

*In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Agency and the Institution described herein, interest on the Series 2006 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2006 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that, by virtue of the Act, interest on the Series 2006 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions, including The City of New York. See "TAX MATTERS" herein regarding certain other tax considerations.*

**NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY  
\$20,000,000 Variable Rate Demand Civic Facility Revenue Bonds  
(Grace Church School Project), Series 2006**

**Dated: Date of Delivery****Price: 100%****Due: June 1, 2036**

The New York City Industrial Development Agency's \$20,000,000 Variable Rate Demand Civic Facility Revenue Bonds (Grace Church School Project), Series 2006 (the "Series 2006 Bonds") are being issued under and pursuant to an Indenture of Trust dated as of June 1, 2006 (the "Indenture") between the New York City Industrial Development Agency (the "Agency") and The Bank of New York, New York, New York, as trustee (the "Trustee"). The Series 2006 Bonds are payable solely out of the installment sale payments or other receipts, funds or moneys of the Agency pledged therefor or otherwise available to the Trustee for the payment thereof, including those derived under a Installment Sale Agreement and Assignment of Lease dated as of June 1, 2006 (the "Installment Sale Agreement") between the Agency and Grace Church School (the "Institution"). The principal of and interest on the Series 2006 Bonds, including any payments made with respect to the optional or mandatory purchase of the Series 2006 Bonds, are supported by an irrevocable direct pay letter of credit (the "Letter of Credit") issued by Wachovia Bank, National Association (the "Bank").



The Letter of Credit will permit the Trustee to draw up to an amount sufficient to pay (a) the principal of the Series 2006 Bonds when due, whether at stated maturity, upon redemption or acceleration, (b) the principal portion of the Purchase Price of the Series 2006 Bonds tendered by the owners thereof and not remarketed, and (c) with respect to interest on the Series 2006 Bonds or the interest portion of the Purchase Price of the Series 2006 Bonds tendered by the owners thereof and not remarketed, an amount equal to thirty-four (34) days' interest accrued on the Series 2006 Bonds at a maximum interest rate of ten (10%) per annum. The Letter of Credit will terminate on the earlier of June 28, 2009 or on the occurrence of certain events as specified therein.

The Series 2006 Bonds are being issued in order to provide for the financing of a portion of the costs of (i) the acquisition of a leasehold interest in the land and the acquisition, improvement, renovation and equipping of nine contiguous, multi-story buildings located at 84-98 Fourth Avenue, New York, New York, (ii) the acquisition of a leasehold interest in the land and the construction, improvement and equipping of an athletic center on the underground level of 65 East 10th Street, New York, New York, all for use as a school serving students from junior kindergarten through grade eight (the "Facility"); and (iii) the financing of certain costs of issuance of the Series 2006 Bonds (collectively, the "Project").

The Series 2006 Bonds will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as "Securities Depository," as herein described, for the Series 2006 Bonds. Individual purchases will be made in book-entry-only form, in denominations of \$100,000, or any integral multiple of \$5,000 in excess thereof. Purchasers will not receive certificates representing their ownership interests in the Series 2006 Bonds. Principal and interest will be paid by the Trustee to DTC which will in turn remit such principal and interest to its Participants (as defined herein) for subsequent distribution to the Beneficial Holders (as defined herein) of the Series 2006 Bonds.

Prior to any change in Interest Rate Determination Method, the Series 2006 Bonds will bear interest at the Weekly Interest Rate, which will be a variable rate established by First Albany Capital Inc., as Remarketing Agent for the Series 2006 Bonds; and interest on the Series 2006 Bonds will be payable on the first Business Day of each month in each year, commencing August 1, 2006. The Bonds will be subject to mandatory tender for purchase as provided herein on the effective date of any change in Interest Rate Determination Method. This Official Statement describes the Series 2006 Bonds only while bearing interest at a Weekly Interest Rate.

Any Series 2006 Bond will be purchased upon demand of the owner thereof, at a Purchase Price of par plus accrued interest, on any Business Day (as defined herein) upon seven (7) days' notice and delivery of such Bond to The Bank of New York, as tender agent (in such capacity, the "Tender Agent"). The Series 2006 Bonds are subject to optional and mandatory redemption prior to maturity, and are subject to mandatory tender for purchase, as more fully described herein.

**THE SERIES 2006 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND DO NOT CONSTITUTE AND SHALL NOT BE A DEBT OF THE STATE OF NEW YORK OR THE CITY OF NEW YORK AND NEITHER THE STATE OF NEW YORK NOR THE CITY OF NEW YORK SHALL BE LIABLE THEREON. THE SERIES 2006 BONDS DO NOT GIVE RISE TO A PECUNIARY LIABILITY OR CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OF NEW YORK OR OF THE CITY OF NEW YORK NOR SHALL THE SERIES 2006 BONDS BE PAYABLE OUT OF ANY FUNDS OF THE AGENCY OTHER THAN THOSE PLEDGED THEREFOR. THE SERIES 2006 BONDS DO NOT NOW AND SHALL NEVER CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE AGENCY. THE AGENCY HAS NO TAXING POWER.**

The Series 2006 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approving opinion of Nixon Peabody LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Agency by Richard E. Marshall, Esq., Vice President for Legal Affairs of the Agency; for the Institution by its special counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York; for the Bank by its Counsel, Windels Marx Lane & Mittendorf, LLP, New York, New York; and for the Underwriter by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., New York, New York. It is expected that the Series 2006 Bonds will be available for delivery to DTC in definitive form in New York, New York on or about June 28, 2006.

**First Albany Capital Inc.**

Dated: June 22, 2006

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of Series 2006 Bonds by any person in any jurisdiction in which such an offer, solicitation or sale is not authorized or in which the person making such offer, solicitation or sale is not qualified to do so, or to any person to whom it is unlawful to make such an offer, solicitation or sale.

The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations not contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the Agency, the Institution, the Bank or the Underwriter.

The information and expressions of opinion set forth herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency, the Bank or the Institution, or in any other matter since the date hereof. The Agency makes no representation, warranty or certification as to the adequacy, accuracy or completeness of the information set forth in this Official Statement other than as set forth under the captions "THE AGENCY" and "ABSENCE OF LITIGATION—The Agency".

UPON ISSUANCE, THE SERIES 2006 BONDS AND RELATED INSTRUMENTS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAW, AND THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON THE EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION, QUALIFICATION OR EXEMPTION THEREFROM OF THE SERIES 2006 BONDS AND RELATED INSTRUMENTS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF THE JURISDICTIONS WHEREIN THE SECURITIES MAY BE OFFERED OR SOLD SHALL NOT BE CONSTRUED AS A RECOMMENDATION OF SUCH SECURITIES BY ANY PERSON. THE SERIES 2006 BONDS WILL NOT BE LISTED ON ANY STOCK OR OTHER SECURITIES EXCHANGE. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE, OR GOVERNMENTAL ENTITY OR AGENCY WILL HAVE PASSED UPON THE ACCURACY OR ADEQUACY HEREOF. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2006 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**THE CITY OF NEW YORK**

Michael Bloomberg, Mayor

**NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY**

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## OFFICIAL STATEMENT

Relating To

**NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY**

**\$20,000,000 Variable Rate Demand Civic Facility Revenue Bonds  
(Grace Church School Project), Series 2006**

### INTRODUCTION

This Official Statement, including the cover page, sets forth certain information in connection with the issuance and sale of the \$20,000,000 aggregate principal amount of Variable Rate Demand Civic Facility Revenue Bonds (Grace Church School Project), Series 2006 (the "Series 2006 Bonds") of the New York City Industrial Development Agency (the "Agency"), a public benefit corporation of the State of New York (the "State"). The Series 2006 Bonds are authorized to be issued pursuant to Title 1 of Article 18-A of the General Municipal Law of the State, as amended from time to time, together with Chapter 1082 of the Laws of 1974 of the State, as amended from time to time (collectively hereinafter referred to as the "Act"), and a resolution of the Agency adopted on May 9, 2006 (the "Bond Resolution").

The Series 2006 Bonds will be issued under an Indenture of Trust dated as of June 1, 2006 (the "Indenture") by and between the Agency and The Bank of New York, New York, New York, as trustee (the "Trustee"). The Trustee is also acting as Bond Registrar, Tender Agent and Paying Agent. One or more series of Additional Bonds may be issued from time to time under the Indenture on a parity with the Series 2006 Bonds (collectively with any such Additional Bonds, the "Bonds") for the purposes more fully described herein. Capitalized terms used in this Official Statement shall have the meanings specified in Appendix A attached hereto. Terms not otherwise defined in this Official Statement have the meanings provided in the specific documents. See "APPENDIX A-DEFINITIONS AND SUMMARIES OF CERTAIN DOCUMENTS-Definitions."

The Series 2006 Bonds are being issued in order to provide for the financing of a portion of the costs of (i) the acquisition of a leasehold interest in the land and the acquisition, improvement, renovation and equipping of nine contiguous, multi-story buildings located at 84-98 Fourth Avenue, New York, New York; (ii) the acquisition of a leasehold interest in the land and the construction, improvement and equipping of an athletic center on the underground level of 65 East 10<sup>th</sup> Street, New York, New York, all for use as a school serving students from junior kindergarten through grade eight (the "Facility"); and (iii) the financing of certain costs of issuance of the Series 2006 Bonds (collectively, the "Project"). See "THE PROJECT" and "APPLICATION OF BOND PROCEEDS." The Facility will be owned by Grace Church School (the "Institution"), a not-for-profit education corporation organized and existing under the laws of the State of New York. The Institution will lease the Facility to the Agency pursuant to a Institution Lease Agreement dated as of June 1, 2006 (the "Institution Lease"), between the Institution and Agency. The Agency will sell and assign its leasehold interest in the Facility to the Institution pursuant to a Installment Sale Agreement and Assignment of Lease dated as of June 1, 2006 (the "Installment Sale Agreement") by and between the Agency and the Institution.

Prior to a change in Interest Rate Determination Method, the Series 2006 Bonds will bear interest at a variable interest rate (the "Weekly Interest Rate") established by First Albany Capital Inc., as Remarketing Agent (in such capacity, the "Remarketing Agent"). See "THE Series 2006 BONDS-Interest Rate Provisions." The Series 2006 Bonds are subject to a mandatory tender provision which requires all

owners of the Series 2006 Bonds upon a change in Interest Rate Determination Method for the Series 2006 Bonds to tender their Bonds to the Tender Agent for purchase at a Purchase Price equal to the principal amount thereof plus accrued interest thereon to the Purchase Date. See "THE Series 2006 BONDS—Mandatory Tender of Series 2006 Bonds." This Official Statement describes the Series 2006 Bonds only while such Series 2006 Bonds bear interest at the Weekly Interest Rate.

The Series 2006 Bonds are subject to mandatory and optional redemption, as provided under "THE Series 2006 BONDS—Redemption Prior to Maturity."

Concurrently with, and as a condition to, the issuance of the Series 2006 Bonds, the Institution will cause to be delivered to the Trustee an irrevocable, direct pay letter of credit dated the date of issuance of the Series 2006 Bonds (the "Letter of Credit") of Wachovia Bank, National Association (the "Bank"). Under the Letter of Credit, the Trustee will be entitled to draw up to an amount sufficient to pay (a) the principal of the Series 2006 Bonds, (b) the portion of the Purchase Price of the Series 2006 Bonds corresponding to the principal of the Series 2006 Bonds, and (c) with respect to interest on the Series 2006 Bonds, including the interest component of the Purchase Price, an amount equal to thirty-four (34) days' interest on the Series 2006 Bonds during the Weekly Interest Rate Period, at a maximum rate of 10% per annum. The Letter of Credit is scheduled to terminate on the earlier of June 28, 2009, or upon the occurrence of certain events as specified therein. Upon written notice from the Institution at least ninety (90) days prior to the second annual anniversary date of the Letter of Credit (and each anniversary date thereafter), the Institution may request an extension of the expiration date of the Letter of Credit for an additional term of one year. On or before the anniversary date immediately succeeding such request, the Bank shall notify the Institution, Trustee and Remarketing Agent in writing regarding whether the Bank will grant such extension. Under certain circumstances, the Letter of Credit may be replaced by a Substitute Letter of Credit, whereupon the Series 2006 Bonds may be subject to a mandatory tender for purchase. See "THE Series 2006 BONDS—Mandatory Tender for Purchase".

The Letter of Credit will be issued pursuant to a Reimbursement and Security Agreement dated as of June 1, 2006 (the "Reimbursement Agreement") between the Bank and the Institution. The Institution will agree in the Reimbursement Agreement to reimburse the Bank for drawings under the Letter of Credit, with interest, to pay certain fees and expenses of the Bank and to observe and perform certain covenants. If the Institution fails to comply with any of its obligations under the Reimbursement Agreement, an Event of Default under the Reimbursement Agreement may occur. Upon the occurrence of an Event of Default, the Bank may, among other remedies, by notice to the Trustee, require the Trustee to accelerate payment of the principal of the Series 2006 Bonds and accrued interest thereon or cause the mandatory tender of the Series 2006 Bonds. In either event, pursuant to the Indenture, the Trustee is required to draw on the Letter of Credit to pay the principal of and interest on the Series 2006 Bonds of the Purchase Price thereof. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" herein.

The Series 2006 Bonds will be equally and ratably secured as to principal and interest by the Indenture. Pursuant to the Installment Sale Agreement, the Institution is obligated to make installment purchase payments to the Trustee in the amounts and at the times necessary to reimburse the Bank for draws under the Letter of Credit to pay the principal, interest and redemption premium, if any, and Purchase Price required to be paid on the Series 2006 Bonds when and as the same become due. The Series 2006 Bonds will be special limited obligations of the Agency payable solely from the installment purchase payments made by the Institution under the Installment Sale Agreement, and any moneys and securities held by the Trustee under the Indenture and pledged to the payment of the Series 2006 Bonds. Pursuant to the Indenture, the Agency will assign and pledge to the Trustee substantially all of its right, title and interest in and to the Installment Sale Agreement, including the right to collect and receive revenues under the Installment Sale Agreement, for the benefit of the Bondholders. The Institution will

enter into a Guaranty Agreement dated as of June 1, 2006 (the "Guaranty Agreement") from the Institution to the Trustee and the Bank, guaranteeing, among other things, the payment of the principal, redemption price, Purchase Price of and interest on, the Series 2006 Bonds.

The Indenture provides that the Agency will deposit the proceeds of the sale of the Series 2006 Bonds with the Trustee and that the Trustee will disburse such proceeds to pay the Project Costs, but only upon satisfaction of the requirements set forth in the Indenture, the Reimbursement Agreement and the Installment Sale Agreement. The Indenture grants to the Trustee a security interest in the proceeds of the sale of the Series 2006 Bonds held by the Trustee prior to disbursement.

THE SERIES 2006 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY, PAYABLE BY THE AGENCY AS TO PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE, IF APPLICABLE, AND INTEREST SOLELY FROM THE TRUST ESTATE. THE SERIES 2006 BONDS ARE NOT A DEBT OF THE STATE OF NEW YORK OR OF THE CITY OF NEW YORK AND NEITHER THE STATE OF NEW YORK NOR THE CITY OF NEW YORK SHALL BE LIABLE THEREON. NEITHER THE STATE OF NEW YORK NOR THE CITY OF NEW YORK IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE, IF APPLICABLE, OR INTEREST ON THE SERIES 2006 BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NEW YORK OR THE CITY OF NEW YORK IS PLEDGED TO SUCH PAYMENT. THE AGENCY HAS NO TAXING POWER.

This Official Statement contains summaries of the terms of and security for the Series 2006 Bonds and other summaries and descriptions of the Institution and its operations. Summaries of certain provisions of the Indenture and the Installment Sale Agreement, including definitions used therein, are included as Appendix A. Summaries of certain provisions of the Letter of Credit and the Reimbursement Agreement are included as Appendix B. All references to agreements and documents are qualified in their entirety by references to the definitive forms of the agreements or documents. All references to Series 2006 Bonds are further qualified by references to the information with respect to them contained in the Indenture. Copies of the Indenture and Installment Sale Agreement are available for inspection at the office of the Underwriter at One Penn Plaza, New York, New York 10119 and, after delivery of the Series 2006 Bonds, at the corporate trust office of the Trustee located at 101 Barclay Street, Floor 21W, New York, New York 10286.

Information with respect to the Institution and the Project, including the information contained in the sections entitled "THE PROJECT" and "THE Institution", and in Appendices D and E hereto, has been furnished by the Institution, and neither the Agency nor the Underwriter are responsible for the accuracy or completeness of such information. Information with respect to the Bank, including the information contained in the section entitled "THE BANK," has been furnished by the Bank, and neither the Agency, the Institution nor the Underwriter are responsible for the accuracy or completeness of such information.

The purchase of the Series 2006 Bonds involves a degree of risk. Prospective purchasers should carefully consider the material under the caption "RISK FACTORS" herein.

The Series 2006 Bonds will be sold and delivered by the Agency to First Albany Capital Inc. (the "Underwriter"), pursuant to a bond purchase agreement (the "Bond Purchase Agreement") by and among the Agency, the Institution and the Underwriter. (See the caption "UNDERWRITING" herein.)

### **THE AGENCY**

The Agency was established in 1974 as a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York duly organized and

existing pursuant to Title 1 of Article 18-A of the General Municipal Law, Chapter 24 of the Consolidated Laws of New York and Chapter 1082 of the 1974 Laws, as amended (collectively, the "Act") for the purpose of promoting the economic welfare of the inhabitants of The City of New York and promoting, developing, encouraging and assisting in the acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing of industrial, manufacturing, warehousing, commercial, research, recreational and civic facilities, thereby advancing the job opportunities, health, general prosperity and economic welfare of the people of the State of New York and improving their recreational opportunities, prosperity and standard of living.

Under the Act, the Agency has power to acquire, hold and dispose of personal property for its corporate purposes; to acquire, use for its corporate purposes and dispose of real property within the geographical jurisdictional limits of The City of New York; to appoint officers, agents and employees; to make contracts and leases; acquire, construct, reconstruct, lease, improve, maintain, equip or furnish one or more projects; to borrow money and issue bonds and to provide for the rights of the Holders thereof; to grant options to renew any lease with respect to any project and to grant options to buy any project at such price as the Agency may deem desirable; to designate depositories of its moneys; and to do all things necessary or convenient to carry out its purposes and exercise the powers given in the Act.

The current members of the Board of Directors of the Agency are listed earlier in this Official Statement. The Agency's Board of Directors has fourteen (14) members. There is currently one vacancy.

To support its activities, the Agency contracts with the New York City Economic Development Corporation ("EDC") to provide staff and technical assistance. EDC is a not-for-profit local development corporation which includes among its purposes the administration of government financing programs which foster business expansion in The City of New York.

The Series 2006 Bonds are special obligations of the Agency payable solely from the payments made by the Institution under the Installment Sale Agreement and from the moneys and securities held by the Trustee under the Indenture. Neither the Agency nor its members or officers are personally liable with respect to the Series 2006 Bonds. Accordingly, no financial information with respect to the Agency or its members or officers has been included in this Official Statement.

THE AGENCY HAS NOT VERIFIED, AND DOES NOT REPRESENT IN ANY WAY, THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION SET FORTH HEREIN OTHER THAN INFORMATION SET FORTH UNDER "THE AGENCY" AND "ABSENCE OF LITIGATION-The Agency" HEREIN.

### **THE PROJECT**

The Series 2006 Bonds are being issued in order to provide for the financing of a portion of the costs of (i) the acquisition of a leasehold interest in the land and the acquisition, improvement, renovation and equipping of nine contiguous, multi-story buildings located at 84-98 Fourth Avenue, New York, New York; (ii) the acquisition of a leasehold interest in the land and the construction, improvement and equipping of an athletic center on the underground level of 65 East 10<sup>th</sup> Street, New York, New York, all for use as a school serving students from junior kindergarten through grade eight (the "Facility"); and (iii) the financing of certain costs of issuance of the Series 2006 Bonds (collectively, the "Project"). The Facility's improvements are expected to be completed by January 1, 2008.

While the Installment Sale Agreement permits the use of proceeds of the Series 2006 Bonds to finance equipment, the Institution expects that all of the net proceeds will be needed and used to finance costs of the addition to, renovation and construction of and improvements to the buildings including



fixtures. The remaining costs of completing and equipping the Facility are to be financed by the Institution from its own funds. The total cost of completing the Facility, including costs of issuance, is currently estimated to be approximately \$22.8 million. Further information regarding the Project is set forth at Appendix D.

## **THE INSTITUTION**

The Institution is an entity chartered by the New York State Board of Regents which operates a co-educational, non-residential school for Junior Kindergarten through Grade Eight headquartered at 86 Fourth Avenue in New York City. The Institution's consolidated financial statements for the fiscal years ending June 30, 2005 and 2004 are included at Appendix E to this Official Statement. Further information regarding the Institution is set forth at Appendix D.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2006 BONDS**

### **Letter of Credit**

The payment of the principal of and interest on the Series 2006 Bonds shall be supported by the Letter of Credit. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" herein.

### **Pledge Under the Indenture**

In order to secure the payment of the principal of, or Redemption Price, if applicable, and interest on the Series 2006 Bonds, and the performance and observance by the Agency of all the covenants in the Indenture for the Series 2006 Bonds, and in order to further secure all amounts due to the Bank under the Reimbursement Agreement, the Agency pursuant to the Indenture has pledged and assigned to the Trustee and the Bank, among other things, (i) all right, title and interest of the Agency in and to the Installment Sale Agreement, including all installment purchase payments, revenues and receipts payable or receivable thereunder; excluding, however, the Agency's Reserved Rights, which Reserved Rights may be enforced by the Agency and the Trustee jointly or severally subject to the limitations contained in the Installment Sale Agreement and the Indenture; (ii) all monies and securities from time to time held by the Trustee under the terms of the Indenture (other than the Rebate Fund), and all investment earnings of any of the foregoing, subject to disbursements in accordance with the Installment Sale Agreement and the Indenture; provided, however, there is expressly excluded from any assignment, pledge, lien or security interest granted to the Bank, any amounts drawn under the Letter of Credit, and granted to the Trustee and/or the Bank, any amounts set apart and transferred to the Rebate Fund, and provided that amounts held in the Purchase Fund shall be held only for persons entitled thereto; and (iii) any other property, if any, pledged or assigned to the Trustee as additional security for the Series 2006 Bonds.

The Series 2006 Bonds Outstanding from time to time are limited and special obligations of the Agency, the principal of, redemption premium, if any, Purchase Price and interest on which are payable by the Agency solely from the amounts to be paid under the Installment Sale Agreement and otherwise as provided in the Indenture and in the Installment Sale Agreement, which amounts are specifically pledged under the Indenture to the payment thereof in the manner and to the extent therein specified.

The Series 2006 Bonds do not constitute an indebtedness or a loan of credit of the Agency within the meaning of any constitutional or statutory provision. Neither the members, directors, officers or agents of the Agency nor any person executing the Series 2006 Bonds shall be liable personally or be subject to any personal liability or accountability by reason of the issuance thereof.

THE SERIES 2006 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY, PAYABLE BY THE AGENCY AS TO PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE, IF APPLICABLE, AND INTEREST SOLELY FROM THE TRUST ESTATE. THE SERIES 2006 BONDS ARE NOT A DEBT OF THE STATE OF NEW YORK OR OF THE CITY OF NEW YORK AND NEITHER THE STATE OF NEW YORK NOR THE CITY OF NEW YORK SHALL BE LIABLE THEREON. NEITHER THE STATE OF NEW YORK NOR THE CITY OF NEW YORK IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE, IF APPLICABLE, OR INTEREST ON THE SERIES 2006 BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NEW YORK OR THE CITY OF NEW YORK IS PLEDGED TO SUCH PAYMENT. THE AGENCY HAS NO TAXING POWER.

### **The Installment Sale Agreement**

Concurrently with the issuance of the Series 2006 Bonds, the Agency will enter into the Installment Sale Agreement to provide for installment purchase payments by the Institution with respect to the Series 2006 Bonds. The Institution is and will be obligated under and pursuant to the Installment Sale Agreement to make installment purchase payments to the Trustee in amounts sufficient to pay the principal of, Redemption Price, if applicable, Purchase Price, and interest on, the Series 2006 Bonds together with other fees and expenses as the same become due. The obligation of the Institution to make installment purchase payments under the Installment Sale Agreement is an absolute, unconditional and general obligation of the Institution. Such installment purchase payments of the Institution shall continue to come due until the principal or Redemption Price, if applicable, and interest on the Series 2006 Bonds shall have been fully paid, or provision for the payment thereof shall have been made in accordance with the provisions of the Indenture.

During the term of the Letter of Credit, the Institution shall make installment purchase payments in immediately available funds, directly to the Trustee for deposit in the Reimbursement Account of the Installment Purchase Payments Fund, on the Business Day immediately preceding each Interest Payment Date, in an amount equal to the interest next becoming due and payable on such Bonds Outstanding on such Interest Payment Date, after crediting to such amount investment income earned on the Bond Fund during the preceding month and available for the payment of such interest.

The Institution will make installment purchase payments in immediately available funds directly to the Trustee for deposit in the Reimbursement Account of the Installment Purchase Payments Fund, on the Business Day immediately proceeding each Interest Payment Date, in an amount equal to one-twelfth (1/12) of the principal amount of the Bonds then Outstanding which will become due on the immediately succeeding principal payment date (whether at maturity or by redemption or by acceleration as provided in the Indenture).

The Institution will make installment purchase payments in immediately available funds directly to the Trustee for deposit in the Installment Purchase Payments Fund on the Business Day next preceding each redemption date in an amount equal to the principal amount of and redemption premium, if any, on the Series 2006 Bonds to be redeemed which will become due on the immediately succeeding redemption date together with accrued interest to the date of redemption; provided, however, that the Institution shall receive a credit for amounts on deposit in the Bond Fund on such date.

### **Guaranty Agreement**

The Institution has entered into the Guaranty Agreement whereby the Institution will unconditionally guarantee to the Trustee and the Bank for the benefit of the Holders from time to time of the Series 2006 Bonds (i) the full and prompt payment of the principal or Purchase Price of the Series

2006 Bonds and the indebtedness represented thereby, and the redemption premium, if any, on the Series 2006 Bonds when due, whether at stated maturity, acceleration, call for redemption or otherwise; (ii) the full and prompt payment of interest on the Series 2006 Bonds when due; and (iii) the full and prompt payment of all other amounts due under the Indenture (collectively, the "Guaranteed Obligations"). The Institution further agrees that upon any default in any of the Guaranteed Obligations, the Institution will promptly pay the same.

**No Mortgage Given to Trustee**

The Series 2006 Bonds will not be secured by any mortgage lien on or security interest in the Facility.

**ESTIMATED APPLICATION OF BOND PROCEEDS**

The following describes the application of the proceeds of the Series 2006 Bonds:

Underwriter's Fee	\$ 160,000.00
Deposit to Project Fund (includes rounding) <sup>1</sup>	19,388,655.90
Costs of Issuance <sup>2</sup>	<u>451,344.10</u>
<b>TOTAL USES</b>	<b><u>\$20,000,000.00</u></b>

<sup>1</sup> See "APPENDIX D—THE Institution AND THE PROJECT" for a summary of the aggregate sources and uses for the Project, including additional estimated costs of issuance with respect to the Series 2006 Bonds.

<sup>2</sup> Includes quarterly ongoing fee of Bank from date of issue through October 1, 2006, legal and accounting fees.

**THE SERIES 2006 BONDS**

**General Description**

Upon issuance, the Series 2006 Bonds will be registered in the names of the Holders (as defined below) thereof and will be dated the date of their issuance. The Series 2006 Bonds will mature on June 1, 2036, subject to prior mandatory or optional redemptions described below. The Series 2006 Bonds will be issued in fully registered form without coupons and will be in denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. Principal of and premium, if any, on the Series 2006 Bonds will be payable when due to the registered holders (the "Holders"), upon presentation and surrender thereof, at the principal corporate trust office of the Trustee. Interest will be payable on the first Business Day of the calendar month so long as the Series 2006 Bonds bear interest at the Weekly Interest Rate, commencing August 1, 2006, and on each January 1 and July 1 while the Series 2006 Bonds are in the Fixed Rate (the "Interest Payment Dates"). Interest on the Series 2006 Bonds shall be payable to the Holders of record on the Record Date (1) by check mailed on the Interest Payment Date to the registered holder or (2) by wire transfer on the Interest Payment Date to any owner of at least \$1,000,000 in aggregate principal amount of Series 2006 Bonds upon written notice provided by such Person to the Trustee not later than the Record Date for such interest payment. Interest payments made by check or draft shall be mailed to each owner at his address as it appears on the registration books of the Trustee on the applicable Record Date or at such other address as he may have filed with the Trustee for that purpose. Wire transfer payments of interest shall be made at such wire transfer address in the United States of America as the owner shall specify in his notice requesting payment by wire transfer.

## **Sources of Payment and Security for the Series 2006 Bonds**

The payment of principal of and interest on the Series 2006 Bonds at maturity or upon redemption or acceleration will be made first from moneys obtained by the Trustee pursuant to draws on the Letter of Credit. In the case of payment of the purchase price of Series 2006 Bonds upon certain tenders by Holders, such payment will be made first from certain remarketing proceeds transferred from the Remarketing Agent to the Tender Agent and then from moneys obtained by the Trustee pursuant to draws on the Letter of Credit. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2006 BONDS." The Letter of Credit may not be drawn upon to pay any amount which constitutes a premium on the Series 2006 Bonds. Such premium must be paid by the Institution with Priority Amounts, as hereafter defined. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS." Under the Reimbursement Agreement, the Institution is obligated to reimburse the Bank for draws on the Letter of Credit.

### **Institution Payments**

In the event amounts are not available under the Letter of Credit sufficient to pay the principal of and interest on the Series 2006 Bonds, then the principal of and interest on the Series 2006 Bonds are payable directly from the payments made by the Institution under the Installment Sale Agreement, including the moneys, securities, funds and accounts held by the Trustee (including investment earnings thereon) available for that purpose under the Indenture.

### **Interest**

Interest will be payable on each Interest Payment Date, commencing on August 1, 2006. The Interest Payment Date for the Series 2006 Bonds while they are in the Weekly Interest Rate will be the first Business Day of the calendar month and while in the Fixed Rate, shall be January 1 and July 1 of each year.

The Series 2006 Bonds will bear interest in one of two different Interest Rate Determination Methods: the Weekly Interest Rate or the Fixed Rate. The Interest Rate Determination Methods are described below under "Interest Rate Determination Methods." Initially, the Series 2006 Bonds will bear interest at the Weekly Interest Rate; however, the Institution on behalf of the Agency may elect to convert the Interest Rate Determination Method on all of the Series 2006 Bonds to the Fixed Rate, as described under "Fixed Rate Conversion" below.

While the Series 2006 Bonds bear interest in one of the Interest Rate Determination Methods, they bear interest in such mode for a period of time generally corresponding to the title of that Interest Rate Determination Method (the "Interest Rate Period") at a rate determined by the Remarketing Agent. The Interest Rate Periods and the determination dates for each Interest Rate Period are described below under "Interest Rate Determination Method."

The Series 2006 Bonds, unless and until converted to a different Interest Rate Determination Method, will bear interest at the Weekly Interest Rate.

### **Interest Rate Determination Method**

#### *Determination of Interest Rates*

Determination of Weekly Interest Rate. During each Weekly Interest Rate Period, the Series 2006 Bonds shall bear interest at the Weekly Interest Rate, determined by the Remarketing Agent initially

no later than the first day of each Weekly Interest Rate Period and thereafter no later than Wednesday (or the next preceding Business Day, if such Wednesday is not a Business Day) of each week immediately preceding such Weekly Interest Rate Period to be effective the following Thursday. The Weekly Interest Rate shall be the minimum rate of interest which, in the opinion of the Remarketing Agent, would be necessary to sell the Series 2006 Bonds on such date of determination in a secondary market sale at the principal amount thereof. The Weekly Interest Rate shall not exceed the Maximum Rate.

If the Remarketing Agent shall not have determined a Weekly Interest Rate for any week, the Weekly Interest Rate shall be set at the alternate rate until the Remarketing Agent can determine a Weekly Interest Rate or until the Series 2006 Bonds are delivered to the Bank. The alternate rate shall be a percentage per annum equal to 0.10% plus The Bond Market Association Municipal Swap Index rate determined on Wednesday of such Weekly Interest Rate Period (or the next preceding Business Day, if such Wednesday is not a Business Day), to be effective the following Thursday. If The Bond Market Association Municipal Swap Index rate is no longer published, the Weekly Interest Rate shall be the rate set for the previous Weekly Interest Rate Period.

Determination of Fixed Rate. During the Fixed Interest Rate Period, the Series 2006 Bonds shall bear interest at the Fixed Rate determined by the Remarketing Agent on a Business Day, selected by such Remarketing Agent, not more than fifteen (15) days prior to and not later than two (2) days prior to the effective date of such Fixed Rate with respect to the Series 2006 Bonds. The Fixed Rate shall be the minimum rate of interest which, in the opinion of the Remarketing Agent, would be necessary to sell the Series 2006 Bonds on such date of determination in a secondary market sale at the principal amount thereof.

#### *Fixed Rate Conversion*

The Institution, by written direction to the Agency, the Trustee and the Remarketing Agent, may elect at any time that all of the Series 2006 Bonds shall bear interest at a Fixed Rate. Such direction shall:

(1) specify the effective date of the Fixed Interest Rate Period (the "Conversion Date") which shall be a Wednesday which is a Business Day not fewer than forty-five (45) days nor more than sixty (60) days following the date of receipt by the Trustee of such direction (provided, however, that if prior to the making of such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Fixed Interest Rate Period shall not precede such redemption date);

(2) specify whether the Institution is electing to cause the single term of the Series 2006 Bonds to be converted to multiple serial and/or term maturities with sinking fund installments and the maturities, principal amounts and sinking fund redemption schedule with respect thereto;

(3) specify that all Series 2006 Bonds not purchased by the Tender Agent prior to the Conversion Date shall be deemed sold to the Tender Agent on the Conversion Date at the Purchase Price, that the Series 2006 Bonds should be delivered to the corporate trust office of the Tender Agent by 11:00 a.m., New York City time, on the Conversion Date, and that the Holders of the Series 2006 Bonds deemed sold shall not be entitled to any payment (including any interest to accrue subsequent to the Conversion Date) other than the Purchase Price for such untendered Series 2006 Bonds; and

(4) be accompanied by an opinion of nationally recognized bond counsel addressed to the Agency and the Trustee stating that such adjustment to the Fixed Rate (A) is lawful under the Act and is authorized or permitted by the Indenture, and (B) will not adversely affect the exclusion of interest on the

Series 2006 Bonds from gross income for Federal income tax purposes, nor adversely affect the validity of the Series 2006 Bonds.

During the Fixed Interest Rate Period, the Institution shall maintain a Fixed Rate Credit Facility meeting the requirements of the Indenture, unless upon adjustment to such Fixed Interest Rate Period (i) the Agency in writing waives such requirement and (ii) the Remarketing Agent determines that maintenance of a Fixed Rate Credit Facility is not necessary for the remarketing of the Series 2006 Bonds upon adjustment to such Fixed Interest Rate Period. On and after the date of any such adjustment of the Series 2006 Bonds to the Fixed Rate, neither the Institution nor the Remarketing Agent shall have any right under the Indenture to elect to adjust the Series 2006 Bonds to another Interest Rate Determination Method.

When a change in the Interest Rate Determination Method is to be made, the Institution will prepare and the Trustee will send a notice to the Bondholders affected thereby, the Agency, the Remarketing Agent and the Bank by first-class mail, postage prepaid, at least thirty (30) days, but not more than sixty (60) days, before the effective date of the change. The notice will be accompanied by the opinion of nationally recognized bond counsel, if required by the Indenture.

Other restrictions and conditions set forth in the Indenture apply to any change to a different Interest Rate Determination Method for the Series 2006 Bonds.

#### **Notification of Interest Rate and Conclusiveness of Interest Rates**

The Remarketing Agent will give notice of its determination of interest rates applicable to the Series 2006 Bonds to the Trustee, the Institution and the Bank and, upon request, to the Agency, in writing sent by first-class mail with a second copy sent by facsimile, or by telephone promptly confirmed in writing, by the close of business, New York City time, on the date of determination thereof. The Trustee shall make such interest rates available to any holder of the Series 2006 Bonds requesting the same.

The interest rates determined by the Remarketing Agent or otherwise determined as provided in this Indenture and contained in the records of the Trustee will be conclusive and binding on the Agency, the Institution, the Bank, the Trustee, the Paying Agent, the Tender Agent, the Bond Registrar, the Remarketing Agent, and the Bondholders, absent manifest error.

#### *Establishment of Alternate Rate*

The Agency and the Trustee, with the prior written consent of the Bank and the Institution, shall be authorized to amend or supplement the Indenture to provide for (or subsequently modify) an alternate rate determination method ("Alternate Rate"). Such amendment shall specify the period for payment of the interest ("Alternate Rate Period"), the intervals and dates at which the Alternate Rate will be set by the Remarketing Agent and the intervals and procedures by which the Series 2006 Bonds may be tendered for purchase. These changes will be noted on the Series 2006 Bonds or an amended bond form will be provided for in the amendment in order to reflect them.

A change to an Alternate Rate from another Interest Rate Determination Method will cause a mandatory tender of the Series 2006 Bonds. The notice and opinion of nationally recognized bond counsel will apply to any such change. The effective date of a change to an Alternate Rate must be the first day of an Interest Rate Period and cannot be during the period in which the Series 2006 Bonds bear interest at the Fixed Rate.

Each Alternate Rate will be set at the minimum rate necessary for the Remarketing Agent to sell the Series 2006 Bonds on the day the rate is set at their principal amount.

The amendment or supplement shall establish an index and/or method by which the rate will be set, to be used in the event that for any reason the Remarketing Agent does not set an Alternate Rate for an Alternate Rate Period or a court holds that the rate set for the Alternate Rate Period is invalid or unenforceable.

### **Optional Tender for Purchase**

A Holder of any Series 2006 Bond bearing interest at the Weekly Rate may irrevocably tender such Series 2006 Bond for purchase by giving telephonic notice to the Remarketing Agent, confirmed in writing to the Remarketing Agent and the Tender Agent by 5:00 p.m., New York City time, on a Business Day, stating the principal amount of the Series 2006 Bond, the bond number and the date (which must be a Business Day at least seven (7) days after the notice is given) on which such Series 2006 Bond is to be purchased. The Tender Agent shall promptly inform the Trustee of such notice, if applicable. In the case of a Series 2006 Bond to be purchased prior to an Interest Payment Date and after the Record Date in respect thereof, if the Holder is other than a Securities Depository or its nominee, the Holder shall deliver a due bill, in form satisfactory to the Trustee, for interest due on such Purchase Date. The Purchase Price for a Series 2006 Bond tendered to the Tender Agent for purchase will be paid in immediately available funds by the close of business on the Purchase Date. Series 2006 Bonds may not be tendered for purchase during the continuance of certain events of default under the Indenture with respect to non-payment of the Series 2006 Bonds or if the Bank has wrongfully dishonored a draw under the Letter of Credit.

