

NEW ISSUE

BOOK-ENTRY ONLY

*In the opinion of Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes, and interest on the Bonds is not an item of tax preference for purpose of the federal alternative minimum tax. In Bond Counsel's further opinion, under existing law, the Bonds and interest thereon are exempt from all state, county and municipal taxation in the State of Arkansas. See the caption **TAX EXEMPTION** herein.*

\$2,970,000
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
REFUNDING REVENUE BONDS
(EPISCOPAL COLLEGIATE SCHOOL PROJECT)
SERIES 2020

Dated: Date of Delivery

Due: October 1, as shown on inside cover

These Bonds are issued by the Arkansas Development Finance Authority (the "Issuer"), to refund the Issuer's Refunding Revenue Bonds (Episcopal Collegiate School Project), Series 2015, the proceeds of which refinanced a gymnasium and related facilities at 1701 Cantrell Road, Little Rock, Arkansas, that are owned by Episcopal Collegiate School, an Arkansas nonprofit corporation (the "Corporation"). The Bonds are special obligations of the Issuer and are payable solely from revenues derived from a Loan Agreement (the "Agreement") between the Issuer and the Corporation, except to the extent paid out of moneys attributable to Bond proceeds or investment income. The Bonds are issued and secured on a parity basis with the Issuer's Refunding Revenue Bonds (Episcopal Collegiate School Project), Series 2016. The Bonds will not constitute an indebtedness, liability, general or moral obligation, pledge of the faith, loan of credit, or charge against the taxing power or any revenues of the State of Arkansas, or any political subdivision thereof. The Issuer has no power of taxation.

The Bonds mature on October 1 in each of the years as shown on the inside cover hereof. Interest on the Bonds is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2020. The Bonds are subject to extraordinary, optional and mandatory sinking fund redemption prior to maturity as set forth herein.

MATURITY SCHEDULE AND PRICES ON INSIDE COVER

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 Bank OZK, Little Rock, Arkansas, as 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.

These bonds are offered when, as and if issued and received by the Underwriter and subject to the approval of legality by Friday, Eldredge & Clark, LLP, Bond Counsel, Little Rock, Arkansas. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about July 14, 2020.

Stephens Inc.

Official Statement dated June 24, 2020.

MATURITY SCHEDULE AND YIELDS

\$1,880,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>
2020	\$ 20,000	3.000	0.900
2021	170,000	3.000	1.000
2022	170,000	3.000	1.050
2023	175,000	3.000	1.150
2024	180,000	3.000	1.250
2025	180,000	2.000	1.400
2026	190,000	2.000	1.550*
2027	190,000	2.000	1.650*
2028	195,000	2.000	1.750*
2029	205,000	2.000	1.800*
2030	205,000	2.000	1.900*

\$1,090,000 2.375% Term Bonds due October 1, 2035 to Yield 2.375%

* Priced to first optional redemption date, October 1, 2025

No dealer, broker, salesman or other person has been authorized by the Arkansas Development Finance Authority, Episcopal Collegiate School, or the Underwriter to give any information or to make any representations other than as contained in this Official Statement and Appendices hereto, 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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OFFICIAL STATEMENT

\$2,970,000
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
REFUNDING REVENUE BONDS
(EPISCOPAL COLLEGIATE SCHOOL PROJECT)
SERIES 2020

INTRODUCTION

This Official Statement and Appendices hereto are provided to furnish information in connection with the sale by the Arkansas Development Finance Authority (the "Issuer") of its Refunding Revenue Bonds (Episcopal Collegiate School Project), Series 2020, in the aggregate principal amount of \$2,970,000 (the "Bonds"). The Bonds mature on the dates and bear interest at the rates set forth on the inside cover page hereof.

The Bonds are being issued by the Issuer to refund the Issuer's Refunding Revenue Bonds (Episcopal Collegiate School Project), Series 2015 (the "Bonds Refunded"). The Bonds Refunded refunded the Issuer's Refunding Revenue Bonds (Episcopal Collegiate School Project), Series 2010 (the "Series 2010 Bonds"). The Series 2010 Bonds refunded the Issuer's Revenue Bonds (Episcopal Collegiate School Project), Series 2005 (the "Series 2005 Bonds"), the proceeds of which financed the costs of acquiring, constructing and equipping a gymnasium and related facilities (the "Facility") at Episcopal Collegiate School (the "School") located at 1701 Cantrell Road, Little Rock, Arkansas. The School is owned and operated by Episcopal Collegiate School, an Arkansas nonprofit corporation (the "Corporation"). Proceeds of the Bonds will also pay costs of issuance. The Issuer has entered into a Loan Agreement dated as of October 15, 2005, as amended by a First Supplemental Loan Agreement dated as of April 1, 2009, a Second Supplemental Loan Agreement dated as of October 15, 2010, a Third Supplemental Loan Agreement dated as of September 1, 2015, a Fourth Supplemental Loan Agreement dated as of March 1, 2016 and a Fifth Supplemental Loan Agreement dated the date of delivery of the Bonds (collectively, the "Loan Agreement"), with the Corporation, pursuant to which the proceeds of the Bonds will be loaned by the Issuer to the Corporation.

The Bonds will be issued under, and will be equally and ratably secured by and entitled to the protection of, a Trust Indenture dated as of October 15, 2005, as amended by a First Supplemental Trust Indenture dated as of April 1, 2009, a Second Supplemental Trust Indenture dated as of October 15, 2010, a Third Supplemental Trust Indenture dated as of September 1, 2015, a Fourth Supplemental Trust Indenture dated as of March 1, 2016 and a Fifth Supplemental Trust Indenture dated the date of delivery of the Bonds (collectively, the "Indenture"), delivered by the Issuer to Bank OZK, Little Rock, Arkansas, as Trustee (the "Trustee"). The Trustee shall be registrar of the Bonds and also shall be the paying agent.

The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Arkansas, particularly Title 15, Chapter 5, Subchapter 3 of the Arkansas Code of 1987 Annotated (the "Act"), and pursuant to a resolution of the Issuer approving and authorizing the Bonds and the execution and delivery of the Indenture. The Bonds are special obligations of the Issuer payable solely from payments to be received under the Loan Agreement (except to the extent paid out of moneys attributable to Bond proceeds and investment income). The obligations of the Corporation under the Loan Agreement are secured by a pledge of and lien on all student tuition and fees, less tuition assistance and discounts, received by the Corporation (the "Pledged Revenues") on a parity with the pledge and lien securing the Issuer's Refunding Revenue Bonds (Episcopal Collegiate School Project), Series 2016 in the original principal amount of \$17,335,000 (the "Series 2016 Bonds"). The Bonds and the interest thereon shall not constitute a debt or a pledge of the faith and credit of the State of Arkansas or any political subdivision thereof. Neither the State of Arkansas nor any political subdivision thereof, nor the Issuer, shall be obligated to pay the principal of the Bonds, the interest thereon, or other costs incident thereto except from the revenues and moneys pledged therefor, and

neither the faith and credit nor the taxing power of the State of Arkansas, or any political subdivision thereof, is pledged to the payment of the principal of the Bonds or the interest thereon or other costs incident thereto.

Under existing law and assuming compliance with certain covenants described herein, (i) interest on the Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax and (iii) the Bonds and interest thereon are exempt from all state, county and municipal taxation in the State of Arkansas. See **TAX EXEMPTION**.

This Official Statement contains brief descriptions of the Issuer, the Facility, the Bonds, security for the Bonds, the Loan Agreement, and the Indenture. The descriptions and summaries herein do not purport to be comprehensive or definitive and reference is made to each document for the complete details of all terms and conditions. Terms not defined herein shall have the meanings set forth in the respective documents. All statements herein are qualified in their entirety by reference to each document. See **MISCELLANEOUS** for information regarding availability of the documents.

THE ISSUER

The Issuer is a public body politic and corporate of the State of Arkansas, created in 1985. The Issuer was created for the primary purpose of assisting in financing agricultural, business, industrial, economic and housing development in Arkansas through the provision of financial assistance to political subdivisions and private enterprises within the State. The Act authorizes the Issuer to borrow money and issue from time to time its bonds, notes and other obligations in such principal amounts as the Issuer determines shall be necessary to provide sufficient funds to carry out its purposes and powers.

The powers of the Issuer are vested in the Board of Directors, consisting of the State Treasurer, the Secretary of the Department of Finance and Administration, the Secretary of the Department of Commerce and 11 public members appointed by the Governor with the advice and consent of the State Senate. The Act provides that the Board shall employ a President who shall serve at the pleasure of the Governor.

Officers and Directors

The names, offices, principal occupations and residences of the directors of the Issuer and the dates of expiration of their terms are set forth below. Currently, one vacancy exists on the Board.

<u>Name and Office</u>	<u>Term Expires (January 14)</u>	<u>Principal Occupation and Residence</u>
Stan Green, Chair	2023	President, Clean Energy, Inc. and Lindsey-Green Commercial Properties, Fayetteville
Katelyn Busby, Vice Chair	2024	Attorney, Office of Child Support Enforcement, Monticello
Bryan Scoggins, Secretary	(Ex-officio, non-voting)	President, Arkansas Development Finance Authority, Little Rock
Rod Coleman	2023	Chairman, ERC Holdings, LLC, Fort Smith
Stephanie Garner	2021	Chief Executive Officer, ARVAC, Inc., Dardanelle
Dr. Lillie "Lee" Lane	2022	Retired Engineering Executive, Paris
Seth N. Mims	2024	President, Specialized Real Estate Group, Fayetteville
George O'Connor	2023	Chairman, O'Connor Distributing, Little Rock
Jon Chadwell	2024	Director, Newport Economic Development Commission, Newport
Carey Smith	2021	President, C. Smith Holdings, Inc., Little Rock
Denise Sweat	2022	Vice President, Farm Credit Services, Nashville
Larry Walther	(Ex-officio)	Secretary, Arkansas Department of Finance and Administration, Little Rock
Dennis Milligan	(Ex-officio)	State Treasurer, Little Rock
Mike Preston	(Ex-officio, non-voting)	Secretary, Arkansas Department of Commerce

The staff of the Issuer presently consists of approximately 49 full-time employees. Bryan Scoggins is President of the Issuer. Other senior officers include Mark Conine, Chief Financial Officer and Robert Arrington, Director of Homeownership and Public Finance.

The office of the Issuer is located at 1 Commerce Way, Suite 602, Little Rock, Arkansas. Its telephone number is (501) 682-5900, its mailing address is P.O. Box 8023, Little Rock, Arkansas 72203-8023, and its web site address is "<http://www.adfa.arkansas.gov/>."

THE REFUNDING AND SOURCES AND USES OF FUNDS

The Refunding

The Bonds are being issued to current refund the Bonds Refunded and to pay costs of issuing the Bonds. A portion of the Bonds proceeds and, to the extent necessary, other available funds will be deposited with the trustee for the Bonds Refunded and used to pay the principal of and interest on the Bonds Refunded due October 1, 2020 and to redeem the Bonds Refunded maturing on and after October 1, 2021 on October 1, 2020, at a redemption price of par plus accrued interest.

The Bonds Refunded current refunded the Series 2010 Bonds. The Series 2010 Bonds current refunded the Series 2005 Bonds, the proceeds of which financed the acquisition, construction and equipping of the Facility.

Sources and Uses of Funds

The sources and uses of funds to accomplish the refunding of the Bonds Refunded, as presently estimated by the Corporation, are as follows:

Sources of Funds

Principal Amount of Bonds	\$2,970,000
Available Funds from Bonds Refunded	402,563
Original Issue Premium	<u>52,917</u>
Total:	\$3,425,480

Uses of Funds

Refunding Costs	\$3,125,835
Debt Service Reserve	237,088
Costs of Issuance	34,239
Underwriter's Discount	25,161
Contingency	<u>3,157</u>
Total:	\$3,425,480

THE BONDS

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

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

for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

For every transfer and exchange of the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue services with respect to the Bonds at any time by giving notice to the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Trustee may make arrangements with a successor securities depository that operates upon reasonable and customary terms. If no such arrangements are made, Bonds are required to be delivered as described in the Resolution. The Beneficial Owner upon registration of the Bonds held in the Beneficial Owner's name, shall become the Owner thereof under the Resolution.

The Issuer may determine to discontinue the system of book-entry transfers through DTC (or a successor securities depository). In such event, the Bonds are to be delivered as described in the Resolution. The Trustee is entitled to rely on information provided by DTC and the DTC Participants as to the names and principal amounts in which the Bonds are to be registered.

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

So long as the Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Bonds for all purposes under the 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 Issuer and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolution to be given to owners of Bonds; or (d) other action taken by DTC or Cede & Co. as owner of the Bonds.

General

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 the date of delivery to the Underwriter, and will mature and bear interest as set out on the inside cover page. The Trustee will maintain books for the registration and transfer of ownership of the Bonds. The principal of and premium, if any, on the Bonds are payable upon the presentation and surrender thereof at the principal corporate trust office of Trustee, and interest on the Bonds is payable to the registered owner thereof by check or draft drawn upon the Trustee and mailed to the person in whose name the Bond is registered at the close of business on the fifteenth day of the calendar month next preceding that in which such interest payment shall fall (the "Record Date"), at his address as it appears on the bond registration books of the Issuer kept by the Trustee.

