summary of Revenues, Expenditures, and Fund Balances of the District is taken from the District's 2014, 2013 and 2012 audits. For complete information concerning the District, please review the actual Audits at www.legaudit.state.ar.us.

	<u>Year Ending June 30</u>		
<u>REVENUES</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Property taxes (including property tax relief trust distribution)	\$88,984,944	\$85,540,513	\$98,950,918
State assistance	80,198,270	79,855,036	79,236,724
Federal assistance	470,169	543,311	255,909
Activity revenues	1,996,861	2,151,516	2,302,693
Investment income	79,226	96,859	26,205
Other revenues	<u>1,690,233</u>	<u>1,460,389</u>	<u>1,433,330</u>
TOTAL REVENUES	\$173,419,703	\$169,647,624	\$182,205,779
<u>EXPENDITURES</u>			
Regular programs	62,177,792	59,726,379	66,246,997
Special education	14,455,609	14,371,786	15,808,718
Career education	4,351,519	4,212,848	5,016,121
Adult/continuing education programs	948,399	846,389	820,543
Compensatory education	3,355,191	3,626,831	4,574,995
Other instructional programs	6,473,578	5,416,040	6,380,595
Support services	70,947,243	67,831,228	65,261,828
Community service	421,296	23,427	340
Non-programmed costs	3,119,952	3,033,221	4,011,230
Activity expenditures	2,021,191	2,179,752	2,329,414
Facilities acquisition and construction services	531,940	226,797	119,891
Principal retirement	88,164	105,472	16,171
Interest and fiscal charges	<u>9,954</u>	<u>24,757</u>	<u>61,104</u>
TOTAL EXPENDITURES	<u>\$168,901,828</u>	<u>\$161,624,927</u>	<u>\$170,647,947</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,517,875	8,022,697	11,557,832
OTHER FINANCING SOURCES (USES)	<u>(4,186,278)</u>	<u>(4,351,230)</u>	<u>70,168</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	331,597	3,671,467	11,628,000
FUND BALANCE, BEGINNING OF YEAR	<u>18,410,049</u>	<u>14,738,582</u>	<u>3,110,582</u>
FUND BALANCE END OF YEAR	\$18,741,646	\$18,410,049	\$14,738,582

Collection of Taxes. Tax collections of the ad valorem tax levied by the District are shown in the following table. School taxes voted at the school election are collected in the next calendar year and normally received by and used by the District during the school fiscal year beginning in such calendar year.

<u>School Year</u>	<u>Tax Levied</u>	<u>Tax Collected</u>	RATE OF COLLECTIONS
			<u>(Net of Collection Fees)</u>
2013-14	\$102,789,440	\$100,919,336	98.18%
2012-13	100,449,192	96,903,298	96.47%
2011-12	95,739,872	108,138,909	112.95%
2010-11	93,727,150	88,503,708	94.42%
2009-10	94,435,479	84,314,018	89.28%

5-year average rate of collections: 98.28 %

Overlapping Ad Valorem Taxes. The ad valorem taxing entities in the State of Arkansas are municipalities, counties, school districts and community college districts. All taxable property located within the boundaries of a taxing entity is subject to taxation by that entity. Thus property within the District is also subject to county ad valorem taxes. Property located within a municipality and/or within a community college district is also subject to taxation by that entity or entities. The ad valorem tax entities whose boundaries overlap the District and their real estate ad valorem tax rates are:

<u>Name of Overlapping Entity</u>	<u>Total Tax Rate (in mills)</u>
Pulaski County	10.1
City of Little Rock	15.2
City of North Little Rock	10.0
City of Jacksonville*	3.0
City of Wrightsville	5.0
City of Maumelle	13.7
Town of Alexander	5.0
Faulkner County	8.3
Saline County	9.7
City of Sherwood	1.3
Lonoke County	6.4

* Upon detachment of the JNPSD, the City of Jacksonville will not longer be within the boundaries of the District.

Assessment of Property and Collection of Property Taxes.

(a) Under Amendment No. 59 to the Arkansas Constitution, all property is subject to taxation except for the following exempt categories: (i) public property used exclusively for public purposes; (ii) churches used as such; (iii) cemeteries used exclusively as such; (iv) school

buildings and apparatus; (v) libraries and grounds used exclusively for school purposes; (vi) buildings, grounds and materials used exclusively for public charity; and (vii) intangible personal property to the extent the General Assembly has exempted it from taxation, provided that it be taxed at a lower rate, or provided for its taxation on a basis other than ad valorem. Amendment No. 59 also authorizes the General Assembly to exempt from taxation the first \$20,000 of value of a homestead of a taxpayer 65 years of age or older.

Amendment No. 59 provides that, except as otherwise provided therein in connection with the transition period following a county-wide reassessment (see Constitutional Amendment Nos. 59 and 79, *infra*), (1) residential property used solely as the principal place of residence of the owner shall be assessed in accordance with its value as a residence, (2) land (but not improvements thereon) used primarily for agricultural, pasture, timber, residential and commercial purposes shall be assessed upon the basis of its value for such use, and (3) all other real and tangible personal property subject to taxation shall be assessed according to its value (the Arkansas Supreme Court has held that the unqualified word “value,” as used in a prior, substantially identical, constitutional provision, means “current market value”).

(b) Property owned by public utilities and common carriers and “used and/or held for use in the operation of the company . . .” is assessed for tax purposes by the Tax Division of the Arkansas Public Service Commission. A.C.A. § 26-26-1605 (Repl. 2012) provides that the Tax Division “shall assess the property at its true and full market or actual value” and that all utility property of a company, whether located within or without the State of Arkansas, is to be valued as a unit. Annually, the company files a report with the Tax Division. The Tax Division reviews these reports, along with other reports (such as reports to shareholders, the Federal Communications Commission, the Federal Energy Regulatory Commission and the Interstate Commerce Commission), to determine the value of the property. Valuation is currently made on the basis of a formula, as set forth in A.C.A. § 26-26-1607 (Repl. 2012), with consideration given to (i) original cost less depreciation, replacement cost less depreciation or reconstruction cost less depreciation; (ii) market value of capital stock and funded debt; and (iii) capitalization of income. As provided in A.C.A. § 26-26-1611 (Repl. 2012), once the value of a company’s property as a unit is determined, the Tax Division removes the value allocable to out-of-state property and assigns the remainder among Arkansas taxing units on the basis of value within each jurisdiction. The Tax Division certifies the assessment to the county assessor who enters the assessment as certified on the county assessment roll. County officials have no authority to change such assessment. See **LEGAL MATTERS**, Legal Proceedings.

All other property is assessed by the elected assessor of each Arkansas county (or other official or officials designated by law). This includes both real and tangible personal property. Amendment No. 79 to the Arkansas Constitution requires each county to appraise all market value real estate normally assessed by the county assessor at its full and fair value at a minimum of once every five (5) years.