### **Mandatory Tender for Purchase**

All Series 2006 Bonds shall be subject to mandatory tender for purchase:

- (a) on the effective date of an Alternate Rate applicable thereto.
- (b) on the date of adjustment to a different Interest Rate Determination Method (other than to an Alternate Rate).
- (c) on the fifth (5th) Business Day immediately prior to the substitution of a Substitute Letter of Credit, unless not less than thirty (30) days prior to such date the Institution shall deliver or cause delivery of a written confirmation from the Rating Agency to the effect that the substitution of the Substitute Letter of Credit will not, by itself, result in a reduction or withdrawal of its ratings then in effect on the Series 2006 Bonds secured by the Letter of Credit. If such mandatory tender for purchase is required, the Notice of Mandatory Tender shall (i) state the effective date of the substitution, (ii) describe the terms of the Substitute Letter of Credit to be provided, (iii) if applicable, state that one or more of the ratings then assigned to the Series 2006 Bonds secured by the Letter of Credit may be reduced or withdrawn and (iv) if available, state the Rating Category or Categories (including any refinements or graduations thereof) in which the Series 2006 Bonds supported by the Letter of Credit are expected to be rated by the Rating Agency on the effective date of the substitution.

The Trustee shall prepare and send to the Holders of Series 2006 Bonds subject to mandatory tender for purchase as described in paragraphs (a), (b) and (c) above, and to the Remarketing Agent, the Tender Agent, the Agency and the Institution a notice of mandatory tender not more than forty-five (45) nor less than thirty (30) days before the date on which such Series 2006 Bonds shall be subject to such mandatory tender for purchase.

At the option of the Bank, all Series 2006 Bonds shall be subject to mandatory tender for purchase on the Business Day specified by the Bank that is not more than five (5) days after receipt by the Trustee of written direction by the Bank, copies of which the Trustee shall give to the Institution, the Tender Agent and the Agency, to cause the mandatory tender for purchase of such Series 2006 Bonds as a result of the occurrence of an "Event of Default" under the Reimbursement Agreement. If such mandatory tender for purchase is required, the Trustee will prepare and send a notice of such mandatory tender to all Holders of Series 2006 Bonds, the Agency, the Tender Agent, the Remarketing Agent, the Institution and the Bank by first class mail, postage prepaid, which notice shall state that such mandatory repurchase will occur on the Business Day specified by the Bank, that Holders of the Series 2006 Bonds shall have no right to retain their Series 2006 Bonds after such date so specified and upon such date all Series 2006 Bonds shall be purchased in whole at a Purchase Price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the date of purchase.

### **Redemption Prior to Maturity**

The Series 2006 Bonds are subject to redemption in the circumstances and in the manners described below.

#### *General Optional Redemption During Weekly Interest Rate Term*

The Series 2006 Bonds may be redeemed at one hundred percent (100%) of the principal amount thereof with interest accrued to, but excluding, the redemption date, in whole or in part, on any Interest Payment Date, at the option of the Agency (which option shall only be exercised upon the giving of notice by the Institution of its intention to prepay installment purchase payments due under the Installment Sale Agreement).

#### *Optional Redemption at Beginning of Interest Rate Period*

On the first day of each Interest Rate Period, the Series 2006 Bonds may be redeemed at the principal amount thereof with interest accrued to, but excluding, the redemption date, in whole or in part, at the option of the Agency (which option shall only be exercised upon the giving of notice by the Institution of its intention to prepay installment purchase payments due under the Installment Sale Agreement).

#### *Optional Redemption at a Premium During Fixed Interest Rate Period*

When the interest on the Series 2006 Bonds is payable at a Fixed Rate, the Series 2006 Bonds may be redeemed at the option of the Agency (which option shall only be exercised upon the giving of notice by the Institution of its intention to prepay installment purchase payments due under the Installment Sale Agreement) at any time in whole or in part on and after the dates and at the Redemption Prices set forth below, together with accrued interest, if any, to but excluding the redemption date:

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<u>Length of Fixed Interest Rate Period</u>	<u>Fixed Interest Rate Period</u> Commencement of Redemption Period	<u>Redemption Price (% of Principal Amount)</u>
More than 16 years	Tenth anniversary of Commencement of Fixed Interest Rate Period	103%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%.
More than 12, but not more than 16 years	Eighth anniversary of commencement of Fixed Interest Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%.
More than 9, but not more than 12 years	Sixth anniversary of commencement of Fixed Interest Rate Period	101%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%.
More than 6, but not more than 9 years	Fourth anniversary of commencement of Fixed Interest Rate Period	100%
More than 3, but not more than 6 years	Second anniversary of commencement of Fixed Interest Rate Period	100%
More than 1, but not more than 3 years	First anniversary of commencement of Fixed Interest Rate Period	100%
1 year or less	Series 2006 Bonds not callable	

### *Extraordinary Redemption*

The Series 2006 Bonds are subject to extraordinary redemption in whole prior to maturity, at the option of the Agency exercised only at the direction of the Institution, as a whole on any date, upon notice or waiver of notice as provided in the Indenture, at one hundred percent (100%) of the unpaid principal amount thereof, plus accrued interest to the date of redemption upon the occurrence of the following events:

- (i) The Facility shall have been damaged or destroyed to such extent that as evidenced by a certificate of an independent engineer filed with the Agency, the Bank and the Trustee (A) the Facility cannot be reasonably restored within a period of eighteen (18) months from the date of such damage or destruction to the condition thereof immediately preceding such damage or destruction, (B) the Institution is thereby prevented or likely to be prevented from carrying on its normal operation of the Facility for a period of eighteen (18) months from the date of such damage or destruction, or (C) the restoration cost of the Facility would exceed the total

amount of all insurance proceeds, including any deductible amount, in respect of such damage or destruction; or

(ii) title to, or the temporary use of, all or substantially all of the Facility shall have been taken or condemned by a competent authority, which taking or condemnation results, or is likely to result, in the Institution being thereby prevented or likely to be prevented from carrying on its normal operation of the Facility for a period of one (1) year from the date of such taking or condemnation as evidenced by a certificate of an independent engineer filed with the Agency, the Bank and the Trustee; or

(iii) as a result of changes in the Constitution of the United States of America or of the State or of legislative or executive action of the State or any political subdivision thereof or of the United States of America or by final decree or judgment of any court after the contest thereof by the Institution, the Installment Sale Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein or unreasonable burdens or excessive liabilities are imposed upon the Institution by reason of the operation of the Facility.

If the Series 2006 Bonds are to be redeemed in whole as a result of the occurrence of any of the events described in paragraphs (i) or (ii) above, the Institution is required by the Installment Sale Agreement to deliver to the Agency, the Bank and the Trustee a certificate of an Authorized Representative of the Institution stating that, as a result of the occurrence of the event giving rise to such redemption, the Institution has discontinued, or at the earliest practicable date will discontinue, its operation of the Facility for its intended purposes.

*Mandatory Sinking Fund Installment Redemption*

Subject to the provisions of the Indenture, the Series 2006 Bonds shall be subject to mandatory sinking fund installment redemption by the Agency prior to maturity, in part by lot, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments in the years and in the principal amounts shown below, provided that the amounts of such Sinking Fund Installments shall be reduced by the credits provided for in the Indenture.

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Sinking Fund Installment Payment Date (June 1)	Sinking Fund Installment	Sinking Fund Installment Payment Date (June 1)	Sinking Fund Installment
2010	\$290,000	2024	\$740,000
2011	305,000	2025	780,000
2012	325,000	2026	825,000
2013	340,000	2027	870,000
2014	360,000	2028	915,000
2015	375,000	2029	965,000
2016	400,000	2030	1,015,000
2017	420,000	2031	1,070,000
2018	540,000	2032	1,130,000
2019	570,000	2033	1,190,000
2020	600,000	2034	1,255,000
2021	635,000	2035	1,320,000
2022	670,000	2036†	1,390,000
2023	705,000		

† Final maturity.

*Mandatory Redemption from Excess Proceeds*

The Series 2006 Bonds shall be redeemed in whole or in part prior to maturity in the event and to the extent (i) excess Series 2006 Bond proceeds shall remain after the completion of the Project, (ii) excess title insurance or property insurance proceeds or condemnation awards shall remain after the application thereof pursuant to the Installment Sale Agreement and the Indenture, or (iii) excess proceeds shall remain after the release or substitution of Facility Realty or Facility Equipment, in each case at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Series 2006 Bonds to be redeemed, together with interest accrued thereon to the date of redemption.

*Mandatory Redemption upon Termination of a Letter of Credit*

Except during the Fixed Interest Rate Period, the Series 2006 Bonds shall be subject to mandatory redemption on the fifth (5th) Business Day immediately preceding the Termination or Expiration of a Letter of Credit at a Redemption Price equal to one hundred percent (100%) of the principal amount thereof, together with interest accrued thereon to the date of redemption, in the event a Substitute Letter of Credit is not obtained and delivered to the Trustee at least fifty (50) days prior to such Expiration or Termination in the manner provided in the Indenture.

*Mandatory Redemption Upon Failure to Operate Facility In Accordance With Applicable Law*

The Series 2006 Bonds are also subject to mandatory redemption prior to maturity, at the option of the Agency, as a whole only, on any date, in the event the Agency shall determine that the Institution is not operating the Facility as a qualified "project" under the Act as of the date of the Indenture, or is operating the Facility in violation of material applicable law, and the Institution has failed to cure such noncompliance within the time periods set forth in the Installment Sale Agreement, upon notice or waiver of notice as provided in the Indenture, at the Redemption Price of one hundred percent (100%) of the

unpaid principal amount of the Series 2006 Bonds, together with interest accrued thereon to the date of redemption.

#### *Mandatory Redemption Upon Failure to Obtain or Maintain Public Liability Insurance*

The Series 2006 Bonds are also subject to mandatory redemption prior to maturity, at the option of the Agency, as a whole only, on any date, in the event the Agency shall determine that the Institution has not obtained or is not maintaining public liability insurance with respect to the Facility, and the Institution has failed to cure such noncompliance within the time periods set forth in the Installment Sale Agreement, upon notice or waiver of notice as provided in the Indenture, at the Redemption Price of one hundred percent (100%) of the unpaid principal amount of the Series 2006 Bonds, together with interest accrued thereon to the date of redemption.

#### *Mandatory Redemption on Act of Bankruptcy of the Bank*

If the Trustee shall receive written notice of the occurrence of an Act of Bankruptcy of the Bank, the Trustee shall promptly give an initial written notice thereof (the "Initial Notice") to the Bank, the Agency, the Remarketing Agent and the Institution. The Initial Notice shall specify a proposed redemption date for the Series 2006 Bonds and the date by which there must be delivered to the Trustee a Substitute Letter of Credit (the "Delivery Date"), and the requirements for delivery of a Substitute Letter of Credit set forth in the Indenture which must be met. The Delivery Date so specified shall be not more than sixty (60) days, and the redemption date so specified by the Trustee in the initial notice shall be not more than one hundred thirty (130) days, following the date the Trustee has knowledge by written notice of the Act of Bankruptcy. The Series 2006 Bonds are subject to redemption prior to maturity on the redemption date so specified at the Redemption Price equal to one hundred percent (100%) of the principal amount thereof, together with interest accrued thereon to the redemption date, unless the Institution delivers a Substitute Letter of Credit and meets the requirements specified in the Indenture and in the Initial Notice on or prior to the date of delivery, and upon such proposed Delivery Date the Trustee shall give notice of redemption in accordance with the Indenture. In the event the Institution delivers a Substitute Letter of Credit and complies with such requirements on or before the Delivery Date, the Trustee will so notify the Institution, the Agency, the Bank and the Series 2006 Bonds will not be subject to redemption due to such an occurrence.

#### *Mandatory Redemption upon Event of Taxability*

The Series 2006 Bonds are also subject to mandatory redemption on any date prior to maturity upon the occurrence of an Event of Taxability. In such event, the Series 2006 Bonds will be subject to mandatory redemption, in whole and not in part, as soon as practicable and, in any event, within sixty (60) days of receipt of notice of such an event by the Trustee, at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Series 2006 Bonds to be redeemed plus accrued interest to the redemption date. The Redemption Price of the Series 2006 Bonds (other than Pledged Bonds and Series 2006 Bonds owned by the Institution or any subsidiary or Affiliate thereof) redeemed as described in this subsection shall be paid only from moneys drawn on the Letter of Credit.

"Event of Taxability" means (i) a final determination by any court of competent jurisdiction or a final determination by the Internal Revenue Service to which the Institution shall consent or from which no timely appeal shall be taken to the effect that interest on the Series 2006 Bonds is includible in the gross income of the owner thereof under Section 61 of the Code; or (ii) the delivery to the Institution and to the Agency of an opinion of Nationally Recognized Bond Counsel (reasonably satisfactory to the Institution) to the effect that interest on the Series 2006 Bonds is includible in the gross income of the owner thereof under Section 61 of the Code.

### *Mandatory Redemption If Prime Lease Expires*

The Bonds shall be subject to mandatory redemption, as a whole, on the Business Day prior to the expiration date of the Prime Lease unless the Prime Lease shall be extended by its terms or by an agreement between the Institution and the Prime Landlord, at a Redemption Price of one hundred percent (100%) of the unpaid principal amount of the Series 2006 Bonds together with interest accrued thereon to the date of redemption.

### **DEPOSITORY TRUST COMPANY**

When the Series 2006 Bonds are issued, ownership interests will be available to purchasers only through the book-entry-only system maintained by DTC. Beneficial ownership in the Series 2006 Bonds may be acquired or transferred only through book entries made on the records of DTC and DTC Participants. If the Series 2006 Bonds are taken out of the book-entry-only system and delivered to Beneficial Owners in physical form, as described below, the following discussion will not apply. The information contained in this section entitled "Depository Trust Company" has been obtained from information provided by DTC, and the Agency does not warrant or guarantee the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2006 Bonds (the "Securities"). The Securities will 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates 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 and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. 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 (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit of the Securities on DTC's records. The ownership interest of

each actual purchaser of each security (“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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Securities, except in the event that use of the book-entry only system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 the Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping accounts 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. Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security Documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities, unless authorized by a Direct Participant in accordance with DTC’s 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest and any redemption payments on the Securities will be made to Cede & Co. or such 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 Agency or the Trustee on 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, Agency or Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest and any redemption payments to Cede & Co. (or such nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or Trustee, disbursement of

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

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Remarketing Agent's DTC account.

DTC may discontinue providing its service as securities depository with respect to the Securities at any time by giving reasonable notice to the Agency or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The Information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Agency believes to be reliable but the Agency takes no responsibility for the accuracy thereof.

THE AGENCY AND TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PURCHASE PRICE, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2006 BONDS; (III) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (IV) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2006 BONDS; OR (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

## **THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT**

### **The Letter of Credit**

The Institution has caused to be delivered to the Trustee an irrevocable direct pay Letter of Credit issued by the Bank and dated the date of the original issuance of the Series 2006 Bonds, which will expire, unless earlier terminated or extended on June 28, 2009. Reference is made to the Letter of Credit for complete details of the terms thereof. See APPENDIX B-1—"FORM OF LETTER OF CREDIT" for the specific terms of the Letter of Credit. Under the Letter of Credit, the Trustee will be entitled to draw an amount not to exceed \$20,000,000 in principal in respect of the principal of the Series 2006 Bonds (or of that portion of the Purchase Price of Series 2006 Bonds corresponding to principal) plus \$187,000 (calculated on the basis of an assumed rate of 10% per annum for 34 days, and a year of 365 days) in respect of interest on the Series 2006 Bonds (or of that portion of the Purchase Price corresponding to interest). The principal and interest components of the Letter of Credit will be reduced by the amount of each drawing under the Letter of Credit in respect thereof. Amounts drawn on the Letter of Credit in

respect of interest on the Series 2006 Bonds will be reinstated automatically immediately upon payment of such draw by the Bank. Amounts drawn on the Letter of Credit in respect of the Purchase Price of the Series 2006 Bonds in connection with an optional tender shall be reinstated upon reimbursement to the Bank of the amount thereof. The principal and interest components of the Letter of Credit shall not be reinstated for any drawing made with respect to redemption or mandatory tenders.

### **Termination of Letter of Credit**

The Letter of Credit will terminate upon the earliest to occur of (i) the close of business on June 28, 2009, or if such date is extended pursuant to the terms of the Letter of Credit, the date as so extended, (ii) the date on which the principal amount of and interest on the Bonds shall have been paid in full, (iii) the close of business on the second (2<sup>nd</sup>) Business Day following conversion of the interest rate on the Bonds to a Fixed Rate, (iv) the date on which the Bank honors a draft under the Letter of Credit following the occurrence of an event of default under the Indenture and an acceleration, (v) the date on which the Bank honors a draft drawn under the Letter of Credit to purchase the Bonds following the Trustee's receipt of written notice from the Bank that an Event of Default (as defined in the Reimbursement Agreement) has occurred and is continuing and a written request from the Bank that the Bonds be required to be tendered for purchase, (vi) the date the Letter of Credit is surrendered to the Bank by the Trustee for cancellation following acceptance by the Trustee of a Substitute Letter of Credit (as defined in the Indenture) pursuant to the Indenture, or (vii) the date that the Bank honors the final drawing available under the Letter of Credit. The Series 2006 Bonds are subject to mandatory redemption at par if the Letter of Credit expires or terminates and a substitute Letter of Credit or a substitute Credit Facility is not in effect.

### **Substitute Letters of Credit**

Pursuant to the Indenture, the Institution shall have the right, at any time on or prior to the fiftieth (50<sup>th</sup>) day prior to the stated Expiration or Termination of any Letter of Credit then in effect, to obtain and deliver to the Trustee a Substitute Letter of Credit, in accordance with and upon compliance with the provisions and requirements specified in the Indenture. Each such Substitute Letter of Credit (i) shall be issued by a Bank acceptable to the Agency; (ii) shall have the same or higher rating as the Letter of Credit being replaced (as evidenced by a written notice delivered to the Trustee); (iii) shall become effective no later than the day of the Termination or Expiration of the then existing Letter of Credit; (iv) shall expire no earlier than one year from the date of its effective date, shall provide that funds can be drawn for the purposes and in the amounts (including the Applicable Principal and Interest Coverage) and at the times provided for in the Indenture and shall otherwise be in form and substance acceptable to the Agency and the Trustee; and (v) shall be accompanied upon delivery by (A) a notice of the Institution, (B) an enforceability opinion, relating to such Substitute Letter of Credit, reasonably satisfactory to the Agency, the Trustee, the Remarketing Agent and any Rating Agency, (C) an opinion of nationally recognized counsel experienced in securities law to the effect that such Substitute Letter of Credit does not require registration under any applicable Federal securities laws, and (D) an opinion of Nationally Recognized Bond Counsel stating that substitution of such Substitute Letter of Credit (1) is lawful under the Act and is authorized or permitted by the Indenture and (2) will not adversely affect the exclusion of interest on the Series 2006 Bonds from gross income for Federal income tax purposes or the validity of the Series 2006 Bonds.

### **The Reimbursement Agreement**

The Bank will agree to issue the Letter of Credit pursuant to the terms of the Reimbursement Agreement. Reference is made to the Reimbursement Agreement for complete details of the terms thereof. See APPENDIX B-2—"SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT



AGREEMENT” for a brief outline of certain provisions of the Reimbursement Agreement. Such outline should not be considered a full statement of all the terms of the Reimbursement Agreement.

### **THE BANK**

The following information with respect to the Bank has been furnished by the Bank, and neither the Agency, the Institution nor the Underwriter guarantee the accuracy or completeness of such information.

Wachovia Bank, National Association (referred to in this section as the “Bank”) is a subsidiary of Wachovia Corporation (the “Corporation”), whose principal office is located in Charlotte, North Carolina. The Corporation is the fourth largest bank holding company in the United States based on approximately \$542 billion in total assets as of March 31, 2006.

The Bank is a national banking association with its principal office in Charlotte, North Carolina and is subject to examination and primary regulation by the Office of the Comptroller of the Currency of the United States. The Bank is a commercial bank offering a wide range of banking, trust and other services to its customers. As of March 31, 2006, the Bank had total assets of approximately \$497 billion, total net loans of approximately \$285 billion, total deposits of approximately \$339 billion and equity capital of approximately \$52 billion.

The Bank submits quarterly to the Federal Deposit Insurance Corporation (the “FDIC”) a “Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices” (each, a “Call Report”, and collectively, the “Call Reports”). The publicly available portions of the Call Reports with respect to the Bank (and its predecessor banks) are on file with the FDIC, and copies of such portions of the Call Reports may be obtained from the FDIC, Division of Insurance and Records, 550 17<sup>th</sup> Street, NW, Washington, DC 20429-9990, (800) 688-3342, at prescribed rates. In addition, such portions of the Call Reports are available to the public free of charge at the FDIC’s web site at <http://www.fdic.gov>.

The Corporation is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “Commission”). Such documents can be read and copied at the Commission’s public reference room in Washington, D.C. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. In addition, such documents are available to the public free of charge at the SEC’s web site at <http://www.sec.gov>. Reports, documents and other information about the Corporation also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

Upon request, the Bank will provide at no cost to any person to whom this Official Statement is delivered copies of the most recent Wachovia Corporation Annual Report to Shareholders, the publicly available portion of the most recent Call Report that the Bank has filed with the FDIC and the Corporation’s most recent periodic reports under the Securities Exchange Act of 1934 on Form 10-K and Form 10-Q and any Current Report on Form 8-K subsequent to its most recent report on Form 10-K. Copies of these documents may be requested by writing to or telephoning the Bank at the following address and telephone number: Wachovia Corporation, Investor Relations, 301 South College Street, Charlotte, NC 28288-0206, (704) 374-6782.

The information contained in this section relates to and has been obtained from the Bank. The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information regarding

the Bank is qualified in its entirety by the detailed information appearing in the documents referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained in this section is correct as of any time subsequent to its date.

**THE LETTER OF CREDIT IS AN OBLIGATION OF THE BANK AND IS NOT AN OBLIGATION OF THE CORPORATION. NO BANKING OR OTHER AFFILIATE CONTROLLED BY THE CORPORATION, EXCEPT THE BANK, IS OBLIGATED TO MAKE PAYMENTS UNDER THE LETTER OF CREDIT.**

### **REMARKETING AGREEMENT**

The Underwriter, as Remarketing Agent, is to remarket the Series 2006 Bonds tendered to the Trustee pursuant to the Remarketing Agreement dated as of June 1, 2006 (the "Remarketing Agreement"), between the Institution and the Remarketing Agent. Reference is made to the Remarketing Agreement for complete details of the terms thereof. The following is a brief summary of certain provisions of the Remarketing Agreement and should not be considered a full statement thereof.

So long as no Event of Default under the Indenture has occurred and is continuing, the Remarketing Agent is to offer for sale and use its best efforts to remarket the Series 2006 Bonds at a price equal to the principal amount thereof plus interest accrued to the date of sale; (1) upon the exercise by any Bondholder of the option to tender Series 2006 Bonds for purchase in accordance with the Indenture; (2) upon the exercise by the Institution of the option to change the Interest Rate Determination Method on the Series 2006 Bonds to a Fixed Interest Rate; and (3) upon the delivery by the Institution of a Substitute Letter of Credit. The Remarketing Agent may not offer to sell any Series 2006 Bonds to the Institution, the Agency, or any Affiliate. The Remarketing Agent will have no obligation to remarket the Series 2006 Bonds if the rate necessary to remarket the Series 2006 Bonds at par is greater than 10%.

The Remarketing Agent shall determine the Weekly Interest Rate or, upon a change in Interest Rate Determination Method to the Fixed Rate, the Fixed Rate, in accordance with the Indenture.

### **RISK FACTORS**

Purchase of the Series 2006 Bonds involves certain payment and prepayment risks. Prospective purchasers of the Series 2006 Bonds should give careful consideration to the matters referred to in the following summary. Such summary should not be considered exhaustive, but rather informational only.

#### **Default by Bank under Letter of Credit**

Prior to a change in the Interest Rate Determination Method of the Series 2006 Bonds from the Weekly Interest Rate, payment of the Purchase Price of the Series 2006 Bonds tendered for purchase will be paid from remarketing proceeds or if remarketing proceeds are inadequate, from funds made available under the Letter of Credit subject to the terms and conditions of the Letter of Credit. Payment of the principal of and interest on the Series 2006 Bonds when due is also secured by the Letter of Credit. Default by the Bank under the Letter of Credit might result in insufficient revenues being available to pay the Purchase Price or the principal of and accrued and unpaid interest on the Series 2006 Bonds.

### **Default by the Institution or the Agency**

No representations or assurances can be given that the Institution or the Agency will not default in performing their respective obligations under the Installment Sale Agreement, the Reimbursement Agreement, the Indenture or any other Security Document. If an Event of Default occurs under the Indenture, the Trustee may accelerate the maturity of all Bonds Outstanding and interest will cease to accrue on the date of acceleration, notwithstanding the fact that the Bondholders may not receive notice of such acceleration until after such date. In addition, no premium will be received upon an acceleration of the Bonds due to a default. If an Event of Default occurs under the Reimbursement Agreement, the Bank may, at its option, give notice to the Trustee to make a draw under the Letter of Credit, in which event the Trustee is to accelerate the maturity of all Bonds Outstanding and the Bonds are to be paid in an amount equal to the Outstanding principal thereof, plus accrued interest, without premium. Interest will cease to accrue on the date of acceleration, notwithstanding the fact that the Bondholders may not receive notice of such acceleration until after such date.

### **Bond Rating**

There is no assurance that the rating assigned to the Series 2006 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2006 Bonds.

### **No Obligation of State or City of New York**

The Series 2006 Bonds are not obligations of the State of New York or The City of New York, and neither the State of New York nor The City of New York has any liability thereunder. The Series 2006 Bonds are special revenue obligations of the Agency payable solely from the sources described in this Official Statement and the Indenture.

### **Consequences of Changes in the Institution's Tax-Exempt Status**

In order to maintain its status as an organization exempt from federal income taxation, the Institution will be subject to a number of requirements affecting its operations. Failure to satisfy these requirements, the modification or repeal of certain existing federal income tax laws, the change of Internal Revenue Service policies or positions, or a change of the Institution's method of operations, purposes or character could result in the loss by the Institution of its tax-exempt status. Failure by the Institution to maintain its tax-exempt status or a determination that the operation of the Facility or a portion thereof constitutes an unrelated trade or business of the Institution could result in a Determination of Taxability with respect to the Series 2006 Bonds which could result in the includability of interest on the Series 2006 Bonds in gross income for federal income tax purposes retroactive to the date of issuance, which would, in turn, require the Institution to utilize funds to redeem the Series 2006 Bonds.

### **Loss of Federal Tax Exemption**

The continued exclusion of the interest on the Series 2006 Bonds may be lost if certain events occur subsequent to the date of issuance of the Series 2006 Bonds that violate the requirements and limitations prescribed by the Code. Although the Institution has agreed not to violate the requirements and limitations of the Code, there can be no assurance that these events will not occur. If certain requirements are violated, the interest on the Series 2006 Bonds may be deemed to be taxable from the date of issuance, and the Series 2006 Bonds will be subject to mandatory redemption by reason thereof.

## TAX MATTERS

### Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2006 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2006 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2006 Bonds. Pursuant to the Indenture, the Installment Sale Agreement and the Tax Compliance Agreement, the Agency and the Institution have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2006 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Agency and the Institution have made certain representations and certifications in the Indenture, the Installment Sale Agreement and the Tax Compliance Agreement. Bond Counsel will also rely on the opinion of Orrick, Herrington & Sutcliffe LLP as to all matters concerning the status of the Institution as an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code. Bond Counsel will not independently verify the accuracy of those certifications and representations or that opinion.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the Agency and the Institution described above, interest on the Series 2006 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2006 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

### State Taxes

Bond Counsel is also of the opinion that, by virtue of the Act, interest on the Series 2006 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions, including The City of New York.

**Ancillary Tax Matters.** Ownership of the Series 2006 Bonds may result in other Federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2006 Bonds. Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described under the caption "Tax Matters". Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2006 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

**Changes in Federal Tax Law and Post Issuance Events.** From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for Federal income tax purposes of the interest on the Series 2006 Bonds, and thus on the economic value of the Series 2006 Bonds. This could result from reductions in Federal income tax rates, changes in the structure of the Federal income tax rates, changes in the structure

of the Federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the Series 2006 Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the Series 2006 Bonds may be proposed or enacted.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2006 Bonds may affect the tax status of interest on the Series 2006 Bonds. Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Series 2006 Bonds, or the interest thereon, if any action is taken with respect to the Series 2006 Bonds or the proceeds thereof upon the advice or approval of other counsel.

Reference is made to Appendix C for the proposed form of the approving opinion, in substantially final form, expected to be rendered by Bond Counsel in connection with the Series 2006 Bonds.

### **INDEPENDENT ACCOUNTANTS**

The financial statements of the Institution as of June 30, 2005 and 2004 and for the years then ended, included in Appendix E, have been audited by Fruchter Rosen & Company, P.C. and Merdinger, Fruchter, Rosen & Company, LLP, Certified Public Accountants, respectively.

### **LEGAL INVESTMENTS**

Under the provisions of the Act, the Series 2006 Bonds are made securities in which all public officers and bodies of the State of New York and all municipalities and municipal subdivisions thereof, all insurance companies and associations, and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, and all other persons whatsoever organized under the laws of the State of New York who are now or may hereafter be authorized to invest in bonds or other obligations of the State of New York, may properly and legally invest funds including capital in their control or belonging to them. The Series 2006 Bonds are also made securities which may be deposited with and will be received by all public officers and bodies of the State of New York and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the State of New York is now or may hereafter be authorized. Certain of such investors may be subject to separate restrictions which limit or prevent their investment in the Series 2006 Bonds.

### **ABSENCE OF LITIGATION**

#### **The Agency**

There is not now pending, nor to the best knowledge and information of the Agency threatened, any action, suit, proceeding or investigation (at law or in equity) before or by any court, public board or body, against the Agency, and of which the Agency has notice, in any way contesting or affecting the existence or powers of the Agency, challenging the validity of the Installment Sale Agreement, the Institution Lease Agreement, the Bond Purchase Agreement, the Indenture, the Series 2006 Bonds or the Bond Resolution, seeking to enjoin any of the transactions contemplated thereby or the performance by the Agency of any of its obligations thereunder, or wherein an unfavorable decision, finding or ruling would adversely affect the transactions contemplated by the Installment Sale Agreement, the Institution Lease Agreement, the Bond Purchase Agreement, the Indenture or the Bond Resolution.

## **The Institution**

There is not now pending, nor to the best knowledge and information of the Institution threatened, any action, suit, proceeding or investigation (at law or in equity) before or by any court, public board or body, against or affecting the Institution, in any way contesting or affecting the existence or powers of the Institution, challenging the validity of the Installment Sale Agreement, the Institution Lease Agreement, the Indenture, the Bond Purchase Agreement, the Reimbursement Agreement, the Series 2006 Bonds, the Bond Resolution, or the transactions contemplated thereby, or seeking to enjoin any of the transactions contemplated thereby or the performance by the Institution of any of its obligations thereunder, or wherein an unfavorable decision, finding or ruling would adversely affect the transactions contemplated by the Installment Sale Agreement, the Institution Lease Agreement, the Indenture, the Bond Purchase Agreement, the Reimbursement Agreement, or the Bond Resolution, or would materially adversely affect the business, condition or operations of the Institution.

## **UNDERWRITING**

First Albany Capital Inc. (the "Underwriter"), will agree to purchase the Series 2006 Bonds from the Agency pursuant to a Bond Purchase Agreement by and among the Institution, the Agency and the Underwriter, at a purchase price of \$19,840,000, representing the principal amount of the Series 2006 Bonds of \$20,000,000, less an Underwriter's Discount of \$160,000. The Bond Purchase Agreement provides that the Underwriter will purchase all Series 2006 Bonds if any are purchased. The Institution has agreed to indemnify the Underwriter and the Agency against certain liabilities or to contribute to any payments required to be made to the Underwriter relating to such liabilities, including liabilities under the federal securities laws.

The Underwriter may offer and sell the Series 2006 Bonds to certain dealers (including those depositing the Series 2006 Bonds into investment trusts) and others at prices lower than the public offering prices stated on the front cover hereof. The public offering prices may be changed from time to time by the Underwriter without notice.

## **RATING**

Moody's Investors Service has given the Series 2006 Bonds a rating of "Aa2/VMIG1" based on the rating of the Bank. Such rating reflects only the view of Moody's Investors Service, and any desired explanation of the significance of such rating should be obtained from Moody's Investors Service. Generally, a rating agency bases its ratings on the information and materials furnished it and on investigations, studies and assumptions by the rating agency. There is no assurance that a particular rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Neither the Agency, the Institution, nor the Underwriter has undertaken any responsibility either to bring to the attention of the Holders of the Series 2006 Bonds any proposed revision or withdrawal of the rating of the Series 2006 Bonds or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of such rating, or either of them, could have an adverse effect on the market price of the Series 2006 Bonds. Such rating should not be taken as a recommendation to buy or hold the Series 2006 Bonds.

## **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization, issuance and sale of the Series 2006 Bonds are subject to the approving opinion of Nixon Peabody LLP, New York, New York. Copies of such opinion substantially in the form included as Appendix C will be available at the time of delivery of the Series 2006 Bonds. Certain legal matters will be passed upon for the Agency by Richard E. Marshall, Esq., Vice

President for Legal Affairs of the Agency; for the Institution by its special counsel, Orrick, Herrington, Sutcliffe, LLP, New York, New York; for the Bank by its counsel, Windels Marx Lane & Mittendorf, LLP, New York, New York; and for the Underwriter by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., New York, New York. The opinions of counsel will contain exceptions regarding bankruptcy, insolvency, fraudulent conveyances and similar laws affecting the enforcement of creditors' rights generally and other potential limitations.

#### **OTHER MATTERS**

The foregoing summaries and explanations do not purport to be comprehensive and are expressly made subject to the exact provisions of the documents referred to herein. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. No representation is made that any of the opinions or estimates will be realized.

The issuance of the Series 2006 Bonds bearing interest at the Weekly Interest Rate is exempt from the provisions of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule") and neither the Institution, the Agency, nor any other person has entered into any agreement or undertaking to provide financial and operating information and material event notices required by the Rule. In any event, the Agency is not an "obligated party" with respect to the Series 2006 Bonds and makes no undertakings of any kind with respect to the Rule.

The agreement of the Agency with the Holders of the Series 2006 Bonds is fully set forth in the Indenture, and this Official Statement is not to be construed as constituting an agreement with the purchasers of the Series 2006 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency and the Institution. This Official Statement is made available only in connection with the sale of the Series 2006 Bonds and may not be used in whole or in part for any other purpose.

#### **NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY**

By: /s/ Kei Hayashi  
Deputy Executive Director

#### **GRACE CHURCH SCHOOL**

By: /s/ Douglas H. Evans  
Chair of the Board of Trustees

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**APPENDIX A**

**DEFINITIONS AND SUMMARIES OF CERTAIN DOCUMENTS**

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## CERTAIN DEFINITIONS RELATING TO THE SERIES 2006 BONDS

Act shall mean, collectively, the New York State Industrial Development Agency Act (constituting Title I of Article 18-A of the General Municipal Law, Chapter 24 of the Consolidated Laws of New York), as amended, and Chapter 1082 of the 1974 Laws of New York, as amended.

Act of Bankruptcy, when used with respect to the Institution, the Agency, or any other obligor (or the general partner of any such entity or obligor) under any of the Security Documents (other than the Remarketing Agent), or the Bank, shall mean the filing of a petition in bankruptcy by or against the Institution, the Agency or any other obligor (or the general partner of any such entity or obligor) under any of the Security Documents (other than the Remarketing Agent) or the Bank under any applicable bankruptcy, insolvency or similar law now or hereafter in effect.

Additional Bonds shall mean one or more Series of Bonds issued, executed, authenticated and delivered pursuant to Section 2.11 of the Indenture.

Additional Payments Account shall mean the special trust account of the Installment Purchase Payments Fund so designated, established pursuant to Section 5.01 of the Indenture.

Affiliate shall mean any Person which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with the Institution. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a Person, whether through the ownership of securities, by contract or otherwise.

Agency shall mean the New York City Industrial Development Agency, a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State, duly organized and existing under the laws of the State, and any body, board, authority, agency or other governmental agency or instrumentality which shall hereafter succeed to the powers, duties, obligations and functions thereof.

Agency's Reserved Rights shall mean, collectively,

(i) the right of the Agency in its own behalf to receive all Opinions of Counsel, reports, financial statements, certificates, insurance policies, binders or certificates, or other notices or communications required to be delivered to the Agency under the Installment Sale Agreement;

(ii) the right of the Agency to grant or withhold any consents or approvals required of the Agency under the Installment Sale Agreement;

(iii) the right of the Agency to enforce in its own behalf the obligation of the Institution to complete the Project;

(iv) the right of the Agency to exercise in its own behalf its rights under Section 2.4 of the Installment Sale Agreement with respect to the proceeds of leasehold title insurance;

(v) the right of the Agency to enforce or otherwise exercise in its own behalf all agreements of the Institution with respect to ensuring that the Facility shall always constitute a qualified "project" as defined in and as contemplated by the Act;

(vi) the right of the Agency to amend with the Institution the provisions of Section 4.3 of the Installment Sale Agreement without the consent of the Trustee, the Bank or any Bondholder;

(vii) the right of the Agency in its own behalf (or on behalf of the appropriate taxing authorities) to enforce, receive amounts payable under or otherwise exercise its rights under Sections 3.1, 3.6 (but only with respect to indemnification), 4.1, 4.3, 4.4, 4.5, 4.6, 4.7, 6.1, 6.2, 6.3, 6.6, 6.7, 6.9, 6.12, 6.13, 6.14, 6.15, 7.7, 8.5, 9.3, 9.10, 9.13, 9.18 and 9.19 of the Installment Sale Agreement subject to the limitations contained therein; and

(viii) the right of the Agency in its own behalf to declare an Event of Default under Section 7.1 of the Installment Sale Agreement or with respect to any of the Agency's Reserved Rights subject to the limitations contained therein.

Agreement shall mean the Installment Sale Agreement and Assignment of Lease, dated as of June 1, 2006, between the Agency and the Institution and shall include any and all amendments and supplements thereto hereafter made in conformity herewith and with the Indenture.

Alternate Rate shall have the meaning set forth in Section 2.03(e) of the Indenture.

Alternate Rate Period shall have the meaning set forth in Section 2.03(e) of the Indenture.

Applicable Principal and Interest Coverage shall mean the aggregate principal amount of Bonds secured by the Letter of Credit plus the minimum number of days of interest (calculated at the Maximum Rate or other applicable rate) that in the judgment of the Rating Agency shall be required to maintain the applicable rating on the Bonds.

Authorized Representative shall mean, (i) in the case of the Agency, the Chairman, Vice Chairman, General Counsel, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Executive Director or Deputy Executive Director of the Agency, or any officer or employee of the Agency authorized to perform specific acts or to discharge specific duties, and (ii) in the case of the Institution, its Head of School, Chief Financial Officer of the Institution, Chair of the Board of the Institution or any other officer of the Board of Trustees of the Institution as designated in writing by the Head of School, Chief Financial Officer of the Institution or Chair of the Board of the Institution to the Agency and the Trustee.