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.

Redemption of Bonds

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

(1) Extraordinary Redemption. The Bonds shall be redeemed in the event the Corporation shall elect to exercise its option to prepay installments payable under the Loan Agreement upon the occurrence of any of the events set forth in Section 9.2 of the Loan Agreement, in whole but not in part, at any time, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. See Options in Favor of the Corporation under **THE LOAN AGREEMENT**.

(2) Optional Redemption. The Bonds may be redeemed on and after October 1, 2025, at the option of the Issuer, to be exercised as directed by the Corporation, in whole or in part at any time, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the Bonds shall be called for redemption, the particular maturities of the Bonds to be redeemed shall be selected by the Issuer, as directed by the Corporation, in its discretion. If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

(3) Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Bonds maturing on October 1, 2035 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on the dates and in the amounts set forth below, at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption:

Bonds Maturing October 1, 2035

<u>Years</u> <u>(October 1)</u>	<u>Principal Amounts</u>
2031	\$210,000
2032	215,000
2033	220,000
2034	220,000
2035 (maturity)	225,000

The provisions for mandatory sinking fund redemption of the Bonds are subject to the provisions of the Indenture which permit the Issuer to receive credit for Bonds previously redeemed or for Bonds acquired by the Corporation, on behalf of the Issuer, and surrendered to the Trustee.

Notice of Redemption

Notice of the call for any redemption, identifying the Bonds being called and the date on which they shall be presented for payment, shall be mailed by the Trustee by first class mail to the registered owner of each such Bond addressed to such registered owner at his registered address, or sent by other acceptable standard means of delivery, including facsimile or electronic communications, and sent not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceeding for the redemption of any Bond with respect to which no such failure or defect has occurred.

Any notice sent as provided above shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice.

With respect to notice of redemption of the Bonds at the option of the Issuer (at the direction of the Corporation) unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice, such

notice shall state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If such moneys shall not have been so received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

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 in the manner approved by DTC. The Trustee will not give any notice of redemption to the Beneficial Owners of the Bonds.

SECURITY FOR THE BONDS

General

The proceeds of the Bonds will be loaned by the Issuer to the Corporation under the Loan Agreement for loan repayments sufficient to provide for the payment of the principal of and interest on the Bonds, as due. For a description of the Corporation, see Appendix A hereto.

The Bonds are special obligations of the Issuer payable solely from payments to be received under the Loan Agreement (except to the extent paid out of moneys attributable to Bond proceeds, and investment income). The Bonds and the interest thereon shall not constitute a debt or a pledge of the faith and credit of the State of Arkansas or any political subdivision thereof. Neither the State of Arkansas nor any political subdivision thereof, nor the Issuer, shall be obligated to pay the principal of the Bonds, the interest thereon, or other costs incident thereto except from the revenues and moneys pledged therefor, and neither the faith and credit nor the taxing power of the State of Arkansas, or any political subdivision thereof, is pledged to the payment of the principal of the Bonds or the interest thereon or other costs incident thereto.

Pledged Revenues

The Corporation, pursuant to the Loan Agreement, has pledged all student tuition and fees (less tuition assistance and discounts) received by the Corporation to the repayment of the principal of and interest on the Bonds, the maintenance of the Debt Service Reserve Fund at the required level, and the payment of fees and expenses of the Issuer and the Trustee for the Bonds. In this regard, the pledge in favor of the Bonds is on a parity of security with the Series 2016 Bonds. Pursuant to the Loan Agreement, the Corporation is obligated to make monthly payments from Pledged Revenues to the Trustee in amounts sufficient to meet the Corporation's obligations under the Loan Agreement. If an Event of Default occurs or exists under the Indenture, the Trustee may elect to receive all Pledged Revenues until such time as the Event of Default has been cured, including re-establishment of the Debt Service Reserve Fund to the required level. The security interest in the Pledged Revenues may be subject to limitation or rights of other parties imposed by statute or court order and to the requirements that appropriate filings be made from time to time to maintain the protection of the security interest. For a summary of the Pledged Revenues for the past five fiscal years, see **THE PLEDGED REVENUES** in Appendix A hereto.

Debt Service Reserve

There is a debt service reserve securing the Bonds and the Series 2016 Bonds in an amount equal to the maximum annual principal and interest requirements on the Bonds and the Series 2016 Bonds.

Additional Bonds

The Issuer may in its sole discretion, at the request of the Corporation, authorize the issuance of additional bonds on a parity of security with the Series 2016 Bonds and the Bonds offered hereby ("Additional Parity Bonds") upon the terms and conditions provided in the Loan Agreement and the Indenture. Additional Parity Bonds may be issued to provide funds to pay any one or more of the following: (i) the costs of additional facilities for the use and benefit of the Corporation in the furtherance of its educational purposes, (ii) the costs of completing the acquisition, construction and equipping of the Facility, (iii) the costs of refunding or refinancing any Bonds or other indebtedness of the Corporation that financed educational facilities for the use and benefit of the Corporation in furtherance of its educational purposes, and (iv) the costs of the issuance and sale of the Additional Parity Bonds, any deposit to the Debt Service Reserve Fund required by the Indenture, capitalized interest, and other costs reasonably related to the financing as shall be agreed upon by the Corporation and the Issuer; provided that the terms of such Additional Parity Bonds, the purchase price to be paid therefor and the manner in which the proceeds therefrom are to be disbursed shall have been approved in writing by Corporation; and provided further that an Event of Default has not occurred and is continuing under the Loan Agreement, and the issuance of Additional Parity Bonds will not constitute or result in an event of default under the Loan Agreement or cause any violation of the covenants or representations of the Corporation in the Loan Agreement; and provided further that the Corporation and the Issuer shall have entered into an amendment to the Loan Agreement to provide for such increase in the payments to be paid by the Corporation to the Issuer in such amounts as shall be necessary to pay the principal of and premium, if any, and interest on the Additional Parity Bonds as provided to be paid in the supplemental indenture with respect to the Additional Parity Bonds; and provided further that the Issuer shall have otherwise complied with the provisions of the Indenture with respect to the issuance of such Additional Parity Bonds.

The Additional Parity Bonds shall be authenticated by the Trustee and, upon payment to the Trustee of the proceeds of said sale of Additional Parity Bonds, they shall be delivered by the Trustee to or upon the order of the purchasers thereof, but only upon there being filed with the Trustee:

(a) A copy, duly certified by the Secretary of the Issuer, of the resolution adopted by the Issuer authorizing the issuance of the Additional Parity Bonds and the execution and delivery of supplements to the Indenture and the Loan Agreement.

(b) Original, executed counterparts of a supplemental indenture and an amendment of the Loan Agreement.

(c) Evidence that upon delivery of such Additional Parity Bonds there shall be deposited in the Debt Service Reserve Fund such amount, if any, as shall be necessary to cause the amount on deposit therein to equal the amount required by the Indenture.

(d) A written opinion of Bond Counsel reasonably acceptable to the Trustee to the effect that the issuance of the Additional Parity Bonds and the execution thereof have been duly authorized, that all conditions precedent to the delivery thereof have been fulfilled, that all rights of the Issuer under the supplemental Loan Agreement are effectively assigned to the Trustee for the security of the Bonds, and that the exclusion from gross income for federal income tax purposes of the interest on the Bonds will not be affected by the issuance of the Additional Parity Bonds being issued.

(e) A written order to Trustee by the Issuer to authenticate and deliver the Additional Parity Bonds to the purchaser or purchasers therein identified upon payment to the Trustee of a specified sum.

(f) (i) If the Additional Parity Bonds are to be issued for the purposes described in the Loan Agreement (other than the refunding of the Bonds), there will be filed by the Trustee a report of an accountant to the effect that the Pledged Revenues for the fiscal year immediately preceding the date on which such Additional Parity Bonds are to be issued were at least 175% of the maximum annual debt service with respect to the Bonds then Outstanding and with respect to such Additional

Parity Bonds proposed to be issued. For purposes of this paragraph (f)(i), there may be added to the Pledged Revenues the amount that would have been received by the Corporation for such fiscal year from any student tuition and fee increases adopted by the Corporation prior to the issuance of the Additional Parity Bonds.

(ii) If the Additional Parity Bonds are to be issued to provide funds to pay the costs of refunding any Bonds outstanding, there shall be filed with the Trustee such documents as shall be required by the Trustee to show that provision has been duly made in accordance with the provisions of the Indenture for the payment or redemption of all of the Outstanding Bonds refunded.

Prior to the Issuer's issuing Additional Parity Bonds for the refunding purposes, the Corporation shall cause to be prepared and filed with the Issuer and the Trustee either the report described above or a report of an Accountant to the effect that the annual debt service with respect to the Additional Parity Bonds to be issued under the conditions described in this subparagraph (f)(ii) for any fiscal year following the issuance of such Additional Parity Bonds shall not exceed the annual debt service for such fiscal year with respect to the Bonds which would have been Outstanding in that fiscal year had the same not been refunded or refinanced.

Notwithstanding anything herein to the contrary, no Additional Parity Bonds shall be issued unless (i) the Issuer adopts a resolution approving issuance of the Additional Parity Bonds, (ii) the Loan Agreement is in effect, and (iii) there is no Event of Default at the time of issuance under the Loan Agreement or the Indenture.

Rate Covenant

In the Loan Agreement, the Corporation has agreed that it will fix, maintain and charge tuition and fees for use of the School and for services provided by the School such that Pledged Revenues in each fiscal year will not be less than 125% of the maximum annual debt service on the outstanding bonds in any fiscal year thereafter.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required to pay scheduled principal and interest on the Bonds during each calendar year:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 20,000	\$ 15,108.58	\$ 35,108.58
2021	170,000	70,037.50	240,037.50
2022	170,000	64,937.50	234,937.50
2023	175,000	59,837.50	234,837.50
2024	180,000	54,587.50	234,587.50
2025	180,000	49,187.50	229,187.50
2026	190,000	45,587.50	235,587.50
2027	190,000	41,787.50	231,787.50
2028	195,000	37,987.50	232,987.50
2029	205,000	34,087.50	239,087.50
2030	205,000	29,987.50	234,987.50
2031	210,000	25,887.50	235,887.50
2032	215,000	20,900.00	235,900.00
2033	220,000	15,793.76	235,793.76
2034	220,000	10,568.76	230,568.76
2035	225,000	5,343.76	230,343.76
Total	\$2,970,000	\$581,627.36	\$3,551,627.36

The following table sets forth the amounts required to pay scheduled debt service on the Bonds and the Series 2016 Bonds for each calendar year commencing in 2020:

<u>Year</u>	<u>Bonds</u>	<u>Series 2016 Bonds</u>	<u>Total Debt Service</u>
2020	\$ 35,108.58	\$ 1,286,943.76	\$ 1,322,052.34
2021	240,037.50	1,285,262.50	1,525,300.00
2022	234,937.50	1,288,262.50	1,523,200.00
2023	234,837.50	1,287,637.50	1,522,475.00
2024	234,587.50	1,286,231.26	1,520,818.76
2025	229,187.50	1,289,043.76	1,518,231.26
2026	235,587.50	1,290,918.76	1,526,506.26
2027	231,787.50	1,286,856.26	1,518,643.76
2028	232,987.50	1,286,043.76	1,519,031.26
2029	239,087.50	1,288,918.76	1,528,006.26
2030	234,987.50	1,285,293.76	1,520,281.26
2031	235,887.50	1,285,356.26	1,521,243.76
2032	235,900.00	1,288,918.76	1,524,818.76
2033	235,793.76	1,289,356.26	1,525,150.02
2034	230,568.76	1,288,050.00	1,518,618.76
2035	230,343.76		230,343.76
Total	\$3,551,627.36	\$19,313,093.86	\$22,864,721.22

RISK FACTORS

COVID-19 Pandemic

The World Health Organization has declared a pandemic following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, President Trump declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Arkansas Governor Asa Hutchinson (the "Governor") has declared a state of emergency due to the outbreak of COVID-19, which has spread to the State and to many of its counties. These measures, which alter the behavior of businesses and people, are expected to have negative impacts on regional, state and local economies. Significant declines in the financial markets in the United States and volatility attributed to concerns about the duration of the pandemic and its continued economic impact are expected. The United States Congress has passed relief and stimulus legislation which is intended to address the financial impact of the pandemic on the United States economy and financial markets. It is too early to predict if the legislation will have its intended effect. If market declines and/or volatility continues, the ability to sell or trade securities in the financial markets could be materially constrained.

Developments with respect to COVID-19 and the State's responses to COVID-19 (including governmental mandates) continue to occur at a rapid pace, including on a daily basis, and the swift spread of the outbreak may continue to increase in severity for an unknown period of time.

In an attempt to slow the spread of COVID-19 in the State, the Governor has taken numerous and wide-spread actions designed to mandate or encourage "social distancing." The Governor has also mandated that all public schools will remain closed for onsite instruction through the 2019/2020 school year.