(c) Amendment No. 79 requires the county assessor (or other official or officials designated by law), after each county-wide reappraisal, to compare the assessed value of each parcel of real property reappraised or reassessed to the prior year’s assessed value. If the assessed value of the parcel increased, then the assessed value of that parcel must be adjusted as provided below.

Subject to subsection (e) below, if the parcel is not the homestead and principal place of residence (“homestead”) of a taxpayer, then any increase in the assessed value in the first year after reappraisal cannot be greater than 10% (or 5% if the parcel is the taxpayer’s homestead) of the assessed value for the previous year. For each year thereafter, the assessed value shall increase by an additional 10% (or 5% if the parcel is the taxpayer’s homestead) of the assessed value for the year preceding the first assessment resulting from reappraisal; however, the increase cannot exceed the assessed value determined by the reappraisal prior to adjustment under Amendment No. 79.

For property owned by public utilities and common carriers, any annual increase in the assessed value cannot exceed more than 10% of the assessed value for the previous year. The provisions of this subsection (c) do not apply to newly discovered real property, new construction or substantial improvements to real property.

(d) If a homestead is purchased or constructed on or after January 1, 2001 by a disabled person or by a person over age 65, then that parcel will be assessed based on the lower of the assessed value as of the date of purchase (or construction) or a later assessed value. If a person is disabled or is at least 65 years of age and owns a homestead on January 1, 2001, then the homestead will be assessed based on the lower of the assessed value on January 1, 2001 or a later assessed value. When a person becomes disabled or reaches age 65 on or after January 1, 2001, that person’s homestead should thereafter be assessed based on the lower of the assessed value on the person’s 65th birthday, on the date the person becomes disabled or a later assessed value. This subsection (d) does not apply to substantial improvements to real property. For real property subject to subsection (e) below, the applicable date in this subsection (d), in lieu of January 1, 2001, is January 1 of the year following the completion of the adjustments to assessed value required in subsection (e).

(e) If, however, there has been no county-wide reappraisal and resulting assessed value of property between January 1, 1986 and December 1, 2000, then real property in that county is adjusted differently. In that case, the assessor (or other official or officials designated by law) compares the assessed value of each parcel to the assessed value of the parcel for the previous year. If the assessed value of the parcel increases, then the assessed value of the parcel for the year in which the parcel is reappraised or reassessed is adjusted by adding one-third (1/3) of the increase to the assessed value for the year prior to appraisal or reassessment. An additional one-third (1/3) of the increase is added in each of the next two (2) years.

The adjustment contemplated by subsection (e) does not apply to the property of public utilities or common carriers. No adjustment will be made for newly discovered real property, new construction or substantial improvements to real property.

(f) Property is currently assessed in an amount equal to 20% of its value. The percentage can be increased or decreased by the General Assembly.

The total of the millage levied by each taxing entity (municipalities, counties, school districts and community college districts) in which the property is located is applied against the assessed value to determine the tax owed. The assessed value of taxable property is revised each year and the total millage levied in that calendar year is applied against the assessed value for the

calendar year. Assessed value for each year is determined as of January 1 of that year. Tangible personal property, including automobiles, initially acquired after January 1 and before June 1 is required to be assessed in the year of acquisition. Otherwise, only property owned by a taxpayer on January 1 is assessed for that calendar year.

The total taxes levied by all taxing authorities are collected together by the county collector of the county in which the property is located in the calendar year immediately following the year in which levied. Taxes are due and payable between the third Monday in February and October 10. Taxes not paid by October 10 are delinquent and subject to a 10% penalty. Real estate as to which taxes are delinquent for two successive years is certified to the State Land Commissioner, who offers the property for sale. The proceeds of such sale are distributed among the taxing authorities. Delinquent real property may be redeemed by the taxpayer within two years of the delinquency. Delinquent personal property taxes may be collected by distraint and public sale of the taxpayer's property.

Constitutional Amendment Affecting Personal Property Taxes. At the 1992 general election, a Constitutional amendment was approved that exempts from all personal property taxes items of household furniture and furnishings, clothing, appliances and other personal property used within the home. The effective date of the amendment was January 1, 1993.

Constitutional Amendment Nos. 59 and 79. Prior to the adoption of Amendment No. 59 to the Arkansas Constitution, the Constitution mandated that:

“All property subject to taxation shall be taxed according to its value, that value to be ascertained in such manner as the General Assembly shall direct, making the same equal and uniform throughout the State. No one species of property from which a tax may be collected shall be taxed higher than other species of property of equal value. . . .”

In the case of *Arkansas Public Service Commission v. Pulaski County Board of Equalization*, 266 Ark. 64, 582 S.W.2d 942 (June 25, 1979), the Supreme Court of Arkansas held that the then current assessment process, as prescribed by certain legislation and administrative regulations, was in violation of the Constitutional mandate in that (1) it provided for the assessment of certain property on the basis of “use value” as opposed to market value, (2) it did not provide for equal and uniform assessments throughout the State and (3) it provided for assessments based on past, as opposed to current, market values. The Court ordered a statewide reassessment to bring the assessments into conformity with the constitutional requirements. It was provided that the reassessment would be completed over a five year period, with 15 of the 75 counties in the State to be reassessed each year. The reassessment was accomplished in calendar years 1981 through 1985.

Legislative studies indicated that the effect of the Court-ordered reassessment would be to substantially increase real estate assessments in most or all counties of the State, with the result being, if tax rates remained the same, to substantially increase real estate taxes. The Arkansas General Assembly submitted to the electors of the State a proposed Constitutional amendment designed to prevent the substantial tax increase that would otherwise result from the

reassessment. The proposed Amendment was approved at the 1980 General Election and is now Amendment No. 59 to the Arkansas Constitution.

At the 2000 general election, Constitutional Amendment No. 79 was adopted by a majority of the voters and went into effect on January 1, 2001. Among other things, Amendment No. 79 allows for an annual state credit against ad valorem property tax on a homestead in the amount of not less than \$300. The credit must not be applied in a manner that would impair a bondholder's interest in ad valorem debt service revenues.

Amendment No. 59 provides that whenever a county-wide reassessment results in an increase of assessed value of 10% or more, the tax rate of each taxing unit on property located in that county is to be adjusted as provided in the Amendment. The year in which the reassessment is completed is designated the "Base Year". The assessed valuation for the Base Year is based on the reassessment. Amendment No. 79 requires that rollback adjustments under Amendment No. 59 be determined after the adjustments are made to assessed value under Amendment No. 79. See **FINANCIAL INFORMATION, Assessment of Property and Collection of Property Taxes.**

The tax rate applicable to other real property is computed by (1) deducting from the Base Year assessed value of the real estate the assessed value of newly-discovered real estate and new construction and improvements to real property to arrive at the reassessed value of previously assessed real property, (2) determining the tax rate necessary to produce from the previously assessed real property (on the basis of the Base Year assessment) the same amount of revenues produced from such property in the Base Year (on the basis of the last previous assessed value and the tax rate applicable to collections in the Base Year), and (3) either (a) fixing the tax rate determined in (2) as the tax rate for the real property, including newly-discovered real property and new construction and improvements to real estate, or (b) if the tax rate so fixed would produce less than 110% of the revenues from real estate produced in the Base Year, increasing the tax rate in an amount sufficient to produce such 110% of revenues.