Bank with respect to the Series 2006 Bonds, shall mean (i) Wachovia Bank, National Association, (ii) upon the issuance and delivery of any Substitute Letter of Credit, the issuer of such Substitute Letter of Credit, and (iii) any successors thereto, and with respect to any Additional Bonds, shall have the meaning set forth in the Supplemental Indenture with respect to such Additional Bonds.

Bankruptcy Counsel shall mean any counsel nationally recognized in bankruptcy matters which is independent of the Institution and the Agency and which is reasonably acceptable to the Trustee, the Bank and the Rating Agency.

Bond Fund shall mean the Bond Fund established by Section 5.01 of the Indenture.

Bondholder, Holder of the Bonds, Holder or holder shall mean any Person who shall be the registered owner of any Bond or Bonds.

Bond Registrar shall mean the Trustee acting as registrar as provided in Section 3.10 of the Indenture.

Bond Resolution shall mean the resolution of the Agency adopted on May 9, 2006, authorizing the issuance of the Bonds.

Bonds shall mean the Series 2006 Bonds and any Additional Bonds.

Book-Entry-Bond shall mean a Bond authorized to be issued under the Indenture and issued to and, except as provided in Section 3.12(d) of the Indenture, restricted to being registered in the name of, a Securities Depository for the participants in such Securities Depository or the beneficial owners of such Bond.

Business Day shall mean any day on which banks in the State of New York, or in the cities in which the principal corporate trust office of the Trustee, the Remarketing Agent or the office of the Bank at which demands for payment under the Letter of Credit are to be presented, are open for business and the New York Stock Exchange is not closed.

City shall mean The City of New York.

Code shall mean the Internal Revenue Code of 1986, as amended, including the regulations thereunder.

Collateral Documents shall have the meaning ascribed to the term Related Documents in the Reimbursement Agreement.

Construction Account shall mean the special trust account of the Project Fund so designated, established pursuant to Section 5.01 of the Indenture.

Controlled Entity shall mean any Person, 50% or more of the voting stock or equity interest of which is owned by any obligor under any of the Security Documents (other than the Agency) or by another Controlled Entity of any such obligor.

Credit Provider shall mean the issuer of any Fixed Rate Credit Facility, and its successors.

Default Rate shall have the meaning ascribed thereto in the Reimbursement Agreement.

Event of Default shall have the meaning specified in Section 8.01 of the Indenture.

Event of Taxability means:

(i) a final determination by any court of competent jurisdiction or a final determination by the Internal Revenue Service to which the Institution shall consent or from which no timely appeal shall be taken to the effect that interest on the Bonds is includible in the gross income of the owner thereof under Section 61 of the Code; or

(ii) the delivery to the Institution and to the Agency of an opinion of Nationally Recognized Bond Counsel (reasonably satisfactory to the Institution) to the effect that interest on the Bonds is includible in the gross income of the owner thereof under Section 61 of the Code.

Expiration (and other forms of "expire") shall mean, when used with respect to a Letter of Credit, the expiration of such Letter of Credit in accordance with its terms.

Facility shall mean, collectively, the Facility Realty and the Facility Equipment.

Facility Equipment shall mean the machinery, equipment and other tangible personal property acquired and installed as part of the Project, if any, pursuant to Section 2.1 of the Installment Sale Agreement, together with all repairs, replacements, improvements, substitutions and renewals thereof or therefor, and all parts, additions and accessories incorporated therein or affixed thereto, if any, as more

particularly described in Appendix A-2 to the Indenture. Facility Equipment shall, in accordance with the provisions of Sections 4.2 and 5.1 of the Installment Sale Agreement, include all property substituted for or replacing items of Facility Equipment as provided for in the Installment Sale Agreement and exclude all items of Facility Equipment so substituted for or replaced.

Facility Realty shall mean the land described in the Description of Facility Realty in Appendix A-1 to the Indenture and all rights or interests therein or appertaining thereto, together with all structures, buildings, foundations, related facilities, fixtures and other improvements now or at any time made, erected or situated thereon (including the improvements made pursuant to Section 2.1 of the Installment Sale Agreement) and all replacements, improvements, extensions, substitutions, restorations, repairs or additions thereto; but excluding, however, any real property or interest therein released pursuant to Section 6.4 of the Installment Sale Agreement.

Fiscal Year of the Institution shall mean shall mean a year of 365 or 366 days, as the case may be, commencing on July 1 and ending on June 30, or other such year of similar length as to which the Institution shall have given prior written notice thereof to the Agency and the Trustee at least ninety (90) days prior to the commencement thereof.

Fixed Interest Rate Period shall mean the Interest Rate Period during which the Fixed Rate is in effect.

Fixed Rate shall mean the interest rate on Bonds of a Series established in accordance with Section 2.03(a)(ii) of the Indenture.

Fixed Rate Credit Facility shall mean a letter of credit, a municipal bond insurance policy or other form of credit enhancement acceptable to the Agency.

Government Obligations shall mean (a) direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America for the timely payment thereof, (c) a non-callable note, bond, debenture, mortgage or other evidence of indebtedness that, at the time acquired, is (i) issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association, the Federal Farm Credit System or any other instrumentality of the United States of America and (ii) which are rated in the highest rating category by Moody's and Standard & Poor's or (d) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in clauses (a) or (b) above.

Guaranty Agreement shall mean the Guaranty Agreement of even date with the Indenture from the Institution to the Trustee and the Bank, and shall include any and all amendments thereof and supplements thereto made in conformity therewith and with the Indenture.

Indenture shall mean the Indenture of Trust as from time to time amended or supplemented by Supplemental Indentures in accordance with Article XI of the Indenture.

Independent Engineer shall mean a Person (not an employee of either the Agency, the Institution or any Affiliate thereof) registered and qualified to practice engineering or architecture under the laws of the State, selected by the Institution and approved, in writing, by the Bank and the Agency (which approvals shall not be unreasonably withheld).

Indirect Costs Account shall mean the special trust account of the Project Fund so designated, established pursuant to Section 5.01 of the Indenture.

Initial Letter of Credit shall mean the letter of credit of Wachovia Bank, National Association delivered simultaneously with the original issuance of the Series 2006 Bonds and any extensions or renewals thereof (which shall be at the sole discretion of Wachovia Bank, National Association).

Installment Sale Agreement shall mean the Installment Sale Agreement and Assignment of Lease of even date with the Indenture between the Agency and the Institution, and shall include any and all amendments thereof and supplements thereto made in conformity therewith and with the Indenture.

Installment Purchase Payments Fund shall mean the Installment Purchase Payments Fund established by Section 5.01 of the Indenture.

Institution shall mean Grace Church School, a not-for-profit education corporation organized and existing under the laws of the State of New York, and its permitted successors and assigns pursuant to Section 6.1 or 9.3 of the Installment Sale Agreement (including any surviving, resulting or transferee corporation as provided in Section 6.1 of the Installment Sale Agreement).

Institution Lease shall mean the Institution Lease Agreement of even date with the Indenture between the Institution and the Agency.

Interest Account shall mean the special trust account of the Bond Fund so designated, established pursuant to Section 5.01 of the Indenture.

Interest Payment Date shall mean (a) with respect to Weekly Rate Bonds, the first business day of the calendar month, and (b) with respect to Fixed Rate Bonds, each January 1 and July 1; provided, in any event, the first Interest Payment Date for the Bonds bearing interest at a Weekly Interest Rate shall be August 1, 2006.

Interest Rate Determination Method shall mean, with respect to any Bond, the method by which the interest rate thereon shall be determined pursuant to Section 2.03 of the Indenture and in particular shall mean the method for determining a Weekly Interest Rate, the Fixed Rate or an Alternate Rate, as the case may be.

Interest Rate Period shall mean the period during which the Bonds of Series shall bear interest at a Weekly Interest Rate or Fixed Rate determined as follows: (i) each Weekly Interest Rate Period shall commence on Thursday of a calendar week and end on the next succeeding Wednesday and (ii) the Fixed Interest Rate Period shall commence on the first day immediately following the Weekly Interest Rate Period prior to the conversion to the Fixed Rate and end on June 1, 2036; provided, however, that if the last Interest Rate Period prior to a change in Interest Rate Determination Method would end on a day that does not immediately precede a Business Day, such Interest Rate Period shall be extended to end on the next succeeding day that does immediately precede a Business Day.

Legal Requirements shall mean the Constitutions of the United States and of the State of New York, all laws, statutes, codes, acts, ordinances, resolutions, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements (including but not limited to zoning, land use, planning, environmental protection, air, water and land pollution, toxic wastes, hazardous wastes, solid wastes, wetlands, health, safety, equal opportunity, minimum wages, and employment practices) of all governments, departments, commissions, boards, courts, authorities, agencies, officials and officers, foreseen or unforeseen, ordinary or extraordinary, that are applicable now or may be applicable at any time

hereafter to (i) the Institution, (ii) the Facility or any part thereof, or (iii) any use or condition of the Facility or any part thereof.

Letter of Credit shall mean the Initial Letter of Credit and any Substitute Letter of Credit.

Loss Event shall have the meaning set forth for such term in Section 5.1 of the Installment Sale Agreement.

Maximum Rate, with respect to Bonds of a Series, shall mean the lesser of (a) the highest interest rate which may be borne by such Bonds under State law and (b) while any Letter of Credit is in effect, the maximum rate which may be borne by such Bonds as set forth in or referred to by such Letter of Credit (which in the case of the Initial Letter of Credit shall equal ten percent (10%) per annum).

Moody's shall mean Moody's Investors Service or its successors or assigns.

Nationally Recognized Bond Counsel shall mean Nixon Peabody LLP or other counsel acceptable to the Agency and the Bank experienced in matters relating to tax exemption of interest on bonds issued by states and their political subdivisions.

Net Proceeds shall mean, when used with respect to any insurance proceeds or condemnation award, compensation or damages, the gross amount from any such proceeds, award, compensation or damages less all expenses (including attorneys' fees and any extraordinary expenses of the Agency, the Bank or the Trustee) incurred in the collection thereof.

Notice of Mandatory Tender shall mean that notice required to be delivered by the Trustee pursuant to Section 2.06 of the Indenture.

Notice Parties shall mean the Agency, the Institution, the Tender Agent, the Remarketing Agent, the Bank, the Credit Provider, the Paying Agent and the Trustee.

Opinion of Counsel shall mean a written opinion of counsel which may (except as otherwise expressly provided in the Installment Sale Agreement or any other Security Document) be counsel for the Institution, the Bank or the Agency and which shall be acceptable to the Trustee and the Bank, and in each case such opinion shall be delivered to the Bank.

Outstanding, when used with reference to a Bond or Bonds, as of any particular date, shall mean all Bonds which have been issued, executed, authenticated and delivered under the Indenture, except:

(i) Bonds canceled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee under the Indenture for cancellation;

(ii) any Bond (or portion of a Bond) for the payment or redemption of which, in accordance with Section 10.01 of the Indenture, there has been separately set aside and held in the Redemption Account of the Bond Fund either:

(A) moneys, and/or

(B) Government Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys,

in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which



payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such moneys and/or Government Obligations to such payment on the date so specified, provided, that, if such Bond or portion thereof is to be redeemed, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds paid or replaced pursuant to Section 3.07; and

(iv) Bonds (including Bonds that have been tendered pursuant to Section 2.05 of the Indenture or that are subject to mandatory tender for purchase pursuant to Section 2.06 of the Indenture, but which have not been delivered to the Tender Agent pursuant to Section 2.07 of the Indenture) in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under Article II of the Indenture,

provided, however, that in determining whether the Holders of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Institution or any Affiliate of the Institution shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee actually knows to be so owned shall be so disregarded. Bonds which have been pledged in good faith to a Person (including the Bank) may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Institution or any Affiliate or Controlled Entity of the Institution.

Paying Agent shall mean any paying agent for the Bonds appointed pursuant to the Indenture (and may include the Trustee) and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Indenture.

Permitted Encumbrances shall mean, as of any particular time,

(i) The Prime Lease, the Institution Lease, the Installment Sale Agreement, the Indenture and any other Security Documents;

(ii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not in default;

(iii) utility, access and other easements and rights-of-way, restrictions and exceptions that an Authorized Representative of the Institution certifies to the Agency, the Trustee and the Bank will not interfere with or impair the Institution's use of the Facility as provided in the Installment Sale Agreement and as to which the Bank has given its prior written consent;

(iv) such minor defects, irregularities, encumbrances, easements, rights-of-way (including agreements with any railroad the purpose of which is to service a railroad siding) and clouds on title as normally exist with respect to property similar in character to the Facility and as do not, in the Opinion of Counsel and in the opinion of the Bank, either singly or in the aggregate, materially impair the property affected thereby for the purpose for which it was acquired and held by the Agency under the Installment Sale Agreement;

(v) those exceptions to title to the Facility Realty enumerated in the mortgage and leasehold title insurance policies delivered pursuant to Section 2.4 of the Installment Sale Agreement insuring the Agency's leasehold title interest, and the Trustee's and the Bank's mortgage interest, in the

Facility Realty, copies of which policies are on file at the principal corporate trust office of the Trustee and the office of the Agency;

(vi) any mechanic's, workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien or right in respect thereof if payment is not yet due and payable, all if and to the extent permitted by Section 6.7 of the Installment Sale Agreement;

(vii) any mortgage, lien, security interest or other encumbrance which exists in favor of the Bank or the Trustee or to which the Bank shall consent;

(viii) liens existing as of the date of initial delivery of the Bonds with regard to any Facility Equipment; and

(ix) purchase money security interests with regard to any Facility Equipment acquired pursuant to Section 4.1 of the Installment Sale Agreement.

Person shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Plans and Specifications shall mean the plans and specifications prepared for the Project or for any additions or modifications to the Project by or on behalf of the Institution, as amended from time to time by or on behalf of the Institution to reflect any remodeling or relocating of the Project or substitutions, additions, modifications and improvements to the Project made by the Institution in compliance with the Installment Sale Agreement, said plans and specifications being duly certified by an Authorized Representative of the Institution and filed in the principal corporate trust office of the Trustee and available to the Agency.

Pledged Bonds shall mean any Bonds purchased with the proceeds of a drawing on the Letter of Credit which Pledged Bonds shall be registered in the name of the Bank or its designee as pledgee of the Institution.

Prime Lease shall mean that certain Lease Agreement, dated as of a date to be determined, between the Prime Landlord and the Institution, as amended or supplemented from time to time.

Prime Landlord shall mean The Rector, Wardens and Vestrymen of Grace Church in New York and its successors and assigns.

Principal Account shall mean the special trust account of the Bond Fund so designated, established pursuant to Section 5.01 of the Indenture.

Priority Amounts shall mean (1) any amounts drawn under the Letter of Credit, (2) the proceeds of Bonds (other than refunding Bonds) and accrued interest thereon, (3) any other amounts (including (i) insurance and condemnation proceeds and (ii) any installment purchase payments due under Section 3.3 of the Installment Sale Agreement) which have been on deposit in the Bond Fund or the Installment Purchase Payments Fund for at least 367 days during or prior to which 367-day period no Act of Bankruptcy of the Institution, the Agency or any other obligor under the Security Documents (other than the Remarketing Agent) shall have occurred, (4) investment income from the investment of moneys described in clauses (1) to (3) hereof and (5) any such other amounts with respect to which the Trustee receives (i) a written opinion of Bankruptcy Counsel to the effect that payment of such amounts to Bondholders will not constitute avoidable preferences under the Federal Bankruptcy Code, and (ii) a written opinion of the Rating Agency to the effect that such amounts will not cause a withdrawal or lowering of the rating on the Bonds; provided that in any event such proceeds, moneys or investment

income shall not be deemed to be Priority Amounts if an injunction, restraining order or stay is in effect and prevents such proceeds, moneys or investment income from being applied to the payment of amounts due on the Bonds or otherwise applied under the Indenture.

Prohibited Person shall mean (i) any Person (A) that is in default or in breach, beyond any applicable grace period, of its obligations under any written agreement with the Agency or the City, or (B) that directly or indirectly controls, is controlled by, or is under common control with a Person that is in default or in breach, beyond any applicable grace period, of its obligations under any written agreement with the Agency or the City, unless such default or breach has been waived in writing by the Agency or the City, as the case may be, and (ii) any Person (A) that has been convicted in a criminal proceeding for a felony or any crime involving moral turpitude or that is an organized crime figure or is reputed to have substantial business or other affiliations with an organized crime figure, or (B) that directly or indirectly controls, is controlled by, or is under common control with a Person that has been convicted in a criminal proceeding for a felony or any crime involving moral turpitude or that is an organized crime figure or is reputed to have substantial business or other affiliations with an organized crime figure.

Project shall mean (i) the acquisition, improvement, renovation and equipping of nine contiguous, multi-story buildings located at 84-98 Fourth Avenue, New York, New York (Block 557, Lot 1), consisting of approximately 40,140 square feet in aggregate building space, located on an approximately 8,592 square foot parcel of land; (ii) the construction, improvement and equipping of an approximately 8,000 square foot athletic center on the underground level of an approximately 9,510 square foot parcel of land to be leased by the School, located at 65 East 10<sup>th</sup> Street, New York, New York (Block 557, Lot 1), to be used as a school serving students from Junior Kindergarten through grade eight (the "Facility"); and (iii) the financing of certain costs of issuance of the Series 2006 Bonds.

Project Costs shall mean (i) all costs of engineering and architectural services with respect to the Project, including the cost of test borings, surveys, estimates, plans and specifications and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of, and the making of alterations, renovations, additions and improvements in connection with, the completion of the Project; (ii) all costs paid or incurred for labor, materials, services, supplies, machinery, equipment and other expenses and to contractors, suppliers, builders and materialmen in connection with the completion of the Project, including, without limitation, the payment of any interim financing the proceeds of which were used for such costs; (iii) all costs of the acquisition of the Facility, including, without limitation, the payment of any interim financing the proceeds of which were used for such costs; (iv) all costs of contract bonds and of insurance that may be required or necessary during the period of Project construction; (v) the interest on the Bonds during the construction or renovation of the Project (vi) all costs of the title insurance policies as provided in Section 2.4 of the Installment Sale Agreement; (vii) the payment of the fees and expenses of the Trustee, the Bank during the period of construction of the Project, the Remarketing Agent, the Tender Agent, legal and financial fees and expenses, printing and engraving costs, and all other costs and expenses incurred by or for the account of the Agency in connection with the preparation, authorization, sale, printing, rating and issuance of the Bonds, Blue Sky fees and expenses, and the preparation and execution of the Installment Sale Agreement and the Indenture and all other documents (including Security Documents) in connection therewith or with the Indenture; (viii) all costs which the Institution shall be required to pay, under the terms of any contract or contracts, for the completion of the Project, including any amounts required to reimburse the Institution for advances made for any item otherwise constituting a Project Cost or for any other costs incurred and for work done which are properly chargeable to the Project; (ix) all other costs and expenses relating to the completion of the Project or the issuance of Additional Bonds; provided, however, Project Costs shall not include: (a) fees or commissions of real estate brokers; (b) moving expenses; (c) the costs of acquiring and installing any item of personalty when such personalty is not both a tangible asset with a useful life of one year or more and an item included within the definition of Facility Equipment; (d) the cost of leasing Facility Equipment when the lease in question is not determined to be a capital lease, such

determination to be made by the Agency within its sole discretion; (e) all costs of landscaping, including but not limited to the costs of acquiring and planting shrubs, trees, flowers, lawns and other plants, as well as the cost of landscape design services; (f) Institution's counsel's fees; (g) fees incurred by Institution in connection with the development, leasing or management of the Project and the Facility; (h) the cost of acquiring and leasing rolling stock; (i) the cost of acquiring and installing fine art, objects d'art, or any other similar decorative items; (j) to the extent not already covered in any of the foregoing, operating and other working capital costs; or (k) any costs paid or incurred prior to September 21, 2004.

Project Fund shall mean the Project Fund established by Section 5.01 of the Indenture.

Project Supervisor shall mean the Head of School, Chief Financial Officer of the Institution or Chair of the Board of the Institution or any other person designated by the Institution upon written notice to the Agency, the Trustee and the Bank.

Purchase Date shall mean each date on which the Bonds of a Series shall be tendered or deemed tendered for purchase pursuant to Sections 2.05 and 2.06 of the Indenture.

Purchase Price shall mean an amount equal to 100% of the principal amount of any Bond tendered or deemed tendered pursuant to the Indenture, plus 100% of accrued and unpaid interest thereon to but not including the Purchase Date.

Qualified Investments shall mean, to the extent permitted by applicable law, the following:

- (i) Government Obligations;
- (ii) obligations of any agency, subdivision, department, division or instrumentality of the United States of America; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America which are rated in the highest rating category by Moody's and Standard & Poor's;
- (iii) Commercial paper, rated at least P-1 by Moody's or at least A-1 by Standard & Poor's, issued by a corporation or banking institution organized under the laws of the United States of America or any state thereof;
- (iv) Direct and general long-term obligations of any state of the United States of America to which the full faith and credit of the state is pledged and which are rated in either of the two highest rating categories by Moody's and Standard & Poor's;
- (v) Direct and general short-term obligations of any state of the United States to which the full faith and credit of the state is pledged and which are rated in the highest rating category by Moody's and Standard & Poor's;
- (vi) Interest bearing demand or time deposits with or certificates of deposit issued by a national banking association or a state bank or trust company that is a member of the Federal Deposit Insurance Corporation ("FDIC") which are (a) continuously and fully insured by the FDIC, or (b) with a bank which has outstanding debt, or which is a subsidiary of a holding company which has outstanding debt rated in either of the two highest rating categories by Moody's and Standard & Poor's, or (c) continuously and fully secured by obligations of the type described in (i), (ii) and (iii) above which have a market value at all times at least equal to the principal amount of the deposit and which are held by the Trustee or its agent or, in the case of uncertificated securities, are registered in the name of the Trustee as pledgee;

(vii) Repurchase agreements, the maturity of which are less than thirty (30) days, entered into (a) with a bank or trust company rated P-1 by Moody's and rated A-1 by Standard & Poor's, organized under the laws of the United States or with a national banking association, insurance company, or governmental bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and which is a member of the Security Investors Protection Corporation, or (b) with a dealer which is rated P-1 by Moody's and A-1 by Standard & Poor's. The repurchase agreement must be continuously and fully secured by obligations of the type described in (i), (ii), (iii), (iv) or (v) above which have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreement and which are held by the Trustee or its agent or, in the case of uncertified securities, are registered in the name of the Trustee as pledge;

(viii) Money market mutual funds with assets in excess of \$2,000,000,000 investing in obligations of the type specified in (i), (ii) and (vi) above;

(ix) An investment agreement or other investment arrangement with any bank, trust company, national banking association or bank holding company in the United States, or with any surety or insurance company, provided, that, (i) such investment agreement or other investment arrangement shall permit the full principal amount of the moneys so placed together with the investment income agreed to be paid to be available for use as and when required under the Indenture, and (ii) the Person with whom such investment agreement or other investment arrangement is made must be a Person whose unsecured or uncollateralized short-term debt obligations are assigned a rating by Standard & Poor's of SP1 + or better, and whose domestic assets shall be in excess of \$10,000,000,000;

(x) Any other investment permitted by law and approved in writing by the Bank, so long as the Letter of Credit is then in effect.

Rating Agency shall mean Moody's, if Moody's shall be then rating the Bonds, or such other nationally recognized securities rating agency as shall be then rating the Bonds.

Rating Category shall mean one of the generic rating categories of the Rating Agencies without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

Rebate Fund shall mean the Rebate Fund established by Section 5.01 of the Indenture.

Record Date shall mean (a) with respect to Bonds bearing interest at a Weekly Rate, the Business Day preceding the Interest Payment date applicable thereto, and (b) with respect to Bonds bearing interest at the Fixed Rate, the fifteenth day preceding the Interest Payment Date applicable thereto.

Redemption Account shall mean the special trust account of the Bond Fund so designated, established pursuant to Section 5.01 of the Indenture.

Redemption Price shall mean, with respect to any Bond or a portion thereof, the principal amount thereof to be redeemed in whole or in part, plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Indenture.

Reimbursement Account shall mean the special trust account of the Installment Purchase Payments Fund so designated, established pursuant to Section 5.01 of the Indenture.

Reimbursement Agreement shall mean (i) as to the Initial Letter of Credit, the Reimbursement and Security Agreement entered into between Wachovia Bank, National Association and the Institution dated as of June 1, 2006, as the same may be modified and amended from time to time, and (ii) any other

agreement entered into by and between the Institution and a Bank providing a Substitute Letter of Credit for the purpose of securing the Bonds, all as amended or supplemented from time to time.

Related Security Documents shall mean all Security Documents other than the Indenture.

Remarketing Agent shall mean the Remarketing Agent appointed pursuant to Section 14.01 of the Indenture.

Remarketing Agreement shall mean the Remarketing Agreement of even date with the Indenture between the Institution (and its related obligors) and the Remarketing Agent, and any amendments and supplements thereto, and any agreement with a successor Remarketing Agent appointed pursuant to Section 14.01 of the Indenture.

Renewal Fund shall mean the Renewal Fund established by Section 5.01 of the Indenture.

Securities Depository shall mean, with respect to a Book-Entry-Bond, the person, firm, association or corporation specified to serve as the securities depository for such Book Entry-Bond, or its nominee, and its successor or successors and any other person, firm, association or corporation which may at any time be substituted in its place pursuant to the Indenture.

Security Documents shall mean the Installment Sale Agreement, the Institution Lease, the Indenture, the Letter of Credit, the Tax Compliance Agreement, the Guaranty Agreement, any Uniform Commercial Code financing statements, and any and all other documents or instruments delivered to the Trustee as security for the Bonds.

Series shall mean all of the Bonds designated as being of the same Series authenticated and delivered on the date of original issuance thereof in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Indenture.

Series 2006 Bonds shall mean the Agency's \$20,000,000 Variable Rate Demand Civic Facility Revenue Bonds (Grace Church School Project), Series 2006 authorized, issued, executed, authenticated and delivered under the Indenture.

Sinking Fund Installment shall mean the amount required by the Indenture as payable on a single future date for the retirement of any Outstanding Bonds which are expressed to mature after such future date, but does not include any amounts payable by reason only of the maturity of a Bond.

Sinking Fund Installment Account shall mean the special trust account of the Bond Fund so designated, which is established pursuant to Section 5.01 of the Indenture.

Standard & Poor's or S & P shall mean Standard & Poor's Ratings Services Group, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Agency, by notice to the Notice Parties.

State shall mean the State of New York.

Substitute Letter of Credit shall mean any substitute or replacement Letter of Credit delivered in accordance with Section 3.8 of the Installment Sale Agreement and Section 2.12 of the Indenture, and any extensions or renewals thereof, as amended and supplemented.

Supplemental Indenture shall mean any indenture supplemental to or amendatory of the Indenture, executed and delivered by the Agency and the Trustee in accordance with Article XI of the Indenture.

Tax Compliance Agreement shall mean the Tax Compliance Agreement, dated the date of original issuance of the Bonds, executed by Authorized Officers of the Agency and the Institution and delivered to the Agency, the Institution and the Trustee and shall include any and all amendments thereof and supplements thereto made in conformity therewith and with the Indenture.

Tax-Exempt Organization shall mean a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

Tender Agent shall mean the tender agent appointed pursuant to Section 13.01 of the Indenture.

Termination (and other forms of “terminate”) shall mean, when used with respect to any Letter of Credit, the replacement, removal, surrender or other termination of such Letter of Credit by the Trustee or the Institution other than in connection with an expiration, extension or renewal thereof.

Treasury Rate shall mean the interest rate applicable to 13-week United States Treasury bills determined by the Remarketing Agent on the basis of the average per annum discount rate which such 13-week Treasury bills shall have been sold at the most recent Treasury auction.

Trust Estate shall mean all property, interests, revenues, funds, contracts, rights and other security granted to the Trustee under the Security Documents.

Trustee shall mean The Bank of New York, New York, New York, in its capacity as Trustee under the Indenture, and its successors in such capacity and their assigns appointed in the manner provided in the Indenture.

Verification Agent shall mean a nationally recognized provider of verification services satisfactory to the Agency and the Trustee.

Weekly Interest Rate shall mean the interest rate on Bonds of a Series established weekly in accordance with Section 2.03(a)(i) of the Indenture.

Weekly Interest Rate Period shall mean each Interest Rate Period during which a Weekly Interest Rate is in effect.

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST

The following is a brief summary of certain provisions of the Indenture of Trust. The summary does not purport to be comprehensive or complete, and reference is made to the Indenture of Trust for full and complete statements of such and all provisions.

### REVENUES AND FUNDS

#### Creation of Funds and Accounts

Pursuant to the Indenture of Trust (the "Indenture"), the Agency establishes and creates the following special trust Funds and Accounts comprising such Funds:

- (1) Project Fund
  - (a) Capitalized Interest Account
  - (b) Construction Account
  - (c) Indirect Costs Account
- (2) Bond Fund
  - (a) Principal Account
  - (b) Sinking Fund Installment Account
  - (c) Interest Account
  - (d) Redemption Account
- (3) Renewal Fund
- (4) Rebate Fund
- (5) Installment Purchase Payments Fund
  - (a) Reimbursement Account
  - (b) Additional Payments Account

All of the Funds and Accounts created under the Indenture shall be held by the Trustee, or in one or more depositories in trust for the Trustee. All moneys and investments deposited with or in trust for the Trustee shall be held in trust and applied only in accordance with the Indenture and shall be trust funds for the purposes of the Indenture.

#### Project Fund

There shall be deposited in the Project Fund any and all amounts required to be deposited therein pursuant to the Indenture or otherwise required to be deposited therein pursuant to the Installment Sale Agreement. Proceeds of the Bonds, if any, deposited in the Project Fund pursuant to the Indenture shall be held or accounted for in the Project Fund and shall be applied to the satisfaction of all Project Costs in accordance with paragraph immediately below. The amounts in the Project Fund shall be subject to a security interest, lien and charge in favor of the Trustee for the benefit of the Holders of the Bonds and the Bank until disbursed as provided in the Indenture. The Trustee shall apply the amounts in the Project Fund to the payment, or reimbursement to the extent the same have been paid by or on behalf of the Institution or the Agency, of Project Costs.

The Trustee is authorized and directed to issue its checks for each disbursement from the Construction Account or the Indirect Costs Account, as applicable, upon a requisition submitted to the Trustee and signed by an Authorized Representative of the Institution and approved by the Bank. Disbursements from the Capitalized Interest Account shall be automatic and not require a requisition. The Trustee will not be required to issue such disbursement sooner than five (5) Business Days after the submission of such requisition. Such requisition shall be as set forth in the Form of Requisition attached to the Indenture as Appendix B. Each such requisition shall be accompanied by bills or invoices (stamped



“paid” if reimbursement is to be made to the Institution) supporting the Project Costs to which such requisition pertains. The Trustee shall be entitled to conclusively rely on such requisition. Prior to completion of renovation and improvement of the Project, amounts on deposit in the Capitalized Interest Account (which are being disbursed pursuant to this paragraph) shall be transferred by the Trustee to the Reimbursement Account of the Installment Purchase Payment Fund. After completion of renovation and improvement of the Project, amounts on deposit in the Capitalized Interest Account shall be transferred to the Indirect Cost Account of the Project Fund and disbursed as set forth above. The Trustee shall keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom. Notwithstanding the foregoing, the Trustee shall hold back in the Project Fund an amount equal to \$200,000 until the Trustee receives the completion certificate in compliance with the Installment Sale Agreement.

The Trustee shall on written request furnish to the Agency, the Bank and the Institution a written statement of disbursements from the Project Fund, enumerating, among other things, item, cost, amount disbursed, date of disbursement and the person to whom payment was made, together with copies of all bills or invoices submitted to the Trustee for such disbursement.

The completion of the Project shall be evidenced as set forth in the Installment Sale Agreement including the filing of the certificate of the Project Supervisor referred to therein. Upon the filing of such certificate, the balance in the Project Fund in excess of the amount, if any, stated in such certificate for the payment of any remaining part of the costs of the Project, shall, after making any transfer to the Rebate Fund as directed pursuant to the Tax Compliance Agreement and the Indenture, be deposited by the Trustee in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement for amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of the Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, in the Redemption Account of the Bond Fund). Upon payment of all the costs and expenses incident to the completion of the Project, any balance of such remaining amount in the Project Fund shall, after making any such transfer to the Rebate Fund, be deposited in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement for amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of the Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, in the Redemption Account of the Bond Fund).

In the event the Institution shall be required, or shall elect, to cause the Bonds to be redeemed in whole pursuant to the Installment Sale Agreement, the balance in the Project Fund (in excess of any amount that the Trustee is directed to transfer to the Rebate Fund pursuant to the Tax Compliance Agreement and the Indenture) shall be deposited in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of the Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, in the Redemption Account of the Bond Fund). In the event the unpaid principal amount of the Bonds shall be accelerated upon the occurrence of an Event of Default under the Indenture, the balance in the Project Fund shall be applied as provided in the summarized section “Application of Revenues and Other Moneys After Default”.

#### **Payments into Renewal Fund; Application of Renewal Fund**

The Net Proceeds in excess of \$250,000 resulting from any Loss Event (as defined in the Installment Sale Agreement) with respect to the Facility, together with any other amounts so required to be deposited therein under the Installment Sale Agreement, shall be deposited in the Renewal Fund. The amounts in the Renewal Fund shall be subject to a security interest, lien and charge in favor of the

Trustee, for the benefit of the Holders of the Bonds and the Bank, until disbursed as provided in the Indenture.

In the event the Bonds shall be subject to redemption in whole (either by reason of such Loss Event or otherwise) pursuant to the terms thereof or the Indenture, and the Institution or the Bank shall have so directed the Trustee in writing within ninety (90) days of the occurrence of such Loss Event, the Trustee shall, after making any transfer to the Rebate Fund as directed pursuant to the Tax Compliance Agreement and the Indenture and, notwithstanding the provisions of Sections 254(4) of the Real Property Law of the State, transfer the amounts deposited in the Renewal Fund to the Reimbursement Account of the Installment Purchase Payments Funds for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of the Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, to the Redemption Account of the Bond Fund).

If, on the other hand, (A) the Bonds shall not be subject to optional redemption in whole (whether by reason of such Loss Event or otherwise), or (B) the Bonds shall be subject to optional redemption in whole (whether by reason of such Loss Event or otherwise) and the Institution shall have failed to direct the Trustee and the Bank shall not have directed or notified the Trustee to the contrary, within ninety (90) days of the occurrence of the Loss Event, to transfer the amounts deposited in the Renewal Fund to the Reimbursement Account of the Installment Purchase Payment Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of the Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, to the Redemption Account of the Bond Fund), or (C) the Institution shall have notified the Trustee of its intent to rebuild, replace, repair and restore the Facility, the Trustee shall apply the amounts on deposit in the Renewal Fund, after making any transfer to the Rebate Fund in accordance with the Tax Compliance Agreement and the Indenture, to such rebuilding, replacement, repair and restoration in accordance with procedures approved by the Bank in its reasonable discretion. The Trustee shall hold in the Renewal Fund an amount equal to ten percent (10%) of the Net Proceeds received until the Trustee shall have received the certificate of completion in accordance with the Indenture.

If an Event of Default shall exist at the time of the receipt by the Trustee of the Net Proceeds in the Renewal Fund, the Trustee shall promptly request the written direction of the Bank (or, if a Letter of Credit shall no longer be in effect and all amounts owed to the Bank have been paid in full, or if the same shall be in effect but any of the circumstances set forth in the summarized section "Rights of the Bank" under the section heading "PARTICULAR COVENANTS", the Holders of one hundred percent (100%) of the Bonds) as to whether the Net Proceeds shall be (i) applied, after making any transfer to the Rebate Fund as directed pursuant to the Tax Compliance Agreement and the Indenture, to the rebuilding, replacement, repair and restoration of the Facility, or (ii) transferred from the Renewal Fund for deposit in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement have been paid in full, for deposit in the Redemption Account of the Bond Fund). If no such direction shall be received within ninety (90) days after request therefor by the Trustee shall have been made, the Trustee shall deposit such amounts in the Reimbursement Account of the Installment Purchase Payments Funds for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement have been paid in full, in the Redemption Account of the Bond Fund).

The Trustee is authorized, subject to the prior written approval of the Bank, to apply the amounts in the Renewal Fund to the payment (or reimbursement to the extent the same have been paid by or on

behalf of the Institution or the Agency) of the costs required for the rebuilding, replacement, repair and restoration of the Facility upon such written instructions from the Institution accompanied by written approval thereof by the Bank (or its agent). The Trustee is further authorized and directed to issue its checks for each disbursement from the Renewal Fund upon a requisition, in substantially the form of Appendix B to the Indenture, submitted to the Trustee and signed by an Authorized Representative of the Institution accompanied by written approval thereof by the Bank (or its agent). Such requisition shall (i) state the requisition number, (ii) specify the nature of each item and certify the same to be correct and proper under this summarized section and the Installment Sale Agreement and that such item has been properly paid or incurred as a cost of the Facility, (iii) certify that none of the items for which the requisition is made has formed the basis for any disbursement theretofore made from the Renewal Fund, (iv) certify that the payee and amount stated with respect to each item in the requisition are correct and that such item is due and owing, (v) specify the name and address of the Person to whom payment is due or has been made, (vi) unless waived by the Bank (or if a Letter of Credit is no longer in effect, the Trustee at the written direction of the Holders of one hundred percent (100%) of the Bonds), certify that no Event of Default shall exist and be continuing under the Indenture or the Installment Sale Agreement or any other Security Document, or any condition which with notice and/or lapse of time would constitute such an Event of Default shall exist under the Indenture or the Installment Sale Agreement or any other Security Document, (vii) certify that such Authorized Representative of the Institution has no knowledge of any vendor's lien, mechanic's lien or security interest which should be satisfied or discharged before the payment as requisitioned is made or which will not be discharged by such payment, unless otherwise consented to by the Bank (or, if a Letter of Credit is no longer in effect, the Trustee at the written direction of one hundred percent (100%) of the Bonds), and (viii) if the payment is a reimbursement to the Institution for costs or expenses of the Institution incurred by reason of work performed or supervised by officers, partners or employees of the Institution or any Affiliate, certify that such officers, partners or employees were specifically employed for such purpose and that the amount to be paid does not exceed the actual cost thereof to the Institution. Each such requisition shall be accompanied by bills, invoices or other evidence satisfactory to the Bank and a search prepared by a title company, or other evidence satisfactory to the Bank, indicating that there has not been filed with respect to the Facility and/or the Facility Realty any mechanic's, materialmen's or any other lien in connection with the rebuilding, replacement, repair and restoration of the Facility and that there exist no encumbrances on or affecting the Facility or the Facility Realty or any part thereof other than Permitted Encumbrances or those encumbrances consented to by the Agency and Trustee. The Trustee shall be entitled to conclusively rely on such requisition. The Trustee shall keep and maintain adequate records pertaining to the Renewal Fund and all disbursements therefrom and shall furnish copies of same to the Agency, the Bank and/or the Institution upon reasonable written request therefor.