In accordance with the Governor's recommended social distancing measures, the School has moved all academic instruction online through the end of the spring 2020 semester. The School has not refunded and does not currently plan to refund any student tuition and fees. The School will receive reduced cafeteria revenues as well as reduced expenses for the spring 2020 semester, which will result in a net loss of profitability of approximately \$25,000 for the fiscal year ending June 30, 2020. The School has cancelled all after-school programs, which will result in a net loss of revenues over expenses of approximately \$10,000 for the fiscal year ending June 30, 2020. The School does not anticipate operating any summer programs through the month of June, which will result in a net loss of approximately \$25,000 for the fiscal year ending June 30, 2020. The School, however, expects an overall net gain of approximately \$100,000 for the fiscal year ending June 30, 2020, as a result of the reduction of operating expenses associated with the elimination of on-site academic instruction and programs. It is uncertain whether the School will be able to operate summer programs after June 30, 2020, which could potentially result in another \$40,000 lost profit for the year ending June 30, 2021.

The School intends to follow guidelines from the Governor's office with respect to on-site instruction for the 2020/2021 academic year. The School has made contingency plans to operate either on campus, with varying degrees of virus spread deferral practices, through distance learning, or a hybrid approach where some students may be at home and others in the classroom. This flexible approach is expected to mitigate the potential of students withdrawing from the School. Whether academic instruction occurs on-site or online, the School has no intention of reducing student tuition and fees.

The School conducts a reenrollment process each year for existing students. Currently 92.7% of the students enrolled for the 2019/2020 academic year have reenrolled for the 2020/2021 academic year, which is in line with budgeted numbers. The students who have reenrolled are contractually obligated after June 30, 2020 to pay all student tuition and fees for the 2020/2021

academic year; however, if a reenrolled student terminates his or her contract prior to June 30, 2020, the student is eligible to receive a reimbursement of 50% of such amount. Currently, no reenrolled student has sought any reimbursement.

The School currently anticipates that enrollment for the 2020/2021 academic year will decrease by approximately 1.5% from the 2019/2020 academic year, which is a reflection of the difficulties that social distancing measures place on recruitment and new admissions. The School has furloughed a small number of part-time hourly staff associated with the summer and after-school program. No full time faculty or staff have been furloughed. Should the School be required in the fall to operate in a distance learning mode for an extended period, there will likely be a small number of full time faculty that are furloughed.

The School will continue to monitor the COVID-19 situation and will adjust its policies as needed. The full impact of COVID-19 and the scope of any adverse impact to the School's finances and operations cannot be fully determined at this time.

General

The Bonds are payable from payments to be made by the Corporation under the Loan Agreement. The ability of the Corporation to comply with its obligations under the Loan Agreement depends primarily upon the ability of the Corporation to obtain sufficient revenues from the operation of the School and related activities and to maintain sufficient creditworthiness. There are a number of factors affecting institutions of primary and secondary education in general, including the Corporation, that could have an adverse effect on the Corporation's financial position and its ability to make the payments required under the Loan Agreement. These factors include, but are not limited to, the continuing rising costs of providing primary and secondary education services; the level of administrative, faculty, alumni, parent and student confidence in and support of the School; the number of school-age students at any given time; economic developments in the area and competition from other public and private primary and secondary education institutions in the area; the failure to maintain or increase in the future the funds obtained by the Corporation from other sources, including gifts and contributions from donors; and imposition of federal or State unrelated business income or local property taxes. The Corporation cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations. Some of the possible changes in future conditions and other risks are discussed below, but this discussion of risk factors is not, and is not intended to be, exhaustive and should be read in conjunction with Appendix A hereto.

Limited Obligations of the Issuer; Limited Security

The Bonds are special and limited obligations of the Issuer. They are secured by and payable solely from funds payable by the Corporation under the terms and conditions of the Loan Agreement and as otherwise described herein. The obligations of the Corporation under the Loan Agreement are secured by a pledge of the Pledged Revenues. While the Corporation believes, based on present circumstances, that it will generate sufficient Pledged Revenues to meet its obligations under the Loan Agreement, the basis of the assumptions utilized by the Corporation to formulate this belief may change, and no representation or assurance can be made that the Corporation will continue to generate sufficient Pledged Revenues to meet such obligations.

Dependence Upon Contributions and Other Income Sources

The Corporation is dependent upon income sources other than tuition and fees, including contributions by private individuals and entities (including alumni), sales of auxiliary services, and interest and other sources. The Corporation has received funds annually from the Episcopal Collegiate School Foundation. See **THE FOUNDATION** in Appendix A hereto. The Board of Directors of the Foundation and the Board of Trustees of the Corporation are not the same. The funds of the Foundation

are not in any way pledged to the Bonds or to the obligations of the Corporation under the Loan Agreement. There can be no assurance that contributions or Pledged Revenues will continue at levels sufficient to meet the financial requirements of the Corporation.

Various factors could affect individuals' continued contributions. For example, a change in marginal income tax rates or conversion to a flat tax or national sales tax could reduce or eliminate the tax advantages of charitable contributions for many taxpayers. Donations of stock and other appreciated property may result in tax liability under the alternative minimum tax provisions of the Internal Revenue Code of 1986, as amended (the "Code"), thereby discouraging contributions of such property. In addition, taxpayers who do not itemize deductions are not able to deduct charitable contributions. Changes in enrollment and in economic conditions could also impact contributions. Such factors may adversely affect contributions to organizations such as the Corporation.

A portion of the Corporation's total revenues is derived from income earned on investments of the Corporation's funds. Although the Corporation believes its investments are managed prudently and has adopted policies designed to ensure the prudent management of its investments in the future, there can be no assurance that unforeseen developments in the securities markets will not have an adverse effect on the market value of those investments and the income generated therefrom.

Tax-Exempt Status of the Corporation and the Bonds.

The Corporation. The Internal Revenue Service ("IRS") has determined as recently as 1997 that the Corporation is an organization described in Section 501(c)(3) of the Code and therefore is exempt from federal income taxation. The maintenance by the Corporation of its tax-exempt status depends, in part, upon its maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status by the Corporation is contingent upon its compliance with applicable provisions of the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for educational purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals. The failure of the Corporation to remain qualified as a tax-exempt organization (see "IRS Examination and Enforcement Activities" below) could result in substantial tax liabilities on the income of the Corporation and could adversely affect the amount of funds available to pay debt service on the Bonds. Such failure could also cause the inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to their date of issuance (see "The Bonds" below). In addition, the possible modification or repeal of certain existing federal income tax laws or property tax laws or other loss by the Corporation of the present advantages of such laws, or any legislation imposing additional conditions on tax-exempt organizations, could adversely impact the financial position of the Corporation.

The Bonds. The failure of the Corporation to remain qualified as a tax-exempt organization, as well as failure to comply with certain legal requirements relating to the Bonds, could cause the inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to their date of issuance. In such event, defaults under covenants regarding the Bonds could be triggered and the maturity of the Bonds may be accelerated. The Indenture does not provide for the payment of any additional interest or penalty in the event of the taxability of the interest on the Bonds. The taxation of interest on the Bonds would also adversely affect their price and marketability.

IRS Examination and Enforcement Activities. In recent years, the IRS has increased the frequency and scope of its examination and other enforcement activities regarding tax-exempt organizations and tax-exempt bonds. Currently, the primary penalties available to the IRS under the Code are the revocation of the tax-exempt status of an organization and a determination that interest on tax-exempt bonds is subject to federal income taxation. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. In addition, although the IRS has only infrequently taxed the interest received by holders of bonds that were represented to be tax-exempt, the IRS has examined a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. No assurance can be given

that the IRS will not examine the Underwriter, a Bondholder, the Corporation or the Bonds. If the Bonds are examined, it may have an adverse impact on their price and marketability. Based on the stated use of proceeds from the sale of the Bonds as described herein, and on representations, warranties and covenants of the Corporation, Bond Counsel will deliver its opinion as to the tax-exemption of interest on the Bonds.

Competition

Competition from other primary and secondary educational facilities located within and outside the City of Little Rock and Pulaski County, Arkansas, both public and private, may offer comparable educational opportunities at competitive pricing levels. The cost of tuition at the School is marginally higher than some, and substantially higher than other of the School's competitors. Because of such competition and cost differentials, no assurance can be given that current enrollment levels will be maintained. See **ENROLLMENT** in Appendix A hereto.

Difficulties in Enforcing Remedies

The remedies available to the Trustee or the owners of the Bonds upon an event of default under the Indenture or the Loan Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the United States Bankruptcy Code, 11 U.S.C. § 10 et seq., the remedies provided in the Indenture and the Loan Agreement may not be readily available or may be limited. The various legal opinions delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Financial Information

Certain financial information with respect to the Corporation is set forth in the Appendices hereto. There can be no assurance that the financial results achieved by the Corporation in the future will be similar to historical results. Such future results will vary from historical results and actual variations may be material. Therefore, the historical operating results of the Corporation cannot be taken as a representation that the Corporation will be able to generate sufficient revenues in the future to make payments under the Loan Agreement sufficient for the full and timely payment of the principal of, premium, if any, and interest on the Bonds.

THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement and does not purport to be comprehensive or complete. Reference is made to the Loan Agreement in its entirety for the detailed provisions thereof. **The term "Bonds" in this summary includes the Bonds offered hereby, the Series 2016 Bonds and any Additional Parity Bonds. The term "Facility" in this summary includes the capital improvements and facilities financed or refinanced by the Bonds Refunded, the Series 2016 Bonds and any Additional Parity Bonds.**

Repayment of Bonds

The Corporation covenants and agrees to pay or to cause to be paid in lawful money of the United States of America to the Trustee for deposit in the Bond Fund, as a repayment of the loan made to the Corporation out of Bond proceeds pursuant to the Loan Agreement, (i) monthly payments equal to one-sixth (1/6) of the next installment of interest on the Bonds and one-twelfth (1/12) of the next installment of principal of the Bonds due under the provisions of the Indenture, payable on or before the 15th day of each month and (ii) such additional amounts necessary for there to be on deposit in the Bond Fund the amount payable as principal (whether at maturity, upon redemption or otherwise) of and premium, if any, and interest on the Bonds as provided in the Indenture on any date that any such

payment is due as set forth in the Indenture. The Corporation shall receive a credit against required monthly payments into the Bond Fund for interest earnings on moneys in the Bond Fund and from transfers from the Debt Service Reserve Fund as a result of its required level being exceeded. Each payment shall be made in immediately available funds at the principal corporate trust office of the Trustee during normal banking hours. All such amounts shall be due and payable until the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or the required provision made for the payment thereof in accordance with the provisions of the Indenture.

In the event that the payment of the principal of and accrued interest on the Bonds is accelerated under the Indenture, the Corporation covenants and agrees to pay, or cause to be paid, to the Trustee as provided above a sum equal to all the principal of and interest on the Bonds then outstanding.

Payment of Other Amounts

The Corporation agrees to pay the fees, charges and reasonable and necessary expenses, including reasonable attorneys' fees, of the Trustee and any Paying Agent. The Corporation agrees to pay the reasonable and necessary expenses incurred by the Issuer with respect to the Loan Agreement, the Indenture and any transaction or event contemplated by the Loan Agreement or the Indenture, which are not otherwise required to be paid by the Corporation under the terms of the Loan Agreement. In the event moneys are withdrawn from the Debt Service Reserve Fund that causes moneys therein to be less than its required level, the Corporation shall make additional payments in order to restore the Debt Service Reserve Fund to its required level in accordance with the Indenture. See **THE INDENTURE**, Debt Service Reserve Fund.

Unconditional Obligation

The obligations of the Corporation to make the required payments shall be absolute and unconditional, irrespective of any defense or any right of set-off, recoupment or counterclaim it might otherwise have against the Issuer or the Trustee.

Maintenance and Insuring of School

The Corporation shall at all times maintain, preserve and keep the School, and every element and unit thereof, in thorough repair, working order and condition, and from time to time make all needful proper repairs and renewals thereto. The Corporation may at its own expense remodel the Facility or make such substitutions, modifications and improvements to the Facility from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications and improvements shall be included under the terms of the Loan Agreement as part of the Facility.

The Corporation shall (i) keep the School insured against fire and other risks to the extent usually insured against by companies owning and operating similar property in an amount not less than the principal amount of the Bonds outstanding, and (ii) maintain not less than \$1,000,000 in public liability insurance, worker's compensation insurance, and multi-risk insurance on the School. All policies of insurance shall be effected with reputable insurance companies qualified to do business in the State of Arkansas. Certificates of the insurance required by this subsection shall be delivered by the Corporation to the Trustee. Notwithstanding the above, the Corporation may elect to insure the School, partially or wholly, in conjunction with other companies through an insurance trust or other arrangement.

Assignment of Issuer's Rights

As security for the payment of the Bonds, the Issuer will assign to the Trustee the Issuer's rights under the Loan Agreement (except for the Issuer's rights as to payment by the Corporation for reasonable and necessary expenses incurred by the Issuer, indemnification, access to the Facility, attorneys' fees, expenses incurred by the Issuer upon the Corporation's default under the Loan Agreement, and any

rights of the Issuer to receive notices, certificates, or other communications hereunder), including the right to receive payments under the Loan Agreement and the proceeds thereof, and directs the Corporation to make said payments, or to cause said payments to be made, directly to the Trustee. The Corporation consents to such assignment and will make payments, or cause payments to be made, directly to the Trustee without defense or set-off by reason of any dispute between the Corporation and the Issuer or the Trustee.