The General Assembly, in Act No. 848 of 1981, implemented the procedures of Amendment No. 59. A.C.A. § 26-26-404 (Repl. 2012), provides that the computation is to be made separately for each tax source or millage levy (in the case of the school districts this would require separate computations for operation and maintenance millage and debt service millage), with the new tax rate for each millage levy to be rounded up to the nearest 1/10 mill. In the case of debt service millage, the tax rate as so adjusted will continue as the continuing annual tax rate until retirement of the bonds to which pledged. The adjusted rate for operation and maintenance millage would be subject to change at each annual school election in accordance with law.

Amendment No. 79 provides that the tax rate for personal property and property of public utilities and regulated carriers should be the same as that for real property. Personal property rates currently not equal to real property rates should be reduced to the level of the real property rate unless a higher rate is "necessary to provide a level of income sufficient to meet the current requirements of all principal, interest, paying agent fees, reserves, and other requirements" of a bond issue.

Amendment No. 59 contains the following specific provision in regard to debt service millage:

“The General Assembly shall, by law, provide for procedures to be followed with respect to adjusting ad valorem taxes or millage pledged for bonded indebtedness purposes, to assure that the adjusted or rolled-back rate of tax or millage levied for bonded indebtedness purposes will, at all times, provide a level of income sufficient to meet the current requirements of all principal, interest, Paying Agent’s fees, reserves, and other requirements of the bond indenture.”

A.C.A. § 26-26-402(b) (Repl. 2012) provides:

“If it is determined that the adjustment or rollback of millages as provided for herein will render income from millages pledged to secure any bonded indebtedness insufficient to meet the current requirements of all principal, interest, paying agent fees, reserves and other requirements of a bond indenture any such pledged millage shall be rolled back or adjusted only to a level that will produce at least a level of income sufficient to meet the current requirements of all principal, interest, paying agent fees, reserves, and other requirements of the bond indenture.”

If the assessed value of all classes of taxable property located in a school district remain at the same level, without increase or decrease, and the total school tax rates applicable to real and personal property remain constant, then the annual revenues derived from taxable real and personal property will be the same in each year. This would be true of annual revenues available for debt service on bonds, as well as other annual revenues of the district.

Major Taxpayers. For 2014 taxes levied for collection in 2015 (based on the 2014 assessed valuation), there were no taxpayers paying more than five percent of the total school district tax.

LEGAL MATTERS

Litigation Over State Funding for Schools. In an Order issued November 9, 1994, the Honorable Annabelle C. Imber held that the existing state funding system for public education violated the equal protection provision of the Arkansas Constitution and violated Article 14, § 1 of the Arkansas Constitution by “failing to provide a general, suitable and efficient system of free public education.” *Lake View School Dist. No. 25 of Phillips County, Arkansas v. Jim Guy Tucker*, Case No. 92-5318 (1994). Judge Imber stayed the effect of her judgment for two years to allow the General Assembly to adopt and implement legislation consistent with her Order. The case was appealed to the Arkansas Supreme Court. The Supreme Court remanded the case to the Chancery Court to determine whether the system of public school finance was in compliance with Judge Imber’s original Order and whether the amount of funding was sufficient to provide all Arkansas students with an adequate education. On May 25, 2001, the Chancery Court ruled that the system of school funding (which includes the levy of local ad valorem property taxes) was inequitable and inadequate under the Arkansas Constitution. On November 21, 2002, the Arkansas Supreme Court affirmed the Chancery Court and held the school funding system unconstitutional. To allow the General Assembly and the Department of Education time to correct the constitutional disability, the Court stayed the issuance of its mandate until January 1, 2004. On January 2, 2004, the Lake View School District, the lead

Class Member, filed a Motion for Writ of Prohibition, requesting that the Supreme Court prohibit the State from spending money until the State corrected the unconstitutional school system. The Class Member also requested that all funds appropriated by the State for the purpose of supporting the school system be held in escrow until the unconstitutional system was corrected. On January 22, 2004, the Supreme Court issued an opinion recalling its mandate and ruling that there had not been compliance with its November 21, 2002 opinion. The Court appointed two special masters charged with the responsibility of evaluating legislative actions regarding school finance. The masters issued their report on April 2, 2004. The Court, on June 18, 2004, released jurisdiction of the case. On April 14, 2005, the Rogers School District asked the Court to reopen the *Lake View* case, arguing that lawmakers “reverted back to their old ways” and had failed to follow the Court’s mandate to fund public education adequately. The Rogers School District maintained that the Arkansas General Assembly had not increased foundation funding as it had promised in the extraordinary session of 2004. On April 25, 2005, four additional petitions were filed with the Court by a combined 46 districts asking the Court to reopen the *Lake View* case. On June 9, 2005, the Court once again reopened the case and reappointed the two special masters to assess whether the Governor and the General Assembly had complied with the *Lake View* ruling. On October 3, 2005, the masters issued their findings and concluded that the General Assembly had not complied with the *Lake View* ruling and had not made education the State’s first priority. The Supreme Court agreed with the masters and held that the General Assembly had retreated from its prior actions to comply with the Court’s directives in *Lake View* and that the public school funding system continued to be inadequate. The Supreme Court further held that the public schools were operating under a constitutional infirmity which must be corrected immediately. The Court stayed the issuance of its mandate until December 1, 2006 to allow the necessary time to correct the constitutional deficiencies. In April 2006, the General Assembly met in special session to address some of the Court’s concerns. The General Assembly appropriated more money to the State Department of Education for public school operation and school buildings. The General Assembly, among other things, also increased per-student funding and the minimum teacher salary schedule. On December 1, 2006, the Supreme Court ruled that it would keep jurisdiction over the case and reappointed the two special masters to evaluate whether the State met the constitutional requirements of an adequate and equitable education system. The Court delayed the case deadline for 180 days to give the State time to provide documents, the masters time to evaluate the State’s actions and the Court time to rule. **On May 31, 2007, the Court concluded that the system of public school financing had attained constitutional compliance.**

Amendment 74. At the 1996 general election, a Constitutional Amendment was passed (“Amendment No. 74”), which establishes a statewide 25-mill property tax minimum for maintenance and operation of the public schools (the “Uniform Rate of Tax”). The Uniform Rate of Tax replaced that portion of local school district ad valorem taxes available for maintenance and operation. The Uniform Rate of Tax is to be collected in the same manner as other school property taxes, but the revenues generated from the Uniform Rate of Tax are remitted to the State Treasurer for distribution to the school districts. The method for distributing the state aid back to the individual school districts, and the authorized uses of the state aid once received by the school districts are set forth in Act 1300 of 1997.