The date of completion of the restoration of the Facility shall be evidenced to the Agency, the Bank and the Trustee by a certificate of an Authorized Representative of the Institution stating (i) the date of such completion, (ii) that all labor, services, machinery, equipment, materials and supplies used therefor and all costs and expenses in connection therewith have been paid for, (iii) that the Facility has been restored to substantially its condition immediately prior to the Loss Event, or to a condition of at least equivalent value, operating efficiency and function, (iv) that the Institution and the Agency have good and valid fee and leasehold title, respectively, to all property constituting part of the restored Facility and all property of the Facility is subject to the Installment Sale Agreement, (v) the Rebate Requirement applicable with respect to the Net Proceeds and the earnings thereon (with a statement as to the determination of the Rebate Requirement and a specific written direction to the Trustee of any required transfer to the Rebate Fund), and (vi) that the restored Facility is ready for occupancy, use and operation for its intended purposes. Notwithstanding the foregoing, such certificate shall state (x) that it is given without prejudice to any rights of the Institution against third parties which exist at the date of such certificate or which may subsequently come into being, (y) that it is given only for the purposes of this summarized section and the Installment Sale Agreement, and (z) that no Person other than the Agency, the Bank or the Trustee may benefit therefrom. Such certificate shall be accompanied by (i) a certificate

of occupancy, if required, and any and all permissions, licenses or consents required of governmental authorities for the occupancy, operation and use of the Facility for the purposes contemplated by the Installment Sale Agreement; (ii) a search prepared by a title company, or other evidence satisfactory to the Bank, indicating that there has not been filed with respect to the Facility and/or the Facility Realty any mechanic's, materialmen's or any other lien in connection with the rebuilding, replacement, repair and restoration of the Facility and that there exist no encumbrances on or affecting the Facility or the Facility Realty or any part thereof other than Permitted Encumbrances or those encumbrances consented to by the Agency and the Bank; and (iii) that the Facility as restored is adequately described for such purposes in the Appendices to the Installment Sale Agreement and the Indenture.

Any surplus remaining in the Renewal Fund after receipt of the above referenced certificate shall, after making any transfer to the Rebate Fund as directed pursuant to the Tax Compliance Agreement and the Indenture, be transferred by the Trustee to the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds (or, if a Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, to the Redemption Account of the Bond Fund).

#### **Installment Purchase Payments Fund**

The Trustee shall deposit in the Installment Purchase Payments Fund (i) the amounts required to be deposited therein by the Institution under the Installment Sale Agreement, and (ii) the amounts to be deposited therein pursuant to the Indenture. The aggregate amount so paid shall be deposited as received in the following Accounts of the Installment Purchase Payments Fund in the following priority:

First - the Reimbursement Account until the amount on deposit in such Account is equal to the aggregate of the installment purchase payments then required to be on deposit in such Account pursuant to subsections (a) and (b) of Section the section of the Installment Sale Agreement entitled "Payment Provisions; Pledge of Agreement and Installment Purchase Payments" plus the amounts paid into such Account pursuant to the section of the Installment Sale Agreement entitled "Payment of Purchase Price of Tendered Bonds", if any; and

Second - if no Letter of Credit is required under the Indenture and all amounts owed to the Bank under the Reimbursement Agreement have been paid in full, the Principal Account, the Interest Account or the Redemption Account of the Bond Fund, as appropriate.

The Trustee shall apply the amounts on deposit in the Reimbursement Account in accordance with the Indenture.

In the event there shall be an insufficiency of amounts on deposit in the Reimbursement Account on an Interest Payment Date, the Trustee shall promptly deliver notice of such insufficiency to the Institution, the Agency and the Bank and, upon receipt of written direction of the Agency, shall cure any such insufficiency by transferring moneys from any other Funds (other than moneys in or required to be transferred to the Rebate Fund or in the Project Fund) to pay the Bank any amounts owed to it under the Reimbursement Agreement.

In the event there is a drawing on the Letter of Credit to pay the Purchase Price of Bonds, and the Institution in accordance with the Installment Sale Agreement pays to the Trustee by no later than 12:00 noon, New York City time, an amount of immediately available funds sufficient to reimburse the Bank

therefor, the Trustee shall so apply such amount before 3:00 p.m., New York City time; provided that any amount received after 12:00 noon, New York City time, but before the close of business, New York City time, on any Business Day shall be so applied by the close of business, New York City time, on the next Business Day without liability to the Trustee.

### **Payments into Bond Fund**

The Trustee shall promptly deposit the following receipts into the Bond Fund:

Excess amounts in the Project Fund required to be deposited (subject to any transfer required to be made to the Rebate Fund in accordance with directions received pursuant to the Tax Compliance Agreement and the Indenture) (i) in the Redemption Account of the Bond Fund pursuant to the Indenture, which shall be kept segregated from any other moneys within such Account, or (ii) in the Bond Fund pursuant to the Indenture, in each case to the extent not otherwise transferred to the Reimbursement Account of the Installment Purchase Payment Fund pursuant to the Indenture.

Amounts in the Renewal Fund required to be transferred to the Bond Fund by the Indenture shall be deposited (subject to any transfer required to be made to the Rebate Fund in accordance with directions received pursuant to the Tax Compliance Agreement) in the Redemption Account of the Bond Fund, in each case to the extent not otherwise transferred to the Reimbursement Account of the Installment Purchase Payments Fund pursuant to the Indenture.

Moneys drawn by the Trustee under the Letter of Credit for the payment of principal of the Bonds, which shall be credited to the Principal Account of the Bond Fund and not commingled with any other moneys held by the Trustee and applied, subject to certain provisions in the Indenture, together with other amounts available in the Principal Account, to the payment of principal of the Bonds.

Moneys drawn by the Trustee under the Letter of Credit for the payment of Sinking Fund Installments for the Bonds, which shall be credited to the Sinking Fund Installment Account of the Bond Fund and not commingled with any other moneys held by the Trustee and applied, subject to certain provisions in the Indenture, together with amounts available in the Sinking Fund Installment Account to the payment of the Sinking Fund Installments for the Bonds.

Moneys drawn by the Trustee under the Letter of Credit for the payment of interest on the Bonds, which shall be credited to the Interest Account of the Bond Fund and not commingled with any other moneys held by the Trustee and applied, subject to certain provisions in the Indenture, together with other amounts available in the Interest Account, to the payment of interest on the Bonds.

Moneys drawn by the Trustee under the Letter of Credit for the payment of the Redemption Price of Bonds to be redeemed in whole or in part, together with interest accrued thereon to the date of redemption, which shall be credited to the Redemption Account in the manner set forth in the Indenture and Installment Sale Agreement and not commingled with any other moneys held by the Trustee and applied, subject to certain provisions in the Indenture, together with amounts available in the Redemption Account, to pay the Redemption Price of the Bonds to be redeemed, together with interest accrued thereon to the date of redemption.

Amounts transferred from the Reimbursement Account of the Installment Purchase Payments Fund to the Bond Fund under the circumstances set forth in the Indenture or if no Letter of Credit is required under the Indenture which shall be deposited in the Principal Account, Sinking Fund Installment Account, Interest Account or Redemption Account of the Bond Fund and applied, subject to the Indenture, together with any amounts available in any such Accounts, solely to the payment of the principal of and interest on the Bonds, as the case may be. So long as a Letter of Credit is in effect,

moneys transferred from the Reimbursement Account of the Installment Purchase Payments Fund to the Bond Fund which do not constitute Priority Amounts shall be segregated from Priority Amounts on deposit in the Bond Fund and shall not be commingled with any such Priority Amounts until such moneys constitute Priority Amounts under the Indenture.

The excess amounts referred to in the Indenture, which shall be credited to the Interest Account of the Bond Fund.

Any amounts transferred from the Redemption Account pursuant to the Indenture, which shall be deposited in the Interest Account, the Principal Account and the Sinking Fund Installment Account of the Bond Fund, as the case may be and in such order of priority, and applied, subject to the Indenture, solely to the payment of the principal of and interest on the Bonds, as the case may be.

Any amounts received pursuant to the Installment Sale Agreement, which shall be deposited in the Interest Account and the Principal Account of the Bond Fund, as the case may be, and applied to the payment of the principal and interest on the Bonds.

All other receipts when and if required by the Installment Sale Agreement or by the Indenture or by any other Security Document to be paid into the Bond Fund, which shall be credited (except as provided in the Indenture) to the Redemption Account of the Bond Fund.

#### **Priority Amounts; Letter of Credit**

So long as a Letter of Credit is in effect, and subject to the Indenture, all payments made to Holders of Bonds of a Series under the Indenture, whether on account of principal, Purchase Price or the Redemption Price (including redemption premium) of, and interest on, the Bonds, shall be made only as follows:

- (i) first (but only with respect to payments of Purchase Price), from the available proceeds of the remarketing of the Bonds as provided in the Indenture;
- (ii) second, from moneys drawn by the Trustee under the Letter of Credit pursuant to the Indenture;
- (iii) third, from any Priority Amounts held by the Trustee in the Bond Fund or in the Installment Purchase Payments Fund; and
- (iv) fourth, from any other moneys available to the Trustee, including, without limitation, moneys paid by the Institution or any subsidiary or Affiliate thereof pursuant to the Installment Sale Agreement or otherwise.

Notwithstanding the foregoing provision, payments of Purchase Price, principal of and interest on Bonds owned by the Institution will be paid only from the first and last categories of moneys, and payment of the redemption premium, if any, on any Bonds shall be payable from Priority Amounts other than moneys drawn on the Letter of Credit. The proceeds of investments of any moneys in any of these categories may be used to the same extent as the moneys invested could be used.

When a Letter of Credit is not in effect with respect to the Bonds, the Trustee will make payments of the principal of, and premium, if any, and interest on, such Bonds first, from proceeds of the sale of the Bonds available therefor, and, second, from any other moneys available to the Trustee for the purpose, including without limitation installment purchase payments transferred from the Installment Purchase Payments Fund to the Bond Fund in accordance with the Indenture.

Subject to the Indenture, the Trustee shall draw on or otherwise realize upon the Letter of Credit on such date, at such time and in such manner in accordance with the terms thereof:

- (i) to the extent necessary to make timely payments to Bondholders of any amounts due with respect to the Bonds issued under the Indenture and secured by such Letter of Credit, whether on account of the principal thereof, or interest due thereon, upon the redemption thereof or otherwise, but not including the premium, if any, thereon unless otherwise permitted by the terms of such Letter of Credit,
- (ii) to the extent necessary to make payment of principal of and interest on Bonds secured by such Letter of Credit upon the acceleration of the principal of and interest on the Bonds as a result of the occurrence of an Event of Default under the Indenture, and
- (iii) to the extent necessary to make timely payments of the Purchase Price of Bonds secured by such Letter of Credit tendered or deemed tendered, together with interest accrued thereon, to the extent that at the time of such draw the remarketing proceeds then held by the Tender Agent shall not be sufficient to provide amounts required for the purchase of Bonds pursuant to the Indenture.

Upon the receipt by the Trustee from the Bank of the amount drawn under the Letter of Credit with respect to clauses (i) or (ii) immediately above, the Trustee shall immediately remit to the Bank from amounts on deposit in the Reimbursement Account of the Installment Purchase Payments Fund such sums as shall be sufficient to reimburse the Bank for such drawing; and the Trustee shall remit to the Bank from amounts on deposit in the Reimbursement Account of the Installment Purchase Payments Fund such sums as shall be sufficient to reimburse the Bank for any drawing under the Letter of Credit with respect to clause (iii) immediately above to the extent that the Trustee receives payments from the Institution therefor in accordance with the Indenture or, if reimbursement of such amounts is due and payable under the Reimbursement Agreement, upon written request therefor by the Bank. In the event the Bank shall fail to pay to the Trustee the amount or any portion thereof so requested to be drawn by the Trustee under the Letter of Credit, the Trustee shall transfer the amounts on deposit in the Reimbursement Account of the Installment Purchase Payments Fund to the Bond Fund (or such portion thereof as shall be necessary therefor) to be applied for the purpose so originally requested in connection with such drawings as provided in the Indenture.

If at any time there shall have been delivered to the Trustee a Substitute Letter of Credit or a Fixed Rate Credit Facility, as the case may be, in substitution for or replacement of the Letter of Credit or a Fixed Rate Credit Facility, as the case may be, meeting the requirements set forth in the Indenture, the Trustee shall accept such Substitute Letter of Credit or Fixed Rate Credit Facility, as the case may be, and promptly surrender the previously held Letter of Credit to the Bank, provided, however, that no such surrender shall be permitted unless the Bank shall have honored any drawings thereon. If at any time there shall cease to be Bonds Outstanding under the Indenture pursuant to the summarized section "Defeasance", the Trustee shall promptly surrender the Letter of Credit to the Bank or the Fixed Rate Credit Facility to the Credit Provider thereof, as the case may be.

Notwithstanding any provision to the contrary which may be contained in the Indenture, (i) in computing the amount to be drawn under the Letter of Credit on account of the payment of the principal or Purchase Price of, or interest on the Bonds, the Trustee shall exclude any such amounts in respect of any Bonds which are Pledged Bonds or Bonds for which the Institution is the registered Holder on the date such payment is due, (ii) amounts drawn by the Trustee under the Letter of Credit shall not be applied to the payment of the principal or Purchase Price of, or interest on, any Bonds which are Pledged

Bonds or Bonds for which the Institution is the registered Holder on the date such payment is due, and (iii) Priority Amounts will not be applied to Pledged Bonds until all the payments that are required to be made for Bonds other than Pledged Bonds have been made.

All amounts drawn by the Trustee under the Letter of Credit shall be held, except as provided in the Indenture, by the Trustee in separate trust accounts, and subject to the Indenture, shall be subject to a security interest, lien and charge thereon in favor of the Trustee for the benefit of the Holders of the Bonds and the Bank other than Pledged Bonds, and shall not be commingled with any other moneys; nor shall any such amount so drawn be invested. Further, all amounts held by the Trustee which, with the passage of time and the non-occurrence of an Act of Bankruptcy, are to become Priority Amounts shall be held in separate trust accounts and not commingled with any other moneys.

### **Application of Bond Fund**

Subject to the provisions of the Indenture, the Trustee shall (i) on each Interest Payment Date on the Bonds pay or cause to be paid out of the Interest Account in the Bond Fund the interest due on the Bonds, and (ii) further pay out of the Interest Account of the Bond Fund any amounts required for the payment of accrued interest upon any redemption (including any mandatory Sinking Fund Installment redemption) of Bonds.

Subject to the provisions of the Indenture, the Trustee shall on each principal payment date on the Bonds pay or cause to be paid to the respective Paying Agents therefor out of the Principal Account of the Bond Fund, the principal amount, if any, due on the Bonds (other than such as shall be due by mandatory Sinking Fund Installment redemption), upon the presentation and surrender of the requisite Bonds.

Subject to the provisions of the Indenture, there shall be paid from the Sinking Fund Installment Account of the Bond Fund to the Paying Agents on each Sinking Fund Installment payment date in immediately available funds the amounts required for the Sinking Fund Installment due and payable with respect to Bonds which are to be redeemed from Sinking Fund Installments on such date (accrued interest on such Bonds being payable from the Interest Account of the Bond Fund). Such amounts shall be applied by the Paying Agents to the payment of such Sinking Fund Installment when due. The Trustee shall call for redemption, in the manner provided in the Indenture, Bonds for which Sinking Fund Installments are applicable in a principal amount equal to the Sinking Fund Installment then due with respect to such Bonds. Such call for redemption shall be made even though at the time of mailing of the notice of such redemption sufficient moneys therefor shall not have been deposited in the Bond Fund.

Amounts in the Redemption Account of the Bond Fund shall be applied, at the specific written direction of the Institution, as promptly as practicable, to the redemption of Bonds at prices not exceeding the Redemption Price thereof applicable on the earliest date upon which the Bonds are next subject to redemption pursuant to the Indenture, plus in each case accrued interest to the date of redemption. Any amount in the Redemption Account not so applied to the purchase of Bonds by forty-five (45) days prior to the next date on which the Bonds are so redeemable shall be applied, subject to the provisions of the Indenture, to the redemption of Bonds on such redemption date; provided that if such amount aggregates less than \$100,000, such amount need not be then applied to such redemption. Any amounts deposited in the Redemption Account and not applied within twelve (12) months of their date of deposit to the purchase or redemption of Bonds (except if held in accordance with the summarized section "Defeasance") shall be transferred to the Interest Account. The portion of any such Sinking Fund Installment remaining after the deduction of such amounts so credited shall constitute and be deemed to be the amount of such Sinking Fund Installment for the purposes of any calculation thereof under the Indenture. The Bonds to be redeemed shall be selected by the Trustee in the manner provided in the Indenture. Amounts in the Redemption Account to be applied to the redemption of Bonds shall be paid to the respective Paying Agents on or before the redemption date and applied by them on such redemption



date to the payment of the Redemption Price of the Bonds being redeemed plus interest on such Bonds accrued to the redemption date.

In lieu of redeeming Bonds not secured by a Letter of Credit through Sinking Fund Installment redemption, the Institution may negotiate or arrange for purchase of Bonds in such manner (through brokers or otherwise, and with or without receiving tenders) as it shall in its discretion determine and surrender such Bonds to the Trustee for cancellation. The Trustee, upon presentation by the Institution to the Trustee of Bonds to be purchased accompanied by a written request of an Authorized Representative of Agency (given at the written direction of the Institution) to the Trustee requesting payment therefor, shall provide monies for payment of the purchase price for any such Bonds from the moneys deposited in the Redemption Account of the Bond Fund, and the payment of accrued interest shall be made out of moneys deposited in the Interest Account of the Bond Fund. Bonds so purchased and surrendered shall be canceled by the Trustee.

The Agency shall receive a credit in respect of Sinking Fund Installments for any Bonds which are subject to mandatory Sinking Fund Installment redemption and which are delivered by the Agency or the Institution to the Trustee on or before the forty-fifth (45th) day next preceding any Sinking Fund Installment payment date and for any Bonds which prior to such date have been purchased or redeemed (otherwise than through the operation of the Sinking Fund Installment Account) and canceled by the Trustee and not theretofore applied as a credit against any Sinking Fund Installment. Each bond so delivered, canceled or previously purchased or redeemed shall be credited by the Trustee at one hundred per cent (100%) of the principal amount thereof against the obligation of the Agency on such Sinking Fund Installment payment date with respect to such Bonds, and maturity and the principal amount of such Bonds to be redeemed by operation of the Sinking Fund Installment Account on the due date of such Sinking Fund Installment shall be reduced accordingly, and any excess over such principal amount shall be credited on future Sinking Fund Installments in direct chronological order, and the principal amount of Bonds to be redeemed by application of Sinking Fund Installment payments shall be accordingly reduced.

The Institution shall on or before the forty-fifth (45th) day next preceding each Sinking Fund Installment payment date furnish the Trustee with the certificate of an Authorized Representative of the Institution indicating whether or not and to what extent the provisions of this summarized section are to be availed of with respect to such Sinking Fund Installment payment, stating, in the case of the credit provided for, that such credit has not theretofore been applied against any Sinking Fund Installment and confirming that immediately available cash funds for the balance of the next succeeding prescribed Sinking Fund Installment payment will be paid on or prior to the next succeeding Sinking Fund Installment payment date.

Moneys in the Redemption Account of the Bond Fund which are not set aside or deposited for the redemption or purchase of Bonds shall be transferred by the Trustee to the Interest Account or to the Principal Account of the Bond Fund.

#### **Payments into Rebate Fund; Application of Rebate Fund**

The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee, the Bank, the Institution or any Bondholder or any other Person.

Deposits into the Rebate Fund shall be made pursuant to the Installment Sale Agreement in an amount sufficient to meet the Rebate Requirement described in the Tax Compliance Agreement, the terms of which are incorporated by reference in the Indenture, and amounts on deposit in the Rebate Fund that are required to be paid to the United States Department of the Treasury pursuant to the Code shall be paid

at the times and in the amounts set forth in or determined in accordance with the Tax Compliance Agreement.

#### **Direction Necessary for Transfers to Rebate Fund**

The Trustee shall have no obligation under the Indenture to transfer any amounts to the Rebate Fund unless the Trustee shall have received specific written instructions from the Institution to make such transfer or unless the Indenture specifically so requires.

#### **Investment of Funds and Accounts**

Amounts in the Rebate Fund, the Installment Purchase Payments Fund, the Project Fund and the Renewal Fund may, if and to the extent then permitted by law, be invested only in Qualified Investments; and amounts in the Bond Fund may, subject to the Indenture and if and to the extent permitted by law, be invested only in Government Obligations. Such investments of the amounts in the Bond Fund shall mature in such amounts and have maturity dates or be subject to redemption at the option of the owners thereof on or prior to the date on which the amounts invested therein will be needed for the purposes of the Bond Fund. Any investment authorized in the Indenture is subject to the condition that no portion of the proceeds derived from the sale of the Bonds shall be used, directly or indirectly, in such manner as to cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. Such investments shall be made by the Trustee only at the specific written request (including telecopy) of an Authorized Representative of the Institution, such written request to specify the particular investment to be made. Any investment under the Indenture shall be made in accordance with the Tax Compliance Agreement, and the Institution shall so certify to the Trustee with each such investment direction as referred to below. Such investments shall mature in such amounts and at such times as may be necessary to provide funds when needed to make payments from the applicable Fund. Net income or gain received and collected from such investments shall be credited and losses charged to the fund or account for which such investment shall have been made; provided, however, that such net income or gain shall be credited to (i) the Interest Account of the Bond Fund with respect to the investment of amounts held in the Bond Fund, and (ii) the Project Fund with respect to the investment of amounts held in the Project Fund, the Installment Purchase Payments Fund or the Renewal Fund until completion of the Project, and thereafter the Reimbursement Account of the Installment Purchase Payments Fund for application in connection with the redemption of Bonds (or, if no Letter of Credit is required under the Indenture and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, the Redemption Account of the Bond Fund).

At least ten (10) days prior to each Interest Payment Date, the Trustee shall notify the Institution of the amount of such net investment income or gain received and collected subsequent to the last such installment purchase payment and the amount then available in the various Accounts of the Bond Fund and the Installment Purchase Payments Fund.

The Trustee shall sell at the best price reasonably obtainable by it or present for redemption or exchange any obligations in which moneys shall have been invested to the extent necessary to provide cash in the respective Funds or Accounts to make any payments required to be made therefrom, or to facilitate the transfers of moneys or securities between various Funds and Accounts as may be required from time to time pursuant to the provisions of the Indenture. As soon as practicable after any such sale, redemption or exchange, the Trustee shall give notice thereof to the Agency, the Bank and the Institution.

Except as otherwise provided in the Indenture, neither the Trustee nor the Agency shall be liable for any loss arising from, or any depreciation in the value of any obligations in which moneys of the Funds and Accounts shall be invested or from any other loss, fee, tax or charge in connection with any investment, reinvestment or liquidation of an investment under the Indenture. The investments authorized

by this summarized section shall at all times be subject to the provisions of applicable law, as amended from time to time.

Qualified Investments shall be valued at the lesser of cost or market price, inclusive of accrued interest.

## **TRANSFER OF BONDS**

### **Interchangeability, Transfer and Registry**

Each Bond shall be transferable only upon compliance with the restrictions on transfer set forth on such Bond and only upon the books of the Agency, which shall be kept for the purpose at the principal corporate trust office of the Trustee, by the registered owner thereof in person or by his duly authorized attorney-in-fact with signature guaranteed, upon presentation thereof together with a written instrument of transfer in the form appearing on such Bond, duly executed by the registered owner or his duly authorized attorney-in-fact with signature guaranteed. Upon the transfer of any Bond the Trustee shall prepare and issue in the name of the transferee one or more new Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

Any Bond, upon surrender thereof at the corporate trust office of the Trustee in the City with a written instrument of transfer in the form appearing on such Bond, duly executed by the registered owner or his duly authorized attorney-in-fact with signature guaranteed, may, at the option of the owner thereof, be exchanged for an equal aggregate principal amount of Bonds and maturity of any other authorized denominations. However, except for Bonds that have been tendered or deemed tendered for purchase by the Holders thereof pursuant to the terms of the Indenture, the Trustee will not be required to transfer or exchange any Bonds during the period between a Record Date and the following Interest Payment Date or during the period of fifteen (15) days next preceding the day of mailing of a notice of redemption of Bonds to be redeemed. Bonds called or being called for redemption or with respect to which a Notice of Mandatory Tender has been given may be transferred or exchanged only if the Trustee provides the new Holder with a copy of the notice of redemption or Notice of Mandatory Tender, as the case may be.

The Agency, the Institution, the Tender Agent, the Remarketing Agent, the Bond Registrar, the Trustee and any Paying Agent may deem and treat the person in whose name any Bond shall be registered as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all payments made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Agency, the Institution, the Tender Agent, the Remarketing Agent, the Bond Registrar, the Trustee nor any Paying Agent shall be affected by any notice to the contrary.

### **Bonds Mutilated, Destroyed, Stolen or Lost**

In case any Bond shall become mutilated or be destroyed, stolen or lost, the Agency shall execute, and thereupon the Trustee shall authenticate and deliver, a new Bond of like Series, maturity and unpaid principal amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond, or in lieu of and in substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee evidence reasonably satisfactory to it that such Bond has been destroyed, stolen or lost, and upon furnishing the Agency, the Institution, the Bank and the Trustee with an indemnity (an undertaking from an insurance company acceptable to the Agency, the Institution, the Bank and the Trustee) satisfactory to the Agency, the Institution, the Bank and the Trustee and complying with such other reasonable regulations as the Trustee may prescribe and paying such expenses as the Agency and the Trustee may incur. All Bonds so

surrendered to the Trustee shall be canceled by it. Every new Bond issued pursuant to the provisions of this summarized section by virtue of the fact that any Bond is destroyed, lost or stolen, shall, with respect to such Bond, constitute an additional contractual obligation of the Agency whether or not the destroyed, lost or stolen Bond shall be found and shall be enforceable at any time, and shall be entitled to all the benefits of the Indenture equally and proportionately with any and all other Bonds duly issued under the Indenture. In the event any such destroyed, stolen or lost Bond shall have matured, or be about to mature, the Agency may, instead of issuing a new Bond, cause the Trustee to pay the same without surrender thereof upon compliance with the condition in the first sentence of this summarized section out of moneys held by the Trustee and available for such purpose. All Bonds shall be held and owned upon the express condition (to the extent lawful) that the foregoing provisions are exclusive with respect to the replacement or payment of any mutilated, destroyed or lost or stolen Bond and shall preclude any and all other rights and remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

### **Cancellation of Bond**

All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds together with all Bonds redeemed by the Trustee (other than Pledged Bonds), shall thereupon be promptly canceled. Bonds so canceled shall be held by the Trustee or, upon the written request of the Agency, delivered to the Agency.

### **Requirements With Respect to Transfers**

In all cases in which the privilege of transferring Bonds is exercised, the Agency shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. All Bonds surrendered in any such transfer shall forthwith be canceled by the Trustee. For every such transfer of Bonds, the Agency or the Trustee may, as a condition precedent to the privilege of making such transfer, make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer and may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such transfer, which sum or sums shall be paid by the Person requesting such transfer.

## **REDEMPTION OF BONDS**

### **Privilege of Redemption and Redemption Price**

Bonds or portions thereof subject to redemption prior to maturity shall be redeemable upon mailed notice as provided in the Indenture, at the times, at the Redemption Prices and upon such terms in addition to and consistent with the terms contained in the Indenture as shall be specified in the Indenture and in said Bonds.

### **Selection of Bonds to be Redeemed**

In the event of redemption of less than all the Outstanding Bonds of the same Series and maturity, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair (except any Pledged Bonds shall be redeemed prior to any other Bond). In the event of redemption of less than all the Outstanding Bonds of the same Series stated to mature on different dates, the principal amount of such Bonds to be redeemed shall be applied in such order of maturity as shall be determined by the Institution and by lot within maturity. The portion of Bonds to be redeemed in part shall be in the principal amount of the minimum authorized denomination thereof or some integral multiple thereof and, in selecting bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of such Series which is obtained by dividing the

principal amount of such registered Bond by the minimum denomination (referred to below as a "unit") then issuable rounded down to the integral multiple of such minimum denomination. Notwithstanding the foregoing, the Trustee may select Bonds for redemption such that the Bonds called for such redemption are in authorized denominations or the Bonds remaining after such redemption are in authorized denominations. If it is determined that one or more, but not all, of the units of principal amount represented by any such Bond are to be called for redemption, then, upon notice of intention to redeem such unit or units, the Holder of such Bond shall forthwith surrender such Bond to the Trustee for (a) payment to such Holder of the Redemption Price of the unit or units of principal amount called for redemption and (b) delivery to such Holder of a new Bond or Bonds of the same Series of such Bond. New Bonds of the same Series and maturity representing the unredeemed balance of the principal amount of such Bond shall be issued to the registered Holder thereof, without charge therefor. If the Holder of any such Bond of a denomination greater than a unit shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such Bond shall, nevertheless, become due and payable on the date fixed for redemption to the extent of the unit or units of principal amount called for redemption (and to that extent only).

### **Notice of Redemption**

When redemption of any Bonds is requested or required pursuant to the Indenture, the Trustee shall give notice of such redemption in the name of the Agency, specifying the Series, CUSIP number, Bond numbers, the date of original issue, the date of mailing of the notice of redemption, maturities, interest rates and principal amounts of the Bonds or portions thereof to be redeemed, the redemption date, the Redemption Price and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at the Trustee), and specifying the principal amounts of the bonds or portions thereof to be payable and, if less than all of the Bonds of a Series of any maturity are to be redeemed, the numbers of such bonds or portions thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond of such Series or portion thereof to be redeemed the Redemption Price thereof together with interest accrued to but not including the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice may set forth any additional information relating to such redemption. The Trustee, in the name and on behalf of the Agency, (i) shall mail a copy of such notice by first class mail, postage prepaid, not more than forty-five (45) nor less than thirty (30) days prior to the date fixed for redemption, to the registered owners of any Bonds which are to be redeemed, at their last addresses, if any, appearing upon the books of the Bond Registrar, but any defect in such notice shall not affect the validity of the proceedings for the redemption of bonds with respect to which proper mailing was effected; and (ii) cause notice of such redemption to be sent to at least two (2) of the national information services that disseminate redemption notices. Any notice mailed as provided in this summarized section shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice. In the event of a postal strike, the Trustee shall give notice by other appropriate means selected by the Trustee in its discretion. If any Bond shall not be presented for payment of the Redemption Price within sixty (60) days of the redemption date, the Trustee shall mail a second notice of redemption to such Holder by first class mail, postage prepaid. Any amounts held by the Trustee due to non-presentment of Bonds for payments on any redemption date shall be retained by the Trustee for a period of at least one (1) year after the final maturity date of such Bonds and held uninvested.

### **Payment of Redeemed Bonds**

Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof called for redemption shall become due and payable on the redemption dates designated, at the Redemption Price, plus interest accrued and unpaid to but not including the redemption date. If, on the redemption date, moneys for the redemption of all Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on

said date, and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Payment of the Redemption Price plus interest accrued to the redemption date shall be made to or upon the order of the registered owner only upon presentation of such Bonds for cancellation and exchange as provided in the Indenture; provided, however, that any Holder of at least \$1,000,000 in aggregate principal amount of Bonds may, by written request to the Trustee, received by the Trustee at least fifteen (15) days prior to the redemption date, direct that payments of the Redemption Price and accrued interest to the date of redemption be made by wire transfer in federal funds at such wire transfer address as the owner shall specify to the Trustee in such written request.

Notwithstanding any other provision of this summarized section, Bonds called for redemption and purchased pursuant to an optional tender for purchase before the redemption date will not be redeemed but shall be canceled in accordance with the Indenture.

### **Cancellation of Redeemed Bonds**

All Bonds redeemed in full under the provisions of the Indenture, shall forthwith be canceled and returned to the Agency, and no Bonds shall be executed, authenticated or issued under the Indenture in exchange or substitution therefor, or for or in respect of any paid portion of a Bond.

If there shall be drawn for redemption less than all of a Bond, as described in the Indenture, the Agency shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond or Bonds of such maturity in any of the authorized denominations.

## **PARTICULAR COVENANTS**

### **Agency's Obligations Not to Create a Pecuniary Liability**

Each and every covenant made in the Indenture, including all covenants made in the various sections of the Indenture, is predicated upon the condition that any obligation for the payment of money incurred by the Agency shall not create a debt of the State nor the City, and neither the State nor the City shall be liable on any obligation so incurred by the Agency; any obligation incurred under the Indenture by the Agency shall not be payable out of any funds of the Agency other than those pledged therefor but shall be payable by the Agency solely from the installment purchase payments, revenues and receipts derived from or in connection with the Facility pledged to the payment thereof in the manner and to the extent in the Indenture specified, and nothing in the Bonds, in the Installment Sale Agreement, in the Indenture or in any other Security Document shall be considered as pledging any other funds or assets of the Agency.

### **Payment of Principal and Interest**

The Agency covenants that it will, from the sources contemplated in the Indenture, promptly pay or cause to be paid the principal and Purchase Price of, and interest on, the Bonds, and the Redemption Price, if any, together with interest accrued to but not including the date of redemption, at the place, on the dates and in the manner provided in the Indenture and in the Bonds according to the true intent and meaning thereof. All covenants, stipulations, promises, agreements and obligations of the Agency contained in the Indenture shall be deemed to be covenants, stipulations, promises, agreements and

obligations of the Agency, and not of any member, officer, director, employee or agent thereof in his individual capacity, and no resort shall be had for the payment of the principal of, redemption premium, if any, or interest on the Bonds or for any claim based thereon or under the Indenture against any such member, officer, director, employee or agent or against any natural person executing the Bonds. Neither the Bonds, the interest thereon, nor the Redemption Price thereof shall ever constitute a debt of the State or of the City, and neither the State nor the City shall be liable on any obligation so incurred, and the Bonds shall not be payable out of any funds of the Agency other than those pledged therefor. The Agency shall not be required under the Indenture or the Installment Sale Agreement or any other Security Document to expend any of its funds other than (i) the proceeds of the Bonds, (ii) the installment purchase payments, revenues and receipts, rental income and other moneys held or derived from or in connection with the Facility and pledged to the payment of the Bonds, (iii) any income or gains therefrom, and (iv) the Net Proceeds with respect to the Facility.

### **Performance of Covenants; Authority**

The Agency covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture, in any and every Bond executed, authenticated and delivered under the Indenture and in all proceedings pertaining thereto. The Agency covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized by the Indenture and to execute the Indenture, to sell the Agency's leasehold interest in the Facility pursuant to the Installment Sale Agreement, to assign the Installment Sale Agreement and to pledge the installment purchase payments, revenues and receipts pledged in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and that the Bonds in the hands of the Holders thereof are and will be the valid and enforceable special obligations of the Agency according to the import thereof.

### **Rights of the Bank**

All provisions in the Indenture and each other Security Document (other than the Letter of Credit) requiring the consent, direction, approval or request of some or all of the Holders of the Bonds shall instead only require the written consent of the Bank (except as provided in the Indenture), and no such action shall be taken or forestalled without the prior written consent of the Bank. The foregoing notwithstanding, all provisions in the Indenture and each other Security Document (other than the Letter of Credit) regarding consents, directions, approvals or requests that must be obtained or honored by the Trustee from or at the request of the Bank shall be deemed not to require that such consents, directions, approvals or requests be obtained or honored by the Trustee, and shall be read as if the Bank were not mentioned therein for so long as any Bonds shall be Outstanding, during any time in which (a) the Letter of Credit shall at any time for any reason be determined under applicable law, by a court of final competent jurisdiction, to be null and void and not valid and binding on the Bank, or the validity or enforceability thereof is being contested by the Bank or by any governmental agency or authority which has taken control of the assets of the Bank in any bankruptcy, insolvency or similar proceedings and which shall be authorized under applicable law to act on behalf of the Bank, or (b) the Letter of Credit is no longer in effect and any and all of the Institution's obligations under the Reimbursement Agreement have been paid in full; provided, however, that if amounts are then owed to the Bank under the Reimbursement Agreement or the Bank is legally obligated to honor future drawings under the Letter of Credit and there has been no payment default on the Bonds as a result of an event specified above, the Bank shall retain the right, in its sole discretion, to consent to any disposition or release or any collateral securing the obligations under the Indenture.

## **Consent of the Trustee**

All provisions in the Indenture and each other Security Document regarding consents, directions, approvals or requests by the Trustee shall, for so long as any Bonds shall be Outstanding, be upon the specific written direction to the Trustee by the Bank for so long as the Trustee shall have no actual knowledge of the occurrence and continuance of any event or circumstance so set forth in the Indenture. If the Bank shall have delivered the specific written direction referred to in the first sentence of this summarized section, and the Trustee shall have no actual knowledge of the occurrence and continuance of any event or circumstance set forth in the Indenture, any consents, directions, approvals or requests in the Indenture and in each other Security Document by the Trustee, shall be upon the specific written direction to the Trustee by the Bank only. If any Bonds shall be Outstanding and the Trustee shall have actual knowledge of the occurrence and continuance of any event or circumstance set forth in the Indenture, any consents, directions, approvals or requests in the Indenture and in each other Security Document by the Trustee, shall be at the sole discretion of the Trustee. Notwithstanding any provision of the Indenture or any other Security Document to the contrary, the Trustee may seek direction from the Bondholders or rely upon an Opinion of Counsel addressed to the Trustee to the effect that the Trustee is not required to obtain the consent of Bondholders in providing any such consent under the Indenture or any other Security Document, and the Trustee shall have no liability for failure to take any action in connection with the Indenture or any other Security Document except to the extent that action shall otherwise be expressly required of the Trustee under the Indenture. Notwithstanding the preceding provisions of this summarized section, if an Event of Default shall occur under the Indenture, and (y) any Bonds shall be Outstanding, the Trustee shall take such action and act at such direction as provided in the Indenture, or (z) Bonds shall no longer be Outstanding, the Trustee shall act at the written direction of the Bank as provided in the Indenture.

## **EVENTS OF DEFAULT; REMEDIES OF BONDHOLDERS**

### **Events of Default; Acceleration of Due Date**

Each of the following events is defined as and shall constitute an "Event of Default:"

- (i) Failure in the payment of the interest on any Bond when the same shall become due and payable;
- (ii) Failure in the payment of the principal or redemption premium, if any, of or Sinking Fund Installment for, any Bonds, when the same shall become due and payable, whether at the stated maturity thereof or upon proceedings for redemption thereof or otherwise, or interest accrued thereon to but not including the date of redemption after notice or redemption therefor or otherwise;
- (iii) Failure to duly and punctually pay the Purchase Price of any Bond tendered or deemed tendered for purchase pursuant to the Indenture;
- (iv) Failure of the Agency to observe or perform any covenant, condition or agreement in the Bonds or under the Indenture on its part to be performed (except as set forth in clauses (i), (ii) or (iii) above) and (A) continuance of such failure for a period of thirty (30) days after receipt by the Agency and the Institution of written notice specifying the nature of such default from the Trustee or the Holders of more than fifty per centum (50%) in aggregate principal amount of the Bonds Outstanding, or (B) if by reason of the nature of such default the same



can be remedied, but not within the said thirty (30) days, the Agency or the Institution fails to proceed with reasonable diligence after receipt of said notice to cure the same or fails to continue with reasonable diligence its efforts to cure the same, provided, however, that no default under this clause shall constitute an Event of Default unless the Bank shall have given written notice to the Trustee consenting thereto;

- (v) The occurrence of an "Event of Default" under the Installment Sale Agreement or any other Security Document, provided, however, that no default under this clause shall constitute an Event of Default unless the Bank shall have given written notice to the Trustee consenting thereto;
- (vi) Receipt by the Trustee following a drawing under the Letter of Credit to pay interest on the Bonds of a Series secured by such Letter of Credit of written notice from the Bank that the Letter of Credit will not be automatically reinstated (in respect of interest);
- (vii) Notification in writing received by the Trustee from the Bank that an "Event of Default" as defined in the Reimbursement Agreement has occurred and is continuing and instructing the Trustee to cause acceleration or mandatory tender of the Bonds pursuant to the provisions of the Indenture; or
- (viii) The Bank shall wrongfully dishonor a request for payment under the Letter of Credit properly made by the Trustee in strict compliance with the terms of the Letter of Credit.