Maintenance of Corporate Existence

The Corporation agrees that it will maintain its existence as a corporation in good standing under the laws of the State of Arkansas and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, except the Corporation may, without violating the foregoing, consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to another entity (and thereafter dissolve or not dissolve as it may elect), if such consolidation, merger or transfer will not result in the occurrence of an Event of Default under the Loan Agreement, if the entity surviving such merger or resulting from such consolidation, or the entity to which all or substantially all of the assets of the Corporation are transferred, as the case may be: (i) shall be a domestic corporation or limited liability company that is organized under the laws of the United States of America, the District of Columbia or one of the states of the United States qualified to do business in the State of Arkansas, (ii) shall assume in writing all of the obligations of the Corporation under the Loan Agreement, (iii) shall have net tangible assets at least equal to the net tangible assets of the Corporation immediately prior to such consolidation, merger or transfer and (iv) shall be an organization described in Section 501(c)(3) of the Code. As used herein, the term "net tangible assets" means all net assets of the entity (except there shall not be included goodwill) less all liabilities.

Financial Reports

The Corporation shall furnish to the Trustee and the Issuer within one hundred fifty (150) days after the end of the preceding fiscal year, a statement of financial position of the Corporation as at the end of such fiscal year and the related statements of activities and cash flows for such fiscal year, all in reasonable detail and audited by an independent certified public accountant of recognized standing.

Options in Favor of the Corporation

The Corporation shall have and is hereby granted the option to prepay installments payable hereunder for the purpose of redeeming prior to maturity the Bonds, in whole but not in part, pursuant to Section 301(a) of the Indenture, upon the occurrence of any of the following:

(a) The School shall have been damaged or destroyed (i) to such extent that it cannot be reasonably restored within a period of six months to the condition thereof immediately preceding such damage or destruction, or (ii) to such extent that the Corporation is thereby prevented, in the Corporation's judgment, from carrying on its normal operation of the School or the Corporation for a period of six months, or (iii) to such extent that it would not be economically feasible, in the Corporation's judgment, for the Corporation to repair the School.

(b) Title to, or the temporary use for a period of six months or more of, all or substantially all the School, or such part thereof as shall materially interfere, in the Corporation's judgment, with the operation of the School or the Corporation for the purpose for which the School is designed, shall have been taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority (including such a taking or takings as results in Corporation being thereby prevented from carrying on its normal operation of the School for a period of six months).

Events of Default

Each of the following events shall constitute an "Event of Default" under the Loan Agreement:

(a) Failure by the Corporation to pay when due any payment required to be made under Section 5.2(a) of the Loan Agreement (related to the payment of the principal of, premium, if any, and interest on the Bonds) and the continuation of such failure for a period of 15 days after the due date; provided, however, that any default in the payment of the principal of and interest on the Bonds when due shall constitute a default under this clause (a).

(b) Failure by the Corporation to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement, other than as referred to in (a) above, which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, is given to the Corporation by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Corporation within the applicable period and is being diligently pursued.

(c) The dissolution or liquidation of the Corporation or the filing by the Corporation of a voluntary petition in bankruptcy, or failure by the Corporation promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry out its obligations under the Loan Agreement, or filing of any involuntary bankruptcy proceedings against the Corporation, or an assignment by the Corporation for the benefit of its creditors, or the entry by the Corporation into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Corporation in any proceeding for its reorganization instituted under the provisions of any bankruptcy act, or under any similar act which may hereafter be enacted. The term "dissolution or liquidation of the Corporation", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Corporation resulting either from a merger or consolidation of the Corporation into or with another corporation or limited liability company, or a dissolution or liquidation of the Corporation following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 6.1 of the Loan Agreement.

(d) Any default in any payment of principal or interest for any obligation of the Corporation beyond any period of grace provided with respect thereto or in the performance of any other term, condition or covenant contained in any agreement (including, but not limited to an agreement in connection with the deferred purchase price of property) under which any such obligation is created, the effect of which default is to cause or permit the holder of such obligation to cause such obligation to become due prior to its stated maturity.

(e) The cessation of the Corporation to be an organization described in Section 501(c)(3) of the Code.

Remedies on Default

Whenever any Event of Default hereunder shall have happened and be continuing, any one or more of the following remedial steps may be taken:

(a) The Issuer or the Trustee may at its option, and shall, if acceleration occurs or is declared pursuant to the Indenture, declare all unpaid amounts payable under the Loan Agreement, together with interest then due thereon, to be immediately due and payable, whereupon the same shall become due and payable;

(b) The Issuer or the Trustee may take whatever action at law or in equity that may appear necessary or desirable to collect the payments then due and thereafter to come due thereunder, or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement;

(c) The Issuer or the Trustee may through its duly authorized agents have access to and inspect, examine and make copies of, the books, records and accounts of the Corporation; and/or

(d) The Issuer or the Trustee may exercise any remedy afforded a "secured party" under the Uniform Commercial Code of the State of Arkansas with respect to the Pledged Revenues.

THE INDENTURE

The following, in addition to information contained above under the headings **THE BONDS** and **SECURITY FOR THE BONDS**, is a summary of certain provisions of the Indenture and does not purport to be comprehensive or complete. Reference is made to the Indenture in its entirety for the detailed provisions thereof. **The term "Bonds" in this summary, include the Bonds offered hereby, the Series 2016 Bonds and any Additional Parity Bonds.**

Bond Fund

The Indenture provides for the creation of a Bond Fund, with the Trustee, into which will be deposited as and when received, among other things, all revenues for the repayment of the Bonds as specified in the Loan Agreement, and all moneys received by the Trustee under and pursuant to any of the provisions of the Loan Agreement or the Indenture which are not directed to be paid into a fund other than the Bond Fund.

Moneys in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds as provided in the Bonds and the Indenture.

Debt Service Reserve Fund

The Indenture provides for the creation of a Debt Service Reserve Fund with the Trustee. The Debt Service Reserve shall be maintained in an amount equal to the maximum annual debt service on the Series 2016 Bonds and the Bonds offered hereby. In the event that Additional Parity Bonds are issued, the Debt Service Reserve Fund shall be increased by depositing therein from Additional Parity Bond proceeds an amount equal to the lesser of (i) 10% of the original proceeds of the Additional Parity Bonds and (ii) the amount necessary to increase the Debt Service Reserve Fund to a level equal to the maximum annual debt service on the Bonds and Series 2016 Bonds outstanding and the Additional Parity Bonds proposed to be issued. If the Debt Service Reserve Fund is reduced below the required level, it shall be reimbursed to that level through monthly payments, beginning on the first business day of the month immediately following the month in which the Debt Service Reserve Fund was reduced below the required level set forth above, and continuing on the first business day of each month thereafter until such reimbursement shall have been accomplished, from moneys provided by the Corporation under the Loan Agreement, in an amount equal to one-sixth (1/6) of the amount withdrawn from the Debt Service Reserve Fund; provided, however, if the Debt Service Reserve Fund is reduced below the required amount solely as a result of the valuation of the investments held for the account of the Debt Service Reserve Fund, in the amount equal to the reduction. If a surplus shall exist in the Debt Service Reserve Fund over and above the level set forth above, such surplus shall be deposited into the Bond Fund.

Investment of Funds

Moneys held for the credit of the Bond Fund shall to the extent practicable be invested and reinvested in Permitted Investments which will mature, or which will be subject to redemption by the holder thereof at the option of the holder, not later than the date or dates necessary for the payment of principal

and interest on the Bonds. The Trustee shall so invest and reinvest moneys pursuant to instructions from the Corporation Representative.

Moneys held for the credit of the Debt Service Reserve Fund shall to the extent practicable be invested and reinvested in Permitted Investments which will mature, or which will be subject to redemption by the holder thereof at the option of the holder, no longer than the later of five years from the purchase date thereof, or the final maturity date of the Bonds; provided, however, that the five year limitation shall not apply to any investment agreement that is a Permitted Investment. The Trustee shall so invest and reinvest pursuant to instructions from the Corporation Representative.

Obligations so purchased as an investment of moneys in any fund or account shall be deemed at all times a part of such fund or account. Any profit and income realized from such investments shall be credited to the fund or account and any loss shall be charged to the fund or account.

"Permitted Investments" includes:

(1) Cash insured at all times by the Federal Deposit Insurance Corporation or held in an account maintained in the trust department of a bank chartered under the laws of the United States of America or a bank chartered under the laws of any state the banking laws of which require the collateralization of trust assets on a basis substantially similar to the laws requiring the collateralization of assets held in the trust departments of federally chartered banks;

(2) Direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury);

(3) Obligations of any of the following federal agencies which obligations are fully guaranteed by the full faith and credit of the United States of America, including:

- (a) Export-Import Bank,
- (b) Rural Economic Community Development Administration,
- (c) U.S. Maritime Administration,
- (d) Small Business Administration,
- (e) U.S. Department of Housing & Urban Development (PHAs),
- (f) Federal Housing Administration, and
- (g) Federal Financing Bank;

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- (a) Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC),
- (b) Obligations of the Resolution Funding Corporation (REFCORP),
- (c) Senior debt obligations of the Federal Home Loan Bank System, and
- (d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's Investors Service, Inc. ("Moody's") and "A-1" or "A-1+" by Standard & Poor's Ratings Services ("S&P") and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

- (a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
- (b) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) above, (i) which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal Obligations rated "Aaa/AAA" or general obligations of states with a rating of "Aa3/AA-" or higher by both Moody's and S&P; and

(9) Investment agreements, supported by appropriate opinions of counsel and which do not, in the judgment of the Trustee, by virtue of their being entered into, unreasonably expand the responsibilities or potential liability of the Trustee, that provide that during their term:

- (a) if the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment;
- (b) if the provider's rating either by S&P or Moody's is withdrawn or suspended or falls below "A-" or below "A3", respectively, the provider must, at the direction of the Issuer, Corporation or the Trustee, wire the principal of and accrued but unpaid interest on the investment to the Trustee within one business day, and the investment agreement will be immediately terminated; and
- (c) the provider is required to immediately notify the Trustee, the Issuer and the Corporation of any event of default or any suspensions, withdrawal or downgrading of the provider's ratings.

Events of Default

Each of the following events shall constitute and is referred to in the Indenture as an "Event of Default":

- (a) Default in the due and punctual payment of any interest on any Bond;

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

(c) Default in the payment of any other amount required to be paid under the Indenture or the performance or observance of any other of the covenants, agreements or conditions contained in the Indenture, or in the Bonds issued under the Indenture, and continuance thereof for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied, shall have been given to the Issuer and the Corporation by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of bondholders of not less than 10% in aggregate principal amount of the Bonds then outstanding, unless the Trustee, or the Trustee and bondholders of an aggregate principal amount of Bonds not less than the aggregate principal amount of Bonds the bondholders of which requested such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, such bondholders and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Issuer, or the Corporation on behalf of the Issuer, within such period and is being diligently pursued; and

(d) The occurrence of an "Event of Default" under the Loan Agreement.

Remedies on Default

Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds outstanding, shall, by notice in writing delivered to the Issuer and the Corporation, declare the principal of all Bonds thereby secured then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable.

In addition, upon the occurrence of an Event of Default, the Trustee may, as an alternative, pursue any available remedy by suit at law or in equity to enforce the payment of the principal of and interest on the Bonds then outstanding under the Indenture.

The Trustee may in its discretion waive any Event of Default and its consequences and rescind any declaration of maturity of principal and shall do so upon the written request of the owners of not less than fifty percent (50%) in principal amount of all Bonds outstanding except that there shall not be waived (a) any event of default in the payment of the principal of any Bonds at the date of maturity specified therein, or (b) any default in the payment of the interest unless prior to such waiver or rescission all arrears of principal (due otherwise than by declaration) and interest and all expenses of the Trustee and paying agent shall have been paid or provided for, and in case of any such waiver or rescission the Issuer, the Trustee and the bondholders shall be restored to their former positions and rights respectively. No such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

Termination of Rights of Bondholders

All rights of any holder of any Bond to or with respect to any moneys or investments held in any fund under the Indenture shall terminate at the expiration of two and one-half years from the date of maturity of such Bond, whether by scheduled maturity or by call for redemption prior to maturity in accordance with the terms thereof.

Defeasance

The Indenture provides that the lien of the Indenture may be discharged and that the Trustee will execute and deliver to the Issuer such instruments as shall be necessary to satisfy the lien and reconvey to the Issuer the estate conveyed by the Indenture and assign and deliver to the Issuer any property at

any time subject to the lien of the Indenture which may be in the Trustee's possession except moneys or Government Securities held by it for the payment of the principal of and interest on the Bonds, when the Issuer shall pay or cause to be paid the principal of, premium, if any, and interest on the Bonds. Bonds for the payment or redemption of which moneys or non-callable Government Securities maturing on or prior to the maturity or redemption date of such Bonds shall have been deposited with the Trustee (whether upon or prior to maturity or the redemption date of such Bonds) shall be deemed to be paid within the meaning of the Indenture. "Government Securities" are defined to mean direct or fully guaranteed obligations of the United States of America (including any such securities issued or held in book entry form on the books of the Department of the Treasury of the United States). In determining the sufficiency of a deposit of Government Securities there shall be considered the principal amount of such Government Securities and interest to be earned thereon until the maturity of such Government Securities. If any Bonds are to be redeemed prior to the maturity thereof, notice of such redemption must have been duly given or arrangements satisfactory to the Trustee must have been made for the giving of such notice.