District Litigation.

Historical Background before 2013

There were three school districts in Pulaski County. (When the JNPSD becomes fully operational on July 1, 2016, this number will change to four). The Little Rock School District (“LRSD”) encompasses most of the City of Little Rock. The North Little Rock School District (“NLRSD”) encompasses most of the City of North Little Rock. The District includes all of Pulaski County not located in one of the other two districts and will no longer include the territory detached to the JNPSD upon the effective date of the detachment.

On November 30, 1982, the LRSD filed suit in the United States District Court for the Eastern District of Arkansas, seeking a court-ordered consolidation of the three districts as a desegregation remedy. On November 19, 1984, the District Court entered its order directing the consolidation of the three districts. On appeal, the United States Court of Appeals for the Eighth Circuit reversed. The Court of Appeals held the remedy too drastic, and remanded the case to the District Court. As a result of further proceedings before the District Court and the Court of Appeals, the boundaries of the NLRSD were left intact and the boundaries of the other two districts were adjusted as of July 1, 1987, when an area in east Little Rock known as the Granite Mountain Area was transferred from the LRSD to the District and the remainder of the City of Little Rock (as of June 19, 1986) became a part of the LRSD. The District Court retained jurisdiction for additional monitoring, although the LRSD was released from federal court oversight on April 2, 2009, and the NLRSD was released on February 21, 2012.

On March 3, 1989, all of the parties to the litigation entered into a written settlement agreement and released one another. The financial provisions of this Agreement were funded primarily by the State. While the State discharged the provisions requiring a certain series of payments to the District that began in 1989-1990, those provisions of the 1989 Settlement Agreement requiring expenditure of funds for magnet schools and majority to minority transfers remained in effect. Indeed, for the last biennium of the 1989 Settlement Agreement, the State appropriated approximately \$70,000,000 annually for various payments to the three districts located in Pulaski County. The continuation of these proved to be a matter of great concern to the Arkansas Legislature which resulted, in part, in the enactment of Act 2126 of 2005.

The District Court approved 1989 Settlement Agreement included six magnet schools (four elementary, one junior high and one high school), each emphasizing a special theme (math and science, arts, international studies, etc.) and designed to be especially attractive to white students and assist in the goal of obtaining a proportionate racial balance in the student population in Pulaski County. The magnet schools are located within and operated by the LRSD, but are attended by volunteer students from all three districts. The District Court ordered that the State of Arkansas pay one-half of the costs related to the magnet schools and that the other half be shared by the three school districts. In the case of capital costs (including debt service on bonds issued to finance capital costs), the one-half of the costs to be paid locally were allocated among the three districts. The allocation varied from school to school, but the average allocation to the District was 30% of the local one-half of the capital costs (15% of the total). In the case of costs of operating and maintaining a magnet school, the local one-half was allocated based on actual enrollment by students from the three districts.

On May 19, 2011, Judge Miller abruptly ordered an end to the magnet school funding as well as the funding for magnet transportation and teacher retirement and health insurance. These sums represented a substantial portion of the \$70,000,000 annual appropriation.

In the same order, Judge Miller gave the parties 30 days to brief the issue of why he should not end the majority to minority funding and the transportation for those students.

The three districts unsuccessfully sought a stay from Judge Miller's order. The matter was then appealed by the LRSD to the United States Court of Appeals for the Eighth Circuit on May 23, 2011, which stayed the effect of Judge Miller's order.

Thereafter, the issue was briefed, oral argument was held on September 19, 2011, and the Court of Appeals issued its decision on December 28, 2011. As part of its opinion, the Court of Appeals vacated Judge Miller's order and directed that the issue be decided by the District Court after the State of Arkansas filed a motion seeking to end this stream of payments.

As part of the same appeals process, the District appealed Judge Miller's denial of unitary status in the areas of: (1) student achievement, (2) advanced placement, gifted and talented, and honors programs, (3) discipline, (4) school facilities, (5) scholarships, (6) special education, (7) staff, (8) student achievement, and (9) monitoring. In the same order issued by the Court of Appeals on December 28, 2011, the Court denied the District's request that Judge Miller's ruling be reversed. The net effect of this denial was that for the foreseeable future, the District would remain under federal court supervision in these areas.

On November 6, 2012, the District filed a new motion seeking partial unitary status in the areas of student achievement, advanced placement, gifted and talented and honors programs, special education, and staffing. The district proposed that the court schedule individual hearings for these individual areas during calendar year 2013

On January 25, 2012, the Joshua Intervenors filed a motion with the Court of Appeals seeking attorneys' fees from the District of at least \$70,000 and perhaps as much as \$300,000. The submission by the Joshua Intervenors contained claims for attorneys' fees and costs against the State as well and a joint claim against both the District and the State. Altogether, the Joshua Intervenors sought recovery of approximately \$375,000 against the State and District together.

The District responded to the claim on February 21, 2012, arguing that any sums awarded to the Joshua Intervenors should be capped at just under \$60,000. On March 26, 2012, the Court of Appeals ruled awarding Joshua Intervenors \$149,417.50 which the District has paid. Thus, all claims for attorney's fees at the appellate court level have been resolved.

Thereafter, the Joshua Intervenors filed its claim for attorney's fees in the district court.

The District responded, and Judge Price Marshall, who has succeeded Judge Brian Miller in the case, ruled on May 21, 2012 that the Joshua Intervenors' claims regarding unitary hearings came too late, but that he would entertain a claim by the Joshua Intervenors for attorney's fees dating from an unspecified period in the past up until the unitary hearing for "monitoring" activities. In the same Order, Judge Marshall also indicated that the Joshua Intervenors would

have a second chance to convince the district court that it should entertain a petition for a late petition for attorney's fees for proceedings had in the district court.

On October 26, 2012, the Joshua Intervenors and the District filed a joint motion seeking court approval for a negotiated settlement between the District and the Joshua Intervenors to settle all attorney's fees issues for \$875,000.00. The settlement would be inclusive of all matters from the beginning of time until June 30, 2012. The Settlement was approved.

Several matters in connection with this litigation remain unsettled. The District Court retains jurisdiction in an ongoing and active role. The Court is expected to continue to issue orders from time to time regarding compliance with the desegregation plan of the Pulaski County Special School District. The NLRSD was released from federal court supervision by Final Order dated February 21, 2012, and the LRSD was released from federal court supervision on April 2, 2009.