Upon the happening and continuance of any Event of Default specified in clauses (iv) or (v) above, unless the principal of all the Bonds shall have already become due and payable, and provided that the Bank shall have delivered to the Trustee its prior written consent to such declaration of acceleration, either the Trustee (by notice in writing to the Agency and the Institution) or the Holders of over fifty percent (50%) in aggregate principal amount of the Bonds Outstanding (by notice in writing to the Agency, the Institution and the Trustee) may declare the principal, or Redemption Price, if applicable, of all the Bonds then Outstanding and the interest accrued thereon, to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding. Upon such declaration, the same shall become and be immediately due and payable (and interest shall cease to accrue), and the Trustee shall promptly draw on the Letter of Credit, to the extent permitted by the terms thereof, in an amount equal to the principal of, and accrued interest on, the Bonds then due and payable.

Upon the occurrence or happening of any Event of Default specified in clauses (i), (ii), (iii), (vi), (vii) and (viii) above, the Trustee shall declare the principal or Redemption Price, if any, of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately (upon which declaration interest shall cease to accrue). Upon such declaration the same shall become and be immediately due and payable, and the Trustee shall immediately draw on the Letter of Credit, to the extent permitted by the terms thereof. In lieu of a declaration as a result of an Event of Default specified in clauses (i), (ii), (iii) and (vii) above and at the written direction of the Bank, the Trustee shall give a notice of mandatory tender pursuant to the Indenture. The obligation of the Trustee to make such declaration or give notice of a mandatory tender pursuant to the Indenture and to draw on or otherwise realize upon the Letter of Credit, shall be absolute and shall be exercised, notwithstanding any objection of the Institution, the Agency, the Trustee, any Bondholder, the Bank or any other Person.

Unless (i) the Bank shall provide the Trustee with a written waiver of the provisions of this summarized paragraph, if there shall occur an Event of Default under Section 7.1(d) of the Installment Sale Agreement, and (ii) upon direction received by the Trustee from the Bank in writing, if there shall occur an Event of Default under Section 7.1(e) of the Installment Sale Agreement, the unpaid principal of all the Bonds (and all principal installments of installment purchase payments under the Installment Sale Agreement) and the interest accrued thereon shall be due and payable immediately (and interest shall cease to accrue) without the necessity of any declaration or other action by the Trustee or any other Person, and the Trustee shall promptly draw on the Letter of Credit to the extent permitted by the terms thereof; provided, however, that if the Bank shall fail to honor its obligations under the Letter of Credit, or if the Letter of Credit shall no longer be in effect, interest shall continue to accrue on the Bonds. Upon such declaration the same shall become and be immediately due and payable, and the Trustee shall immediately draw on the Letter of Credit, to the extent permitted by the terms thereof.

The right of the Trustee or of the Holders of over fifty per centum (50%) in aggregate principal amount of the Bonds Outstanding to make any such declaration as aforesaid (but not the Trustee's obligation under the three (3) paragraphs immediately above), however, is subject to the condition that if, at any time before such declaration, all overdue installments of principal of and interest on all of the Bonds which shall have matured by their terms and the unpaid Redemption Price of the Bonds or principal portions thereof to be redeemed has been paid by or for the account of the Agency, and all other Events of Default have been otherwise remedied, and the reasonable and proper charge, expenses and liabilities of the Trustee, shall either be paid by or for the account of the Agency or provision satisfactory to the Trustee shall be made for such payment, and the Facility shall not have been sold or relet or otherwise encumbered, and all defaults have been otherwise remedied as provided in the Indenture, then and in every such case any such default and its consequences shall ipso facto be deemed to be annulled, but no such annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Pursuant to the Installment Sale Agreement the Agency has granted to the Institution full authority of the account of the Agency to perform any covenant or obligation the non-performance of which is alleged in any notice received by the Institution to constitute a default under the Indenture, in the name and stead of the Agency with full power to do any and all things and acts to the same extent that the Agency could do and perform any such things and acts with power of substitution. The Trustee agrees to accept such performance by the Institution as performance by the Agency.

### **Enforcement of Remedies**

Upon the occurrence and continuance of any Event of Default, then and in every case the Trustee may proceed (subject to the prior written consent of the Bank), and upon the written request of the Bank or the Holders of over twenty-five per centum (25%) in aggregate principal amount of the Bonds Outstanding (subject to the prior written consent of the Bank) shall proceed, to protect and enforce its rights and the rights of the Bondholders under the Act, the Bonds, the Installment Sale Agreement, the Indenture and under any other Security Document forthwith by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Indenture or in any other Security Document or in aid of the execution of any power granted in the Indenture or in any other Security Document or in the Act or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture or under any other Security Document. In addition to any rights or remedies available to the Trustee under the Indenture or elsewhere, upon the occurrence and continuance of an Event of Default the Trustee (subject to the prior written consent of the Bank) may take such action, without notice or demand, as it deems advisable.

In the enforcement of any right or remedy under the Indenture, under any other Security Document or under the Act, the Trustee shall be entitled to sue for, enforce payment on and receive any or all amounts then or during any default becoming, and any time remaining, due from the Agency, for principal, interest, Redemption Price, or otherwise, under any of the provisions of the Indenture, of any other Security Document or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the Indenture, under any such other Security Document and under the Bonds, without prejudice under the Indenture, under any such other Security Document and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Agency, but solely as provided in the Indenture and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from the moneys in the Bond Fund and other moneys available therefor to the extent provided in the Indenture) in any manner provided by law, the moneys adjudged or decreed to be payable. The Trustee shall file proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to the Institution, any of the other obligors under the Security Documents, the Bank, the Agency or their creditors or property.

Regardless of the occurrence of an Event of Default, the Trustee, if requested in writing (i) by the Bank or (ii) by the Holders of over fifty per centum (50%) in aggregate principal amount of the Bonds then Outstanding (subject to the prior written consent of the Bank), and in each case furnished with reasonable security and indemnity, shall institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture or under any other Security Document by any acts which may be unlawful or in violation of the Indenture or of such other Security Documents or of any resolution authorizing any Bonds, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders; provided however, that such request shall not be otherwise than in accordance with the provisions of law and of the Indenture and shall not be unduly prejudicial to the interests of the Holders of the Bonds not making such request. All related cost and expenses shall be for the account of the requesting party or group.

Notwithstanding the foregoing, the Trustee shall nevertheless be obligated to draw upon the Letter of Credit, to cause the principal amount of the Bonds and interest thereon to be immediately due and payable and to make payments (from the sources specified in the Indenture) on the Bonds when due or to the Bank as provided in the Indenture, all at the times and in the manner specified in the Indenture.

#### **Application of Revenues and Other Moneys After Default**

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture or under any other Security Document shall, after payment of any amounts due and owing under the Installment Sale Agreement and after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Reimbursement Account of the Installment Purchase Payments Fund (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Bond Fund) and all moneys so deposited and available for payment of the Bonds shall be applied, subject to the Indenture, as follows (provided that any amounts drawn under the Letter of Credit or held for untendered or non-presented Bonds or for defeasance of Bonds under the Indenture shall be deposited in the appropriate sub-account of the Bond Fund and not commingled with any other moneys held by the Trustee and shall be applied solely to the payment of the Bonds other than Pledged Bonds):

FIRST: (A) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First - To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds (other than Pledged Bonds), in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installments, to the Persons entitled thereto, without any discrimination or privilege; and

Second - To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price, if any, of any of the Bonds (other than Pledged Bonds) which shall have become due (other than Bonds or principal installments called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full the Bonds (other than Pledged Bonds) or principal installments due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege.

(B) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment to the Bondholders of the principal and interest (at the rate or rates expressed in the Bonds) then due and unpaid upon the Bonds (other than Pledged Bonds) and, if applicable, to the Redemption Price of the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(C) If the principal of all the Bonds and interest thereon shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture, then, subject to the provisions of the Indenture which shall be applicable in the event that the principal of all the Bonds and interest thereon shall later become due and payable, the moneys shall be applied in accordance with the provisions of the Indenture.

SECOND: To the payment of all amounts due and owing to the Bank under the Reimbursement Agreement.

THIRD: To the payment of any other amounts due and owing by the Institution under the Installment Sale Agreement to the Persons entitled thereto.

Whenever moneys are to be applied pursuant to the provisions of this summarized section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue; provided, however, that if the principal or Redemption Price of the Bonds Outstanding, together with accrued interest thereon, shall have been declared to be due and payable pursuant to the Indenture, such date of declaration shall be the date from which interest shall cease to accrue. The Trustee shall give such written notice to the Bondholders as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to

the Trustee for appropriate endorsement or for cancellation if fully paid. Notwithstanding anything to the contrary in the Indenture, in no event shall moneys drawn under the Letter of Credit be used to pay any fees or expenses of the Trustee or the Agency or be used for any purpose other than the payment of the principal of and interest on the Bonds secured thereby.

### **Actions by Trustee**

All rights of action under the Indenture, under any other Security Document or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds, and any recovery of judgment shall, subject to the provisions of the Indenture, be for the equal benefit of the Holders of the Outstanding Bonds and the Bank.

### **Bank or Majority Bondholders Control Proceedings**

Anything in the Indenture to the contrary notwithstanding, so long as (i) no Event of Default shall exist under clauses (i), (ii) or (iii) under the summarized section "Events of Default; Acceleration of Due Date" and none of the circumstances set forth in summarized section "Rights of the Bank" under the section heading "PARTICULAR COVENANTS" shall exist, the Bank, and (ii) if any Event of Default or circumstance referred to in clause (i) within this paragraph shall exist, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings, under the Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture. No Holder of any Bonds shall have a right individually to collect amounts available under a Letter of Credit, except as otherwise expressly required or permitted thereunder.

### **Individual Bondholder Action Restricted**

No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provisions of the Indenture or of any other Security Document or the execution of any trust under the Indenture or under any other Security Document, unless such Holder shall have previously given to the Trustee and the Bank written notice of the occurrence of an Event of Default as provided in the Indenture, the Bank shall have consented to such action and the Holders of over fifty per centum (50%) in aggregate principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or in such other Security Document or by the Act or by the laws of the State or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of sixty (60) days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his, its or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and, subject to the provisions of the Indenture, be for the equal benefit of all Holders of the Outstanding Bonds.

Nothing in the Indenture, in any other Security Document or in the Bonds contained shall affect or impair the right of any Bondholder to payment of the principal or Redemption Price, if applicable, of

and interest on each of the Bonds to the respective Holders thereof at the time, place, from the source and in the manner in the Indenture and in the Bonds expressed.

#### **Effect of Discontinuance of Proceedings**

In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, and the Trustee shall not have drawn on the Letter of Credit for the payment in full of the Bonds upon an acceleration thereof, then and in every such case, the Agency, the Bank, the Trustee and the Bondholders shall be restored, respectively, to their former positions and rights under the Indenture, and all rights, remedies, powers and duties of the Trustee and the Bank shall continue as in effect prior to the commencement of such proceedings.

#### **Remedies Not Exclusive**

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

#### **Delay or Omission**

No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon any default shall impair any right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee, the Bank and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

#### **Notice of Default**

The Trustee shall promptly mail to the Agency, to registered Holders of the Bonds, to the Bank, to the Remarketing Agent and to the Institution, by first class mail, postage prepaid, written notice of the occurrence of any Event of Default. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail any notice required by this summarized section.

#### **Waivers of Default**

The Trustee shall waive any default under the Indenture and its consequences and rescind any declaration of acceleration, only with the prior written consent of the Bank (unless an Event of Default shall have occurred and be continuing under clauses (i), (ii) or (iii) under the summarized section "Events of Default; Acceleration of Due Date" or any of the circumstances described in the summarized section "Rights of the Bank" under the section heading "PARTICULAR COVENANTS" shall exist), or if any such Event of Default or circumstance described in the preceding parenthetical shall exist, upon the written request of the Holders of over sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of all the Bonds then Outstanding; provided, however, that there shall not be waived without the consent of the Holders of all the Bonds Outstanding (a) any default in the payment of the principal of any Outstanding Bonds at the date specified therein or (b) any default in the payment when due of the interest on any such Bonds, unless, prior to such waiver, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds (or as otherwise provided in the Reimbursement Agreement) on overdue installments of interest in respect of which such default shall have occurred, and all arrears of payment of principal when due, as the case may be, and all fees and expenses of the Trustee (including counsel fees and expenses) in connection with such default shall have been paid or provided

for, and provided further, that (i) any Event of Default under clause (vii) under the summarized section "Events of Default; Acceleration of Due Date" may only be waived upon the specific written request of the Bank (and in such case no consent of any Bondholder shall be required) after the Bank has rescinded the notice of default, and (ii) any Event of Default under the Indenture shall not be waived unless prior to such waiver, the Bank shall have consented thereto and reinstated the Letter of Credit (to an amount equal to the Applicable Principal and Interest Coverage calculated at the Maximum Rate (as evidenced by a written notice from the Bank to the Trustee confirming the same)); and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Agency, the Trustee, the Bank and the Bondholders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

### **Subrogation Rights of Bank**

In the event that (i) an Event of Default shall occur and be continuing under the Indenture, or (ii) the Trustee shall draw against the Letter of Credit in connection with the redemption in whole of the Bonds of a Series secured by such Letter of Credit and in either such case the Bank shall have provided the Trustee with funds pursuant to the Letter of Credit for the payment in full of the principal of and the interest on the Bonds, then, and in such event, the Bank shall be subrogated to all rights theretofore possessed under the Indenture or the other Security Documents by the Trustee and the Holders of the Bonds of such Series in respect of which such principal and interest shall have been paid with funds provided by the Bank (to the extent such funds provided by the Bank pursuant to the Letter of Credit shall not have been reimbursed to the Bank. After the payment in full of all Bonds of such Series owned by the Holders thereof other than the Bank, any reference in the Indenture to the Holders of the Bonds or to the Bondholders in respect of such Series, shall mean the Bank to the extent of its subrogation rights resulting from payments made pursuant to the Letter of Credit.

### **Indemnity**

The Trustee, in its capacity as the Trustee, the Tender Agent, the Paying Agent or the Bond Registrar, shall be under no obligation to institute any suit, or to take any remedial action under the Indenture or under any other Security Document or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created by the Indenture or in the enforcement of any rights and powers under the Indenture, or under any other Security Document, until it shall be indemnified to its satisfaction against any and all reasonable compensation for services, costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct or gross negligence; provided, however, that the Trustee shall nevertheless be obligated to draw upon the Letter of Credit, to cause the principal amount of the Bonds to be accelerated, redeemed, or subject to mandatory tender when required under the Indenture, and to make payments (from the sources specified in the Indenture) on the Bonds when due or to the Bank as provided in the Indenture, all at the times and in the manner specified in the Indenture.

## **DISCHARGE OF INDENTURE**

### **Defeasance**

Bonds of a Series will be deemed paid for all purposes of the Indenture when (x) the interest rate or interest rates in effect with respect to such Bonds cannot by their terms and under the Indenture be adjusted prior to the date on which such Bonds mature or are to be redeemed, if earlier, and such Bonds are not subject to optional tender for purchase pursuant to the Indenture prior to the date on which such Bonds mature or are to be redeemed, if earlier, (y) payment of the greater of the principal of and the

maximum amount of interest that may become due on such Bonds to the due date of such principal and interest, including but not limited to all regularly scheduled interest payments (whether at maturity, upon redemption, acceleration or otherwise) either (i) has been made in accordance with the terms of such Bonds or (ii) has been provided for by depositing with the Trustee (1) moneys sufficient to make such payment, which moneys must constitute Priority Amounts (and may derive from a draw under the Letter of Credit) if a Letter of Credit is then in effect and/or (2) noncallable and nonprepayable Government Obligations maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to make such payment without regard to the reinvestment thereof, provided that if a Letter of Credit is then in effect, such Government Obligations must be purchased from Priority Amounts; and (z) all reasonable compensation and expenses of the Trustee (as well as the reasonable fees and expenses of its counsel) pertaining to each Bond in respect of which such payment or deposit is made have been paid or provided for to the satisfaction of the Trustee. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Indenture, except for payment from moneys or Government Obligations under clause (y)(ii) above and except that it may be tendered if and as provided in the Bonds and it may be transferred, exchanged, registered, discharged from registration or replaced as provided in the Indenture.

Notwithstanding the foregoing, no deposit under clause (y)(ii) above shall be deemed a payment of a Bond until (A) notice of redemption of the Bond is given in accordance with the Indenture or, if the Bond is not to be redeemed or paid within the next sixty (60) days, until the Institution has given the Trustee, in form satisfactory to the Trustee, (i) irrevocable instructions to notify, as soon as practicable, the Holder of the Bond that the deposit required by clause (y)(ii) above has been made with the Trustee and that the Bond is deemed to be paid under the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and (ii) a report or opinion of a Verification Agent to the effect that such deposit is an amount sufficient to effect such payment; or (B) the maturity of the Bond in accordance with its terms.

When all Outstanding Bonds of a Series are deemed paid as provided in the Indenture, and all fees and expenses and other amounts due and payable in respect thereof under the Indenture, the Remarketing Agreement and the Installment Sale Agreement, and any other amounts required to be paid to the United States government in accordance with the Tax Compliance Agreement or pursuant to the Indenture, shall be paid in full, and if all amounts due and owing to the Bank in respect thereof under the Reimbursement Agreement shall be paid in full, and upon receipt of an opinion of Nationally Recognized Bond Counsel addressed to the Agency and the Trustee to the effect that the Agency has duly provided or caused to be provided for the payment to the Holders of such Bonds, then, subject to the paragraph immediately below, the pledge of any installment purchase payments, revenues or receipts from or in connection with the Security Documents or the Facility under the Indenture and the estate and rights granted by the Indenture and all covenants, agreements and other obligations of the Agency to the Holders of such Bonds under the Indenture in respect of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied, and the Bonds of such Series shall thereupon cease to be entitled to any lien, benefit or security under the Indenture, except as to moneys or securities held by the Trustee or the Paying Agents as provided in this summarized section. At the time of such cessation, termination, discharge and satisfaction, the Trustee shall deliver the Letter of Credit securing such Bonds to the Bank for cancellation as provided in the Indenture upon written receipt therefor; and, upon such cessation, termination, discharge and satisfaction in respect of Bonds of all Series, (1) the Trustee shall cancel and discharge the lien of the Indenture and execute and deliver to the Institution all such instruments as may be appropriate to satisfy such liens and to evidence such discharge and satisfaction, and (2) the Trustee and the Paying Agents shall pay over or deliver to the Institution or on its order all moneys or securities held by them pursuant to the Indenture which are not required (i) for the payment of principal or Redemption Price, if applicable, or interest on Bonds not theretofore surrendered for such payment or redemption, (ii) for the payment of all such other amounts due or to become due under the



Security Documents, or (iii) for the payments of any amounts the Trustee has been directed to pay to the United States government in accordance with the Tax Compliance Agreement or the Indenture.

Prior to any defeasance becoming effective as provided in the paragraph immediately above, there shall have been delivered to the Agency, the Trustee and the Bank opinions of Nationally Recognized Bond Counsel and Bankruptcy Counsel, addressed to the Agency, the Trustee and the Bank, to the effect that (i) interest on any Bonds being discharged by such defeasance will not become included in gross income for Federal income tax purposes by reason of such defeasance, and (ii) payments of principal of and interest on the Bonds from the proceeds of any such deposit to effectuate defeasance shall not constitute voidable preferences in a case commenced under the United States Bankruptcy Code by or against the Institution or the Agency or any Affiliate of either, respectively.

No provision of this summarized section, including any defeasance of Bonds, shall limit the rights of the Holder of any Bonds to tender such Bonds for purchase, exchange, registration, discharge from registration or replacement of such Bonds, nor limit the rights of the Trustee, the Paying Agents or the Remarketing Agent to compensation in accordance with its agreements theretofore existing, until such Bonds shall have been paid in full. Bonds delivered to the Trustee for payment shall be canceled by the Trustee pursuant to the Indenture.

The Trustee shall hold in trust money and/or Government Obligations deposited with it pursuant to the Indenture and shall apply the deposited money and the money from the Government Obligations in accordance with the Indenture only to the payment of principal of, interest on, or Purchase Price of, the Bonds of such Series defeased in accordance with the Indenture.

#### **Moneys Held for Particular Bonds**

The amounts held by the Trustee for the payment of the principal or Redemption Price, if any, of and interest due on any date with respect to particular Bonds shall, on and after such date and pending such payment, and subject to any rebate requirement as set forth in the Tax Compliance Agreement or the Indenture, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto. Such amounts so held shall be uninvested.

Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two (2) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by earlier call for redemption or purchase, if such moneys were held by the Trustee at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee or the Paying Agent after said date when such Bonds become due and payable, shall be paid by the Trustee first, to the Bank to the extent moneys are owed to the Bank by the Institution under the Reimbursement Agreement and second, to the Institution, as the absolute property thereof and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto; provided, however, that before being required to make any such payments, the Trustee shall, at the expense of the Institution, mail to the Owners of such Bonds a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall not be less than forty (40) nor more than ninety (90) days after the date of mailing of such notice, the balance of such moneys then unclaimed shall be paid to the Bank or the Institution in accordance with the Indenture.

## **AMENDMENTS OF INDENTURE AND RELATED SECURITY DOCUMENTS**

### **Supplemental Indentures Without Bondholders' Consent**

Subject to Indenture, the Agency and the Trustee may, from time to time and at any time, enter into Supplemental Indentures without consent of the Bondholders for any of the following purposes:

(1) To cure any formal defect, omission or ambiguity in the Indenture or in any description of property subject to the lien of the Indenture, if such action is not materially adverse to the interests of the Bondholders.

(2) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Indenture as theretofore in effect.

(3) To add to the covenants and agreements of the Agency in the Indenture other covenants and agreements to be observed by the Agency which are not contrary to or inconsistent with the Indenture as theretofore in effect.

(4) To add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Agency which are not contrary to or inconsistent with the Indenture as theretofore in effect.

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the properties of the Facility, or revenues or other income from or in connection with the Facility or of any other moneys, securities or funds, or to subject to the lien or pledge of the Indenture additional revenues, properties or collateral.

(6) To modify or amend such provisions of the Indenture as shall, in the opinion of Nationally Recognized Bond Counsel to the Agency, be necessary to assure the exclusion of the interest on the Bonds from gross income for Federal income tax purposes.

(7) To authorize the issuance of Additional Bonds and to prescribe the terms, forms and details thereof not inconsistent with the Indenture.

(8) To effect any other change in the Indenture which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Bondholders.

(9) To make any change not materially and adversely affecting any Bondholder's rights in order to provide for or to implement the provisions of a Letter of Credit or a Fixed Rate Credit Facility.

(10) With respect to all Bonds entitled to the benefits of a Letter of Credit or a Fixed Rate Credit Facility, to make any change (other than changes permitted in paragraph (9) above) to provide for or to implement the provisions of such Letter of Credit or Fixed Rate Credit Facility, only if the changes to the Indenture become effective on a Purchase Date on which the Bonds are subject to mandatory tender for purchase and the changes are disclosed to Persons purchasing the Bonds upon the remarketing thereof.

(11) To evidence the succession of a new Trustee or the appointment by the Trustee or the Agency of a co-trustee.

(12) To make any change not materially and adversely affecting any Bondholder's rights requested by the Rating Agency in order (i) to obtain a rating from the Rating Agency after the initial issuance of a Series of Bonds if such Series of Bonds is initially issued without a rating equivalent to the rating assigned to other securities supported by a Letter of Credit of the Bank or (ii) to make any change necessary to maintain any rating on a Series of the Bonds.

(13) To provide for (or subsequently modify) an Alternate Rate pursuant to the Indenture.

(14) To modify, amend or supplement the Indenture or any supplement to the Indenture in such manner as to permit the qualification of the Indenture and thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any indenture supplemental to the Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar Federal statute.

(15) To modify, amend or supplement any of the times, dates or other mechanical procedures for the tender and remarketing of Bonds set forth in the Indenture, provided that such change is not to the material prejudice of the Bondholders.

Before the Agency and the Trustee shall enter into any Supplemental Indenture pursuant to this summarized section, there shall have been filed with the Trustee an Opinion of Counsel addressed to the Trustee stating that such Supplemental Indenture is authorized or permitted by the Indenture and complies with its terms, and that upon execution it will be valid and binding upon the Agency in accordance with its terms.

In addition to the Supplemental Indentures provided for in the first paragraph of this summarized section, the Agency and the Trustee may enter into a Supplemental Indenture at such time as the Institution shall notify the Trustee and the Agency in writing that it is preparing to amend the Prime Lease with the Prime Landlord. Such Supplemental Indenture shall make such changes in the Indenture as are necessary and of the Institution Lease and the Installment Sale Agreement. No Bondholder consent shall be required in connection with such Supplemental Indenture. Provided, however, that the preparation, execution and delivery of any such Supplemental Indenture, and the recording thereof, shall be at the sole cost and expense of the Institution and such Supplemental Indenture shall be subject to any necessary review and approval by the Agency

#### **Supplemental Indentures With Bondholders' Consent**

Subject to the terms and provisions contained in the Indenture, the Holders of not less than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the entering into by the Agency and the Trustee of any Supplemental Indenture as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture. Nothing contained in the Indenture shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of, redemption premium, if any, or interest on any Outstanding Bonds, a change in the terms of redemption or maturity of

the principal of or the interest on any Outstanding Bonds, or a reduction in the principal amount of or the Redemption Price of any Outstanding Bond or the rate of interest thereon (except upon conversion) or any extension of the time of payment thereof, without the consent of the Holder of such Bond, a change in the mechanics for any Interest Rate Determination Method applicable to any Bond, or a change in the terms of the purchase thereof by the Tender Agent, (ii) the creation of a lien upon or pledge of revenues or installment purchase payment income from or in connection with the Facility other than the lien or pledge created by the Indenture, except as provided in the Indenture with respect to Additional Bonds, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (iv) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Indenture, or (v) a modification, amendment or deletion with respect to any of the terms set forth in this summarized section, without, in the case of items (ii) through and including (v) of this paragraph, the written consent of one hundred percent (100%) of the Holders of the Outstanding Bonds.

If at any time the Agency shall determine to enter into any Supplemental Indenture for any of the purposes of this summarized section, it shall cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Notice Parties and to all Bondholders. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture, and shall state that a copy thereof is on file at the offices of the Trustee for inspection by all Bondholders.

Subject to the terms and provisions contained in the Indenture, within one (1) year after the date of such notice, the Agency and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice only if there shall have first been filed with the Trustee (i) the written consents of holders of not less than sixty-six and two-thirds percent (66 2/3%) or one hundred percent (100%), as the case may be, in aggregate principal amount of the Bonds then Outstanding and (ii) an Opinion of Counsel addressed to the Trustee stating that such Supplemental Indenture is authorized or permitted by the Indenture and complies with its terms, and that upon execution it will be valid and binding upon the Agency in accordance with its terms. Each valid consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given. A certificate or certificates by the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Indenture shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the Holder of the Bonds giving such consent and upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee prior to the execution of such Supplemental Indenture.

If the Bank pursuant to the Indenture or the Holders of not less than the percentage of Bonds required by this summarized section shall have consented to and approved the execution thereof as provided in the Indenture, no Holder of any Bond shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Agency from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any Supplemental Indenture pursuant to the provisions of this summarized section, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Agency, the Bank, the Trustee and all Holders of Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

### **Consents of the Bank**

Notwithstanding any provision of the Indenture to the contrary, subject to the summarized section "Rights of the Bank" under the section heading "PARTICULAR COVENANTS", any Supplemental Indenture which shall require the consent of the Holders of the Bonds (other than clauses (i) and (iii), (iv) and (v) in the first paragraph of the summarized section "Supplemental Indentures With Bondholders' Consent") shall instead be deemed to require only the prior written consent of the Bank, and no Supplemental Indenture entered into in accordance with the provisions of the Indenture shall be effective without the prior written consent of the Bank.

### **Rights of Institution**

Anything to the contrary notwithstanding in the Indenture, any Supplemental Indenture under the Indenture shall not become effective unless and until the Institution shall have given its prior written consent to such Supplemental Indenture signed by an Authorized Representative of the Institution, which consent shall not be unreasonably withheld or delayed; provided, however, that any Supplemental Indenture which would adversely affect the Institution's rights and obligations requires the Institution's prior written consent in its sole discretion.

### **Amendments of Related Security Documents Not Requiring Consent of Bondholders**

The Agency and the Trustee may consent, without the consent of or notice to the Bondholders, but subject to the Indenture, to any amendment, change or modification of any of the Related Security Documents for the purpose of curing any ambiguity or formal defect or omission therein or which, in the judgment of the Trustee, based upon an opinion of counsel, is not materially to the prejudice of the Trustee or the Holders of the Bonds. The Trustee shall have no liability to any Bondholder or any other person for any action taken by it in good faith pursuant to this summarized section.

### **Amendments of Related Security Documents Requiring Consent of Bondholders**

Except as provided in the Indenture, the Agency and the Trustee shall not consent to any amendment, change or modification of any of the Related Security Documents without mailing of notice and the written approval or consent of the Holders of not less than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of the Bonds at the time Outstanding given and procured as set forth in the Indenture; provided, however, there shall be no amendment, change or modification to (i) the obligation of the Institution to make installment purchase payments under the Installment Sale Agreement with respect to the Bonds, or (ii) the obligation of the Bank to pay the principal of, Purchase Price for and interest on the Bonds, without the prior written approval of one hundred percent (100%) in aggregate principal amount of the Bonds at the time Outstanding given and procured as provided in the Indenture. If at any time an obligor to a Related Security Document shall request the consent of the Trustee to any such proposed amendment, change or modification, the Trustee shall cause notice of such proposed amendment, change or modification to be mailed in the same manner as is provided in the Indenture with respect to Supplemental Indentures. Such notice shall be prepared by the Institution and shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders.

### **Consent of the Bank**

Notwithstanding any provision of the Indenture to the contrary, subject to the summarized section "Rights of the Bank" under the section heading "PARTICULAR COVENANTS", (i) any amendment, change or modification to a Related Security Document which shall require the consent of the Holders of

the Bonds (other than clause (ii) of the summarized section "Amendments of Related Security Documents Requiring Consent of Bondholders") shall instead be deemed to require only the prior written consent of the Bank, and (ii) no amendment, change or modification to a Related Security Document shall be effective without the prior written consent of the Bank. Notwithstanding anything to the contrary contained in the Indenture or in any other document, for so long as any obligations exist under the Reimbursement Agreement or the Letter of Credit, in no event shall any collateral subject to the Security Documents be disposed of or released without the prior written consent of the Bank except in accordance with the terms and conditions set forth in the relevant Security Documents.

#### **Amendments, Changes and Modifications to the Letter of Credit or other Security Arrangement**

Except as otherwise provided in the Indenture, subsequent to the initial issuance of Bonds of a Series and prior to the earlier of the Termination of the Letter of Credit or the Fixed Rate Credit Facility securing the Bonds and the payment of such Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Letter of Credit or the Fixed Rate Credit Facility, as the case may be, may not be effectively amended, changed or modified without the prior written consent of the Trustee, the Institution and the Bank or the Credit Provider issuing the Fixed Rate Credit Facility, as the case may be; provided, that any Letter of Credit may be extended upon similar terms (except as to the term thereof and except that the amount of the Letter of Credit may be reduced to reflect any corresponding redemption of Bonds secured by such Letter of Credit) without the written consent of the Trustee. The Trustee may, without the consent of the Holders of the Bonds, consent to any amendment of the Letter of Credit or Fixed Rate Credit Facility, as the case may be, as may be required for purposes of curing any ambiguity, formal defect or omission which, in the Trustee's judgment, based upon an opinion of counsel addressed to the Trustee upon which the Trustee may conclusively rely, is not materially adverse to the interests of the Bondholders. Except for such extensions and amendments, the Letter of Credit or the Fixed Rate Credit Facility may be amended only with the consent of the Agency, the Trustee and the Holders of not less than sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of Outstanding Bonds of such Series, except that no such amendment may be made which would reduce the amounts required to be paid thereunder, unless such amounts are not required to pay principal, or with respect to any Letter of Credit the Applicable Principal and Interest Coverage on the Bonds, extend the time for payment of such amounts or accelerate the Expiration date of the Letter of Credit or Fixed Rate Credit Facility without the written consent of the Holders of all Outstanding Bonds of such Series. The foregoing shall not limit the Trustee's obligation to send notice to the Bank to reduce amounts available to be drawn under the Letter of Credit under the circumstances set forth therein.

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## **SUMMARY OF CERTAIN PROVISIONS OF THE INSTALLMENT SALE AGREEMENT**

The following is a brief summary of certain provisions of the Installment Sale Agreement. The Summary does not purport to be comprehensive of complete, and reference is made to the Installment Sale Agreement for full and complete statements of such and all provisions.

### **THE PROJECT**

#### **The Project**

The Institution will convey to the Agency at the time of the delivery and payment of the Series 2006 Bonds good and marketable leasehold title to the Facility Realty, and good and marketable leasehold title to such items of the Facility Equipment (to the fullest extent that the Institution is capable of doing with regard to any leased Facility Equipment) as shall have been acquired at the time of such delivery and payment, in each case free and clear of all liens, claims, charges, encumbrances, security interests and servitudes other than Permitted Encumbrances, all against payment therefor by the Agency from the proceeds of the Series 2006 Bonds deposited in the Project Fund to the extent permitted in the Installment Sale Agreement and the Indenture.

As promptly as practicable after receipt of the proceeds of sale of the Series 2006 Bonds and out of said proceeds of sale, the Agency will, subject to the provisions of the Installment Sale Agreement, cause the Institution to complete the Project. A portion of the cost of the Project shall be paid from the Project Fund established under the Indenture or as otherwise provided in the Installment Sale Agreement.

In order to accomplish the purposes of the Agency, and to assure the effectuation of the Project in conformity with the requirements of the Institution, the Institution shall undertake to proceed with the Project to completion. Project work, if any, shall be supervised by the Project Supervisor.

The Institution shall pay (i) all of the costs and expenses in connection with the preparation of any instruments of conveyance, the delivery of any instruments and documents and their filing and recording, if required, (ii) all taxes and charges payable in connection with the conveyance and transfer, or attributable to periods prior to the conveyance and transfer, to the Agency as set forth in the Installment Sale Agreement, and (iii) all shipping and delivery charges and other expenses or claims incurred in connection with the Project.

The Institution covenants that it will obtain or cause to be obtained all necessary approvals from any and all governmental agencies requisite to the completion of the Project and the operation of the Facility, all of which will be done in compliance with all Federal, State and local laws, ordinances and regulations applicable thereto, including, with respect to any item of Facility Equipment, all manufacturers' instructions and warranty requirements, and with the conditions and requirements of all policies of insurance with respect to the Facility, the Installment Sale Agreement and the Prime Lease.

The Institution will extend to the Trustee and the Bank all extendable vendors' warranties received by the Institution in connection with the Project, including any warranties given by contractors, manufacturers or service organizations who perform work with respect to the Project.

The Institution shall take such action and institute such proceedings as shall be necessary to cause and require all contractors and material suppliers to complete their contracts diligently in accordance with the terms of said contracts, including, without limitation, the correcting of any defective work, with all expenses incurred by the Institution or the Agency in connection with the performance of their obligations

under this summarized section to be considered a Project Cost. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, after deduction of expenses incurred in such recovery, if recovered prior to the date of completion of the Project, shall be deposited into the Construction Account of the Project Fund and made available for payment of Project Costs, or if recovered after such date of completion, be deposited in the Reimbursement Account of the Installment Purchase Payments Fund for application in connection with the redemption of Series 2006 Bonds pursuant to the Indenture and payments of amounts owed or owing to the Bank under the Reimbursement Agreement or (if the Letter of Credit is no longer in effect, and all amounts owed to the Bank under the Reimbursement Agreement are paid in full unless payment is waived in writing by the Bank) in the Redemption Account of the Bond Fund for the redemption of the Series 2006 Bonds pursuant to the Indenture.

### **Title Insurance**

Not later than the delivery of the Bonds to the original purchaser(s) thereof, the Institution will obtain (a) leasehold title insurance in an amount not less than \$500,000 insuring the Agency's leasehold interest in the Facility under the Institution Lease against loss as a result of defects in the leasehold interest of the Agency, and (b) a current survey of the site of the Facility Realty certified to the Agency, the Institution, the Bank, the Trustee and the title insurance company. Any proceeds of such leasehold title insurance shall be paid to the Trustee for the benefit of the Bondholders and the Bank for deposit in the Renewal Fund and applied to remedy the defect in title. If not so capable of being remedied, in the opinion of the Bank (or, if no Letter of Credit exists, the Agency) or if any amounts remain, the amounts in the Renewal Fund shall be deposited by the Trustee in the Reimbursement Account of the Installment Purchase Payments Fund to be applied in connection with the redemption of Bonds pursuant to the Indenture or, if all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund for the redemption of the Series 2006 Bonds pursuant to the Indenture. Any proceeds of such mortgagee title insurance shall be paid to the Trustee and deposited by the Trustee in the Reimbursement Account of the Installment Purchase Payments Fund to be applied in connection with the redemption of Bonds pursuant to the Indenture or, if all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund for the redemption of the Series 2006 Bonds pursuant to the Indenture.

## **SALE OF INTEREST IN FACILITY, INSTALLMENT PURCHASE PAYMENTS AND RELATED PROVISIONS**

### **Lease and Sale of the Facility**

Pursuant to the Institution Lease, the Institution has leased the Facility to the Agency. The Agency assigns, conveys, sells and transfers to the Institution the Agency's leasehold interest in the Facility (other than the Agency's Reserved Rights) under and in the Institution Lease, all for and during the term provided in the Installment Sale Agreement and upon and subject to the terms and conditions set forth in the Installment Sale Agreement. The Institution shall at all times during the term of the Installment Sale Agreement occupy, use, maintain and operate the Facility, or cause the Facility to be occupied, used, maintained and operated as a civic facility in accordance with the provisions of the Act and for the general purposes specified in the recitals to the Installment Sale Agreement. The Institution shall not occupy, use, maintain or operate the Facility or allow the Facility or any part thereof to be occupied, used, maintained or operated for any unlawful purpose or in violation of any certificate of occupancy affecting the Facility or any agreement applicable to the Facility or for any use which may constitute a nuisance, public or private, or make void or voidable any insurance then in force with respect thereto.