Supplemental Indentures

The Issuer and the Trustee may, from time to time and at any time, without the consent of or notice to the bondholders, enter into supplemental indentures as follows:

- (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture;
- (b) to grant to or confer or impose upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Indenture as theretofore in effect, provided that no such additional liabilities or duties shall be imposed upon the Trustee without its consent;
- (c) to add to the covenants and agreements of, and limitations and restrictions upon, the Issuer in the Indenture other covenants, agreements, limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (d) to confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by, the Indenture, of the revenues of the Issuer from the Loan Agreement or of any other moneys, securities or funds;
- (e) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (f) to accomplish the issuance and securing of Additional Parity Bonds; or
- (g) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the owners of the Bonds and which, in the judgment of the Trustee, is not to the prejudice of the Trustee, and which does not involve a change in (i) the maturity of the Bonds, (ii) the principal amount of or rate of interest on the Bonds, (iii) the creation of any lien ranking prior to the lien of the Indenture on the Trust Estate or any part thereof, except as expressly permitted in the Indenture, or (iv) a privilege or priority of one Bond over the other, and which does not deprive the owner of a Bond of the lien hereby created on the Trust Estate.

All other modifications and changes to the Indenture require the consent of the owners of not less than two-thirds (2/3) in aggregate principal amount of the Bonds then outstanding, provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) the creation of a pledge of revenues pledged to the Bonds other than the lien and pledge created by the Indenture, or (d) a privilege or priority of any Bond or Bonds over

any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture without 100% Bondholder approval.

Amendment of Loan Agreement

The Indenture provides that the Trustee may from time to time, and at any time, consent to any amendment, change or modification of the Loan Agreement for the purpose of curing any ambiguity or formal defect or omission or making any other change herein, which in the reasonable judgment of the Trustee is not to the prejudice of the Trustee or the owners of the Bonds. The Trustee shall not consent to any other amendment, change or modification of the Loan Agreement without the approval or consent of the owners of not less than two-thirds (2/3) in aggregate principal amount of the Bonds at the time outstanding.

TAX EXEMPTION

In the opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, under existing law, the interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the Issuer and the Corporation comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Corporation have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, or certain recipients of Social Security or Railroad Retirement benefits, are advised to consult their tax advisors as to the tax consequences of purchasing, holding, or selling the Bonds.

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

Bond Counsel is of the opinion that, under existing law, the Bonds and interest thereon are exempt from all state, county, and municipal taxation in the State of Arkansas and that the Bonds are further exempt from property taxes in the State of Arkansas.

As shown on the cover page of this Official Statement, certain of the Bonds are being sold at an original issue premium (collectively, the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or

disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

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

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

CONTINUING DISCLOSURE

The Issuer has determined that no financial or operating data concerning the Issuer is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Issuer will not provide any such information. The Corporation has undertaken all responsibility for any continuing disclosure to Bondholders as described below, and the Issuer shall have no liability to the Bondholders or any other person with respect to Securities and Exchange Commission Rule 15c2-12 (the "Rule").

The Corporation has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Corporation by not later than 180 days following the end of the Corporation's fiscal year (presently ending on June 30 in each year) (the "Annual Report"), commencing with the Annual Report for the Corporation's fiscal year ending June 30, 2021, and to provide notices of the occurrence of certain enumerated events. Each Annual Report shall be filed by the Trustee on behalf of the Corporation with the Municipal Securities Rulemaking Board ("MSRB"). The notices of listed events will be filed by the Trustee on behalf of the Corporation with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized below under the caption **SUMMARY OF PORTIONS OF THE CONTINUING DISCLOSURE AGREEMENT**. These covenants have been made in order to assist the Underwriter in complying with the Rule.

During the past five years, the Corporation has been a party to certain continuing disclosure agreements in connection with outstanding bonds. While the Corporation has not made any determination as to materiality, the following summarizes a non-exhaustive review of the Corporation's compliance with its continuing disclosure obligations over the past five years.

The continuing disclosure agreements have obligated the Corporation within 180 days of the end of its fiscal year (currently June 30) to (i) report certain statistical information in annual reports to be filed with the MSRB and (ii) file with the MSRB the Corporation's audited financial statements.

During the past five years, all of the Corporation's statistical information has been filed with the MSRB in a timely fashion. The statistical information filed for the fiscal year ended June 30, 2016, however, omitted required enrollment data for the previous fiscal year. Notice concerning such failure was not filed with the MSRB.

During the past five years, the Corporation's audited financial statements were all filed in a timely manner.

The continuing disclosure agreements also obligated the Corporation to file a notice of any event listed in the Rule. During the past five years, the Corporation has timely filed notices of the occurrences of all listed events.

SUMMARY OF PORTIONS OF THE CONTINUING DISCLOSURE AGREEMENT

The following statements are brief summaries of certain provisions of the Continuing Disclosure Agreement. The statements do not purport to be complete, and reference is made to the Continuing Disclosure Agreement, copies of which are available for examination at the offices of the Corporation, for a full statement thereof.

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

Definitions. In addition to the definitions set forth in Appendix A hereto, the following capitalized terms shall have the following meanings when used under this caption **SUMMARY OF PORTIONS OF THE CONTINUING DISCLOSURE AGREEMENT**:

"Annual Report" shall mean any Annual Report provided by the Corporation, as described hereinafter under the subheading "Provision of Annual Reports."

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the Director of Finance and Operations, or his or her designee, or such other person as the Corporation shall designate in writing to the Trustee from time to time.

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

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

"Financial Obligation" shall mean a

- (A) debt obligation;
- (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
- (C) guarantee of obligations described in (A) or (B).

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

"Listed Events" shall mean any of the events listed hereinafter under the subheading Reporting of Listed Events.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

"Underwriter" shall mean Stephens Inc., the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

Provision of Annual Reports. The Corporation shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Corporation's fiscal year (presently ending on June 30 in each year), commencing with the fiscal year ending June 30, 2021, provide to the MSRB, through its continuing disclosure service portal EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. Not later than fifteen (15) days prior to said date, the Corporation shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). Annual Reports may be submitted as single documents or as separate documents comprising a package, and may cross-reference other information; provided that the annual financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date set forth above for the filing of such Annual Report if they are not available by that date, but in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the Corporation.

Content of Annual Report. The Annual Report shall contain or include by reference the following:

- (i) The following general categories of financial information and operating data with respect to the Corporation for the prior fiscal year:
 - (a) Enrollment figures and Pledged Revenues as set forth under the captions **PLEGGED REVENUES** and **ENROLLMENT** in Appendix A to the Official Statement; and
 - (b) The total amount of distributions received from the Episcopal Collegiate School Foundation; and
- (ii) The Corporation's audited financial statements for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board, as in effect from time to time.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so included by reference.

Reporting of Listed Events. (a) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) modifications to rights of Bond holders, if material;
- (iv) Bond calls, if material;
- (v) defeasances and tender offers;
- (vi) rating changes;
- (vii) 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 Bonds, or other material events affecting the tax status of the Bonds;
- (viii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on credit enhancements reflecting financial difficulties;
- (x) substitution of credit or liquidity providers, or their failure to perform;
- (xi) release, substitution or sale of property securing repayment of the Bonds, if material;
- (xii) bankruptcy, insolvency, receivership or similar event of the Corporation;
- (xiii) 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 Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a Financial Obligation of the Corporation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Corporation, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Corporation, any of which reflect financial difficulties.

(b) The Trustee shall, within one (1) business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f) below.

(c) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee as provided in subsection (b) above or otherwise, the Corporation shall as soon as possible determine if such event must be reported under applicable federal securities laws.

(d) If the Corporation has determined that of the occurrence of a Listed Event must be reported under applicable federal securities laws, the Corporation shall promptly notify the Dissemination Agent (and the Trustee if the Trustee is not the Dissemination Agent) in writing. Such notice shall instruct the Dissemination Agent (and the Trustee if the Trustee is not the Dissemination Agent) to report the occurrence as provided in subsection (f) below.

(e) If in response to a request as provided in subsection (b) above, the Corporation determines that such occurrence of a Listed Event would not be required to be reported under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent (and the Trustee if the Trustee is not the Dissemination Agent) in writing and instruct the Dissemination Agent (and the Trustee if the Trustee is not the Dissemination Agent) not to report the occurrence as provided in subsection (f) below.

(f) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file in a timely manner not in excess of ten (10) business days a notice of such occurrence with the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any other similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Corporation. Notwithstanding the foregoing, notice of a Listed Event described in (a)(iv) above shall be filed by the Trustee without instructions from the Corporation and shall be filed in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event. Each notice of the occurrence of a Listed Event shall be captioned "Notice of Listed Event" and shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Termination of Reporting Obligation. The obligations of the Corporation under the Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Corporation's obligations under the Agreement are assumed in full by some other entity, such entity shall be responsible for compliance with the Continuing Disclosure Agreement in the same manner as if it were the Corporation, and the Corporation shall have no further responsibility thereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event.

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

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Agreement, the Corporation and the Trustee may amend the Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Corporation), and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If such amendment or waiver relates to the provisions requiring the filing of Annual Reports by certain dates, the content of Annual Reports, or the Listed Events to be reported, it may only be made in connection with a change in circumstances that arises from a change in legal

requirements, change in law, or change in the identity, nature or status of an "Obligated Person" (as defined in the Rule) with respect to the Bonds, or the type of business conducted;

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

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

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

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

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

Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in the Continuing Disclosure Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under the Continuing Disclosure Agreement, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. Such indemnification obligations of the Corporation shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, which opinion does not, however, pass upon the accuracy or completeness of this Official Statement. Copies of such opinion will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for the Corporation by Friday, Eldredge & Clark, LLP.

ENFORCEABILITY OF REMEDIES

Enforcement of the remedies available under the Loan Agreement, the Bonds and the Indenture may depend on judicial action and may be subject to the application of federal bankruptcy laws or other debtor relief or moratorium laws in general. Therefore, enforcement of those remedies may be delayed or limited, or the remedies may be modified or unavailable. Bond Counsel and counsel to the Corporation express no opinion as to any effect upon any right, title, interest or relationship created by or arising under the foregoing instruments resulting from the application of state or federal bankruptcy, insolvency, reorganization, moratorium or similar debtor relief laws affecting creditors' rights which are presently or may from time to time be in effect.

UNDERWRITING

Stephens Inc. (the "Underwriter") has agreed to purchase, and the Issuer has agreed to sell to it, the Bonds at an aggregate purchase price of \$2,997,755.90 (principal amount plus original issue premium of \$52,916.90 and less Underwriter's discount of \$25,161), pursuant to a Bond Purchase Agreement among the Underwriter, the Issuer, and the Corporation.

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

Pursuant to the Bond Purchase Agreement, the Corporation has agreed to indemnify the Issuer and the Underwriter against certain liabilities.

MISCELLANEOUS

The foregoing summaries do not purport to be complete and are expressly made subject to the provisions of the complete documents. For details of all terms and conditions prospective purchasers are referred to the Loan Agreement, the Continuing Disclosure Agreement and the Indenture, copies of which may be obtained from the Underwriter. Attached as Appendices A, B and C to this Official Statement is information concerning the Corporation.

The execution of this Official Statement has been authorized by the Issuer.

ARKANSAS DEVELOPMENT FINANCE
AUTHORITY

By /s/ Bryan Scoggins
President

Dated: As of the Cover Page hereof.

APPENDIX A

EPISCOPAL COLLEGIATE SCHOOL

The information hereinafter set forth in this Appendix A to the Official Statement has been furnished by Episcopal Collegiate School.

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GENERALLY

Episcopal Collegiate School (the "Corporation") was incorporated under the Arkansas Nonprofit Corporation Act on April 30, 1997. The Corporation owns and operates a college preparatory school for boys and girls grades six through twelve and a lower school for students in grades PK3 through five.

In the fall of 1998, the Corporation opened its doors (under the name The Cathedral Middle School) at a temporary location at the Quapaw Quarter United Methodist Church at 1601 South Louisiana in Little Rock, Arkansas. Shortly thereafter, the Corporation purchased 31 acres at 1701 Cantrell Road in Little Rock, Arkansas to build a middle school with a vision to expand to an upper school. In the fall of 2000, the doors opened for grades six through nine at the newly named Jackson T. Stephens Campus. The campus was named in honor of Jackson T. Stephens for his lifelong support of education and his significant role in making The Cathedral Middle School a reality.

The Middle School was dedicated on November 3, 2000. Construction of the Upper School began shortly thereafter and was completed and dedicated on December 7, 2001. In July 2003, the Board of Trustees of the Corporation unanimously voted to change the name of The Cathedral Middle and High Schools to Episcopal Collegiate School to better reflect the heritage, identity, and mission of the School. In 2008, the Corporation commenced plans to expand its campus to include the Lower School to serve grades PK3-five. The Lower School was completed and dedicated in August of 2009.

The Jackson T. Stephens Campus features computers in all classrooms, laboratories, and offices that are connected by a fiber optic network, three libraries, specialized science laboratories, visual arts studios, and an athletic program supplied with fields and three gymnasiums that allow student athletes to compete in the Arkansas Activities Association.