Act 2126 of 2005

In response to the continuing federal litigation in which the District is a party, the Arkansas General Assembly adopted Act 2126 of 2005 (Ark. Code Ann. § 19-5-305) ("Act 2126") pursuant to which William Gordon Associates of Saluda, North Carolina was selected to conduct a feasibility study for the Arkansas Department of Education (the "Report"). The purpose of the Report was to evaluate and determine the most feasible school district structure to best meet the educational needs of the students of Pulaski County, Arkansas and to provide recommendations how the ongoing school desegregation litigation in Pulaski County might be ended.

The Report was completed and delivered on or about June 30, 2006. Among the findings set forth in the Report was the recognition that under existing decrees in the desegregation case, the suggested school reorganizations contained in Act 2126 were not legally feasible. The Report also noted other factors which suggested that reorganization was not feasible at that time. However, as a result of the extensive study and gathering of information relevant to the desegregation suit, the Report offered a number of recommendations including the following:

- Each of the three existing school districts (Little Rock, North Little Rock and Pulaski County Special School District) must agree to seek full unitary status.
- Retention of the "reconfigured" Pulaski County Special School District.
- Creation of a Jacksonville School District from a portion of the existing Pulaski County Special School District.
- A five year phase out of special desegregation funding for the three existing school districts and the new Jacksonville School District.

The Report further recommended adoption of enabling legislation by the Arkansas General Assembly as a necessary first step toward accomplishment of the Report's recommendations. With respect to the reconfiguring of the District and the creation of a new

Jacksonville School District, the Report identified a number of areas to address in the proposed legislation including the following:

- The boundaries of the new Jacksonville District would have to be defined.
- There would have to be a disposition of facilities, equipment, instructional materials, buses and other property between the two districts.
- Transition to the election of new school board members in each district; selection of superintendents, employment of staff, teachers and support personnel and adoption of salary schedules.
- Settlement and apportionment of outstanding debt obligations of the District.
- Any other necessary measures which must be in place prior to operational status of the Jacksonville School District.

The Report concluded that a Jacksonville School District should be created, that the ongoing school desegregation litigation must be ended, that local control of the existing school districts be restored to state and local control and that the District be assured of continuing existence following the end of the federal litigation.

The Jacksonville Detachment. The Arkansas General Assembly subsequently adopted Act 395 of 2007 portions of which were specifically renewed in the 2009 session of the General Assembly. Among other matters, Act 395 authorized the creation of a new school district within Pulaski County. The Act specifically provided that the new district could be created from territory currently part of an existing school district in Pulaski County. It was widely known and assumed that this provision was adopted to facilitate the creation of a new Jacksonville School District.

At its regular Board meeting held on September 9, 2008, the District Board of Directors unanimously passed a resolution expressing its willingness to pursue the creation of a new Jacksonville School District. Specifically, the Resolution empowered the District's administrators, staff and lawyer to pursue creation of a new district with the boundaries to be negotiated in the future and subject to approval by the District's Board including the identification of the schools to be detached dependent upon the final boundary configuration.

During 2009 the District agreed to a boundary plan and configuration but voted to suspend further negotiations until the District received unitary status.

After passage of this Resolution, on January 22, 2009, the Mayor of Jacksonville appointed the Jacksonville Education Foundation, Inc. as the entity to pursue negotiations with the District.

On July 8, 2013, the Arkansas State Board of Education was presented with a Petition to detach the area surrounding the city of Jacksonville, as well as territory North of Jacksonville generally referred to as the Bayou Meto area for detachment from the District. The State Board found that as required by A.C.A. § 6-13-1504, the Attorney General of the State of Arkansas had

opined by letters dated August 26, 2013 and February 27, 2014, that creation of the new school district would not hamper or delay desegregation efforts.

On March 20, 2014, the State Board ordered an election regarding the detachment. The election was held on September 16, 2014, and 95% of the votes cast were for detachment. Based upon these findings, in a meeting held on November 13, 2014, the State Board conducted a hearing, found that the requirements for detachment specified in A.C.A. § 6-13-1505 had been met and thereby ordered the creation of the JNPSD and appointed an initial Board of Directors to serve until the next regular election in September of 2015. Pursuant to A.C.A. § 6-13-1505, a two year transitional period was put in place to plan for the final detachment of the new district.

The balance of the Order addresses such issues as the selection of and employment of a superintendent, a plan for the zoning and election of school board members, a determination of the millage necessary to operate the new district, a plan to distribute and divide real and personal property, assets, liabilities (including debt) between the District and JNPSD and other related matters. The Order further provides that in the event the District and JNPSD are unable to agree upon any such issues, they would be determined by the State Board either itself or by appointment of a mediator.

On July 29, 2015, the District and JNPSD reached a further Agreement concerning the particulars of the detachment. It was presented to and approved by the State Board of Education on August 13, 2015.

The District and JNPSD presented the Agreement as approved by the State Board of Education to Judge Marshall on August 20, 2015. After a great deal of discussion and questioning by the Court, the Joshua Intervenors were granted permission to brief their opposition to and concerns with the Agreement with that briefing due no later than August 31, 2015. The District and the JNPSD were given until September 4, 2015 to respond to any brief filed by the Joshua Intervenors. The matter is now before Judge Marshall for a ruling. The District and JNPSD are both urging approval. A ruling could occur at any time. In any event, the ruling will not affect the ultimate detachment of JNPSD. The Joshua Intervenors' opposition was limited to details of JNPSD's obligations under the desegregation plan and did not question the detachment itself.

To the extent any ruling by the Court deals with desegregation issues, it is unlikely to have a material impact upon the detachment of the JNPSD and other material terms of the Agreement. The Court indicated it was unlikely to disapprove or call for changes to those portions of the Agreement that relate to the transfer, allocation or payment of debt, the allocation or transfer of assets, or issues related to these matters. If the Court orders the parties to make modifications to the Agreement, it is not anticipated that these changes will delay or prevent the detachment of the JNPSD on July 1, 2016 as currently anticipated.

The final Agreement first recites and confirms that the transition period described above will continue until July 1, 2016, at which point JNPSD should become "fully operational".

The final Agreement addressed issues such as a superintendent for JNPSD, chief of staff and legal counsel. It recites that the contract between the District and the JNPSD superintendent

has been approved by the Commissioner of Education. The superintendent will be an employee of the District through July 1, 2016. The Agreement further addresses issues such as ultimate reimbursement to the District by JNPSD for interim expenses such as those for a search firm to recommend a superintendent and payment for legal services and similar expenses which do not appear to be material. The Agreement further addresses the millage necessary to operate the JNPSD (40.7 mills) and discusses distribution of assets and liabilities and provides a means for calculating those on a per student basis.