It is the intention of the Agency and the Institution under the Installment Sale Agreement that the sale by the Agency under the Installment Sale Agreement of its leasehold interest in the Facility under the Institution Lease shall not result in a merger of the leasehold estates and interests of the Institution and the Agency under the Institution Lease so as to effect a termination or any other impairment of the Institution Lease; and until the termination of the Institution Lease in accordance with its terms or the expiration of the Installment Sale Agreement, the Institution Lease shall continue in full force and effect to the same extent as if the Agency had not sold its leasehold interest in the Facility to the Institution pursuant to the Installment Sale Agreement.

### **Duration of Term**

The term of the Installment Sale Agreement shall commence on the date of execution and delivery of the Installment Sale Agreement and shall expire on the earliest of (i) June 1, 2036, (ii) the termination or rescission of the Prime Lease, (iii) one Business Day prior to the expiration of the term of the Prime Lease, (iv) the assignment by the Institution of its interest on the Facility (other than pursuant to the summarized section "Dissolution or Merger of Institution; Restriction on institution"), (v) the day on which the Institution ceases to possess the Facility or (vi) such date as the Installment Sale Agreement may be terminated as provided in the Installment Sale Agreement. The Agency conveys to the Institution and the Institution accepts sole and exclusive possession of the Facility as and to the extent the Agency has received same under the Institution Lease.

### **Payment Provisions; Pledge of Agreement and Installment Purchase Payments**

The Institution covenants and agrees to make installment purchase payments in immediately available funds, which the Agency agrees shall be, and directs to be, paid by the Institution directly to the Trustee for deposit into the Installment Purchase Payments Fund, on the Business Day next preceding each Interest Payment Date (or, while the Bonds bear interest at a Fixed Rate, on the first Business Day of each month) commencing on June 1, 2009, with respect to the principal payment due on the Bonds on the following June 1, in an amount equal to one-twelfth (1/12) of the principal payments becoming due on the immediately succeeding June 1 whether by virtue of maturity, sinking fund installment or otherwise.

The Institution covenants and agrees that the Institution shall make installment purchase payments in immediately available funds, which the Agency agrees shall be paid by the Institution directly to the Trustee for deposit into the Installment Purchase Payments Fund, with respect to Bonds bearing interest at the Weekly Interest Rate, on the Business Day next preceding each Interest Payment Date in an amount equal to the interest becoming due on such Bonds Outstanding on such Interest Payment Date commencing with the August 1, 2006 Interest Payment Date and, with respect to Bonds bearing interest at the Fixed Rate, an amount equal to one-sixth (1/6) of the interest becoming due on the next Interest Payment Date, in each case after crediting to such amount investment income earned on the Bond Fund, which investment income or amounts so transferred are available for the payment of such interest.

As security for the performance of its purchase payment obligations with respect to the Series 2006 Bonds and not in limitation of its obligations under the two (2) paragraphs immediately above, the Institution shall, simultaneously with the issuance and delivery of the Series 2006 Bonds, arrange for the delivery of the Letter of Credit to the Trustee. The Institution authorizes and directs the Trustee to draw moneys under the Letter of Credit in accordance with the provisions of the Indenture and such Letter of Credit, to the extent and at the times necessary to pay the principal and Purchase Price of and interest on the Bonds when due (whether at maturity or by redemption or acceleration or otherwise as provided in the Indenture).

Notwithstanding anything in the foregoing to the contrary, if the amount on deposit and available in the Bond Fund is not sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds when due (whether at maturity or by redemption or acceleration or otherwise as provided in the Indenture), the Institution shall forthwith pay the amount of such deficiency in immediately available funds to the Trustee for deposit in the Bond Fund and such payment shall constitute purchase payments under this summarized section.

In the event the Institution should fail to make or cause to be made any of the payments required under the foregoing provisions of this summarized section, the item or installment not so paid shall continue as an obligation of the Institution until the amount not so paid shall have been fully paid.

The Institution shall have the option to prepay installment purchase payments, in whole or in part at the times and in the manner provided in the Installment Sale Agreement as and to the extent provided in the Indenture for redemption of the Bonds.

No further installment purchase payments need be made to the Agency during the term of the Installment Sale Agreement when and so long as the amount of cash and/or Government Obligations on deposit in the Bond Fund (which, so long as a Letter of Credit for the Bonds is required, must be Priority Amounts) is sufficient to satisfy and discharge the obligations of the Agency under the Indenture and pay the Bonds as provided in the Indenture.

The Institution and the Agency acknowledge their intention to minimize the risk that any payment made to a Bondholder, so long as a Letter of Credit is in effect, from amounts provided by or on behalf of the Institution may be determined by a bankruptcy court to constitute a preference. To this end the parties agree that, as and to the extent provided in the Indenture, payments to Bondholders shall be made only from Priority Amounts, except when and to the extent no Priority Amounts are available for the purpose, payment obligations of the Institution under the Installment Sale Agreement are subject in all respects to the use of Priority Amounts for the payment of the Bonds, and optional prepayments permitted by the Institution as provided in the Installment Sale Agreement may not be made except from Priority Amounts.

Pursuant to the Indenture, the Agency shall pledge and assign to the Trustee on behalf of the Bondholders and the Bank as security for the Bonds and payment of amounts owed or owing to the Bank under the Reimbursement Agreement all of the Agency's right, title and interest in the Installment Sale Agreement (except for the Agency's Reserved Rights), including all installment purchase payments under the Installment Sale Agreement and thereunder, and in furtherance of said pledge the Agency will unconditionally assign such installment purchase payments to the Trustee for deposit in the Installment Purchase Payments Fund, in accordance with the Indenture. The Institution consents to the above-described pledge and assignment of the Installment Sale Agreement.

The Institution covenants and agrees that it will comply with the provisions of the Indenture with respect to the Institution and that the Trustee shall have the power, authority, rights and protections provided in the Indenture. The Institution further covenants to use its best efforts to cause there to be obtained for the Agency any documents or opinions required of the Agency under the Indenture.

The Institution covenants and agrees to provide to the Trustee for deposit into the Rebate Fund sufficient moneys as necessary to meet any rebate requirement as described in the Tax Compliance Agreement.

### **Obligation of Institution Unconditional**

The obligation of the Institution to pay the installment purchase payments and all other payments provided for in the Installment Sale Agreement and to maintain the Facility in accordance with the Installment Sale Agreement shall be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Agency, the Bank, the Trustee or the Holder of any Bond and the obligation of the Institution shall arise whether or not the Project has been completed as provided in the Installment Sale Agreement and whether or not the Bank shall honor its obligations under the Letter of Credit. The Institution will not suspend or discontinue any such payment or terminate the Installment Sale Agreement (other than such termination as is provided for under the Installment Sale Agreement) for any cause whatsoever, and the Institution waives all rights now or hereafter conferred by statute or otherwise to quit, terminate, cancel or surrender the Installment Sale Agreement or any obligation of the Institution under the Installment Sale Agreement or the Facility or any part thereof except as provided in the Installment Sale Agreement or to any abatement, suspension, deferment, diminution or reduction in the installment purchase payments or other payments under the Installment Sale Agreement.

### **Right of Set-Off**

The Institution grants to the Agency and the Trustee, for the equal and ratable benefit of all Bondholders and the Bank, a lien and right of set-off for all the Institution's liabilities and obligations under the Installment Sale Agreement and the other Security Documents to which it is a party against all the deposits, credits and property of the Institution and any collateral of the Institution now or hereinafter in the possession or under the control of the Agency, the Trustee and the Bank, and agrees that the same may be applied against such liabilities and obligations at any time after an Event of Default has occurred under the Installment Sale Agreement.

### **Payment of Purchase Price of Tendered Bonds**

The Institution agrees to cause to be paid to the Trustee, in accordance with the Installment Sale Agreement, by no later than 1:30 p.m., New York City time, on each day on which a payment of the Purchase Price of a Series 2006 Bond becomes due, all amounts which, together with other moneys held by the Trustee under the Indenture and available therefor, shall be necessary for the payment of such Purchase Price when due under the Indenture. Each such payment by the Institution to the Tender Agent in accordance with this summarized section shall be in immediately available funds and paid to the Tender Agent at its principal corporate trust office on each Purchase Date.

The Institution shall provide for the payment of the amount to be paid pursuant to this summarized section by delivery of the Letter of Credit to the Trustee, simultaneously with the issuance and delivery of the Series 2006 Bonds. The Institution authorizes and directs the Trustee to draw moneys under the Letter of Credit in accordance with the provisions of the Indenture and the Letter of Credit to the extent necessary to make such payments when due. The obligation of the Institution pursuant to this paragraph shall be deemed satisfied and discharged to the extent of any corresponding drawing made by the Trustee on the Letter of Credit applied to such payment.

The Institution shall pay to the Trustee for deposit into the Reimbursement Account of the Installment Purchase Payments Fund amounts sufficient to reimburse the Bank or, by the close of business on a Business Day for any amounts drawn on the Letter of Credit, to pay the Purchase Price of any Series 2006 Bond; provided, however, that the Institution shall make such payment in immediately available funds by no later than 1:30 p.m., New York City time, on such Business Day; provided, further, that if reimbursement for such amounts is due and payable under the Reimbursement Agreement,

amounts in the Reimbursement Account of the Installment Purchase Payments Fund shall be transferred therefor upon the written request of the Bank, with a simultaneous copy to the Institution.

The Institution approves and agrees to be bound by the provisions of the Indenture regarding the purchase, offer, sale and delivery of Bonds tendered for purchase thereunder. The Institution shall have all of the rights and obligations provided in the Indenture with respect to the Institution in connection with such transactions and the appointment of the Tender Agent and the Remarketing Agent thereunder. The Agency shall have no obligation or responsibility with respect to the purchase of Bonds or any related arrangements, except that the Agency at the expense of the Institution shall cooperate in the making of any such arrangements.

### **Letters of Credit; Fixed Rate Credit Facility**

In order to support the obligations of the Institution under the Installment Sale Agreement, the Institution may, but shall not be obligated to, provide, subject to the provisions of the two (2) paragraphs immediately below, one or more Letters of Credit or Fixed Rate Credit Facilities from time to time, and, subject to the provisions of this summarized section, may, from time to time, Terminate, or cause or allow to be Terminated, any such Letter of Credit. The Institution authorizes and directs the Trustee to draw moneys under the Letter of Credit, and to take actions under the Letter of Credit, or any Fixed Rate Credit Facility, in accordance with the terms thereof and of the Indenture.

Each Letter of Credit shall be the obligation of the Bank, to pay to the Trustee, in accordance with the terms thereof, such amounts as shall be specified therein and available to be drawn thereunder for the timely payment of the principal of and interest on the Series 2006 Bonds, and the Purchase Price of the Series 2006 Bonds, required to be made pursuant to, and in accordance with, the provisions of the Indenture. Upon the initial authentication and delivery of the Series 2006 Bonds, the Institution shall deliver to the Trustee the Initial Letter of Credit as support for the payment of its obligations under the Installment Sale Agreement. The Initial Letter of Credit shall expire upon the earlier of June 28, 2009 or the date of occurrence of one of the events specified therein resulting in Expiration thereof.

The Institution may, at its election, request that the Bank provide for one or more extensions of the Letter of Credit in accordance with its terms and the terms of the Reimbursement Agreement.

Subject to the provisions of this paragraph and the two (2) paragraphs immediately below, the Institution may Terminate or cause or allow a Letter of Credit to be Terminated and to replace a Terminating or Expiring Letter of Credit with a Substitute Letter of Credit, only if on or prior to the fiftieth (50th) day prior to the proposed effective date of such Termination or Expiration:

(i) Institution shall deliver to the Agency, the Trustee, the Remarketing Agent and the Bank a notice which (1) states the effective date of such Termination, and (2) directs the Trustee, after taking such actions thereunder as are required to be taken to provide moneys due under the Indenture in respect of the Series 2006 Bonds or the purchase thereof, to surrender any evidence of the Letter of Credit to be Terminated to the obligor thereon on the effective date of such Termination, and to thereupon deliver any and all instruments to effect such Termination which may be reasonably requested by such obligor; and

(ii) institution shall furnish to the Agency, the Trustee and the Remarketing Agent (1) the Substitute Letter of Credit; (2) an opinion of Nationally Recognized Bond Counsel addressed to the Agency and the Trustee to the effect that substitution of such Substitute Letter of Credit (a) is lawful under the Act and authorized under the Installment Sale Agreement and complies with the terms of the Installment Sale Agreement and of the Indenture and (b) will not adversely affect the exclusion of interest on the Series 2006 Bonds from gross income for Federal

income tax purposes or the validity of the Series 2006 Bonds; (3) an opinion of counsel addressed to the Agency and the Trustee, reasonably satisfactory to the Trustee, for the issuer of the Substitute Letter of Credit to the effect that such Substitute Letter of Credit is a legal, valid and binding obligation of such issuer, enforceable in accordance with its terms; (4) an opinion of Nationally Recognized Bond Counsel addressed to the Agency and the Trustee experienced in securities law to the effect that such Substitute Letter of Credit does not require registration under any applicable Federal securities laws; and (5) a certificate of the Bank stating that all amounts owing to the Bank under the Reimbursement Agreement have been paid in full.

Any such Substitute Letter of Credit shall be issued by a Bank acceptable to the Agency, shall expire no earlier than one year from the date of its effective date, shall provide that funds can be drawn for the purposes and in the amounts and at the times provided for in the Indenture and shall otherwise be in form and substance reasonably acceptable to the Agency and the Trustee.

The Institution and the Agency agree that the Series 2006 Bonds shall be subject to mandatory tender for purchase on the fifth (5<sup>th</sup>) Business Day immediately prior to the substitution of a Substitute Letter of Credit unless not less than fifty (50) days prior to the substitution of a Substitute Letter of Credit the Institution shall deliver or cause the delivery of a written confirmation from each Rating Agency to the effect that the substitution of the Substitute Letter of Credit will not, by itself, result in a reduction or withdrawal of its ratings then in effect on the Bonds.

For the Fixed Interest Rate Period, the Institution shall maintain a Fixed Rate Credit Facility meeting the requirements of this summarized section and the Indenture, unless (i) the Agency in writing waives such requirement and (ii) the Remarketing Agent determines that maintenance of a Fixed Rate Credit Facility is not necessary for the remarketing of the Bonds upon adjustment to such Fixed Interest Rate Period.

Each Fixed Rate Credit Facility shall be delivered to the Trustee on or prior to the 30th day prior to the proposed effective date of any adjustment to the Fixed Rate, and shall become effective on or prior to such effective date; provided, however, that in accordance with the Indenture, no such Fixed Rate Credit Facility shall be required if (i) the Agency in writing waives such requirement and (ii) the Remarketing Agent determines that maintenance of a Fixed Rate Credit Facility is not necessary for the remarketing of the Bonds upon adjustment to the Fixed Interest Rate Period. Each Fixed Rate Credit Facility shall be in form and substance acceptable to the Agency and the Trustee, shall be issued by a bank, insurance company or corporation acceptable to the Agency and shall be accompanied upon delivery with (i) a written confirmation from each Rating Agency to the effect that the delivery of the Fixed Rate Credit Facility will not, by itself, result in a reduction or withdrawal of its long-term ratings then in effect on the Series 2006 Bonds, (ii) an enforceability opinion relating to such Fixed Rate Credit Facility, satisfactory to the Agency, the Trustee, the Remarketing Agent and any Rating Agency, (iii) an opinion of Nationally Recognized Bond Counsel addressed to the Agency and the Trustee that delivery of such Fixed Rate Credit Facility (A) is lawful under the Act and is authorized or permitted by this Indenture and (B) will not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and (iv) such other opinions and certificates relating to the Fixed Rate Credit Facility, the issuer of the Fixed Rate Credit Facility and the Institution as the Agency, the Trustee or the Remarketing Agent may reasonably require.

Upon the termination of a Letter of Credit as described in this summarized section, moneys described in the Indenture shall be available to pay the Purchase Price of the Series 2006 Bonds upon mandatory tender for purchase pursuant to the Indenture.

Anything in the Installment Sale Agreement or the Indenture to the contrary notwithstanding, (1) if a Substitute Letter of Credit is to be provided, the Substitute Letter of Credit shall become effective

on or before the Termination date of the prior letter of credit, if any, and (2) in the event that the Termination of a letter of credit and the provision of a Substitute Letter of Credit in lieu thereof shall require a mandatory tender for purchase of Series 2006 Bonds pursuant to the Indenture, the Termination of such Letter of Credit shall not occur until the Trustee shall have made such drawings, if any, or taken such other actions, if any, thereunder as shall be required under the Indenture in order to provide sufficient moneys for such mandatory tender for purchase of Series 2006 Bonds on the date fixed for such mandatory tender for purchase, and such moneys shall have been provided to the Trustee.

## **MAINTENANCE AND TAXES**

### **Maintenance, Alterations and Improvements**

During the term of the Installment Sale Agreement, the Institution will keep the Facility in good and safe operating order and condition, ordinary wear and tear excepted, will occupy, use and operate the Facility in the manner for which it was designed and intended and contemplated by the Installment Sale Agreement and in a careful, prudent and efficient manner, and will make all replacements, renewals and repairs thereto (whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen) necessary to ensure that the security for the Bonds shall not be impaired. All replacements, renewals and repairs shall be equal in quality, class and value to the original work and be made and installed in compliance with the requirements of all governmental bodies. The Agency shall be under no obligation to replace, service, test, adjust, erect, maintain or effect replacements, renewals or repairs of the Facility, to effect the replacement of any inadequate, obsolete, worn-out or unsuitable parts of the Facility, or to furnish any utilities or services for the Facility and the Institution agrees to assume full responsibility therefor.

Subject to the applicable provisions of the Reimbursement Agreement (and the Collateral Documents, as defined therein), the Institution shall have the privilege of making such alterations of or additions to the Facility or any part thereof from time to time as it in its discretion may determine to be desirable for its uses and purposes, provided that (i) the fair market value of the Facility is not reduced below its value immediately before such alteration or addition and the usefulness, structural integrity or operating efficiency of the Facility is not impaired, (ii) such additions or alterations are effected with due diligence, in a good and workmanlike manner and in compliance with all applicable legal requirements, (iii) such additions or alterations are promptly and fully paid for by the Institution in accordance with the terms of the applicable contract(s) therefor, and in order that the Facility shall at all times be free of any mortgage, lien, charge, encumbrance, security interest or claim other than Permitted Encumbrances, (iv) such additions or alterations are made, in case the estimated cost of such alteration or addition exceeds \$250,000, under the supervision of an Independent Engineer and in accordance with plans, specifications and cost estimates approved by the Bank (or, if the Letter of Credit is no longer in effect, and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, the Agency and the Trustee) which approvals shall not be unreasonably withheld or delayed and shall have furnished to the Bank or the Agency and the Trustee, as applicable, if requested, a labor and materials payment bond, or other security, reasonably satisfactory to the Bank or the Agency and the Trustee, and (v) such additions or alterations do not change the nature of the Facility so that it would not constitute a civic facility and a qualified "project" as defined in and as contemplated by the Act as in effect on the date of the Installment Sale Agreement. All alterations of and additions to the Facility shall constitute a part of the Facility, subject to the Institution Lease, the Installment Sale Agreement and the Indenture, and the Institution shall deliver or cause to be delivered to the Agency appropriate documents as may be necessary to subject such property to the Institution Lease and the Installment Sale Agreement and the lien and security interest of the Indenture, free and clear of all liens, charges, encumbrances, security interests or claims other than Permitted Encumbrances.

The Institution shall have the right to install or permit to be installed at the Facility Realty machinery, equipment and other personal property not constituting part of the Facility Equipment (the "Institution's Property") without subjecting such property to the Institution Lease or the Installment Sale Agreement. The Agency shall not be responsible for any loss of or damage to the Institution's Property. Except as may be provided expressly to the contrary in the Reimbursement Agreement and the Collateral Documents, the Institution shall have the right to create or permit to be created any mortgage, encumbrance, lien or charge on, or conditional sale or other title retention agreement with respect to, the Institution Property.

The Institution shall not create, permit or suffer to exist any mortgage, encumbrance, lien, security interest, claim or charge against the Facility or any part thereof, or the interest of the Institution in the Facility or the Installment Sale Agreement except for Permitted Encumbrances.

To the extent required by the New York State Finance Law §137, prior to executing any contract with any party for any improvement (as such term is defined in the New York Lien Law) in connection with the Project or the Facility or the provision of any goods or services in connection therewith, and prior to authorizing any party to undertake such improvement (or the provision of such goods and services) without a contract, the Institution shall deliver to the Agency a copy of the proposed contract therefor along with a bond, in compliance with State Finance Law §137 and otherwise satisfactory to the Agency, guaranteeing prompt payment of monies due all persons furnishing labor or materials for the contractor or his subcontractor in the prosecution of his work provided for in such contract. The Agency shall have no liability or responsibility for the cost of such bond(s). Should the Institution fail to comply with the foregoing requirement, the Institution shall immediately cease to be the agent for the Agency in connection with the Project (such agency relationship being deemed to be immediately revoked).

### **Removal of Property of the Facility**

Subject to the Reimbursement Agreement and the Collateral Documents, the Institution shall have the privilege from time to time of removing from the Facility any fixture constituting part of the Facility Realty or any machinery, equipment or other property constituting part of the Facility Equipment (the "Existing Facility Property") and thereby acquiring such Existing Facility Property free of the lien of the Installment Sale Agreement, provided that:

(i) such Existing Facility Property is replaced by property (A) having equal or greater fair market value, operating efficiency and utility and (B) being free of all mortgages, liens, charges, encumbrances, claims and security interests other than Permitted Encumbrances; or

(ii) if such Existing Facility Property is not to be replaced by other property but is instead to be sold, scrapped, traded-in or otherwise disposed of in an arms' length, bona fide transaction, and the aggregate fair market value of such items so removed for any Fiscal Year of the Institution exceeds \$250,000, the Institution shall pay to the Trustee for deposit in the Reimbursement Account of the Installment Purchase Payments Fund (or, if no Letter of Credit are in effect, and all amounts owed to the Bank under the Reimbursement Agreement have been paid in full, in the Redemption Account of the Bond Fund) for application in connection with the redemption of Bonds or payment of amounts owed or owing to the Bank under the Reimbursement Agreement the amounts derived from such sale or scrapping, the trade-in value credit received or the proceeds received from such other disposition;

provided, however, no such removal as set forth in paragraph (i) or (ii) above shall be effected if (w) such removal would change the nature of the Facility as a qualified "project" as defined in and as contemplated by the Act as in effect on the date of the Installment Sale Agreement, (x) such removal

would impair the usefulness, structural integrity or operating efficiency of the Facility, (y) such removal would reduce the fair market value of the Facility below its value immediately before such removal (except by the amount deposited in the Reimbursement Account of the Installment Purchase Payments Fund or in the Redemption Account of the Bond Fund pursuant to paragraph (ii) above), or (z) if there shall exist and be continuing an Event of Default under the Installment Sale Agreement or an Event of Default under and as defined in the Reimbursement Agreement.

The removal from the Facility of any Existing Facility Property pursuant to the provisions of the Installment Sale Agreement shall not entitle the Institution to any abatement or reduction in the installment purchase payments and other amounts payable by the Institution under the Installment Sale Agreement.

Within 120 days after the close of each Fiscal Year of the Institution (i) during which Fiscal Year action was taken by the Institution pursuant to the Installment Sale Agreement, the Institution shall furnish to the Agency, the Bank and the Trustee a written report of an Authorized Representative of the Institution summarizing the action taken by the Institution during such preceding Fiscal Year and stating that, in his opinion, such action complied with the applicable provisions of the Installment Sale Agreement, as the case may be; or (ii) during which Fiscal Year of the Institution no action was taken by the Institution pursuant to the Installment Sale Agreement, the Institution shall furnish to the Agency, the Bank and the Trustee a certificate of an Authorized Representative of the Institution certifying to the fact that no such action was taken by the Institution pursuant to the Installment Sale Agreement during such preceding Fiscal Year.

#### **Payment in Lieu of Real Estate Taxes**

It is recognized that under the provisions of the Act the Agency is required to pay no real estate taxes upon any of the property acquired by it or under its jurisdiction or control or supervision or upon its activities. In the event the Agency's interest in the Facility Realty shall exempt any portion of the Facility Realty from the payment of real estate taxes, then, so long as the Institution (and each other user of the Facility) remains an eligible not-for-profit corporation pursuant to the regulations of the New York City Department of Finance for purposes of determining exemption from New York City real estate taxes, and until the earlier of (i) the payment in full of all the Bonds Outstanding in accordance with the Indenture, and (ii) the date on which the Agency no longer has an interest in the Facility, the Institution shall make no payments in lieu of real estate taxes on the land, buildings and improvements constituting part of the Facility. However, to the extent the Institution is not an eligible not-for-profit corporation pursuant to the regulations of the New York City Department of Finance for purposes of determining exemption from New York City Real Estate Taxes or the Institution subleases the whole or any portion of the Facility to an entity that is not exempt from New York City real estate taxes and the Institution would be obligated to pay any New York City real estate taxes, the Institution shall not claim an exemption from such real estate taxes by virtue of the Agency's leasehold interest in the Facility.

#### **Taxes, Assessments and Charges**

The Institution shall pay when the same shall become due, and promptly provide to the Agency and the Bank evidence of such payment, all taxes (except to the extent that the Institution shall have made payments in lieu in respect thereof as provided in the Installment Sale Agreement) and assessments, general and specific, if any, levied and assessed upon or against the Facility, the Installment Sale Agreement, the Institution Lease, any estate or interest of the Agency or the Institution in the Facility, or the installment purchase payments under the Installment Sale Agreement during the term of the Installment Sale Agreement, and all water and sewer charges, special district charges, assessments and other governmental charges and impositions whatsoever, foreseen or unforeseen, ordinary or extraordinary, under any present or future law, and charges for public or private utilities or other charges



incurred in the occupancy, use, operation, maintenance or upkeep of the Facility, all of which are called "Impositions" in the Installment Sale Agreement. The Agency shall promptly forward to the Institution and the Bank any notice, bill or other statement received by the Agency concerning any Imposition. The Institution may pay any Imposition in installments if so payable by law, whether or not interest accrues on the unpaid balance.

In the event the Facility is exempt from Impositions solely due to the Agency's leasehold interest in the Facility under the Institution Lease, the Institution shall pay all Impositions to the appropriate taxing authorities equivalent to the Impositions which would have been imposed on the Facility if the Agency had no interest in the Facility.

None of the foregoing shall prevent the Institution from contesting in good faith the validity, existence or applicability of any of the foregoing if (i) such contest shall not result in the Facility or any part thereof or interest therein being in any danger of being sold, forfeited or lost, (ii) such contest shall not result in the Institution, the Agency or the Trustee being in any danger of any civil or any criminal liability other than normal accrual of interest, for failure to comply therewith, and (iii) the Institution shall have furnished such security, if any, as may be requested by the Agency or the Trustee to protect the security intended to be offered by the Security Documents.

#### **Advances by Agency or Bank**

In the event the Institution fails (after any applicable notice and/or cure period) to make any payment or perform or observe any obligation required of it under the Installment Sale Agreement, the Agency or the Bank, after first notifying the Institution of any such failure on its part, may (but shall not be obligated to), and without waiver of any of the rights of the Agency or the Bank under the Installment Sale Agreement, the Indenture or any other Security Documents, make such payment or otherwise cure any failure by the Institution to perform and observe its other obligations under the Installment Sale Agreement. All amounts so advanced therefor by the Agency or the Bank shall become an additional obligation of the Institution to the Agency or to the Bank, as the case may be, which amounts, together with interest thereon at the Default Rate from the date advanced, the Institution will pay upon demand therefor by the Agency or the Bank, as the case may be. Any remedy in the Installment Sale Agreement vested in the Agency or the Bank for the collection of the installment purchase payments or other amounts due under the Installment Sale Agreement shall also be available to the Agency or the Bank for the collection of all such amounts so advanced.

#### **Compliance with Law**

The Institution agrees that it will, throughout the term of the Installment Sale Agreement and at its sole cost and expense, promptly observe and comply with all federal, State and local statutes, codes, laws, acts, ordinances, orders, judgments, decrees, rules, regulations and authorizations, whether foreseen or unforeseen, ordinary or extraordinary, which shall now or at any time hereafter be binding upon or applicable to the Institution, any occupant, user or operator of the Facility or any portion thereof (including without limitation those relating to zoning, land use, environmental protection, air, water and land pollution, toxic wastes, hazardous wastes, solid wastes, wetlands, health, safety, equal opportunity, minimum wages, and employment practices) (the "Legal Requirements"), and will observe and comply with all conditions, requirements, and schedules necessary to preserve and extend all rights, licenses, permits (including, without limitation, zoning variances, special exception and non-conforming uses), privileges, franchises and concessions. The Institution will not, without the prior written consent of the Agency, the Bank and the Trustee, initiate, join in or consent to any private restrictive covenant, zoning ordinance, or other public or private restrictions, limiting or defining the uses which may be made of the Facility or any part thereof. The Institution shall indemnify and hold harmless the Indemnified Parties (as defined in the Installment Sale Agreement) from and against all loss, cost, liability and expense (a) in any

manner arising out of or related to any violation of or failure to comply with any Legal Requirement or (b) imposed upon the Institution or any of the Indemnified Parties by any Legal Requirement; in case any action or proceedings is brought against any of the Indemnified Parties in respect to any Legal Requirement, the Institution shall upon notice from any of the Indemnified Parties defend such action or proceeding by counsel reasonably satisfactory to the Indemnified Party.

The Institution may contest in good faith the validity, existence or applicability of any of the foregoing if (i) such contest shall not result in the Facility or any part thereof or interest therein being in any danger of being sold, forfeited or lost, (ii) such contest shall not result in the Institution, the Agency, the Bank or the Trustee being in any danger of any civil or any criminal liability other than normal accrual of interest, for failure to comply therewith, and (iii) the Institution shall have furnished such security, if any, as may be reasonably requested by the Agency, the Bank or the Trustee to protect the security intended to be offered by the Security Documents.

## **DAMAGE, DESTRUCTION AND CONDEMNATION**

### **Damage, Destruction and Condemnation**

In the event that at any time during the term of the Installment Sale Agreement, the whole or any part of the Facility shall be damaged or destroyed, or the whole or any part of the Facility shall be taken or condemned by a competent authority for any public use or purpose, or by agreement between the Agency and those authorized to exercise such right (to which agreement the Institution shall have consented in writing), or if the temporary use of the Facility or any part thereof shall be so taken by condemnation or agreement (to which agreement the Institution shall have consented in writing) (a "Loss Event"):

- (i) the Agency shall have no obligation to rebuild, replace, repair or restore the Facility,
- (ii) there shall be no abatement, postponement or reduction in the installment purchase payments or other amounts payable by the Institution under the Installment Sale Agreement, and
- (iii) the Institution will promptly give written notice of such Loss Event to the Agency, the Bank and the Trustee, generally describing the nature and extent thereof.

Upon the occurrence of a Loss Event, any Net Proceeds in excess of \$250,000 derived therefrom shall be paid to the Trustee for the benefit of the Bondholders and the Bank and deposited in the Renewal Fund and, subject to the applicable provisions of the Reimbursement Agreement, the Institution shall either:

- (i) at its own cost and expense (except to the extent paid from the Net Proceeds deposited in the Renewal Fund as provided below and in the Indenture), but subject to applicable provisions of the Reimbursement Agreement, promptly and diligently rebuild, replace, repair or restore the Facility to substantially its condition immediately prior to the Loss Event, or to a condition of at least equivalent value, operating efficiency and function, regardless of whether or not the Net Proceeds derived from the Loss Event shall be sufficient to pay the cost thereof, and the Institution shall not by reason of payment of any such excess costs be entitled to any reimbursement from the Agency, the Bank, the Trustee or any Bondholder (other than from the proceeds of Additional Bonds as may be issued for such purpose or as otherwise provided in the Indenture), nor shall the installment purchase payments or other amounts payable by the Institution under the Installment Sale Agreement be abated, postponed or reduced, or

(ii) to the extent and upon the conditions permitted to do so under the Installment Sale Agreement and under the Indenture, exercise its option to purchase the Facility and make advance installment purchase payments to redeem the Bonds in whole and terminate the Agency's interest in the Facility.

Not later than ninety (90) days after the occurrence of a Loss Event, the Institution shall advise the Agency, the Bank and the Trustee in writing of the action to be taken by the Institution under this summarized section, a failure to so timely notify being deemed an election in favor of subdivision (i) above to be exercised in accordance with the provisions of clause (i) above.

Subject to the Reimbursement Agreement, if the Institution shall elect to or shall otherwise be required to rebuild, replace, repair or restore the Facility as set forth in subdivision (i) above, the Trustee shall disburse the Net Proceeds from the Renewal Fund in the manner set forth in the Indenture to pay or reimburse the Institution, at the election of the Institution, either as such work progresses or upon the completion thereof, provided, however, the amounts so disbursed by the Trustee to the Institution shall not exceed the actual cost of such work. If, on the other hand, the Institution shall, if permitted under the Reimbursement Agreement, the Installment Sale Agreement and the Indenture, exercise its option in subdivision (ii) above, the Trustee shall transfer the Net Proceeds from the Renewal Fund to the Reimbursement Account of the Installment Purchase Payment Fund for application in connection with the redemption of Bonds or payment of amounts owed or owing to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is not in effect, and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, to the Redemption Account of the Bond Fund to be applied to the redemption of the Bonds in accordance with the Indenture.

All such rebuilding, replacements, repairs or restorations shall

(i) automatically be deemed a part of the Facility and be subject to the Installment Sale Agreement and the Institution Lease,

(ii) be in accordance with the Plans and Specifications and cost estimates reasonably approved in writing by the Bank (or, if all amounts owed to the Bank under the Reimbursement Agreement shall be paid in full and the Letter of Credit is no longer in effect, the Agency), which approval shall not be unreasonably withheld, conditioned or delayed,

(iii) not change the nature of the Facility as a qualified "project" as defined in and as contemplated by the Act as in effect on the date of the Installment Sale Agreement,

(iv) to the extent required by the Installment Sale Agreement, be preceded by the furnishing by the Institution to the Agency, the Bank and the Trustee of either (A) a labor and materials payment bond, or other security, reasonably satisfactory to the Agency and the Bank or (B) a fixed price contract or contracts reasonably satisfactory to the Bank as to content and the contractor thereunder,

(v) be effected with due diligence in a good and workmanlike manner, in compliance with all applicable Legal Requirements and be promptly and fully paid for by the Institution in accordance with the terms of the applicable contract(s) therefor, and

(vi) if the estimated cost of such rebuilding, replacement, repair or restoration be in excess of \$250,000, be effected under the supervision of an Independent Engineer.

Pending the disbursement or transfer thereof, the Net Proceeds in the Renewal Fund shall be applied and may be invested as provided in the Indenture.

The Agency, the Bank, the Trustee and the Institution shall cooperate and consult with each other in all matters pertaining to the settlement, compromising, arbitration or adjustment of any claim or demand on account of any Loss Event, and the settlement, compromising, arbitration or adjustment of any such claim or demand shall be subject to the approval of the Institution, the Bank and the Trustee (or, if all amounts owed to the Bank under the Reimbursement Agreement are paid in full and the Letter of Credit is no longer in effect, the Institution and the Trustee) such approvals not to be unreasonably withheld, conditioned or delayed).

If all or substantially all of the Facility shall be taken or condemned (other than a temporary taking or condemnation for less than six (6) months), or if the taking or condemnation renders the Facility unsuitable for use by the Institution as contemplated by the Installment Sale Agreement, or if the Institution is required to direct the Agency to redeem Bonds in accordance with the Reimbursement Agreement, the Institution shall exercise its option to purchase the Facility pursuant to the Installment Sale Agreement, and the amount of the Net Proceeds so recovered shall be transferred from the Renewal Fund and deposited in the Reimbursement Account of the Installment Purchase Payments Fund for application in connection with the redemption of Bonds pursuant to the Indenture or payment of amounts owed or owing to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is not in effect, and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) for the redemption of the Series 2006 Bonds pursuant to the Indenture, and the Institution shall thereupon pay to the Trustee for deposit in the Reimbursement Account of the Installment Purchase Payments Fund for application in connection with the redemption of Bonds pursuant to the Indenture and payment of amounts owed or owing to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is not in effect, and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) for the redemption of the Series 2006 Bonds pursuant to the Indenture in an amount which, when added to any amounts then in the Bond Fund and available for that purpose, shall be sufficient to retire and redeem the Bonds in whole at the earliest possible date (including, without limitation, principal and interest to the maturity or redemption date and redemption premium, if any), and to pay the expenses of redemption, the fees and expenses of the Agency, the Bond Registrar, the Trustee, the Paying Agents, the Tender Agent and the Remarketing Agent together with all other amounts due under the Indenture, the Installment Sale Agreement and the other Security Documents, if any, and such amount shall be applied, together with such other available moneys in such Bond Fund, if applicable, to such redemption or retirement of the Bonds on said redemption or maturity date.

The Institution shall be entitled to any insurance proceeds or condemnation award, compensation or damages attributable to improvements, machinery, equipment or other property installed on or about the Facility Realty but which, at the time of such damage or taking, is not part of the Facility and is owned by the Institution.

The Institution waives the provisions of Section 227 of the New York Real Property Law or any law of like import now or hereafter in effect.

## **PARTICULAR COVENANTS**

### **Dissolution or Merger of Institution; Restrictions on Institution**

The Institution covenants and agrees that at all times during the term of the Installment Sale Agreement, it will (i) maintain its corporate existence; (ii) continue to be a not-for-profit corporation as shall constitute a Tax-Exempt Organization subject to service of process in the State and either organized under the laws of the State, or organized under the laws of any other state of the United States and duly qualified to do business as a foreign corporation in the State; (iii) not sell, transfer, pledge or otherwise encumber (except for Permitted Encumbrances) all or substantially all of the assets which constitute the

Facility; (iv) not liquidate, wind-up or dissolve or otherwise dispose of all or substantially all of its property, business or assets remaining after the execution and delivery of the Installment Sale Agreement; (v) not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it. The Institution may, however, without violating the foregoing and with the prior written consent of the Bank, consolidate with or merge into another not-for-profit corporation which is a Tax-Exempt Organization, or permit one or more other not-for-profit corporations which are Tax-Exempt Organizations to consolidate with or merge into it, or sell or otherwise transfer all or substantially all of its property, business or assets to another entity (and thereafter liquidate, wind-up or dissolve or not, as the Institution may elect) if (i) the Institution is the surviving, resulting or transferee entity, as the case may be, and the resulting entity has a net worth at least equal to that of the Institution prior to such merger or consolidation, or (ii) in the event that the Institution is not the surviving, resulting or transferee entity, as the case may be, such entity (A) is a solvent not-for-profit corporation and a Tax-Exempt Organization subject to service of process in the State and either organized under the laws of the State, or organized under the laws of any other state of the United States and duly qualified to do business as a foreign corporation in the State, (B) assumes in writing all of the obligations of the Institution contained in the Installment Sale Agreement and all other Security Documents to which the Institution shall be a party, and (1) in the Opinion of Counsel, (x) such entity shall be bound by all of the terms applicable to the Institution of the Installment Sale Agreement and all other Security Documents to which the predecessor Institution shall have been a party, (y) such action does not legally impair the security for the Holders of the Bonds afforded by the Security Documents, (z) such not-for-profit corporation is a Tax-Exempt Organization, and (2) in the Opinion of Nationally Recognized Bond Counsel, such merger, consolidation, sale or transfer will not cause the interest on the Bonds to become includable in gross income for federal income tax purposes, and unless waived in writing by the Bank (C) has a net worth (as determined in accordance with generally accepted accounting principles and certified by an independent certified public accountant) after the merger, consolidation, sale or transfer at least equal to that of the Institution immediately prior to such merger, consolidation, sale or transfer. The Institution further covenants and agrees that it is and throughout the term of the Installment Sale Agreement will continue to be duly qualified to do business in the State and that any entity succeeding to the rights of the Institution under the Installment Sale Agreement shall be and continue to be duly qualified to do business in the State and shall be a not-for-profit corporation and a Tax-Exempt Organization.