The principal offices of the Corporation are located on the Jackson T. Stephens Campus and its telephone number is (501) 372-1194.

ACCREDITATION

The Corporation is fully accredited by the Southwestern Association of Episcopal Schools, the Southern Association of Independent Schools and Arkansas Non-Public Schools Accrediting Association. The Corporation is also a member of or affiliated with the following organizations or societies: The College Board, National Association of Episcopal Schools, National Association of Independent Schools, School and Student Service for Financial Aid, Association for Supervision and Curriculum Development, International Reading Association, National Council of Teachers of Mathematics, Arkansas Activities Association, National Science Teachers' Association, and National Council of Teachers of English.

BOARD OF TRUSTEES

The Board of Trustees of the Corporation consists of seventeen members. The name and principal occupation of each Trustee is as follows:

<u>Name</u>	<u>Occupation</u>
Joan Strauss, President ⁽¹⁾	Homemaker/Community Volunteer
Harriet C. Stephens, Vice-President ⁽²⁾	Philanthropist/Community Volunteer
Michelle Carney, Vice President	Homemaker/Community Volunteer
Jeanne Joyner, Secretary	Homemaker/Community Volunteer
Mark Lee, Treasurer	Investment Fund Owner/Manager
Larry Bowden ⁽³⁾	Fixed Income Sales and Trading
Chris Cooley ⁽⁴⁾	Managing Director of Equity Research
Mary Lou Entzminger	Retired Educator
Clay Hunter	Managing Director, Private Equity Firm
Jason LaFrance	Investor/Community Volunteer
Cathy Mayton	Philanthropist/Community Volunteer
Ann Nichols	Administrator, Software Company
Lizzie Phillips ⁽⁵⁾	Marketing/Graphic Design
Susan Reynolds	Real Estate Agent
Jason Smith	Agriculture Business
Tom Wallace	Doctor
David Perkinson ⁽⁶⁾	Headmaster of Episcopal Collegiate School

⁽¹⁾ Joan Strauss is the wife of Noel Strauss, Managing Director of Stephens Capital Partners, an affiliate of Stephens Inc., the Underwriter.

⁽²⁾ Harriet C. Stephens is the wife of Warren A. Stephens, Chairman, President and Chief Executive Officer of Stephens Inc., the Underwriter.

⁽³⁾ Larry Bowden is Executive Vice President and Director of Fixed Income Sales and Trading of Stephens Inc., the Underwriter.

⁽⁴⁾ Chris Cooley is Managing Director of Equity Research of Stephens Inc., the Underwriter.

⁽⁵⁾ Lizzie Phillips is Vice President and Chief Information Officer of Stephens Insurance, an affiliate of Stephens Inc., the Underwriter.

⁽⁶⁾ *Ex Officio*

ADMINISTRATION

The principal administrators of the Corporation are as follows:

<u>Name</u>	<u>Office</u>
David Perkinson	Headmaster of Episcopal Collegiate School
Troy Urquhart	Upper School Head
Chuck McCormick	Middle School Head
Catherine Schuhmacher	Lower School Head
Tom Charlton	Director of Finance and Operations
Micah Marsh	Interim Director of Athletics

The following are brief resumes of the principal administrators of the Corporation:

Dr. David Perkinson joined the Corporation in 2016 as Interim Head of the Upper School. He was named Interim Head of the Corporation in November of 2016 and was named Headmaster in April of 2017.

Prior to joining the Corporation, from 2012-2016, Dr. Perkinson was the Head of Upper School at Episcopal High School of Baton Rouge, Louisiana. He was Middle School Head from 2005-2012 at Spartanburg Day School in Spartanburg, South Carolina. He has taught Upper School Math at Charlotte Country Day School in Charlotte, North Carolina and at McCallie School in Chattanooga, Tennessee.

Dr. Perkinson attended the McCallie School. He holds a BA degree from St. Andrews Presbyterian College in Laurinburg, North Carolina, as well as an MA degree from UNC Charlotte in North Carolina and a Ph.D. from Penn State University.

In his capacity as Headmaster, Dr. Perkinson's duties include all academic, financial, personnel, and physical plant concerns. He is directly or indirectly responsible for hiring and direct supervision of the Upper, Middle, Lower and Early Childhood School Heads, the Director of Finance and Operations and by extension, all employees of the Corporation; creation, oversight and ongoing review of all budgets, tuition levels, supervising and being actively involved with all fundraising activities and capital programs; oversight of all academic programs, student discipline, and all matters of internal policy. Dr. Perkinson is also responsible for the day to day duties of the Corporation.

Troy Urquhart is the Head of the Upper School with responsibility for grades 9 – 12. Mr. Urquhart has been in that position since 2017. Prior to joining the Corporation, Mr. Urquhart was a teacher, Director of Professional Development, Dean of Students and Upper School Head at Montverde Academy in Montverde, Florida from 2006-2017. He taught AP English at Ft. Walton High School from 2001-2006.

Mr. Urquhart holds a BA degree, as well as an MA degree from University of West Florida. Mr. Urquhart is currently a candidate for Doctor of Education from the University of West Florida.

Dr. Harvey Charles (Chuck) McCormick is the Head of the Middle School with responsibility for grades 6 through 8. Mr. McCormick has been in that position since 2016. Prior to joining the Corporation, Mr. McCormick was Middle and Upper School Head at Norfolk Collegiate School in Norfolk, Virginia from 2012-2016. He was a teacher and Dean of Student Life at Cardigan Mountain School in Canaan, New Hampshire from 2004-2012. He was Director of Residential Life at Boston University from 1995-2002.

Mr. McCormick holds a BA degree from Colby College in Waterville, Maine, a Master of Education degree from Boston University and a Doctor of Education degree from Boston University.

Catherine Schuhmacher is the Head of the Lower School with responsibility for grades Pre-Kindergarten through 5th grade. Ms. Schuhmacher joined the Corporation in 2015 as Lower School Counselor. In 2016 she was named Associate Lower School Head and then named Head of the Lower School in 2017.

Prior to joining the Corporation, Ms. Schuhmacher was Lower School Counselor for Memphis University School in Memphis, Tennessee from 2006-2015. She held a similar position at Christ Methodist Day School in Memphis from 2005-2006. She was Domestic Violence Services Coordinator for the Exchange Club Family Center in Memphis from 2001-2006 and worked at the Suicide Crises Intervention Center in Memphis from 1999-2002.

Ms. Schuhmacher holds a BA degree in Psychology from Rhodes College in Memphis, Tennessee and a MS degree in Counseling from the University of Memphis. Ms. Schuhmacher has been a Licensed Professional Counselor since 2005.

Tom Charlton is the Director of Finance and Operations for the Corporation and has served in this position since August of 2009. In his capacity as Director of Finance and Operations, Mr. Charlton's responsibilities include accounting, finance, budgeting, technology, human resources, all physical plant issues, student records, and administration of the financial aid process.

Mr. Charlton began his career in banking with the National Bank of Commerce in Memphis, Tennessee from 1981 until 1985. From 1985 until 1995, Mr. Charlton worked in strategic planning and product management with Systematics, Inc., a Little Rock based banking software and data processing company. From 1995 until 2009 Mr. Charlton held various management positions with Alltel Corporation in Little Rock. Mr. Charlton served as a member of the Board of Trustees for the School for four years and served as Secretary of the Executive Committee.

Mr. Charlton graduated from Rhodes College in Memphis, Tennessee with a major in Economics and Business Administration. He also holds an MBA degree from Vanderbilt University with an emphasis on Finance and Quantitative Methods.

Micah Marsh is the Interim Athletic Director with responsibility for all athletic programs as well as Physical Education at the Corporation. Micah serves as the Head Varsity Girls Basketball Coach. Micah joined the School in 2011 as Head Boys Varsity Basketball Coach. Prior to joining the Corporation, Micah was Head Varsity Basketball Coach and teacher at Alcoa High School in Alcoa, Tennessee from 2002-2011. He was Assistant Men's Basketball Coach at Arkansas State University from 2000-2002. Micah played Division 1 basketball at Arkansas State University.

Micah holds a BS degree in Accounting and an MBA degree from Arkansas State University. He has an Education Specialist certification from Lincoln Memorial University.

FINANCIAL INFORMATION

Set forth in Appendix B attached to this Official Statement are the audited financial statements of the Corporation for the fiscal years ended June 30, 2019 and 2018. Such financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and were audited in accordance with auditing standards generally accepted in the United States of America. Set forth in Appendix C attached to this Official Statement are the unaudited statement of activities and statement of financial position of the Corporation for the ten-month period ended April 30, 2020. All financial statements should be read in their entirety, together with any notes and supplemental information affixed thereto.

Set forth on the following page is a Summary Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2019 through 2015 and for the ten-month period ended April 30, 2020.

SUMMARY STATEMENT OF
ACTIVITIES AND CHANGES IN NET ASSETS

CHANGES IN UNRESTRICTED NET ASSETS	Ten-Month Period Ended April 30, 2020	Fiscal Years Ended June 30				
	<u>Unaudited</u>	Audited <u>2019</u>	Audited <u>2018</u>	Audited <u>2017</u>	Audited <u>2016</u>	Audited <u>2015</u>
Revenue, Support, Gains, and Reclassifications:						
Tuition and fees	\$9,947,465	\$10,739,779	\$10,437,820	\$9,695,832	\$9,181,350	\$ 8,467,786
Less tuition assistance	<u>(1,740,421)</u>	<u>(1,795,015)</u>	<u>(1,663,728)</u>	<u>(1,516,665)</u>	<u>(1,473,856)</u>	<u>(1,399,624)</u>
Net tuition and fees	8,207,044	8,944,764	8,774,092	8,179,167	7,707,494	7,068,162
Aftercare fees	219,795	202,114	168,203	128,226	139,770	128,338
Food service	467,856	560,421	577,984	550,318	534,645	442,180
Contributions	708,356	757,845	963,687	727,155	959,638	595,689
Special events	--	--	--	--	--	58,199
Investment income	38,306	50,975	25,509	8,889	7,019	6,420
Loss on bond refunding	--	--	--	--	(1,423,191)	--
Other income	<u>32,808</u>	<u>61,401</u>	<u>(56,747)</u>	<u>33,760</u>	<u>82,739</u>	<u>(46,078)</u>
	9,674,165	10,577,520	10,452,728	9,627,515	8,008,114	8,252,910
Net assets released from restrictions	<u>4,674,571</u>	<u>5,658,647</u>	<u>5,636,037</u>	<u>5,830,525</u>	<u>5,970,583</u>	<u>5,579,820</u>
Total revenue, support Gains and reclassifications	14,348,736	16,236,167	16,088,765	15,458,040	13,978,697	13,832,730
Expenses:						
Program services	10,341,368	12,817,322	12,113,652	12,260,669	12,437,043	10,830,946
General and administrative	2,618,949	3,200,966	3,293,525	3,446,890	3,253,867	3,585,006
Fund raising	<u>271,592</u>	<u>389,531</u>	<u>189,818</u>	<u>169,042</u>	<u>177,452</u>	<u>188,685</u>
Total expenses	13,231,909	16,407,819	15,596,995	15,876,601	15,868,362	14,604,637
Increase (Decrease) in unrestricted assets	<u>1,116,827</u>	<u>(171,652)</u>	<u>491,770</u>	<u>(418,561)</u>	<u>(1,889,665)</u>	<u>(771,907)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Changes in interest in net assets of Episcopal Collegiate School Foundation	(5,704,895)	3,656,637	6,870,340	8,337,953	(2,027,145)	1,200,565
Contributions receivable Transferred to Episcopal Collegiate School Foundation	--	--	--	--	--	--
Contributions	323,214	1,066,925	708,315	5,683	162,434	43,696
Net assets released from restrictions	<u>(4,674,571)</u>	<u>(5,658,647)</u>	<u>(5,636,037)</u>	<u>(5,830,525)</u>	<u>(5,970,583)</u>	<u>(5,579,820)</u>
Increase (Decrease) in temporarily restricted net assets	<u>(10,056,252)</u>	<u>(935,085)</u>	<u>1,942,618</u>	<u>2,513,111</u>	<u>(7,835,294)</u>	<u>(4,335,559)</u>
INCREASE (DECREASE) IN TOTAL NET ASSETS	(8,939,425)	(1,106,737)	2,434,388	2,094,550	(9,724,959)	(5,107,466)
NET ASSETS, BEGINNING OF YEAR	<u>89,225,642</u>	<u>90,332,379</u>	<u>87,897,991</u>	<u>85,803,441</u>	<u>95,528,400</u>	<u>100,635,866</u>
NET ASSETS, END OF YEAR	<u>\$80,286,217</u>	<u>\$89,225,642</u>	<u>\$90,332,379</u>	<u>\$87,897,991</u>	<u>\$85,803,441</u>	<u>\$95,528,400</u>

PROPERTIES

The principal properties owned by the Corporation and used in its educational activities are located at the Jackson T. Stephens Campus of the Corporation at 1701 Cantrell Road in Little Rock, Arkansas. The following is a list of the facilities at the Facility Premises, the size in square feet of each facility, and the year in which each facility was completed or expected to be completed.