The Agreement specifically provides that on July 1, 2016, JNPSD shall purchase the real property assets of the District embraced within the boundaries of the new JNPSD for \$10,809,050, a price which shall be presented to the State Board for approval. This amount is calculated, in part, to comply with federal tax restrictions that apply to the sale and disposition of bond financed property. As part of the Agreement, JNPSD waives any claim for payment of or interest in any real property located outside the geographic boundaries of JNPSD. The District likewise agrees to waive any claim for payment for any real property located within the geographic boundaries of JNPSD with certain exceptions.

The Agreement addresses the budget for JNPSD for the 2016-2017 school year including the debt service millage necessary to issue bonds to finance the purchase of the detached assets. The millage was approved by voters at the September 15, 2015 annual election, and it is anticipated that this will permit the issuance of bonds by JNPSD to finance the purchase of the detached assets by July 1, 2016.

The Agreement then provides that as soon as the detachment amount payments are made, that the District shall transfer title and ownership of the detached assets to JNPSD and that such transfers shall be consistent with all applicable rules and regulations of State law and the Internal Revenue Code.

The Agreement also accounts for iPads and Related Accessories purchased by the District for \$1,545,729. The District will pay JNPSD \$750,000 as JNPSD's share of these sums expended. The Agreement also provides for the allocation of specialized personal property, excluding school buses devoted to special education students, and provides for a formula for division of those assets. The Agreement provides for division of all other school buses based on a per student basis with provisions addressing age and wear and tear. To the extent that the personal property divided and allocated in the Agreement is encumbered, the District and JNPSD agree that any encumbrance will follow the property.

The Agreement continues with provisions for JNPSD to assume responsibility for 2017-19 state Academic Facilities Partnership funding for school facilities; a method for joint planning and approval for all instructional programs for the 2016-17 fiscal year and agreement regarding the District budget for 2015-16 which has been prepared and will be submitted for approval to the Commissioner of Education during September 2015.

The Agreement also addresses certain other payments including an advanced payment from the District to JNPSD to be made on July 1, 2016, in the amount of \$4,500,000. At such time, 23.5% of unrestricted fund balances shall be distributed from the District to JNPSD less the \$4,500,000 payment described above. Provisions for the distribution of fund balances from

restricted revenue sources and building fund balances have been agreed to. As regards the sums being received by the District under the new Settlement Agreement with the state, during the 2016-17 school year, the District will pay to JNPSD the amount of \$5,409,170 and for 2017-18, the same payment shall be made by the District to JNPSD. (See further discussion at The Settlement with the State, hereinafter.)

The District currently contributes \$10,000,000 over three years to fund the Donaldson Scholars Academy Payments, a part of its Plan 2000 strategy to reduce the achievement gap between majority and minority students. The final payment due from the District to the Donaldson Scholars Program is \$3,333,333. The Agreement provides that JNPSD shall be responsible for \$666,667 of that last payment for the 2016-17 school years.

Although the Homer Adkins-Pre-K Center will become part of the territory of the new JNPSD, the District shall continue administering the Pre-K program(s) on a combined basis for the District and JNPSD in the same manner as they are currently being administered, and the employees staffing these programs will remain employees of the District through at least the 2017-18 school year.

The Agreement also provides that the District shall transfer 15% of the balance, as of June 30, 2016, of the IT Millage Fund. The Agreement also addresses staffing. The Agreement recites that the Commissioner of Education has adopted a proposal by the District for personnel policy amendments generally known as the “Twin Seniority Center Policies.” These policies will permit the District to limit movement of licensed and unlicensed employees during the 2015-16 school year between post-detachment District facilities and JNPSD facilities. This will involve non-renewal of the District contracts for those employees at the JNPSD facilities. The Agreement also addresses staffing issues that have been approved by the Commissioner of Education, including a plan which commits JNPSD to comply with the desegregation obligations of Plan 2000.

The Settlement with the State. The LRSD filed new claims against the state of Arkansas in early May of 2010. The LRSD used the county wide desegregation case described elsewhere in this Statement as the procedural vehicle for making these claims. Little Rock did not make any claims against the District. Rather, it claimed that the state of Arkansas had violated the 1989 settlement agreement, described herein elsewhere, and various other federal and state laws by approving open enrollment charter schools. Little Rock claimed these harmed its enrollment base and negatively affected the state aid it received and also claimed that the state had failed to provide adequate state funding and had further failed to identify and implement programs to remediate achievement disparity between African American students and other students in Pulaski County. The LRSD had submitted a motion for summary judgment and brief in support, and the State of Arkansas responded to the Little Rock motion on March 12, 2012. The Court heard oral argument on March 29, 2012. The Court indicated that it would decide after oral argument whether or which parts of the Little Rock claim would proceed to trial. Thereafter, global settlement negotiations resumed.

During 2012, serious settlement negotiations among the three Pulaski County school districts and the State of Arkansas concluded successfully. A proposed Settlement Agreement was drafted and presented to Federal District Judge D.P. Marshall, Jr. on November 19, 2013.

As a result of entry of this Order, all litigation that had been resumed by the LRSD against the state was stayed while the Court considered the proposed comprehensive Settlement Agreement. At a subsequent conference held on November 22, 2013, Judge Marshall gave preliminary approval of the Settlement Agreement. The same day, he entered an Order and set a date for a fairness hearing since this settlement proposed to settle a class action case.

After extensive advertising and notice calculated to inform the Class of the proposed settlement, approximately seven written objections were filed with the Court and those making the objections were accorded an opportunity to speak at the fairness hearing. The fairness hearing was held on January 13, 2014, and after hearing statements from objectors and statements by counsel for all parties involved, the Court ruled from the bench that the Settlement Agreement was fair, reasonable and adequate and that an Order to that effect would be entered. On January 31, 2014, the Court entered an Order approving the Agreement and directing the preparation of a Consent Judgment. The Consent Judgment was entered on August 21, 2014, there were no appeals and the Settlement Agreement became final.

Essential Terms of the Settlement Agreement. The parties to the new Settlement Agreement (the “New Settlement Agreement”) are the LRSD, the District, the Joshua Intervenors, the Knight Intervenors and the State of Arkansas. The New Settlement Agreement provided, and these terms were effectuated with the entry of the Consent Order, that the State, LRSD and the NLRSD would be dismissed with prejudice from the litigation. Pursuant to the final approval, the State was obligated to and did make all desegregation payments scheduled for the 2013-2014 school year as required under the 1989 Settlement Agreement. By the New Settlement Agreement, the obligation to make any further such payments ceased on June 30, 2014. Thereafter, the State, pursuant to the New Settlement Agreement, made the following payments for 2014-2015:

\$37,347,429 to the LRSD
\$7,642,338 to the NLRSD
\$20,804,500 to the District

During the 2015-2016 school year the State is scheduled to make the identical payments to the three school districts and for the 2016-2017 school year the same payments will be made once again.