#### **Retention of Title to Facility; Grant of Easements; Release of Certain Land**

The Agency shall not sell, assign, encumber (other than Permitted Encumbrances), convey or otherwise dispose of its interest in the Facility or any part thereof or interest therein during the term of the Installment Sale Agreement, except as set forth below and in the Installment Sale Agreement and subject to the applicable provisions of the Reimbursement Agreement, without the prior written consent of the Institution and the Bank (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement shall have been paid in full, the Trustee at the written direction of the Holders of a majority in aggregate principal amount of the Bonds Outstanding) and any purported disposition without such consent shall be void.

The Agency will, however, at the written request of the Institution, and with the prior written consent of the Bank and the Trustee, so long as there exists no Event of Default under the Installment Sale Agreement, grant such rights of way or easements over, across, or under the Facility Realty, or grant such permits or licenses in respect to the use thereof, free from the leasehold estate of the Installment Sale Agreement and the Institution Lease, as shall be necessary or convenient for the operation or use of the Facility, provided that such leases, rights-of-way, easements, permits or licenses shall not adversely affect the use or operation of the Facility, and provided, further, that any consideration received by the Agency or the Institution from the granting of said leases, rights of way, easements, permits or licenses shall be paid to the Trustee and deposited in the Reimbursement Account of the Installment Purchase Payments Fund for application in connection with the redemption of Bonds and payment of amounts owed to the

Bank under the Reimbursement Agreement (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund). The Agency agrees, at the sole cost and expense of the Institution, to execute and deliver and to cause and direct the Trustee to execute and deliver any and all instruments necessary or appropriate to confirm and grant any such right of way or easement or any such permit or license and to release the same from the leasehold estate of the Installment Sale Agreement and the Institution Lease.

Notwithstanding any other provision of the Installment Sale Agreement, so long as there exists no Event of Default under the Installment Sale Agreement, the Institution may from time to time request in writing to the Agency the release of and removal from the Installment Sale Agreement and the Institution Lease of any unimproved part of the Facility Realty (on which none of the improvements, including the buildings, structures, improvements, related facilities, machinery, equipment, major appurtenances, fixtures or other property comprising the Facility are situated) provided that such release and removal will not adversely affect the use or operation of the Facility. Upon any such request by the Institution, the Agency shall, at the sole cost and expense of the Institution, execute and deliver and cause and direct the Trustee to execute and deliver any and all instruments necessary or appropriate to so release and remove such portion of the Facility Realty, and convey all of the Agency's right, title and interest, if any, thereto to the Institution, subject to the following: (i) any liens, easements, encumbrances and reservations to which title to said property was subject at the time of recording of the Installment Sale Agreement; (ii) any liens, easements and encumbrances created at the request of the Institution or to the creation or suffering of which the Institution consented; (iii) any liens and encumbrances or reservations resulting from the failure of the Institution to perform or observe any of the agreements on its part contained in the Installment Sale Agreement; (iv) Permitted Encumbrances (other than the lien of the Installment Sale Agreement); and (v) any liens for taxes or assessments not then delinquent; provided, that, no such release shall be effected unless there shall be deposited with the Trustee the following:

(i) A certificate of an Independent Engineer, dated not more than sixty (60) days prior to the date of the release, stating that, in the opinion of the person signing such certificate, the portion of the Facility Realty and the release so proposed to be made is not needed for the operation of the Facility, will not materially adversely affect the use or operation of the Facility and will not destroy the means of ingress thereto and egress therefrom; and

(ii) An amount of cash for deposit in the Redemption Account of the Bond Fund equal to the greatest of (A) the original cost of such portion of the Facility Realty so released, such cost to be determined by the appraisal of an independent real estate brokerage firm of recognized standing within the City, (B) the fair market value of such portion, such value to be determined by the appraisal of an independent real estate brokerage firm of recognized standing within the City, and (C) if such portion is released in connection with the sale of such portion, the amount received by the Institution upon such sale.

No conveyance or release effected under the provisions of this summarized section shall entitle the Institution to any abatement or diminution of the installment purchase payments payable under the Installment Sale Agreement or the other payments required to be made by the Institution under the Installment Sale Agreement. The consent of the Bank to any release contemplated by the Installment Sale Agreement shall be solely in the Bank's discretion, and the Bank may impose such conditions in addition to those conditions stated in the Installment Sale Agreement as it deems desirable prior to consenting to any release contemplated by the Installment Sale Agreement.

### **Tax Covenants**

The Institution covenants to comply with each requirement of the Code necessary to maintain the exclusion of interest on the Bonds from gross income for Federal income tax purposes pursuant to Section

103 of the Code. In furtherance of the covenant contained in the preceding sentence, the Institution agrees to comply with the provisions of the Tax Compliance Agreement as a source of guidance for complying with the Code.

The Institution covenants that it will not take any action or fail to take any action with respect to the Bonds which would cause such Bonds to be "arbitrage bonds", within the meaning of such term as used in Section 148 of the Code and the regulations promulgated thereunder, as amended from time to time.

The Institution agrees that it shall promptly pay to the Trustee, as additional sums under the Installment Sale Agreement, the amount of any rebate requirement, as defined in the Tax Compliance Agreement, the Agency is obligated to pay to the United States Department of the Treasury.

The obligation of the Institution to make the payments provided for in this summarized section shall be absolute and unconditional, and the failure of the Agency, the Bank, the Trustee or any other Person to execute or deliver or cause to be delivered any documents or to take any action required under the Installment Sale Agreement or otherwise shall not relieve the Institution of its obligation under this summarized section.

Notwithstanding any other provision of the Indenture or the Installment Sale Agreement to the contrary, so long as necessary in order to maintain the exclusion of interest on the Bonds from gross income for Federal income tax purposes, the covenants contained in this summarized section shall survive the discharge and satisfaction of the Bonds (in accordance with the Indenture) and the term of the Installment Sale Agreement.

#### **Redemption Under Certain Circumstances; Special Covenants**

Upon the determination by resolution of the members of the Agency that the Institution is operating the Facility or any portion thereof, or is allowing the Facility or any portion thereof to be operated, in violation of applicable material law or not as a qualified "project" in accordance with the Act and the failure of the Institution within sixty (60) days (or such longer period as may be established pursuant to the proviso to this sentence) of the receipt by the Institution of written notice of such noncompliance from the Agency to cure such noncompliance together with a copy of such resolution (a copy of which notice shall be sent to the Trustee), the Institution covenants and agrees that it shall, on the immediately succeeding Interest Payment Date following the termination of such sixty (60) day (or longer) period, pay to the Trustee advance installment purchase payments in immediately available funds in an amount sufficient to redeem the Bonds Outstanding in whole at the Redemption Price of 100% of the aggregate principal amount of the Outstanding Bonds together with interest accrued thereon to such Interest Payment Date, provided, however, that if such noncompliance cannot be cured within such period of sixty (60) days with diligence (and is capable of being cured) and the Institution promptly commences the curing of such non-compliance and thereafter prosecutes the curing thereof with diligence and to the Agency's reasonable satisfaction, such period of time within which the Institution may cure such failure shall be extended for such additional period of time as may be necessary to cure the same with diligence and the Agency shall notify the Trustee and the Bank of any such extension. The Agency shall give prior written notice of the meeting at which the members of the Agency are to consider such resolution to the Bank, the Institution and the Trustee, which notice shall be no less than sixty (60) days prior to such meeting.

In the event the Institution fails to obtain or maintain the public liability insurance with respect to the Facility required under the Installment Sale Agreement, and the Institution shall fail to cure such noncompliance within 10 days of the receipt by the Institution of written notice of such noncompliance from the Agency and a demand by the Agency to the Institution to cure such noncompliance, upon notice

or waiver of notice as provided in the Indenture, the Institution shall pay to the Trustee advance installment purchase payments in immediately available funds in an amount sufficient to redeem all of the Bonds then Outstanding at the Redemption Price of one hundred per centum (100%) of the unpaid principal amount of such Bonds, together with interest accrued thereon to the date of redemption.

Upon the circumstances set forth in the Indenture, the Institution shall pay or cause the prepayment of its installment purchase payment obligation upon the circumstances and in the manner set forth in the Indenture.

The Institution shall, prior to directing the redemption of any Bonds in accordance with this summarized section, consult with Nationally Recognized Bond Counsel for advice as to a manner of selection of Bonds for redemption that will not adversely affect the exclusion of interest on any Bonds from gross income for Federal income tax purposes.

(i) If, prior to completion of the construction of a component of the Project, the Institution receives any gift or grant required by the terms thereof to be used to pay any item which is a cost of such component of the Project, the Institution shall apply such gift or grant to completion of the construction of such component of the Project. In the event that the amount of such gift or grant is in excess of the amount necessary to complete such component of the Project, and if proceeds of the Bonds have been expended on such component of the Project, the Institution shall deliver to the Trustee, for deposit in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) an amount equal to such excess but only to the extent to which proceeds of the Bonds were expended for such component. The Trustee shall apply such moneys, at the written direction of an Authorized Representative of the Institution, to the purchase (at prices not exceeding par) or redemption of an equal principal amount of the Bonds.

(ii) If, after completion of the construction of a component of the Project, the Institution receives any gift or grant which prior to such completion it reasonably expected to receive and which is required by the terms thereof to be used to pay any item which is a cost of such component of the Project, and if proceeds of the Bonds have been expended on such component of the Project, the Institution shall, to the extent not inconsistent with the terms of such gift or grant, deliver to the Trustee, for deposit in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) an amount of money equal to such gift or grant but only to the extent to which proceeds of the Bonds were expended for such component. The Trustee shall apply such moneys, at the written direction of an Authorized Representative of the Institution, to the purchase (at prices not exceeding par) or redemption of an equal principal amount of the Bonds.

## **EVENTS OF DEFAULT; REMEDIES**

### **Events of Default**

Any one or more of the following events shall constitute an "Event of Default" under the Installment Sale Agreement:



(i) Failure of the Institution (i) to make any installment purchase payment for deposit in the Reimbursement Account of the Installment Purchase Payments Fund or the Bond Fund that has become due and payable by the terms of the Installment Sale Agreement; or (ii) to provide sufficient moneys for the purchase of any Bonds pursuant to the Installment Sale Agreement; which results in a default in the due and punctual payment of the principal of, Sinking Fund Installments for, redemption premium, if any, or interest on any Bond;

(ii) Failure of the Institution to pay any amount (except as set forth in the Installment Sale Agreement) that has become due and payable or to observe and perform any covenant, condition or agreement on its part to be performed under the Installment Sale Agreement, and continuance of such failure for a period of thirty (30) days after receipt by the Institution of written notice specifying the nature of such default from the Agency, the Trustee or the Holders of more than fifty percent (50%) in aggregate principal amount of the Bonds Outstanding;

(iii) Failure of the Institution to observe and perform any covenant, condition or agreement under the Installment Sale Agreement on its part to be performed (except as set forth in the Installment Sale Agreement) and (1) continuance of such failure for a period of thirty (30) days after receipt by the Institution of written notice specifying the nature of such default from the Agency, the Trustee or the Holders of more than fifty percent (50%) in aggregate principal amount of the Bonds Outstanding, or (2) if by reason of the nature of such default the same can be remedied, but not within the said thirty (30) days, the Institution fails to proceed with reasonable diligence after receipt of said notice to cure the same or fails to continue with reasonable diligence its efforts to cure the same, provided, however, in any event such failure shall be remedied within ninety (90) days after receipt by the Institution of the notice referred to above;

(iv) The Institution shall (a) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (b) admit in writing its inability, or be generally unable, to pay its debts as such debts generally become due, (c) make a general assignment for the benefit of its creditors, (d) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (e) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (f) take any action for the purpose of effecting any of the foregoing, or (g) be adjudicated a bankrupt or insolvent by any court;

(v) A proceeding or case shall be commenced, without the application or consent of the Institution, in any court of competent jurisdiction, seeking, (a) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts, (b) the appointment of a trustee, receiver, liquidator, custodian or the like of the Institution or of all or any substantial part of its assets, (c) similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing against the Institution, shall be entered and continue unstayed and in effect for a period of ninety (90) days or (d) the Institution shall fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against itself in an involuntary case under such Bankruptcy Code; the terms "dissolution" or "liquidation" of the Institution as used above shall not be construed to prohibit any action otherwise permitted by the Installment Sale Agreement;

(vi) Any representation or warranty made (a) by or on behalf of the Institution in the application, commitment letter and related materials submitted to the Agency or the initial Purchaser(s) of the Series 2006 Bonds for approval of the Project or its financing, or (b) in the Installment Sale Agreement or in any of the other Security Documents or (c) in any document relating to, incorporated in or attached to the Tax Compliance Agreement, or (d) in any report, certificate, financial statement or

other instrument furnished pursuant to the Installment Sale Agreement or any of the foregoing shall prove to be false, misleading or incorrect in any material respect as of the date made;

(vii) An "Event of Default" under the Indenture or under any other Security Document shall occur and be continuing; or

(viii) Notification in writing received by the Trustee from the Bank that an "Event of Default" as defined in the Reimbursement Agreement has occurred and is continuing and instructing the Trustee to cause an acceleration or mandatory tender of the Bonds.

### **Remedies on Default**

Whenever any Event of Default referred to in the Installment Sale Agreement shall have occurred and be continuing, the Agency, or the Trustee where so provided, may, subject to the Installment Sale Agreement and the Indenture, take any one or more of the following remedial steps:

(i) The Trustee, as and to the extent provided in the Indenture, may cause all principal installments of installment purchase payments payable under the Installment Sale Agreement for the remainder of the term of the Installment Sale Agreement to be immediately due and payable, whereupon the same, together with the accrued interest thereon, shall become immediately due and payable; provided, however, that upon the occurrence of an Event of Default under clauses (iv) and (v) in the summarized section immediately above, all principal installments of installment purchase payments payable under the Installment Sale Agreement for the remainder of the term of the Installment Sale Agreement, together with the accrued interest thereon, shall immediately become due and payable without any declaration, notice or other action of the Agency, the Bank. The Trustee, the Holders of the Bonds or any other Person being a condition to such acceleration;

(ii) The Agency (with the prior written consent of the Bank, or, if no Bank, the Trustee) or the Trustee (with the prior written consent of the Bank, if any), may re-enter and take possession of the Facility without terminating the Installment Sale Agreement, and sublease the Facility for the account of the Institution, holding the Institution liable for the difference in the rent and other amounts payable by the sublessee in such subletting, and the installment purchase payments and other amounts payable by the Institution under the Installment Sale Agreement;

(iii) The Agency, with the prior written consent of the Trustee and the Bank, may terminate the Installment Sale Agreement, and exclude the Institution from possession of the Facility, in which case the Installment Sale Agreement and all of the estate, right, title and interest in the Installment Sale Agreement granted or vested in the Institution shall cease and terminate. No such termination of the Installment Sale Agreement shall relieve the Institution of its liability and obligations under the Installment Sale Agreement and such liability and obligations shall survive any such termination;

(iv) The Agency, the Bank or the Trustee may take whatever action at law or in equity as may appear necessary or desirable to collect the installment purchase payments then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements or covenants of the Institution under the Installment Sale Agreement;

(v) The Trustee may take any action permitted under the Indenture with respect to an Event of Default thereunder; and

(vi) The Agency, without the consent of the Trustee or any Bondholder, may proceed to enforce the Agency's Reserved Rights by (a) an action for damages, injunction or specific performance, and/or (b) conveying all of the Agency's right, title and interest in the Facility to the Institution, subject to

the lien of the other Security Documents and the Institution appoints the Agency as its true and lawful agent and attorney-in-fact (which appointment shall be deemed to be an agency coupled with an interest) with full power of substitution to file on its behalf all affidavits, questionnaires and other documentation necessary to accomplish such conveyance.

In the event that the Institution fails to make any installment purchase payment required in the Installment Sale Agreement, the installment so in default shall continue as an obligation of the Institution until the amount in default shall have been fully paid.

No action taken pursuant to this summarized section (including repossession of the Facility or termination of the Installment Sale Agreement pursuant to this summarized section or by operation of law or otherwise) shall, except as expressly provided in the Installment Sale Agreement, relieve the Institution from the Institution's obligations under the Installment Sale Agreement, all of which shall survive any such action.

Notwithstanding any provision of the Installment Sale Agreement to the contrary, the Trustee shall not take any action to accelerate the Bonds or dispose of any collateral pledged under the Security Documents except as provided in the Indenture

### **Rights of Bank**

Notwithstanding anything to the contrary contained in the Installment Sale Agreement, and subject to the provisions and limitations of the Indenture, neither the Trustee nor the Agency shall (i) take any actions to accelerate the Bonds (except to the extent of a redemption of the Series 2006 Bonds pursuant to the Indenture), nor (ii) foreclose, release, take possession of or otherwise dispose of any collateral covered by the Security Documents, except with the prior written consent of the Bank; provided, however, the Agency's rights under the Installment Sale Agreement shall not be subject to the consent of the Bank.

### **OPTIONS**

#### **Options**

The Institution has the option to make advance installment purchase payments for deposit in the Reimbursement Account of the Installment Purchase Payments Fund for application in connection with the redemption of Bonds or payment of amounts owed to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is no longer in effect and amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) to effect the retirement of the Bonds in whole or the redemption in whole or in part of the Bonds, all in accordance with the terms of the Indenture; provided, however, that no partial redemption of the Bonds may be effected through advance installment purchase payments under the Installment Sale Agreement if there shall exist and be continuing an Event of Default under the Installment Sale Agreement. The Institution shall exercise its option to make such advance installment purchase payments by delivering a written notice of an Authorized Representative of the Institution to the Trustee, the Agency and the Bank not less than forty-five (45) days prior to the date on which the Bonds are to be redeemed, setting forth (i) the amount of the advance installment purchase payment, (ii) the principal amount of the Bonds Outstanding requested to be redeemed with such advance installment purchase payment (which principal amount shall be in such minimum amount or integral multiple of such amount as shall be permitted in the Indenture), and (iii) the date on which such principal amount of the Bonds are to be redeemed. Such advance installment purchase payment shall be delivered to the Trustee not less than the forty-fifth day preceding the date set for redemption of the Bonds and shall be paid to the Trustee in legal tender on or before the redemption date and shall be an amount which, when added to the amount on deposit in the Reimbursement Account

of the Installment Purchase Payments Fund for application in connection with the redemption of Bonds or payment of amounts owed to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) and available therefor, will be sufficient to pay the Redemption Price of the Bonds to be redeemed, together with interest to accrue to the date of redemption and all expenses of the Agency, the Bond Registrar, the Trustee and the Paying Agents in connection with such redemption. In the event the Bonds are to be redeemed in whole or otherwise retired, the Institution shall further pay on or before such redemption date, in legal tender, to the Agency, the Trustee, the Bond Registrar, the Tender Agent, the Remarketing Agent, the Bank and the Paying Agents, as the case may be, all fees and expenses owed such party or any other party entitled thereto under the Installment Sale Agreement or the Indenture together with (i) all other amounts due and payable under the Installment Sale Agreement and the other Security Documents, the Remarketing Agreement, the Reimbursement Agreement, and (ii) any amounts required to be paid to the Federal government pursuant to the Indenture or the Tax Compliance Agreement.

The Institution shall have the option to terminate the Installment Sale Agreement on any date during the term of the Installment Sale Agreement by causing the redemption, purchase or defeasance in whole of all of the Outstanding Bonds in accordance with the terms set forth in the Indenture.

As a condition precedent to the termination of the Installment Sale Agreement pursuant to its terms, the Institution shall pay to the Trustee, in consideration thereof, in legal tender, advance installment purchase payments, for deposit in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds or payment of other amounts owed to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) (if payment in full of the principal of or the Redemption Price of, and interest on, all of the Outstanding Bonds, and the interest thereon at maturity or upon earlier redemption has not yet been made) equal to the sum of the following:

- (i) an amount which, when added to the amount on deposit in the Reimbursement Account of the Installment Purchase Payments Fund for reimbursement of amounts owed to the Bank under the Reimbursement Agreement in connection with the redemption of Bonds or payment of other amounts owed to the Bank under the Reimbursement Agreement (or, if the Letter of Credit is no longer in effect and all amounts owed to the Bank under the Reimbursement Agreement are paid in full, in the Redemption Account of the Bond Fund) and available therefore, will be sufficient to redeem, purchase or defease the Outstanding Bonds in accordance with the provisions of the Indenture, including, without limitation, the principal of or the Redemption Price (as the case may be) of, together with interest to maturity or redemption date (as the case may be) on, the Outstanding Bonds or to reimburse the Bank for amounts owed to the Bank under the Reimbursement Agreement in connection therewith; and
- (ii) expenses of redemption, the fees and expenses of the Agency, and the Bank, the Trustee, the Bond Registrar, the Remarketing Agent, the Tender Agent and the Paying Agent and all other amounts due and payable under the Installment Sale Agreement, the Reimbursement Agreement, the Remarketing Agreement and the Indenture on or before such date; and
- (iii) any amounts required to be paid to the Federal government pursuant to the Indenture or the Tax Compliance Agreement.

Upon such payment in full of the principal of and interest on the Outstanding Bonds (whether at maturity or earlier redemption) in accordance with the Installment Sale Agreement, the Institution may

terminate the Installment Sale Agreement by (1) delivering to the Agency and the Bank prior written notice of an Authorized Representative of the Institution no more than thirty (30) days after the payment in full of the Bonds of the exercise of such option to terminate the Installment Sale Agreement which notice shall set forth a requested closing date for the termination of the Installment Sale Agreement which shall be not later than sixty (60) days after the payment in full of the Bonds, and (2) paying on such closing date the fees and expenses of the Agency, and the Trustee, the Bank, the Bond Registrar, the Remarketing Agent, the Tender Agent and the Paying Agent any and all other amounts due and payable under the Installment Sale Agreement, the Reimbursement Agreement, the Remarketing Agreement or the Indenture, together with the amounts required to be paid to the United States government pursuant to the Indenture or the Tax Compliance Agreement. Upon the written request of the Institution, the Agency may approve the extension or waiver of any of the time periods set forth in this paragraph.

The Institution shall not, at any time, assign or transfer its option to terminate the Installment Sale Agreement as contained in this summarized section separate and apart from a permitted assignment of the Installment Sale Agreement pursuant to its terms without the prior written consent of the Bank, the Agency and the Trustee.

#### **Termination on Exercise of Option to Terminate**

Upon termination of the Installment Sale Agreement in accordance with its terms, the Agency will, upon payment of the consideration payable in accordance with the Installment Sale Agreement deliver or cause to be delivered to the Institution a termination of the Installment Sale Agreement in recordable form. Concurrently with the delivery of such termination, there shall be delivered by the Agency to the Trustee any instructions or other instruments required by the Indenture to defease and pay the Bonds.

#### **Option to Purchase or Invite Tenders of Bonds**

The Institution shall have the option, at any time during the term of the Installment Sale Agreement, to purchase Bonds for its own account, whether by direct negotiation, through a broker or dealer, or by making a tender offer to the Holders thereof. The Bonds so purchased by the Institution or by any Affiliate thereof shall be delivered to the Trustee for cancellation within fifteen (15) days of the date of purchase. The Agency shall at all times make available or cause to be made available to the Institution its registration books (maintained at the principal corporate trust office of the Trustee) containing the names and addresses of the Bondholders if known.

#### **MISCELLANEOUS**

##### **Force Majeure**

In case by reason of force majeure either party to the Installment Sale Agreement shall be rendered unable wholly or in part to carry out its obligations under the Installment Sale Agreement, then except as otherwise expressly provided in the Installment Sale Agreement, if such party shall give notice and full particulars of such force majeure in writing to the other party within a reasonable time after occurrence of the event or cause relied on, the obligations of the party giving such notice (other than the obligations of the Institution to make the installment purchase payments or other payments required under the terms of the Installment Sale Agreement, or to comply with the insurance and indemnification provisions of the Installment Sale Agreement), so far as they are affected by such force majeure, shall be suspended during the continuance of the inability then claimed which shall include a reasonable time for the removal of the effect thereof, but for no longer period, and such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure", as employed in the Installment Sale Agreement, shall mean acts of God, strikes, lockouts or other industrial disturbances, acts

of a public enemy, acts of terrorism, orders of any kind of the Government of the United States of America or of the State or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrest, restraining of government and people, civil disturbances, explosions, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other similar or different cause not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of existing or impending strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the party having the difficulty and that the above requirements that any force majeure shall be reasonably beyond the control of the party and shall be remedied with all reasonable dispatch shall be deemed to be fulfilled even though such existing or impending strikes, lockouts and other industrial disturbances may not be settled but could have been settled by acceding to the demands of the opposing person or persons.

#### **Assignment or Sublease**

The Institution may not at any time assign or transfer the Installment Sale Agreement, or sublet the whole or any part of the Facility without the prior written consent of the Agency, the Trustee (at the written direction of holders of a majority in aggregate principal amount of the Bonds) and the Bank (or, if all amounts owed to the Bank under the Reimbursement Agreement have been paid in full and the Letter of Credit shall no longer be in effect as permitted under the Installment Sale Agreement and under the Indenture, the Agency) (which consent shall not be unreasonably withheld); provided further, that, (1) the Institution shall nevertheless remain liable to the Agency for the payment of all installment purchase payments and for the full performance of all of the terms, covenants and conditions of the Installment Sale Agreement and of any other Security Document to which it shall be a party, (2) any assignee or transferee of the Institution in whole of the Facility shall have assumed in writing and have agreed to keep and perform all of the terms of the Installment Sale Agreement on the part of the Institution to be kept and performed, shall be jointly and severally liable with the Institution for the performance thereof, shall be subject to service of process in the State, and, if a corporation, shall be qualified to do business in the State, (3) in the Opinion of Counsel addressed to the Agency and the Trustee, such assignment, transfer or sublease shall not legally impair in any respect the obligations of the Institution for the payment of all installment purchase payments nor for the full performance of all of the terms, covenants and conditions of the Installment Sale Agreement or of any other Security Document to which the Institution shall be a party, nor impair or limit in any respect the obligations of any obligor under any other Security Document, not cause the interest on the Bonds to become includable in gross income for purposes of Federal income taxes, (4) any assignee, transferee or sublessee shall be a Tax-Exempt Organization or, if not a Tax-Exempt Organization, upon receipt of an opinion of Nationally Recognized Bond Counsel as to the non-includability in gross income of interest on the Bonds for purposes of federal income taxation and shall utilize the Facility as a qualified "project" and as a civic facility within the meaning of the Act, (5) such assignment, transfer or sublease shall not violate any provision of the Installment Sale Agreement, the Indenture or any other Security Document, the Letter of Credit, the Reimbursement Agreement and Collateral Documents, (6) with respect to any subletting in part, the term of each such sublease does not exceed five (5) years and at any given date, no more than an aggregate of twenty percent (20%) of such space would be subleased by the Institution, (7) such assignment, transfer or sublease shall in no way diminish or impair the Institution's obligation to carry the insurance required under the Installment Sale Agreement and the Guaranty and the Institution shall furnish written evidence satisfactory to the Agency, the Trustee and the Bank (or, if all amounts owed to the Bank under the Reimbursement Agreement have been paid in full and the Letter of Credit shall no longer be in effect as permitted under the Installment Sale Agreement and under the Indenture, the Agency or the Trustee) that such insurance coverage shall in no manner be limited by reason of such assignment, transfer or sublease, (8) each such assignment, transfer or sublease contains such other provisions as the Agency, the Trustee or the Bank (or, if all amounts owed to the Bank under the Reimbursement Agreement have been paid in full and the Letter of Credit shall no longer be in effect as permitted under the Installment Sale Agreement and under the Indenture, the Agency or the Trustee) may reasonably require, or (9) in the opinion of

Nationally Recognized Bond Counsel, such assignment, transfer or sublease shall not cause the interest on the Bonds to be includable on gross income for federal income taxes. The Institution shall furnish or cause to be furnished to the Agency, the Bank and the Trustee a copy of any such assignment, transfer or sublease in substantially final form at least thirty (30) days prior to the date of execution thereof.

Any consent by the Agency, the Bank or the Trustee to any act of assignment, transfer or sublease shall be held to apply only to the specific transaction thereby authorized. Such consent shall not be construed as a waiver of the duty of the Institution, or the successors or assigns of the Institution, to obtain from the Agency, the Bank and the Trustee consent to any other or subsequent assignment, transfer or sublease, or as modifying or limiting the rights of the Agency, the Bank or the Trustee under the foregoing covenant by the Institution.

If the Facility or any part thereof be sublet or occupied by any Person other than the Institution, the Agency, in the event of the Institution's default in the payment of installment purchase payments may, and is empowered to, collect installment purchase payments from the undertenant or occupant during the continuance of any such default. In either of such events, the Agency may apply the net amount received by it to the installment purchase payments provided in the Installment Sale Agreement, and no such collection shall be deemed a waiver of the covenant in the Installment Sale Agreement against assignment, transfer or sublease of the Installment Sale Agreement, or constitute the acceptance of the under-tenant or occupant as tenant, or a release of the Institution from the further performance of the covenants contained in the Installment Sale Agreement on the part of the Institution.

The Institution shall deliver to the Agency on January 1 of each year a completed subtenant survey in the form attached to the Installment Sale Agreement as Schedule B.

#### **Benefit of and Enforcement by Trustee and Bank**

The Agency and the Institution agree that the Installment Sale Agreement is executed in part to induce the purchase by others of the Bonds and for the further securing of the Bonds and to induce the Bank to issue the Letter of Credit, and accordingly all covenants and agreements on the part of the Agency and the Institution as set forth in the Installment Sale Agreement are declared to be for the benefit of the Holders from time to time of the Bonds and the Bank and may be enforced as provided in the Indenture by the Trustee on behalf of the Bondholders or the Bank to the extent provided in the Installment Sale Agreement or in the Indenture.

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**APPENDIX B**

**FORM OF LETTER OF CREDIT  
AND SUMMARY OF CERTAIN PROVISIONS  
OF THE REIMBURSEMENT AGREEMENT**

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APPENDIX B-1

FORM OF  
IRREVOCABLE LETTER OF CREDIT

No. \_\_\_\_\_

June [28], 2006

The Bank of New York, as Trustee  
101 Barclay Street, Floor 21W  
New York, New York 10286

Ladies and Gentlemen:

1. We hereby establish, at the request and for the account of Grace Church School, a New York not-for-profit corporation (the "Company"), in your favor, as Trustee, for the benefit of the holders of the Bonds (as hereinafter defined), under the Indenture of Trust, dated as of June 1, 2006 (the "Indenture"), between the New York City Industrial Development Agency (the "Issuer") and the Trustee, pursuant to which \$20,000,000 in aggregate principal amount of the Issuer's Variable Rate Demand Civic Facility Revenue Bonds (Grace Church School Project) Series 2006 (the "Bonds") are being issued, our Irrevocable Letter of Credit No. [ ] (the "Letter of Credit"), in the amount of \$[ ] (as more fully described below), effective immediately and expiring on the earliest to occur of any of the following (the "Termination Date"): (i) the close of business on June 28, 2009, or if such date is extended pursuant to the terms hereof, the date as so extended (the "Expiration Date"), (ii) the date on which the principal amount of and interest on the Bonds shall have been paid in full, (iii) the close of business on the second Business Day following conversion of the interest rate on the Bonds to a Fixed Rate (as defined in the Indenture), (iv) the date on which we honor the draft drawn hereunder pursuant to **Section 8.01** of the Indenture following the occurrence of an Event of Default under the Indenture and an acceleration, (v) the date on which we honor a draft drawn hereunder to purchase the Bonds following your receipt of written notice from us that an Event of Default under the Reimbursement and Security Agreement, dated as of June 1, 2006, between the Company and us (the "Reimbursement Agreement") has occurred and is continuing and a written request from us that the Bonds be required to be tendered for purchase, (vi) the date this Letter of Credit is surrendered to us by you for cancellation following acceptance by you of a Substitute Letter of Credit (as defined in the Indenture) pursuant to **Section 2.12** of the Indenture, or (vii) the date we honor the final drawing available hereunder.

2. We hereby irrevocably authorize you to draw on us in accordance with the terms and conditions, and subject to reductions in amount and reinstatement, as hereinafter set forth, by your drafts, an aggregate amount not exceeding \$[ ] (the "Letter of Credit Amount"), of which an aggregate amount not exceeding \$20,000,000 may be drawn upon with respect to payment of principal of the Bonds or that portion of the purchase price of Bonds tendered for purchase ("Purchase Price") corresponding to principal (the "Letter of Credit Amount-Principal Component"), and of which an aggregate amount not exceeding \$[ ] (but no more than an amount equal to accrued interest on the Bonds for the immediately preceding [thirty-four (34) days], computed as though the Bonds bore interest at the rate of ten percent (10%) per annum notwithstanding the actual rate borne by the Bonds from time to time, based on a 365-day year) may be drawn upon with respect to payment of interest on the Bonds or that portion of the Purchase Price of Bonds corresponding to interest (the "Letter of Credit Amount-Interest Component"). The foregoing maximum amounts comprising the Letter of Credit

Amount-Principal Component and the Letter of Credit Amount-Interest Component will be reduced upon redemption of any Bonds as provided in **Section 2.04** of the Indenture or upon payment of Bonds at maturity or upon defeasance of any Bonds pursuant to **Article X** of the Indenture, and in such circumstances you shall deliver to us a certificate in the form of **Exhibit 5** attached hereto.

3. Only you, as Trustee may make drawings under this Letter of Credit. Upon the payment to you or your account of the amount specified in a draft drawn hereunder, we shall be fully discharged of our obligation under this Letter of Credit with respect to such draft, and we shall not thereafter be obligated to make any further payments under this Letter of Credit in respect of such draft to you or to any other person who may have made to you or who makes to you a demand for purchase of, or payment of principal of or interest on any Bond. Bonds that are registered in the name of, or held by or for the account of the Company or are held or required to be held for our benefit pursuant to **Section 2.07(g)** of the Indenture ("Pledged Bonds") shall not be entitled to any benefit of this Letter of Credit.

4. The Letter of Credit Amount-Principal Component and the Letter of Credit Amount-Interest Component, as the case may be, shall be reduced immediately following our honoring any draft drawn hereunder to pay principal of, or interest on, the Bonds, to pay the interest portion of the Purchase Price of the Bonds, or to pay the principal portion of the Purchase Price of the Bonds (a "Tender Drawing"), in each case by an amount equal to the amount of such draft.

5. Following each drawing hereunder to pay interest on the Bonds (including interest constituting a portion of the Purchase Price of Bonds), the amount so drawn shall be automatically reinstated to the Letter of Credit Amount-Interest Component immediately upon payment by us of such drawing.

6. Immediately upon our written notice to you that we have been reimbursed for any loan or advance made by us to the Company, the proceeds of which loan or advance were used by the Company to reimburse us for a Tender Drawing hereunder, the amount so drawn shall be restored, as of the date of such notice of reimbursement, to the Letter of Credit Amount-Principal Component.

7. Subject to the provisions of Paragraphs 5 and 6 hereof, drawings hereunder honored by us shall not, in the aggregate, exceed the Letter of Credit Amount, as reduced from time to time pursuant to the terms hereof.

8. Funds under this Letter of Credit are available to you against (a) your draft payable on the date such draft is drawn on us, stating on its face: "Drawn under Wachovia Bank, National Association Irrevocable Letter of Credit No. [ ]"; (b) if the drawing is being made with respect to payment of principal of the Bonds, a certificate signed by you in the form of **Exhibit 1** attached hereto appropriately completed; (c) if the drawing is being made with respect to payment of interest on the Bonds, a certificate signed by you in the form of **Exhibit 2** attached hereto appropriately completed; (d) if the drawing is a Tender Drawing, a certificate signed by you in the form of **Exhibit 3** attached hereto appropriately completed; and (e) simultaneously with any Tender Drawing being made hereunder, a certificate signed by you in the form of **Exhibit 4** attached hereto appropriately completed regarding the portion of the Purchase Price of the Bonds corresponding to interest. Such draft(s) and certificate(s) shall be dated the date of presentation, which shall be made at our office located at 401 Linden Street, Winston-Salem, North Carolina 27101, Attention: International Operations, Standby Letters of Credit, NC-6034 (or any other office which may be designated by us by written notice delivered to you). If we receive your draft(s) and certificate(s) at such office, all in strict conformity with the terms and conditions of this Letter of Credit, at or prior to 11:00 a.m., Winston-Salem, North Carolina time, on a Business Day on or prior to the Termination Date, we will honor the same no later than 1:00 p.m., Winston-Salem, North Carolina time, on the same Business Day in accordance with your payment instructions. Presentation of

drawings to pay the Purchase Price of Bonds also may be made by a telecopy transmission of the documents described in the applicable subparagraphs (a) through (e) above to Telecopier No. (336) 735-0952 or (336) 735-0953 (with transmission confirmed by call to Telephone No. (800) 776-3862) or such other telecopier and telephone numbers that we hereafter designate by written notice delivered to you. If we receive your drafts and certificates (as referenced in subparagraphs (a) through (e) above) after 11:00 a.m., Winston-Salem, North Carolina time, on a Business Day, on or prior to the Termination Date, we will honor the same no later than 11:00 a.m., Winston-Salem, North Carolina time, on the next succeeding Business Day. Advance notification of drawings to pay principal of and interest on the Bonds under this Letter of Credit should be made by a telecopy transmission of the documents described in the applicable subparagraphs (a) through (e) above not less than one Business Day prior to the date of presentation to the telecopier number set forth above (with transmission confirmed by call to the telephone number set forth above) or such other telecopier and telephone numbers that we hereafter designate by written notice delivered to you. If presentation of a drawing to pay Purchase Price of Bonds or an advance notification of a drawing to pay principal of and interest on the Bonds is made by telecopier, it must contain an additional certification by you that the originals of the draft and the certificate on your letterhead manually signed by one of your officers will be concurrently forwarded to us by express courier to reach us by the next Business Day or the date of payment, as the case may be. Payment under this Letter of Credit will be made out of our funds by wire transfer of federal funds to your account with any bank which is a member of the Federal Reserve System, or by deposit of immediately available funds into a designated account that you maintain with us.

9. As used herein, the term "Business Day" shall mean any day on which our office at which drawings on this Letter of Credit are made and the offices of the Trustee, the Paying Agent, the Registrar and the Remarketing Agent (as each term is defined in the Indenture) are each open for business and on which The New York Stock Exchange is not closed.

10. Communications with respect to this Letter of Credit shall be in writing and shall be addressed to us at our office address set forth in or designated pursuant to **Paragraph 8** above and shall specifically refer to the number of this Letter of Credit.