<u>Facility</u>	<u>Square Feet</u>	<u>Year Completed</u>
Middle School	33,000	2000
Upper School	47,800	2001
Lower School	75,180	2009
Gymnasium/Cafeteria	46,546	2000
Gymnasium	19,785	2007

LEGAL PROCEEDINGS

There is no material litigation, claim, or assessment pending or threatened against the Corporation.

EMPLOYEES

The Corporation employs approximately 135 persons in a fulltime capacity. The following is a breakdown of the employees of the Corporation.

<u>Position</u>	<u>Number</u>
Faculty	108
Administration	9
Staff	16
Maintenance	<u>2</u>
Total	135

PLEDGED REVENUES

The Corporation generates revenues from student tuition and fees. Tuition for the 2020/2021 academic year ranges from \$10,950 (Pre-K 3) to \$15,980 (Grades 6–12) per student. The Corporation's Pledged Revenues (student tuition and fees less tuition assistance) for fiscal years 2015 through 2019 are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$8,952,362
2018	8,774,092
2017	8,179,167
2016	7,707,494
2015	7,068,162

ENROLLMENT

Student enrollment for the Corporation's Lower, Middle and Upper Schools for fall in the years 2015 through 2019 is as follows:

<u>Year</u>	<u>Enrollment</u>
2019	766
2018	784
2017	772
2016	776
2015	763

THE FOUNDATION

The Episcopal Collegiate School Foundation, an Arkansas nonprofit corporation (the "Foundation"), has been established to foster, support, and encourage the activities of the Corporation. The Corporation and the Foundation are considered financially interrelated organizations for financial accounting purposes. See Note 7 to the audited financial statements of the Corporation for the fiscal year ended June 30, 2019.

Although the Corporation and the Foundation are considered financially interrelated organizations for financial accounting purposes, the Foundation is not a guarantor of the Corporation's obligations under the Loan Agreement and the assets of the Foundation will not in any way serve as security for the Bonds or the obligations of the Corporation under the Loan Agreement. The Board of Trustees of the Corporation and the Board of Directors of the Foundation are not the same.

The Corporation receives significant support for its operations from the Foundation. The Corporation has received distributions from the Foundation in fiscal years 2015 through 2019 as follows:

<u>Year</u>	<u>Amount</u>
2019	\$5,575,800
2018	5,624,920
2017	5,706,712
2016	5,969,170
2015	5,515,610

APPENDIX B

EPISCOPAL COLLEGIATE SCHOOL

The following financial statements include audited financial statements for the years ended June 30, 2019 and 2018.



EPISCOPAL COLLEGIATE SCHOOL

FINANCIAL STATEMENTS
June 30, 2019 and 2018

(With Independent Auditor's Report Thereon)

Episcopal Collegiate School

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Episcopal Collegiate School
Little Rock, Arkansas

We have audited the accompanying financial statements of **Episcopal Collegiate School (the School)**, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended June 30, 2019, and the related notes the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The Board of Trustees
Episcopal Collegiate School
Page Two

Opinion

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the financial position of **Episcopal Collegiate School** as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, management adopted the requirements of the Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Landmark PLC

Certified Public Accountants

October 8, 2019
Little Rock, Arkansas

Financial Statements

Episcopal Collegiate School

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 3,818,093	\$ 3,423,753
Tuition and fees receivable, net	151,882	119,698
Contributions receivable, net	1,145,956	584,257
Inventory	78,039	23,531
Prepaid expenses and deposits	139,110	183,216
Note receivable	100,000	125,000
Property and equipment, net	36,526,470	37,482,522
Bond reserve accounts held with trustee	2,459,866	2,409,600
Interest in net assets of Episcopal Collegiate School Foundation	65,292,253	67,211,416
TOTAL ASSETS	<u>\$ 109,711,669</u>	<u>\$ 111,562,993</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 191,372	\$ 182,804
Accrued salaries and withholdings	625,718	619,574
Deferred tuition and fees	1,069,787	960,573
Accrued interest payable	156,217	160,951
Due to student organizations	28,468	38,066
Capital lease obligation	27,080	-
Bonds payable, net	18,387,385	19,268,646
Total Liabilities	<u>20,486,027</u>	<u>21,230,614</u>
Net Assets		
Without donor restrictions	22,121,964	22,293,616
With donor restrictions	67,103,678	68,038,763
Total Net Assets	<u>89,225,642</u>	<u>90,332,379</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 109,711,669</u>	<u>\$ 111,562,993</u>

See accompanying notes to financial statements.

Episcopal Collegiate School

STATEMENTS OF ACTIVITIES Years Ended June 30, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue, Support, Gains and Reclassifications		
Tuition and fees	\$ 10,739,779	\$ 10,437,820
Less tuition assistance	(1,795,015)	(1,663,728)
Net tuition and fees	8,944,764	8,774,092
Aftercare fees	202,114	168,203
Food service	560,421	577,984
Contributions	757,845	963,687
Interest and dividends	50,975	25,509
Other income (loss), net	61,401	(56,747)
	10,577,520	10,452,728
Net assets released from restrictions	5,658,647	5,636,037
Total Revenue, Support, Gains and Reclassifications	16,236,167	16,088,765
Expenses		
Program services	12,817,322	12,113,652
General and administrative	3,200,966	3,293,525
Fundraising	389,531	189,818
Total Expenses	16,407,819	15,596,995
(Decrease) Increase in Net Assets Without Donor Restrictions	(171,652)	491,770
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Change in interest in net assets of Episcopal Collegiate		
School Foundation	3,656,637	6,870,340
Contributions	1,066,925	708,315
Net assets released from restrictions	(5,658,647)	(5,636,037)
(Decrease) Increase in Net Assets With Donor Restrictions	(935,085)	1,942,618
(DECREASE) INCREASE IN TOTAL NET ASSETS	(1,106,737)	2,434,388
NET ASSETS, BEGINNING OF YEAR	90,332,379	87,897,991
NET ASSETS, END OF YEAR	\$ 89,225,642	\$ 90,332,379

See accompanying notes to financial statements.

Episcopal Collegiate School

STATEMENT OF FUNCTIONAL EXPENSES Year Ended June 30, 2019

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 6,394,551	\$ 1,762,141	\$ 123,180	\$ 8,279,872
Payroll taxes	454,026	125,830	11,389	591,245
Group insurance	495,717	136,604	7,611	639,932
Retirement plan contributions	429,237	118,284	6,590	554,111
Other program and administrative	79,105	235,448	-	314,553
Athletic program and supplies	228,868	-	-	228,868
Instructional materials and supplies	517,056	-	-	517,056
Utilities	428,488	15,679	-	444,167
Repairs and maintenance	187,883	6,875	-	194,758
Janitorial supplies	21,585	790	-	22,375
Technology and communication	10,476	152,256	-	162,732
Insurance	-	138,590	-	138,590
Professional fees	28,558	102,836	-	131,394
Entertainment	13,885	-	-	13,885
Contracted services	479,609	205,904	-	685,513
Professional development	219,665	-	-	219,665
Advertising and promotion	1,100	118,115	-	119,215
Admissions	13,044	-	-	13,044
Board expenses	-	2,809	-	2,809
Bad debt expense	21,849	-	-	21,849
Depreciation	1,557,951	55,918	-	1,613,869
Other fundraising	-	-	240,761	240,761
College counseling	18,145	-	-	18,145
Food service	591,067	-	-	591,067
Interest expense	625,457	22,887	-	648,344
TOTAL EXPENSES	\$ 12,817,322	\$ 3,200,966	\$ 389,531	\$ 16,407,819

See accompanying notes to financial statements.

Episcopal Collegiate School

STATEMENTS OF CASH FLOWS Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in Total Net Assets	\$ (1,106,737)	\$ 2,434,388
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	1,613,869	1,644,610
Amortization of bond issuance costs	18,739	18,740
Bad debt expense	21,849	11,366
Loss on disposal of property and equipment	104,030	103,680
Net change in interest in net assets of Episcopal Collegiate School Foundation	1,919,163	(1,245,420)
Changes in operating assets and liabilities:		
Tuition and fees receivable	(54,033)	25,449
Contributions receivable	(561,699)	(576,865)
Inventory	(54,508)	(4,209)
Prepaid expenses and deposits	44,106	(99,662)
Accounts payable	28,405	(11,739)
Accrued salaries and withholdings	6,144	30,098
Deferred tuition and fees	109,214	(125,713)
Accrued interest payable	(4,734)	(3,146)
Due to student organizations	(9,598)	(2,905)
Net Cash Provided by Operating Activities	2,074,210	2,198,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of property and equipment	(740,843)	(509,763)
Proceeds from sale of property and equipment	700	60,186
Principal payment on note receivable	25,000	-
Net Cash Used by Investing Activities	(715,143)	(449,577)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits into bond reserve accounts	(1,552,904)	(1,552,755)
Reinvestment of interest earned on bond reserve accounts	(39,874)	(18,749)
Withdrawals from bond reserve accounts to pay principal, interest and fees	1,542,512	1,548,345
Principal payments on bonds payable	(900,000)	(890,000)
Principal payments on capital lease obligations	(14,461)	-
Net Cash Used by Financing Activities	(964,727)	(913,159)
NET INCREASE IN CASH AND CASH EQUIVALENTS	394,340	835,936
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,423,753	2,587,817
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,818,093	\$ 3,423,753
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 634,339	\$ 650,100
Additions of property and equipment included in accounts payable	\$ 3,708	\$ 23,545
Additions of property and equipment included in capital lease obligation	\$ 41,541	\$ -

See accompanying notes to financial statements.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization and Nature of Operations

Episcopal Collegiate School (the School), is an educational organization established in 1997 as a non-profit corporation in the State of Arkansas. The purpose of the School is to establish, conduct, manage and maintain a school for the education and instruction of pre-kindergarten through twelfth grade students. The business affairs and management of the School are vested in a Board of Trustees.

The Parents' Auxiliary is an unincorporated association of parents created for the purpose of benefiting the students of the School and to support the mission of the School by offering financial assistance and volunteer support to the School. The School effectively controls all assets of the Parents' Auxiliary, and it exists solely to benefit and support the School. Therefore, the financial transactions and balances attributable to the Parents' Auxiliary are included in the financial statements of the School.

(b) Basis of Accounting

The financial statements of the School have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

(c) Basis of Presentation

The School reports information regarding its financial position and activities according to the following two classes of net assets:

Net Assets without Donor Restriction—Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets with Donor Restrictions—Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

(d) Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, the School considers all unrestricted money market funds, mutual funds and highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

(e) Bond Reserve Accounts Held with Trustee

Bond reserve accounts held with trustee may include cash, certificates of deposit, money market mutual funds and other investment securities, as permitted under the related Trust Indenture. Investments held in these accounts are reported at fair values, determined by the trustee.

(f) Tuition and Fees Receivable

Tuition and fees receivable are stated net of an allowance for doubtful accounts, determined by management based upon a review of outstanding receivables and historical collection information. Management does not anticipate material losses on the School's receivables in excess of the established allowance, which was approximately \$25,000 for the years ended June 30, 2019 and 2018. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the allowance.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Contributions

Contributions, including unconditional promises to give, are recognized as support in the statements of activities in the period received or when the School becomes aware that a promise to give has been made, whichever occurs first.

Contributions that are restricted by the donor are recorded as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions receivable which are scheduled to be received after one year are reported at the present value of estimated future cash flows using a discount rate of 3.5%. Amortization of the discount is recorded as additional support over the term of the related promise to give.

Management expects all contributions receivable to be fully collected; therefore no allowance for uncollectible amounts has been recorded.

(h) Property and Equipment

Property and equipment are reported at historical cost. Major renewals and improvements are capitalized, while normal repairs and maintenance are expensed in the period incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from three to thirty-nine years. Net interest cost related to acquiring or constructing property and equipment is also capitalized as part of the cost of the related asset.

(i) Donated Services

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased by the School. During the years ended June 30, 2019 and 2018, there were no donated services that met the criteria for recognition in the School's financial statements.

A portion of the School's functions and activities are conducted by unpaid board members and other volunteers. Since this volunteer time does not meet the criteria for revenue recognition, its value is not reflected in the accompanying financial statements.

(j) Bond Issuance Costs

Bond issuance costs totaling approximately \$351,400 are being amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs net of accumulated amortization, which totaled approximately \$63,800 and \$45,000 as of June 30, 2019 and 2018, respectively, are reported as a direct deduction from the carrying amount of bonds payable.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Income Taxes

Episcopal Collegiate School is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

Accounting standards require the School to evaluate tax positions and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The School has analyzed the tax positions taken and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the financial statements. The School may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress.

(l) Functional Expenses

The School allocates its expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service according to their natural expenditure classification. Other expenses that are common to several functions are allocated to programs and supporting services based on square footage or estimates of time worked.

Expenses associated with certain activities and functions necessary for the support of programs provided by the School are considered supporting services expenses. Supporting services include various costs associated with administration, fundraising, maintenance and other general functions of the School.

(m) Use of Estimates

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

(n) Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 was to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto.