Year 4 is the final year for payments under the New Settlement Agreement. The New Settlement Agreement as approved provides that the payments made in the fourth year shall be used only for academic facilities construction projects. The payments scheduled for the 2017-2018 school year are as follows:

\$37,347,429 to the LRSD
\$7,642,338 to the NLRSD
\$20,804,500 to the District

The payments scheduled for Year 4 need not be used for academic facilities construction projects if the district or districts certify that they used previous years’ payments for this purpose. Also, the Year 4 payments as well as the other payments shall not be considered in determining

the State share of financial participation in local academic facilities projects eligible for State financial participation, the so-called “partnership share” paid by the State to certain qualifying school districts for qualifying academic facilities construction projects.

The New Settlement Agreement also provides rules and a timeline for ending the majority to minority student transfer program and the end of all State payments for these programs. The details and formulas to be used for the discontinuation of the majority to minority student transfer program are set out and detailed in the New Settlement Agreement.

In addition, the New Settlement Agreement specifies the end of the State’s role in funding the magnet school program and sets out a mechanism for the transitioning of former magnet school students into the regular student counts of all three school districts.

The New Settlement Agreement further provides that the three districts shall each receive \$250,000 as reimbursement of legal fees.

The New Settlement Agreement outlines the termination of the State’s obligations to pay any additional settlement or desegregation monies to the three districts. Basically stated, all financial obligations that the State assumed as part of the 1989 Settlement Agreement were extinguished, and any and all claims pending against the State were released.

The New Settlement Agreement authorizes the state to immediately authorize the creation of a Jacksonville/North Pulaski area school district. (See further discussion at The Jacksonville Detachment, herein.) However, the New Settlement Agreement obligates the State to oppose the creation of any other school districts from the District’s territory until the District is declared fully unitary and released from federal court supervision.

The New Settlement Agreement outlines and provides for the grandfathering of certain magnet and majority to minority student transfer program students but further provides for the eventual and total phase out of those interdistrict transfers. It further outlines transportation responsibilities which will terminate at the end of five years from the date of the New Settlement Agreement.

Finally, the New Settlement Agreement makes it clear that the 1989 Settlement Agreement and all obligations of any party thereunder are extinguished. It also specifies that the Court will maintain jurisdiction over the Joshua Intervenors and the District as provided in a separate agreement calculated to continue the Court’s jurisdiction overseeing the District and its implementation of Plan 2000 until the District attains unitary status.

The Unitary Status of the District. In the Consent Judgment filed August 21, 2014, the Court retained jurisdiction over the District until unitary status is attained in all remaining areas. It also retained jurisdiction over the Jacksonville/North Pulaski area school districts subject to its creation by the State. It further retained jurisdiction to adjudicate the State’s agreement to oppose the creation of any other school district from the District’s territory until the District is declared fully unitary and released from Court supervision.

In the same Consent Judgment, and pursuant to stipulations between the Joshua Intervenors and the District, the Court released the District from Court jurisdiction regarding

certain portions of Plan 2000 including Student Assignments; Talented and Gifted, Advanced Placement and Honor's Program; and Scholarships. In an Order dated December 22, 2014, the Court took up several other issues relating to unitary status and any Jacksonville/North Pulaski area school districts. It first approved the partial plan for detachment of the JNPSD noting that the framework was consistent with the District's desegregation obligations and that as contemplated by the New Settlement Agreement, JNPSD will assume all of the District's desegregation obligations in the establishment and operation of the new district.

In the same Order, the Court approved the Joint Motion of the Joshua Intervenors and the District regarding Section K of Plan 2000. Section K deals with Special Education, and in this Order the Court declared the District unitary as to special education.

Several provisions of Plan 2000 remain under Court jurisdiction including facilities, staffing, discipline and monitoring.

The 2015 Boundary Study. During the Spring of 2015, a special committee of the State Board of Education was appointed to study future potential boundary configurations of the District that might be appropriate after the Jacksonville detachment was completed. The study initially recommended the creation of new districts embracing Sherwood and the McAlmont area, the Maumelle area as a separate school district, and a new district south of the Arkansas River including portions of the District and all of the LRSD. The study recommended that the boundaries of the NLRSD be expanded to include territory currently embraced within the North Little Rock city limits.

However, that study, while it was reviewed and given preliminary approval by the State Board of Education, has been placed on hold in recognition of that provision of the New Settlement Agreement which prohibits the creation of any new school districts from territory currently part of the District until the District attains complete unitary status. Thus, it is generally believed that there will be no move to create new school districts in Pulaski County for the next three to five years at a minimum.

Other Legal Proceedings. No other litigation is pending, or to the best knowledge of the District threatened, questioning the existence of the District, its boundaries, the assessed value of taxable property located within the District, any taxes levied by the District, the title of any member of the Board of Directors to his or her office (currently, the District is operating without an elected school board), or questioning the authority of the District to issue the Bonds or any proceedings relating thereto.

Litigation is pending against the District in various proceedings that arose in the ordinary course of the District's operations. In the opinion of the District, none of the pending law suits, if concluded adversely, would have a material adverse effect on the District's financial status or on its ability to carry on its operations.

Legal Opinion. Issuance of the Bonds is subject to the unqualified approving opinion of Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., Bond Counsel, to the effect that the Bonds have been lawfully issued under the Constitution and laws of the State of Arkansas and constitute valid, binding and enforceable obligations of the District.

Tax Exemption. In the opinion of Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., Bond Counsel, under existing law, the interest on the Bonds is exempt from Arkansas income tax and from property taxes.

Also, in the opinion of Bond Counsel, interest on the Bonds under existing law (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and interest on the Bonds is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in clause (a) above is subject to the condition that the District 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) excluded from gross income for federal income tax purposes. These requirements generally relate to arbitrage and the use of the proceeds of the Bonds and the Project. 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 District has covenanted to comply with all such requirements.

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.

Prospective purchasers of the Bonds should also be aware that A.C.A. §26-51-431(b) (Repl. 2012; Supp. 2013) states that Section 265(a) of the Internal Revenue Code is adopted for the purpose of computing Arkansas individual 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 (A.C.A. §26-51-431(b) and (c) (Repl. 2012)).

Non-Litigation Certificate. Upon delivery of the Bonds the District will furnish a certificate to the effect that no litigation not described in the Official Statement is then pending that would affect the validity of or security for the Bonds.

