

Pulaski County, Arkansas
EIN – 71-6006487

\$38,000,000 2002 Series A, Variable Rate Lease Purchase Revenue Bonds
\$5,000,000 2002 Series B, Variable Rate Lease Purchase Revenue Bonds

Closing Agreement On Final Determination
Covering Specific Matters

Under section 7121 of the Internal Revenue Code, as amended (the "**Code**"), Pulaski County, Arkansas (the "**Issuer**"), and the Commissioner of Internal Revenue (the "**Service**") make this closing agreement (the "**Agreement**").

WHEREAS, the parties have determined the following facts and made the following legal conclusions and representations:

- a. This Agreement is in settlement of issues raised in an examination of the \$38,000,000 Pulaski County, Arkansas, Variable Rate Lease Purchase Revenue Bonds (Lease Purchase Program), 2002 Series A and the \$5,000,000 Pulaski County, Arkansas, Variable Rate Lease Purchase Revenue Bonds (Lease Purchase Program), 2002 Series B (collectively, the "**Bonds**"), dated and issued on January 31, 2002.
- b. The Service has conducted an examination of the Bonds. Incorporated herein by reference is a letter and report dated January 1, 2008 in which the Internal Revenue Service made a proposed adverse determination that the Bonds fail to meet the requirements of section 103 of the Code (the "**PAD**"). The factual and legal allegations contained in the PAD to support this determination include the following:
 - 1) The Bonds were used to acquire higher yielding investments and are arbitrage bonds as described in section 148.
 - 2) The Bonds meet the private loan financing test of section 141(c) and are nonqualified private activity bonds.
 - 3) The Bonds are "mortgage subsidy bonds" and failed to meet the requirements of sections 143, 146, 147, and 148.
 - 4) The Bonds are hedge bonds and do not meet the reasonable expectations of section 149(g)(2).
- c. The Issuer has disputed, and continues to dispute, the findings and legal conclusions of the Service as set forth in the PAD that the Bonds do not meet the requirements of section 103 of the Code. However, the Issuer has agreed to finally and completely resolve this dispute by causing the payment of an agreed upon closing agreement amount and the execution of this Agreement, to protect the registered and beneficial owners of the Bonds from taxation of interest received from the Bonds.
- d. The Service has not formally asserted any claims against the Issuer, or sought to tax any

holders of the Bonds on interest income of the Bonds.

- e. The Issuer and the Service desire to settle the issues raised during the examination of the Bonds.
- f. The terms of the Agreement were arrived at by negotiation between the Issuer and the Service, and may differ from the terms of settlement of other issues examined or to be examined by the Service.
- g. This Agreement is for the benefit of the Issuer and past, present and future registered and beneficial owners of the Bonds (collectively, “the Bondholders”).

NOW IT IS HEREBY DETERMINED AND AGREED PURSUANT TO THIS CLOSING AGREEMENT EXECUTED BY THE PARTIES HERETO UNDER CODE SECTION 7121, THAT FOR FEDERAL INCOME TAX PURPOSES:

1. Prior to the execution and delivery of this Agreement, the Issuer shall cause to be electronically paid the sum of Sixty thousand and no one-hundredths dollars (\$60,000.00) (the “**Settlement Amount**”) to the Service via the Electronic Federal Tax Payment System and in accordance with the directions contained in Exhibit A of this Agreement. Payment of the Settlement Amount shall not be made from proceeds of bonds described in section 103(a) of the Code.
2. The Settlement Amount paid by the Issuer pursuant to this Agreement is not refundable, or subject to credit or offset under any circumstance.
3. The Issuer redeemed the Bonds on or prior to March 1, 2007.
4. This Agreement is executed with respect to a federal income tax liability of the Bondholders.
5. The Bondholders are not required to include in their gross income any interest on the Bonds because of the alleged violations set forth herein.
6. No income shall be recognized by any Bondholder as a result of this Agreement or any payments made pursuant to this Agreement.
7. Notwithstanding anything to the contrary contained herein, the Service may take any appropriate action with respect to the Bonds, including taxing the Bondholders on interest earned on the Bonds, for violations other than those set forth herein or for violations arising after the effective date of this Agreement.
8. The Service will not seek to impose any additions to tax, additional amounts or assessable penalties under the Code, or similar statute, as a result of the alleged violations set forth herein.
9. No party shall endeavor by litigation or other means to attack the validity of this Agreement.
10. This Agreement may not be cited or relied upon by any person or entity whatsoever as precedent in the disposition of any other case.
11. The Issuer hereby consents to disclosure by the Service of information concerning the existence and subject matter of this Agreement to Members of Congress, the press, and the general public:
 - a) In the event of a default by the Issuer on any term in the Agreement, or
 - b) To the extent the Service deems necessary to correct any material misstatement with

respect to this Agreement in response to a public statement by the Issuer or an agent of the Issuer.

12. This Agreement is final and conclusive, except that:
- a) The matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of a material fact;
 - b) It is subject to sections of the Code that expressly provide that effect be given to their provisions (including any stated exceptions for section 7122) notwithstanding any other law or rule of law; and
 - c) If it relates to a tax period ending after the effective date of this Agreement, it is subject to any law enacted after the Agreement date that applies to that tax period.

By signing, the above parties certify that they have read and agreed to the terms of this Agreement.

Issuer: Pulaski County, Arkansas

EIN: 71-6006487

By:

Signature: _____

Name: Floyd G. "Buddy" Villines, III

Title: County Judge

Date: _____

COMMISSIONER OF INTERNAL REVENUE:

By:

Signature: _____

Name: Clifford J. Gannett

Title: Director, Tax-Exempt Bonds

Date: _____