The School adopted provisions of ASU No. 2016-14 during the year ended June 30, 2019. In addition to the changes in terminology used to describe the categories of net assets throughout the financial statements, new disclosures regarding functional expenses by natural classification, liquidity and availability of resources are now presented.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new guidance requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their statement of financial position for all leases with a term greater than one year and is effective for the School on July 1, 2020. Early application is permitted for nonpublic business entities. Management of the School has not yet determined the significance of the impact of implementation of this standard or any related amendments.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transactions and 2) determining whether a contribution is conditional. Distinguishing between contributions and exchange transactions determines which accounting guidance is applied, and the accounting may be different depending on the guidance applied. In addition, for contributions, determining whether a contribution is conditional or unconditional affects the timing of recognition. Resource recipients are required to implement the amendments for annual periods beginning after December 15, 2019. Management of the School has not yet determined what impact, if any, the implementation of the amendments in ASU No. 2018-08 will have on the School's financial statements.

NOTE 2: BOND RESERVE ACCOUNTS HELD WITH TRUSTEE

As required under the Trust Indenture executed in connection with the issuance of bonds described in Note 9, the School maintains certain accounts with a third party trustee as follows:

(a) Bond Funds

The bond funds include resources accumulated for the payment of principal and interest on outstanding bonds. The School is required to make monthly deposits into the bond funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Scheduled principal and interest payments are paid from this fund by the trustee when due.

(b) Debt Service Reserve Funds

The debt service reserve funds include monies set aside to pay scheduled principal and interest payments in the event that sufficient resources are not available in the bond funds.

Balances in these accounts, which are held with the trustee in money market mutual funds, are not available for general operating purposes. The balances are as follows at June 30:

	<u>2019</u>	<u>2018</u>
Bond funds	\$ 911,146	\$ 860,880
Debt service reserve funds	<u>1,548,720</u>	<u>1,548,720</u>
	<u>\$ 2,459,866</u>	<u>\$ 2,409,600</u>

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

Entities with total assets of \$100 million or more are generally required to disclose certain information about the estimated fair value of financial instruments held as of the reporting date. The following methods and assumptions were used by the School in estimating its fair value disclosures for significant financial instruments. There have been no changes in the methodologies used at June 30, 2019 and 2018:

The carrying amount reported in the statements of financial position for cash and cash equivalents, contributions receivable, note receivable, accrued salaries and withholdings, deferred tuition and fees, accrued interest payable and amounts due to student organizations approximates their fair value due to the short maturity of those instruments.

The carrying amount of money market mutual funds that are included in bond reserve accounts held with trustee are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. The School's mutual funds totaling \$2,459,866 and \$2,409,600 as of June 30, 2019 and 2018, respectively, are valued on a recurring basis using "Level 1" pricing inputs, which are published net asset values attributable to the shares held by the School at these reporting dates.

The carrying amount of long-term debt approximates fair value because the School can obtain similar debt at the same terms.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management of the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 4: CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Amounts due in less than one year	\$ 478,581	\$ 112,897
Amounts due in one to five years	<u>701,667</u>	<u>500,000</u>
	1,180,248	612,897
Less unamortized discount on long-term contributions receivable	<u>(34,292)</u>	<u>(28,640)</u>
	<u>\$ 1,145,956</u>	<u>\$ 584,257</u>

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 5: NOTE RECEIVABLE

Note receivable represents funds advanced to an employee. The note is stated at its unpaid principal balance. The note bears interest at a rate of 2.12%. Annual principal and interest payments are required on July 1 each year beginning July 1, 2018 through July 1, 2022. Interest is accrued on the unpaid principal balance as of each annual payment date. The outstanding principal balance of the note totaled \$100,000 and \$125,000 as of the years ended June 30, 2019 and 2018, respectively.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment at June 30 consists of the following:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 46,207,800	\$ 46,195,048
Furniture and equipment	5,028,150	4,893,210
School buses	339,026	216,141
Accumulated depreciation	<u>(21,350,279)</u>	<u>(20,107,485)</u>
	30,224,697	31,196,914
Land and land improvements	5,305,684	5,305,684
Construction in progress	31,133	14,968
Capitalized interest	<u>964,956</u>	<u>964,956</u>
	<u>\$ 36,526,470</u>	<u>\$ 37,482,522</u>

NOTE 7: EPISCOPAL COLLEGIATE SCHOOL FOUNDATION

The Episcopal Collegiate School Foundation (the Foundation), a nonprofit corporation, was established to foster, support and encourage the activities of the School. All assets received by the Foundation are held and managed for the exclusive benefit of the School. The School and the Foundation are considered financially interrelated organizations and as such, in accordance with applicable accounting standards, the School recognizes its interest in the net assets of the Foundation on the School's statements of financial position. Changes in the School's interest in the net assets of the Foundation during the year are reported in the School's statements of activities as increases or decreases in net assets with donor restrictions. Distributions received by the School from the Foundation are included in net assets released from restrictions on the statements of activities.

During the years ended June 30, 2019 and 2018, the School received distributions from the Foundation for general operating support totaling \$5,575,800 and \$5,624,920, respectively.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 8: CAPITAL LEASE OBLIGATION

The School financed the purchase of networking equipment under a capital lease agreement expiring in 2021. The liability, representing the present value of future minimum lease payments, totaled approximately \$41,500. The leased asset is amortized over the estimated useful life of the asset. Amortization of assets under capital leases are included in depreciation expense.

Aggregate future minimum lease payments under capital lease obligation as of June 30, 2019 are as follows:

2020	\$ 14,461
2021	<u>14,461</u>
Total future minimum lease payments	28,922
Amount representing interest	<u>(1,842)</u>
Present value of minimum lease payments	<u><u>\$ 27,080</u></u>

NOTE 9: BONDS PAYABLE

On September 1, 2015, the State of Arkansas Development Finance Authority issued on behalf of the School \$3,650,000 Series 2015, Arkansas Development Finance Authority Refunding Bonds (the Series 2015 Bonds) to refund the outstanding balance of the \$4,140,000 Series 2010, Arkansas Development Authority Refunding Revenue Bonds (the Series 2010 Bonds) that had been issued on October 15, 2010. The net proceeds along with other resources were deposited into a trust and were used to redeem the then outstanding Series 2010 Bonds on November 1, 2015, at a price equal to par plus accrued interest. The Series 2015 Bonds bear interest at rates ranging from 2.0% to 3.875%. Annual principal payments are required on October 1 each year through October 1, 2035. Interest payments are due semiannually on April 1 and October 1 of each year.

On March 1, 2016, the State of Arkansas Development Finance Authority issued on behalf of the School \$17,335,000 Series 2016, Arkansas Development Finance Authority Refunding Revenue Bonds (the Series 2016 Bonds) to advance refund the outstanding balance of the \$19,500,000 Series 2009, Arkansas Development Finance Authority Revenue Bonds (Episcopal Collegiate School Project) that had been issued on April 1, 2009 (the Series 2009 Bonds). The net proceeds along with other resources were invested in United States Treasury Obligations which were placed in an escrow account to redeem the outstanding Series 2009 Bonds on April 1, 2017, at a price equal to par plus accrued interest. The Series 2016 Bonds bear interest at rates ranging from 1.0% to 3.85%. Annual principal payments are required on October 1 each year through October 1, 2034. Interest payments are due semiannually on April 1 and October 1 of each year.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 9: BONDS PAYABLE (Continued)

The outstanding balance of bonds payable at June 30, is as follows:

	2019	2018
Series 2015 Bonds	\$ 3,225,000	\$ 3,375,000
Series 2016 Bonds	15,450,000	16,200,000
Bonds payable	18,675,000	19,575,000
Less: Unamortized bond issuance cost	(287,615)	(306,354)
Bonds payable, net	\$ 18,387,385	\$ 19,268,646

Five-year aggregate maturities of bonds outstanding at June 30, 2019 are as follows:

2020	\$ 920,000
2021	935,000
2022	960,000
2023	980,000
2024	1,010,000
2025 and thereafter	13,870,000
	\$ 18,675,000

The principal balance of bonds outstanding is secured by a pledge of all student tuition and fees. Loan agreements executed by the School concurrently with the issuance of the bonds require that the School maintain and charge tuition and fees, net of discounts, equal to at least 125% of the maximum annual debt service on all of the outstanding bonds. Interest expense incurred and recognized in the statements of activities totaled approximately \$648,000 and \$666,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of contributions received with donor-imposed restrictions limiting the School's use of the contributed assets to a later period, a specific purpose or both. The amounts are transferred to net assets without donor restrictions in the period the donor-imposed restrictions expire or the donor-stipulated purpose has been fulfilled by the School.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following is a summary of net assets with donor restrictions at June 30:

	2019	2018
Contributions restricted for future periods		
Interest in net assets of Episcopal Collegiate		
School Foundation	\$ 65,292,253	\$ 67,211,416
Athletic enhancements	1,036,501	480,000
Other	90,707	91,360
Contributions restricted for a specific purpose		
Athletic enhancements	537,500	70,000
Other	146,717	185,987
	\$ 67,103,678	\$ 68,038,763

NOTE 11: LEASE COMMITMENTS

The School utilizes certain leased equipment in its operations under noncancelable operating leases with terms in excess of one year. Approximate future minimum lease payments by fiscal year, under such leases at June 30, 2019, are as follows:

2020	\$ 20,431
2021	20,352
2022	20,352
2023	20,352
2024	20,352
	\$ 101,839

Lease expense totaled approximately \$65,000 for the years ended June 30, 2019 and 2018.

NOTE 12: RETIREMENT PLAN

The School maintains a defined contribution retirement plan covering all employees that generally have been employed by the School for at least one year. During the year ended June 30, 2019, the School amended the defined contribution plan to add a discretionary employer match up to 2% of an eligible employee's compensation. The School may also make a discretionary contribution each year of 5% of eligible compensation for those employees with less than 6 years of service and 6% of eligible compensation for those employees with 6 years or more of service. Total employer contributions to the plan were approximately \$554,000 and \$406,000 for the years ended June 30, 2019 and 2018, respectively.

Episcopal Collegiate School

NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

NOTE 13: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The School monitors its liquidity so that it is able to meet its operating needs and contractual commitments. The School has the following financial assets that could readily be made available within one year of the statement of financial position to fund expenses without limitations:

	<u>2019</u>
Cash and cash equivalents	\$ 3,818,093
Tuition and fees receivable, net	151,882
Contributions receivable, net	1,145,956
Note receivable	100,000
Interest in net assets of Episcopal Collegiate School Foundation	<u>65,292,253</u>
Total financial assets	70,508,184
Less contributions due in more than one year	(701,667)
Less contributions restricted for a specific purpose	(952,333)
Less long-term portion of note receivable	(75,000)
Less interest in net assets of Episcopal Collegiate School Foundation, net of budgeted operating draws of \$5,467,412	<u>(59,824,841)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,954,343</u>

The operations of the School are primarily funded by income generated through tuition, fees and contributions. The School structures its financial assets to be available as general expenditures, liabilities and other obligations become due. In addition, the Foundation also contributes to the School each year based on the approved budgeted operating needs of the School. The Foundation can adjust the timing of disbursements to the School when necessary.

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 8, 2019, the date the financial statements were available to be issued.

APPENDIX C

EPISCOPAL COLLEGIATE SCHOOL

The following financial statements include unaudited statement of financial position and statement of activities for the ten-month period ended April 30, 2020.

Episcopal Collegiate School
Statement of Activities (Unaudited)
10 months ended April 30, 2020

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Revenue, Support, Gains and Reclassifications

Tuition and fees	\$ 9,947,465
Less tuition assistance	(1,740,421)
Net tuition and fees	<u>8,207,044</u>
Aftercare fees	219,795
Food service	467,856
Contributions	492,007
Fundraising	216,349
Interest and dividends	38,306
Other income (loss), net	<u>32,808</u>
	9,674,165
Net assets released from restrictions	<u>4,674,571</u>

Total Revenue, Support, Gains and Reclassifications

14,348,736

Expenses

Program Services	10,341,368
General and administrative	2,618,949
Fundraising	<u>271,592</u>
Total Expenses	<u>13,231,909</u>

Increase in Net Assets Without Donor Restrictions

1,116,827

CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS

Change in interest in net assets of Episcopal Collegiate School Foundation	(5,704,895)
Contributions	323,214
Net assets released from restrictions	<u>(4,674,571)</u>

Decrease in Net Assets With Donor Restrictions

(10,056,252)

DECREASE IN TOTAL NET ASSETS

(8,939,425)

NET ASSETS BEGINNING OF YEAR

89,225,642

NET ASSETS, END OF YEAR

\$ 80,286,217

Episcopal Collegiate School
Statement of Financial Position (Unaudited)
As of April 30, 2020

ASSETS

Cash and cash equivalents	\$ 5,546,347
Tuition and fees receivable, net	90,098
Contributions receivable, net	657,625
Inventory	67,422
Prepaid expenses and deposits	162,576
Property and equipment, net	35,942,958
Note receivable	75,000
Bond reserve accounts held with trustee	2,236,715
Interest in net assets of Episcopal Collegiate School Foundation	55,213,430

TOTAL ASSETS

\$ 99,992,171

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 268,931
Accrued salaries and withholdings	485,192
Deferred tuition and fees	1,366,082
Accrued interest payable	50,459
Due to student organizations	22,086
Capital lease obligation	27,080
Bonds payable, net	17,486,124
Total Liabilities	<u>19,705,954</u>

Net Assets

Without donor restrictions	23,238,791
With donor restrictions	57,047,426
Total Net Assets	<u>80,286,217</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 99,992,171