Official Statement Certificate. Upon delivery of the Bonds, the District will furnish a certificate to the effect that the Official Statement does not contain any untrue statement of a material fact or omits to state a material fact required to be stated therein to make the statements therein, in the light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, as the same may be amended from time to time, the District will execute and deliver a Continuing Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds, describing the District's continuing disclosure obligations with respect to the Bonds, and pursuant to which the District agrees to provide:

(i) not later than ninety (90) days after the end of the District's fiscal year, commencing with the fiscal year ending June 30, 2016, to the Municipal Securities Rulemaking Board ("MSRB"), its LEA Financial Report and certain annual financial information and operating data as follows: the information contained under **DESCRIPTION OF THE SCHOOL DISTRICT**, Assessed Valuation, **DEBT STRUCTURE**, Outstanding Indebtedness, **DEBT STRUCTURE**, Debt Service Schedule and Coverage, **FINANCIAL INFORMATION**, Sources and Uses of Funds, and **FINANCIAL INFORMATION**, Collection of Taxes. The annual financial statements shall be prepared using accounting practices described by Ark. Code Ann. § 10-4-313, as it may be amended from time to time, or any successor statute, and shall be audited by the Legislative Joint Auditing Committee, Division of Legislative Audit of the State of Arkansas, or by an independent certified public accountant.

(ii) within ninety (90) days after the audit has been completed and received by the District, to the MSRB, a copy of the District's audit.

(iii) to the MSRB, notice of the occurrence of any of the following material events with respect to the Bonds, in a timely manner not in excess of ten (10) business days after the occurrence of such event or otherwise in a manner consistent with the Rule:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;

(f) 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;

(g) modification to rights of security holders, if material;

(h) bond calls, if material;

(i) defeasances and tender offers;

(j) release, substitution, or sale of property securing repayment of the securities, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership or similar event of the obligated person;

(m) 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; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(iv) to the MSRB, notice of any failure of the District to provide the annual financial information or operating data required by the Rule and the Continuing Disclosure Certificate on or before the date specified in a manner consistent with the Rule.

The District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the District, such other event is material with respect to the Bonds.

The foregoing information data and notices can be obtained from Dr. Jerry Guess, Superintendent, 925 E. Dixon Road, Little Rock, Arkansas 72206; (501) 234-2011.

The District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the District, provided that the District agrees that any such modification will be done in a manner consistent with the Rule. The District reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the District no longer remains an obligated person with respect to the Bonds within the meaning of the Rule. The District acknowledges that its

undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Beneficial Owners of the Bonds.

In the event of a failure of the District to comply with any provision of the Continuing Disclosure Certificate, any owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under the Continuing Disclosure Certificate. Noncompliance with the Continuing Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the District to comply with the Continuing Disclosure Certificate shall be an action to compel performance.

The Rule requires that an issuer disclose in its official statement any instances in the previous five years in which such issuer or obligated party failed to comply, in all material respects, with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule (the “Undertakings”). As part of its Undertakings, the District agreed to provide to MSRB its annual financial information and operating data and annual audited financial statements on EMMA after the end of each of its fiscal years.

CONTINUING DISCLOSURE PAST COMPLIANCE

While the District has not made any determination as to materiality, the following charts reflect the District’s compliance and non-compliance with previous undertakings under the Rule for the past five (5) years.

Annual Financial Information and Operating Data (“Annual Report”)

Pursuant to previous Continuing Disclosure undertakings by the District, the District has agreed to provide to the MSRB its Annual Report within ninety (90) days after the end of each fiscal year (the “Submittal Deadline”).

<u>Fiscal Year Ending June 30</u>	<u>Submittal Deadline</u>	<u>Date Filed⁽¹⁾</u>	<u>Status of Compliance</u>
2010	09/28/2010	09/02/2010	Compliant
2011	09/28/2011	10/01/2012	Filed Late
2012	09/28/2012	07/25/2013	Filed Late
2013	09/28/2013	09/04/2013	Compliant
2014	09/28/2014	09/24/2014 ⁽²⁾	Compliant
2015	09/28/2015	09/10/2015	Compliant

⁽¹⁾ Actual date Annual Report was filed on MSRB’s EMMA portal.

⁽²⁾ Amendment was filed on 02/05/2015 to reflect non-material change.

Annual Financial Statements
 (“AFS”)

Pursuant to previous Continuing Disclosure undertakings by the District, the District has agreed to provide to the MSRB its AFS within ninety (90) days after the audit has been completed and received by the District.

<u>Fiscal Year Ending June 30</u>	<u>Date Audit Released by Legislative Audit</u>	<u>Date Filed⁽¹⁾</u>	<u>Status of Compliance</u>
2010	05/12/2011	04/11/2011	Compliant
2011	03/28/2012	04/17/2012	Compliant
2012	03/27/2013	11/07/2013	Filed Late
2013	03/26/2014	04/01/2014	Compliant
2014	03/31/2015	04/06/2015	Compliant
2015	Not released	Not yet due	N/A

⁽¹⁾ Actual date AFS was filed on MSRB’s EMMA portal.

Listed Events

Within ten (10) business days after the occurrence of a Material Event set forth in previous Continuing Disclosure undertakings (the “Material Event”), the District has agreed to provide a notice of such Material Event to the MSRB.

<u>Material Event</u>	<u>Date of Material Event</u>	<u>Date Filed⁽¹⁾</u>	<u>Status of Compliance</u>
Moody’s withdraw Aa3 Enhanced Rating	09/27/2013	10/31/2013	Filed Late
Moody’s assigns Aa2 Rating	12/12/2013	01/02/2014	Filed Late

⁽¹⁾ Actual date the Material Event Notice was filed on MSRB’s EMMA portal.

The District has taken steps to ensure that the Annual Reports, AFS and Listed Events are timely filed as required by its continuing disclosure undertakings.

MISCELLANEOUS

Bond Rating. Moody’s Investors Service, Inc. (“Moody’s”) has assigned an “Aa2” enhanced rating to the Bonds. Certain information was supplied to the rating agency to be considered in evaluating the bonds. Any rating issued will reflect only the views of the rating agency, and any explanation of the significance of such rating on the Bonds should be obtained from the rating agency. There is no assurance that the rating obtained for the Bonds will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency for the Bonds if, in its judgment, circumstances so warrant. Neither the District nor the Fiscal Agent undertake any responsibility to oppose any revision or withdrawal of the rating. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Bonds. The assignment of the

enhanced rating reflects the additional bond security provided by Ark. Code Ann. §6-20-1204 (Repl. 2013).

Underwriting. The Underwriter has purchased the Bonds from the District at public sale upon competitive bids at a price of \$55,625,979.08 (par plus net offering premium of \$468,250.35 less Underwriter's discount of \$817,271.27) plus accrued interest from the date of the Bonds to the date of delivery to the Underwriter.

Interest of Certain Persons. The District has employed Stephens Inc., as Fiscal Agent to assist the District in the sale and issuance of the Bonds. The Fiscal Agent has employed Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., as Bond Counsel. Neither the Fiscal Agent nor Bond Counsel will receive any fee for its services unless and until the Bonds are sold and delivered.

The Board of Directors of the District has authorized the preparation and distribution of this Official Statement.

PULASKI COUNTY SPECIAL SCHOOL
DISTRICT OF PULASKI COUNTY, ARKANSAS

By: /s/ Jack Truemper
Jack Truemper
STEPHENS INC.
FISCAL AGENT