11. This Letter of Credit is transferable in its entirety (but not in part) to any transferee who has succeeded you as Trustee under the Indenture and may be successively so transferred. Transfer of the available balance under this Letter of Credit to such transferee shall be affected by the presentation to us of this Letter of Credit accompanied by a certificate substantially in the form of **Exhibit 6** attached hereto and payment of our customary transfer fee.

12. This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Bonds, the Indenture and the Reimbursement Agreement), except the forms of the certificates and the drafts referred to herein, and any such reference (except as aforesaid) shall not be deemed to incorporate herein, any document, instrument or agreement except for such certificates or drafts.

13. Except as otherwise provided herein, this Letter of Credit shall be governed by and construed in accordance with the International Standby Practices (1998) of the Institute of International Banking Law & Practice, International Chamber of Commerce Publication No. 590 and, to the extent not inconsistent therewith, the laws of the State of New York.

Very truly yours,

**WACHOVIA BANK, NATIONAL  
ASSOCIATION**

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT 1**

**CERTIFICATE FOR THE PAYMENT OF PRINCIPAL OF**

**NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY VARIABLE RATE DEMAND  
CIVIC FACILITY REVENUE BONDS (GRACE CHURCH SCHOOL PROJECT) SERIES 2006**

The undersigned, a duly authorized officer of The Bank of New York (the "Trustee"), hereby certifies as follows to Wachovia Bank, National Association (the "Bank") with reference to Irrevocable Letter of Credit No. [ ] (the "Letter of Credit") issued by the Bank in favor of the Trustee. Any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit.

- (1) The Trustee is the Trustee under the Indenture.
- (2) The Trustee is making a drawing under the Letter of Credit with respect to the payment of principal of the Bonds in accordance with **Section 5.06** of the Indenture.
- (3) The amount of principal of the Bonds which is due and payable (or which has been declared to be due and payable) is \$ \_\_\_\_\_, and the amount of the draft accompanying this Certificate does not exceed such amount of principal.
- (4) The amount of the draft accompanying this Certificate does not include any amount in respect of the principal amount of any Pledged Bonds, does not exceed the amount available to be drawn under the Letter of Credit in respect of payment of principal of the Bonds and was computed in accordance with the terms and conditions of the Bonds and the Indenture.
- (5) [The draft accompanying this Certificate is the final draft to be drawn under the Letter of Credit with respect to principal and, upon the honoring of such draft, the Letter of Credit will expire in accordance with its terms and the Trustee will surrender the Letter of Credit to the Bank.]\*

**IN WITNESS WHEREOF**, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**The Bank of New York, as Trustee**

By: \_\_\_\_\_  
[Name and Title]

\* To be used only upon stated or accelerated maturity or optional or mandatory redemption of the Bonds as a whole.

**EXHIBIT 2**

**CERTIFICATE FOR THE PAYMENT OF INTEREST ON  
NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY VARIABLE RATE DEMAND  
CIVIC FACILITY REVENUE BONDS (GRACE CHURCH SCHOOL PROJECT) SERIES 2006**

The undersigned, a duly authorized officer of The Bank of New York (the "Trustee"), hereby certifies as follows to Wachovia Bank, National Association (the "Bank") with reference to Irrevocable Letter of Credit No. [ ] (the "Letter of Credit") issued by the Bank in favor of the Trustee. Any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit.

- (1) The Trustee is the Trustee under the Indenture.
- (2) The Trustee is making a drawing under the Letter of Credit with respect to the payment of interest accrued on the Bonds in accordance with **Section 5.06** of the Indenture.
- (3) The amount of interest on the Bonds which is due and payable (or which has been declared to be due and payable) is \$ \_\_\_\_\_, and the amount of the draft accompanying this Certificate does not exceed such amount of interest.
- (4) The amount of the draft accompanying this Certificate does not include any amount in respect of the interest on any Pledged Bonds, does not exceed the amount available to be drawn under the Letter of Credit in respect of payment of interest accrued on the Bonds, and was computed in accordance with the terms and conditions of the Bonds and the Indenture.
- (5) [The draft accompanying this Certificate is the final draft to be drawn under the Letter of Credit with respect to interest and, upon the honoring of such draft, the Letter of Credit will expire in accordance with its terms and the Trustee will surrender the Letter of Credit to the Bank.]\*

**IN WITNESS WHEREOF**, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_.

**The Bank of New York, as Trustee**

By: \_\_\_\_\_  
[Name and Title]

\_\_\_\_\_  
\*To be used only upon stated or accelerated maturity or optional or mandatory redemption of the Bonds as a whole.



**EXHIBIT 3**

**CERTIFICATE FOR THE PAYMENT OF THAT PORTION OF  
THE PURCHASE PRICE OF BONDS CORRESPONDING TO  
PRINCIPAL OF NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY VARIABLE  
RATE DEMAND CIVIC FACILITY REVENUE BONDS (GRACE CHURCH SCHOOL  
PROJECT) SERIES 2006**

The undersigned, a duly authorized officer of The Bank of New York (the "Trustee"), hereby certifies as follows to Wachovia Bank, National Association (the "Bank") with reference to Irrevocable Letter of Credit No. [ ] (the "Letter of Credit") issued by the Bank in favor of the Trustee. Any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit.

- (1) The Trustee is the Trustee under the Indenture.
- (2) The Trustee is making a Tender Drawing under the Letter of Credit pursuant to **Section 5.06(b)(iii)** of the Indenture with respect to the purchase of Bonds corresponding to the principal of Bonds tendered or deemed tendered pursuant to **Section 2.05 and Section 2.06** of the Indenture and not remarketed by the Remarketing Agent on or before the date such Bonds are to be purchased.
- (3) The amount of Purchase Price corresponding to principal of such Bonds less the amount of monies on deposit in the Bond Purchase Fund and available for the purchase of such Bonds as contemplated in **Section 2.07(e)** of the Indenture is \$\_\_\_\_\_ and the amount of the draft accompanying this Certificate does not exceed such amount of principal.
- (4) The amount of the draft accompanying this Certificate does not exceed the amount available to be drawn under the Letter of Credit in respect of the Purchase Price corresponding to principal of such Bonds and was computed in accordance with the terms and conditions of the Bonds and the Indenture.

**IN WITNESS WHEREOF**, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_.

**The Bank of New York, as Trustee**

By: \_\_\_\_\_  
[Name and Title]

**EXHIBIT 4**

**CERTIFICATE FOR THE PAYMENT OF THAT PORTION OF  
THE PURCHASE PRICE OF BONDS CORRESPONDING TO  
INTEREST ON NEW YORK CITY INDUSTRIAL DEVELOPMENT AGENCY VARIABLE  
RATE DEMAND CIVIC FACILITY REVENUE BONDS (GRACE CHURCH SCHOOL  
PROJECT) SERIES 2006**

The undersigned, a duly authorized officer of The Bank of New York (the "Trustee"), hereby certifies as follows to Wachovia Bank, National Association (the "Bank") with reference to Irrevocable Letter of Credit No. [ ] (the "Letter of Credit") issued by the Bank in favor of the Trustee. Any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit.

- (1) The Trustee is the Trustee under the Indenture.
- (2) The Trustee is making a Tender Drawing under the Letter of Credit pursuant to **Section 5.06(b)(iii)** of the Indenture simultaneously herewith with respect to the purchase of Bonds corresponding to principal on Bonds tendered or deemed tendered pursuant to **Section 2.05 and Section 2.06** of the Indenture and not remarketed by the Remarketing Agent on or before the date such Bonds are to be purchased.
- (3) A portion of the Purchase Price of Bonds corresponding to interest on such Bonds less the amount of monies on deposit in the Bond Purchase Fund and available for the purchase of such Bonds as contemplated in **Section 2.07(e)** of the Indenture is \$[ ] and the amount of the draft accompanying this Certificate does not exceed such amount of interest.
- (4) The amount of the draft accompanying this Certificate does not exceed the amount available to be drawn under the Letter of Credit in respect of the Purchase Price corresponding to interest on such Bonds and was computed in accordance with the terms and conditions of the Bonds and the Indenture.

**IN WITNESS WHEREOF**, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**The Bank of New York, as Trustee**

By: \_\_\_\_\_  
[Name and Title]

**EXHIBIT 5**

**CERTIFICATE FOR THE PERMANENT  
REDUCTION OF LETTER OF CREDIT AMOUNT**

The undersigned, a duly authorized officer of The Bank of New York (the "Trustee"), hereby certifies as follows to Wachovia Bank, National Association (the "Bank") with reference to Irrevocable Letter of Credit No. [ ] (the "Letter of Credit") issued by the Bank in favor of the Trustee. Any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit.

- (1) The Trustee is the Trustee under the Indenture.
- (2) The aggregate principal amount of the Bonds Outstanding (as defined in the Indenture) has been reduced to \$[ ].
- (3) The Letter of Credit Amount-Principal Component is hereby correspondingly reduced to \$ \_\_\_\_\_.
- (4) The Letter of Credit Amount-Interest Component is hereby reduced to \$ \_\_\_\_\_ [calculated by multiplying the amount of the principal amount in the last line of paragraph (2) hereof by ten percent (10%) and multiplying the product thereof by the quotient of [34 divided by 365] to reflect the amount of interest allocable to the reduced amount of principal set forth in paragraph (3) hereof.

**IN WITNESS WHEREOF**, the Trustee has executed this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**The Bank of New York, as Trustee**

By: \_\_\_\_\_  
[Name and Title]

**EXHIBIT 6**

**INSTRUCTION TO TRANSFER**

\_\_\_\_\_, \_\_\_\_\_  
Wachovia Bank, National Association  
International Operations  
Standby Letters of Credit, NC-6034  
401 Linden Street  
Winston-Salem, North Carolina 27101

Re: Irrevocable Letter of Credit No. [ \_\_\_\_\_ ]

Ladies and Gentlemen:

For value received, the undersigned beneficiary hereby irrevocably instructs you to transfer to:

\_\_\_\_\_  
(Name of Transferee)

\_\_\_\_\_  
(Address)

all rights of the undersigned beneficiary to draw under the above-captioned Letter of Credit (the "Letter of Credit"). The transferee has succeeded the undersigned as Trustee under the Indenture of Trust dated as of June 1, 2006 between the New York City Industrial Development Agency and The Bank of New York, as trustee.

By this transfer, all rights of the undersigned beneficiary in the Letter of Credit are transferred to the transferee and the transferee shall hereafter have the sole rights as beneficiary thereof; *provided, however*, that no rights shall be deemed to have been transferred to the transferee until such transfer complies with the requirements of the Letter of Credit pertaining to transfers.

**IN WITNESS WHEREOF**, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

**The Bank of New York, as Trustee**

By: \_\_\_\_\_  
[Name and Title]

## APPENDIX B-2

### SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT

The Letter of Credit issued to support the Bonds shall be issued pursuant to the Reimbursement and Security Agreement between the Borrower and Wachovia Bank, National Association, as the issuing bank (the "Bank"). Set forth below is a brief summary of certain provisions of the Reimbursement Agreement, which is qualified, in its entirety, by reference to the definitive form thereof, which may be obtained from the Trustee. Certain capitalized, undefined terms and phrases used in this portion of this Official Statement have the meanings provided in the Reimbursement Agreement.

Under the terms of the Reimbursement Agreement, the Borrower has agreed to pay to the Bank, among other amounts, an annual fee based upon a percentage of the aggregate amount of the stated amount of the Letter of Credit in effect on the dates of calculation. After payment by the Bank of any draft drawn under the Letter of Credit, the Borrower has agreed to pay or cause to be paid to the Bank a sum equal to the amount so paid by the Bank in the manner, at the times and, in certain instances with interest thereon, as more fully set forth in the Reimbursement Agreement.

The Borrower has also affirmatively covenanted in the Reimbursement Agreement, among other things: to deliver to the Bank certain financial statements and other information; to pay taxes; to maintain its existence; to comply with applicable laws; to maintain insurance on its properties; to maintain and preserve its properties in good working order and condition; to permit the Bank to examine its books and records; and to submit to the Bank notices of the occurrence of any Default or Event of Default.

The Borrower has also covenanted in the Reimbursement Agreement to certain restrictions regarding, among other things: mergers or acquisitions activity; changes of executive administration; the incurrence of additional indebtedness; the granting of additional liens; the disposition of assets; transactions with related parties; investment activities; material changes to its business; and modification of Related Documents (including the Indenture).

Pursuant to the Reimbursement Agreement, the Borrower shall not be permitted to depart from these covenants and restrictions without the prior consent of the Bank.

Events of Default and Remedies. The Reimbursement Agreement also defines certain events of default thereunder, including, without limitation, the failure by the Borrower to pay the Bank any reimbursement or other sums due under the Reimbursement Agreement, the failure by the Borrower to comply with any covenant thereunder, the breach of any representation or warranty by the Borrower in connection with making the Reimbursement Agreement or any other document provided in connection with the Reimbursement Agreement, the occurrence of an event of default under any Related Document, an event of bankruptcy or other insolvency events with respect to the Borrower, the entry of a material judgment against the Borrower, certain adverse events under ERISA, and a Material Adverse Change in the Borrower's business or prospects.

The Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured under the Reimbursement Agreement the Bank, among other things, may: (a) notify the Trustee of such event of default; direct the Trustee to declare an event of default as defined in the Indenture and accelerate the Bonds or call the Bonds for mandatory purchase; direct the Trustee to draw on the Letter of Credit; and direct the Trustee to exercise remedies under the Indenture; (b) declare the

Borrower's obligations under the Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable; and (c) exercise, or cause to be exercised, any and all rights and remedies as it may have under the Reimbursement Agreement or any other Related Document or at law or in equity.

Liability of the Bank and Indemnification. Under the Reimbursement Agreement, the Borrower assumes all risks of the acts or omissions of the Trustee and any beneficiary or transferee of the Letter of Credit. The Borrower agrees to indemnify and hold harmless the Bank from and against any and all claims, damages, losses, liabilities, costs and expenses claimed against or incurred by the Bank in connection with the Letter of Credit except such claims, damages, losses, liabilities, costs and expenses caused by the willful misconduct or gross negligence.

**APPENDIX C**

**FORM OF APPROVING OPINION OF BOND COUNSEL**

*Upon the issuance of the Bonds, Nixon Peabody LLP, New York, New York, as Bond Counsel, will deliver its Bond Counsel opinion in substantially the same form as this Appendix C.*

June 28, 2006

New York City Industrial  
Development Agency  
110 William Street  
New York, New York 10038

Re: New York City Industrial Development Agency  
\$20,000,000 Variable Rate Demand Civic Facility Revenue Bonds  
(Grace Church School Project), Series 2006

Ladies and Gentlemen:

We have acted as bond counsel to the New York City Industrial Development Agency (the "Agency") in connection with the issuance on the date hereof by the Agency of its Variable Rate Demand Civic Facility Revenue Bonds (Grace Church School Project), Series 2006 in the aggregate principal amount of \$20,000,000 (the "Bonds"). The Bonds are authorized to be issued pursuant to (i) Article 18-A of the General Municipal Law of the State of New York, as amended, and Chapter 1082 of the 1974 Laws of the State of New York, as amended (collectively called the "Act"), (ii) a Bond Resolution, duly adopted by the Agency on May 9, 2006 (the "Resolution"), (iii) a Bond Purchase Agreement, dated June 27, 2006 (the "Bond Purchase Agreement"), among the Agency, First Albany Capital Inc., as underwriter (the "Underwriter"), and Grace Church School (the "Institution"), and (iv) an Indenture of Trust, dated as of June 1, 2006 (the "Indenture"), between the Agency and The Bank of New York, as trustee (the "Trustee"), for the purpose of providing for the financing of a project consisting of the (i) the acquisition, improvement, renovation and equipping of nine contiguous, multi-story buildings located at 84-98 Fourth Avenue, New York, New York (Block 557, Lot 1), consisting of approximately 40,140 square feet in aggregate building space, located on an approximately 8,592 square foot parcel of land to be leased by the Institution; (ii) the construction, improvement and equipping of an approximately 14,000 square foot athletic center on the underground level of an approximately 9,510 square foot parcel of land to be leased by the Institution, located at 65 East 10<sup>th</sup> Street, New York, New York, all for use as a school serving students from junior kindergarten through grade eight (the "Facility"); and (iii) the financing of certain costs of issuance of the Bonds (collectively, the "Project").

The Facility will be leased to the Agency by the Institution pursuant to the terms of a Institution Lease Agreement, dated as of June 1, 2006 (the "Institution Lease"), between the Institution and the Agency. The leasehold interest in the Facility will be sold and assigned to the Institution by the Agency pursuant to the terms of an Installment Sale Agreement and Assignment of Lease, dated as of June 1, 2006 (the "Installment Sale Agreement"), between the Institution and the Agency. Simultaneously with the issuance of the Bonds, Wachovia Bank, National Association (the "Bank") will issue its letter of

credit (the "Letter of Credit") pursuant to a Reimbursement and Security Agreement, dated as of June 1, 2006 (the "Reimbursement Agreement"), to secure the payment of principal of and interest on the Bonds when due.

The Agency has assigned to the Trustee as security for the Bonds substantially all of the Issuer's rights under the Installment Sale Agreement pursuant to the Indenture. Payment when due of the principal of, premium, if any, and interest on the Bonds has been guaranteed by the Institution pursuant to a Guaranty Agreement, dated as of June 1, 2006 (the "Guaranty") from the Institution to the Trustee and the Bank. The Agency and the Institution have entered into a Tax Compliance Agreement, dated the date hereof (the "Tax Compliance Agreement"), in which the Agency and the Institution have made certain representations and covenants, established certain conditions and limitations and created certain expectations, relating to compliance with the requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in Appendix C to the Indenture.

The Bonds are dated the date hereof and bear interest from the date thereof pursuant to the respective terms of the Bonds. The Bonds are subject to prepayment or redemption prior to maturity, as a whole or in part, at such time or times, under such circumstances and in such manner as is set forth in the Bonds and the Indenture.

As bond counsel, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents (including all documents constituting the Transcript of Proceedings with respect to the issuance of the Bonds) as we have deemed necessary or appropriate for the purposes of the opinions rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity and due execution of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, without having conducted any independent investigation, we have relied upon, and assumed the accuracy and truthfulness of, the aforesaid instruments, certificates and documents.

In rendering the opinions set forth below, we have relied upon, among other things, certain representations and covenants made by the parties in this transaction including: (i) the Institution in (a) the Installment Sale Agreement, (b) the Tax Compliance Agreement, (c) the Certificate of an Authorized Representative of the Institution as to Formation Documents, Matters Pertaining to the Installment Sale Agreement and Representations, Warranties and Performance of Obligations, dated of even date herewith, (d) the Bond Counsel Questionnaire submitted to us by the Institution, (e) the Bond Purchase Agreement, and (f) the Institution Lease, and (ii) the Agency in (a) the Installment Sale Agreement, (b) the Tax Compliance Agreement, (c) the Indenture, (d) the Agency's General Certificate, dated the date hereof, and (e) the Institution Lease. We call your attention to the fact that there are certain requirements with which the Agency and the Institution must comply after the date of issuance of the Bonds in order for the interest on the Bonds to remain excluded from gross income for federal income tax purposes. Copies of the aforementioned documents are included in the Transcript of Proceedings.

In addition, in rendering the opinions set forth below, we have relied upon the opinions of the Vice President for Legal Affairs of the Agency, Richard E. Marshall, Esq., counsel to the Institution, Orrick, Herrington & Sutcliffe, LLP, New York, New York, and counsel to the Trustee, Dorsey & Whitney LLP, New York, New York, all of even date herewith. Copies of the aforementioned opinions are contained in the Transcript of Proceedings.

Based upon and subject to the foregoing, we are of the opinion that:



1. The Agency is a duly organized and existing corporate governmental agency constituting a public benefit corporation of the State of New York.

2. The Agency is duly authorized to acquire, construct, renovate, improve, furnish and equip the Facility and to issue, execute, sell and deliver the Bonds, for the purpose of paying the costs of such acquisition, construction, renovation, improvement, furnishing and equipping, together with other expenses and costs incidental thereto.

3. The Resolution has been duly adopted by the Agency and is in full force and effect.

4. The Agency has the right and power to enter into the Indenture, the Installment Sale Agreement, the Bond Purchase Agreement, the Tax Compliance Agreement and the Institution Lease, and the Indenture, the Installment Sale Agreement, the Tax Compliance Agreement and the Institution Lease have been duly authorized, executed and delivered by the Agency, and assuming the due authorization, execution and delivery thereof by the other parties thereto, are in full force and effect in accordance with their terms and are valid and binding upon the Issuer and enforceable in accordance with their respective terms, and no other authorization by the Agency for the Indenture, the Installment Sale Agreement, the Bond Purchase Agreement, the Tax Compliance Agreement and the Institution Lease is required.

5. The Indenture creates the valid pledge which it purports to create of the purchase payments, revenues and receipts payable or receivable under the Installment Sale Agreement and the moneys and securities from time to time held by the Trustee under the terms of the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

6. The Agency has the right and power to authorize, execute and deliver the Bonds and the Bonds have been duly and validly authorized, executed and delivered by the Agency, in accordance with law, including the Act, and in accordance with the Indenture. The Bonds are valid and binding special obligations of the Agency, are enforceable in accordance with their terms and the terms of the Indenture and are payable from moneys on deposit in the funds and accounts maintained under the Indenture, all as provided in the Indenture and are entitled to the benefits of the Indenture and the Act.

7. The Bonds do not constitute a debt of the State of New York or of The City of New York and neither the State of New York nor The City of New York will be liable thereon.

8. The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Indenture, the Installment Sale Agreement and the Tax Compliance Agreement, the Agency and the Institution have covenanted to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code. In addition, the Agency and the Institution have made certain representations and certifications in the Indenture, the Installment Sale Agreement and the Tax Compliance Agreement. We are also relying on the opinion of Counsel to the Institution as to all matters concerning the status of the Institution as an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code. We have not independently verified the accuracy of those certifications and representations or that opinion.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

9. The interest on the Bonds is exempt, by virtue of the New York General Municipal Law, from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated in the preceding three paragraphs, we express no opinion as to any other federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other Counsel.

The foregoing opinions are qualified to the extent that the enforceability of the Bonds, the Bond Purchase Agreement, the Indenture, the Installment Sale Agreement, the Guaranty, the Institution Lease and the Tax Compliance Agreement may be limited by bankruptcy, insolvency or other laws or enactments now or hereafter enacted by the State of New York or the United States affecting the enforcement of creditors' rights and by restrictions on the availability of equitable remedies and to the extent, if any, that enforceability of the indemnification provisions of such documents may be limited under law. We express no opinion with respect to the availability of any specific remedy provided for in any of the Bond Documents.

In rendering the foregoing opinions, we are not passing upon and do not assume any responsibility for the accuracy, completeness, sufficiency or fairness of any documents, information or financial data supplied by the Agency, the Institution, the Trustee and the Bank in connection with the Bonds, the Bond Purchase Agreement, the Indenture, the Installment Sale Agreement, the Institution Lease, the Guaranty, the Tax Compliance Agreement, the Letter of Credit, the Reimbursement Agreement and the Facility, and we make no representation that we have independently verified the accuracy, completeness, sufficiency or fairness of any such documents, information or financial data. In addition, we express no opinion herein with respect to the accuracy, completeness, sufficiency or fairness of the Official Statement, dated June 22, 2006 (the "Official Statement"), with respect to the Bonds.

We express no opinion herein with respect to the registration requirements under the Securities Act of 1933, as amended, the registration or qualification requirements under the Trust Indenture Act of 1939, as amended, the registration, qualification or other requirements of State Securities laws, or the availability of exemptions therefrom.

We express no opinion as to the sufficiency of the description of the Facility Realty and the Facility Equipment in the Installment Sale Agreement and the Institution Lease transferring the Facility to the Agency or as to the title to the Facility Realty or the Facility Equipment, or the adequacy, perfection, or priority of any mortgage lien on or any security interest in any collateral securing the Bonds.

Furthermore, we express no opinion as to the Letter of Credit or, in this opinion, the Official Statement. We express no opinion with respect to whether the Agency and the Institution (i) have complied with the State Environmental Quality Review Act, (ii) have obtained any or all necessary governmental approvals, consents or permits, or (iii) have complied with the New York Labor Law or

other applicable laws, rules, regulations, orders and zoning and building codes, all in connection with the acquisition, construction, renovation, improvement, furnishing, equipping and operation of the Facility and the sale of the Agency's leasehold interest in the Facility to the Institution.

Very truly yours,

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## APPENDIX D

### THE INSTITUTION AND THE PROJECT

#### General

Recently separated from the corporate umbrella of Grace Church, Grace Church School ("the School") is an independent entity, chartered by the New York State Board of Regents, which operates a co-educational, non-residential school for Junior Kindergarten through Grade Eight at 86 Fourth Avenue in New York City. Founded in 1894 as a boarding school for the choir boys of Grace Church, it has grown from 16 original choristers to a fully accredited, pre-secondary school governed by an independent Board of Trustees. The School's current enrollment is 395 students, from a wide variety of ethnic, economic and religious backgrounds. It has 59 full and part-time faculty members, 66% of whom hold masters or doctoral degrees, and a total staff of 31.

During the past two years the leaderships of Grace Church and the School have looked at the relationship between the two institutions and have come to the decision that both institutions would be better served if the School were granted separate and independent corporate status. The two institutions concluded that the School has the resources to care for itself and that the time is right to allow it to function in the same manner as its peer schools. The School obtained its independent corporate status in the spring of 2005. The current financing will enable the School to purchase the facilities it uses from Grace Church and upgrade those facilities. Despite these changes, there is no intention to change the nature of the School or its mission as an elementary school in lower Manhattan that is open to any qualified applicant. The School has served its community for 111 years and expects to do so for the next century and beyond.

#### History

In 1894 Grace Church in the City of New York decided to form a choir for Men and Boys. As it was intended to be a choir of professional singers, the Church felt compelled to provide education for the boys in the choir. Grace Church School opened in the fall of 1894 as a tuition-free boarding school for those choirboys. The cost of running a free choir boarding school escalated, and by 1947 the Church decided to transform the school into a neighborhood, co-ed elementary day school, which charged tuition and from which the choir would be drawn.

The School has functioned as a school for all the children of lower Manhattan under the corporate umbrella of Grace Church in the City of New York since 1947. The student body has been chosen on the basis of academic potential and a full program of financial aid has been available. From the beginning, it was the intent of the leadership of Grace Church that the school be economically, ethnically, religiously and gender diverse, and it remains so today.

#### Mission Statement

The School aims to establish in its students a firmly rooted confidence in themselves and their abilities. Because it believes that the early school experience sets the foundation for lifelong intellectual and social growth, the School strives to develop in each child mental keenness, physical confidence pleasure in learning, and the skills basic to understanding oneself and the world. The structured curriculum, enriched with broad opportunities for creative expression, assumes as fundamental the mastery of a specific range of academic skills, especially the ability to express one's own ideas and to appraise those of others.

Yet the educational goals of the School are broader than intellectual and social development. It nurtures in its students a steady, affectionate trust in themselves and their world, made resilient by the interaction of different ethnic, religious, and socio-economic influences. The School strives to help each child develop an active ethical consciousness, supported by close acquaintance with Judeo-Christian beliefs and enhanced by the beauty and faith inherent in Grace Church. The School encourages an inclusive and mutually supportive relationship between family and school. The School aims to have children leave the School with a strong sense of self, to be able to think clearly, to function well academically, and to embrace coming challenges with confidence.

### *Philosophy*

The curriculum is a rigorous one, and students are challenged in a variety of ways by a broad range of course offerings. Multi-sensory learning is a priority, so that each student may use his or her strengths as an avenue to learning. It is the School's goal to build confidence, foster intellectual curiosity, and provide for the experience of success for all students. Graduates of the School enter leading independent schools, boarding schools, or specialized public high schools. Upon completion of Grade Eight, a graduate has been thoroughly prepared in English and mathematics (through algebra), foreign languages (French, Spanish, or Latin), science, and history. Small class size ensures individual attention in all three divisions.

Community is powerful at the School. The School aims to balance academic competence with the development of character and sound social values. Students are expected to be socially responsible members of a caring community. Students in Grades Three through Eight attend classes in Bible, ethics, or world religions. Community service for Grades Five through Eight stresses the importance of serving others and the world we share.

Weekly chapel services, conducted by the Head, division heads, or the school Chaplain, provide time for common reflection. Guest speakers, often representing other religions, are invited to the school regularly.

### *Curriculum and Program*

The School believes that its students should be both challenged to excellence in their areas of strength and nurtured to confidence and competence where they are less able. The School has a student teacher ratio of 7.2:1.

The School is divided into three divisions: Early Childhood, Lower School, and Upper School. The Early Childhood years, Junior Kindergarten and Kindergarten are designed to provide a secure transition from home to school. Junior Kindergarten and Kindergarten classrooms are bright, open, and welcoming. The play roof is equipped with age-appropriate toys, scooters, and climbers, and rest time is spent on mats with special stuffed toys brought from home. The start of a positive experience to formal education begins with entrance through the "orange doors." The Junior Kindergarten classroom focuses on good school habits, development of self-confidence and social skills, academic readiness, and excitement for learning. Kindergarteners build social skills, learn to manage time, work independently, take initiative, use discovery to find answers to questions, and develop reading and writing readiness. Average class size in Early Childhood is 18.

Lower School classroom teachers sustain a nurturing atmosphere while introducing basic skills in reading, writing, and mathematics. Individualized teaching and small group work meet the specialized needs of each child. Grades One and Two emphasize directing and building language to read, write, and communicate; becoming more autonomous; moving away from self and family and beginning to attach to school and community. The School recognizes Grades Three and Four as a period of transition. A sense

of self develops through strengthened academic skills and social interactions; acceptance of individual differences; and increased confidence. Average class size in the Lower School is 19.

Moving to a departmentalized curriculum in the Upper School, where the average class size is 14, children change rooms to be taught by specialists in each subject. As students move through Grades Five, Six, Seven, and Eight, they gain greater independence. They may choose elective subjects, languages, varsity sports, and community service. School dances and field days with other schools are regularly scheduled throughout the year. Grades Five and Six develop more social awareness, responsibility, and a sense of community, along with an emerging adolescence and the beginning of a process leading to independence. In Grades Seven and Eight, critical thinking skills develop. Students think abstractly, make inferences, become independent, and ready for a larger environment. These students have a strong sense of self in a social context.

### **Related Programs**

GCS considers being a responsible member of the broader community an essential part of its mission. The School sponsors and hosts in its premises the Grace Opportunity ("GO") Project. The GO Project provides support and remediation for 200 students from Lower Manhattan public schools, who are at risk academically. All of the students enrolled in the GO Project qualify for free or reduced priced lunch, and while at risk of failing are not mandated for summer school. GO Summer is a 5 week long, all day program which uses the entire school campus. The parents of the GO students pay a nominal fee. GO relies on fundraising and the gift of in kind services from the school and others for its financial support. GO School is a tutorial program for the same families, held on Saturday mornings at the School. GO Families provides support, information and, when needed, counseling for GO parents during the Saturday tutorials.

GCS also opens its doors to community organizations in need of meeting space. The Samaritans, a suicide counseling organization has used the School for its volunteer training one or two nights a week for that past two decades. Alcoholics Anonymous has used the school for meetings on a regular basis. The School has a policy of allowing 501(c) 3 groups to use the facility at cost so long as it does not interfere with the programs of the School. They have hosted conferences for GLISEN, (The Gay and Lesbian Independent School Educators Network), ATIS (The Association of Teachers in Independent Schools) and a Conference for People of Color in Independent Schools. The School also hosts neighborhood cooperative apartments for their annual meetings and board meetings.

The School has been a long time partner of Prep for Prep and is a founding member of Early Steps. The students all perform community service both within the School and in the community at large. The older students through YSOP (Youth Services Opportunities Projects) give a full day of service at food banks, soup kitchens, clothing banks and senior center throughout New York City. Each week, a group of students know as the "Angel Team" helps out in the neighborhood including making and distributing sandwiches for the homeless cleaning parks and other similar activities. GCS understands that it is responsible to its community and acts on the premise every day.

### **Accreditations**

The School is accredited by, and is a member of, the New York State Association of Independent Schools, the National Association of Independent Schools, the National Association of Episcopal Schools and the Independent Schools Admissions Association of Greater New York.

## *Governance*

In 1973, Grace Church created a Board of Trustees to manage the School. Two years ago, the leaderships of Grace Church and the School looked at the relationship between the two institutions and came to the decision that both institutions would be better served if the School were granted separate and independent corporate status, such that the legal structures of the School and Church would mirror the practical reality of how the two institutions operate. For example, the budget of the School is substantially larger than that of the Church, the number of staff at the School is roughly ten times that of the Church, and the level of professional expertise among the School staff both in areas of education and in areas of management far exceeds that of the Church staff. Having the Church continue to hold nominal authority over the School was no longer practical or efficient. To achieve the desired structure, the School's Board of Trustees has, with the permission of the Church's Vestry, formed a new corporation to take over the task of running the School, which was granted a charter by the Regents of the university of the state of New York in the spring of 2005.

Trustees are elected to three-year terms, except for the four ex-officio trustees, the Head, the Rector of Grace Church and the Parents Association co-chairs who serve for their term of office. Trustees are limited to two terms and must be off the board for a full year before being elected to a new term. The officers of the Board may continue to serve on the board past the end of their second term by being elected to additional one-year terms.

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**Grace Church School Board of Trustees  
FY 2005-2006**

<b>Member</b>	<b># Years Served</b>	<b>Current Term Expires</b>	<b>Occupation</b>
Bishop, Thomas	10	2007	Architect
Blane, Andrew	2	2006	Educator
Blum, Susan	5	2006	Educator
Bradbury, Darcy	5	2006	Finance
Brown, William	10	2006	Economist
Chamberlin, Winthrop	3	2008	Real estate
Clark, James	4	2007	Finance
DeMartini, Martha	4	2007	Attorney
Evans, Douglas – Chair	7	2006	Attorney
Foote, Dana	1	2007	Volunteer
Ford, Elizabeth	2	2006	Finance
Graham, Cynthia - Treasurer	0	2008	Restaurateur
Hines, Sarah	4	2007	Attorney
Jewett, Ellen	1	2007	Finance
Kumro, Rick	5	2006	Attorney
Marani, Grant	1	2007	Architect
McElhone, Bernard – Vice Chair	13	2005	Real estate
Oka, Mimi	2	2006	Art
O'Neill, Peter	2	2006	Social services
Rockefeller, Tara	0	2008	Volunteer
Schneider, Lucy	0	2008	Educator
Silverman, Evan	3	2006	Media
Sonnino, Mark	0	2008	Finance
Ullman, Donna Zaccaro	0	2008	Not-for-profit
Wall, Myrle	3	2005	Volunteer
Waring, Reverend Donald	1	2005	Rector, Grace Church
Wells, Melanie – Secretary	7	2005	Volunteer

George Davison, the Head of the School, is an ex-officio member of the Board. The Rector of Grace Church was, and remains following separation, an ex-officio member of the Board. In addition, there are two members of the Church Vestry who are elected members of the Board. For 2005-06 they are Martha DeMartini and Winthrop Chamberlin.

**Administration**

The principal administrative personnel of the School and their respective backgrounds are as follows:

**George P. Davison, Head of School**, became the Assistant Head of Grace Church School in 1987 and was appointed Head of School in 1994. Before Grace Church School, Mr. Davison was the Head of the Middle School at Birch Wathen and taught at St. David's School. Currently, Mr. Davison serves on several committees, including the Committee of Trustees of ISAAGNY (Chair), NYSAIS, NYSAIS's Commission on Accreditation, iMedia (President), Learning Leaders and the Advisory Board of Parents in

Action. Mr. Davison is a graduate of Yale University and earned his MA in History of Education at the Teachers College of Columbia University.

**Carol Collet, Assistant Head and Head of Upper School**, graduated from the City College of New York and earned her MS in Guidance and Counseling at Yeshiva University before beginning her expansive career at Grace Church School in 1978. Ms. Collet has taught at each grade level and became the Head of the Upper School in 1987. In 1998, she was appointed Assistant Head of School. Ms. Collet serves as the Coordinator of High School Placement, Coordinator of Community Service, School Scheduler, and the Student Council Advisor. She is a member of the National Middle Schools Association, the Assistant Head Association, ASCD, ATIS, and NYSAIS. She is also the mother of two Grace Church School alumni.

**Frank T. Kamenar, Chief Financial Officer**, and a Certified Public Accountant, came to Grace Church School in November 2004, with a long history as a not-for-profit financial executive. He was the chief financial officer of Wagner College and Manhattanville College and of the Metropolitan Opera Association, Inc. Previously, he was controller of Pepsi Cola International and a senior audit manager with Ernst & Young. Mr. Kamenar holds a BBA degree from Ohio University and is a member of the American Institute of CPAs and the New York State Association of Independent Schools. Previous affiliations include the National Association of College and University Business Officers, the Eastern Association of College and University Business Officers, and the Advisory Council for Educational and Institutional Insurance Administrators.

**Joyce Kuh, Director of Development**, joined Grace Church School in 1989 and is a former member of the Board of Trustees. From 1963-1988, she worked as an editor and writer for McCall's Ladies' Home Journal, and Travel and Leisure. Ms. Kuh is a graduate of Tulane University and a mother of two Grace Church School alumni.

**Martha J. Hirschman, Director of Admissions and Financial Aid**, has overseen the Admissions Department since 2002. Before Grace Church School, she worked as the Director of Admissions and Ninth Grade Dean at the Chapin School of New York. Ms. Hirschman also served as the Fine Arts Coordinator at Chapin School, the Head of the Dance Department at High Tech High, and the Head of the Performing Arts Department at the Purnell School. Ms. Hirschman is a member of the Independent School Admissions Association of Greater New York, the Grace Church School Diversity Committee, the Chapin Academic Honesty Committee, and a founding member of the Chapin Life Skills Committee. She earned her Bachelor of Science in Education degree at the University of Michigan and her Master of Fine Arts from New York University's Tisch School of the Arts. Ms. Hirschman's daughter is a Grace Church School student.

### *Facilities and Location*

The School occupies all or portions of nine different contiguous buildings at 80-98 Fourth Avenue, which are currently owned by Grace Church. All buildings except 80 Fourth Avenue and 82 Fourth Avenue will be purchased by the School. Parts of the property were built or renovated explicitly for use by the School.

Children in Junior Kindergarten and Kindergarten have a separate entrance to the schools (94 Fourth Avenue) with elevator access to their classrooms and a well-equipped play roof.

The school library of more than 18,000 volumes includes, in addition to the main reading room, a non-fiction research collection for the Upper School, Lower School collections and reading area. There is also

an Upper School electronic reference center with full Internet access, word processing and printing capabilities.

The dining and kitchen facilities connect to the school from the second floor of 80 Fourth Avenue. The third floor of that building joins the main building consolidating the Lower School in the Meg Duchovny Learning Center, which houses classrooms, a math lab, rooms for learning specialists and areas for small group activities.

Science facilities consist of three well-equipped laboratories and a rooftop greenhouse. Computer facilities include a school-wide network, a multi-unit computer center and a computer mini-lab. Every classroom, as well as the computer center, has Internet access. Floating wireless labs equipped with laptops for an entire class are available for special projects.

The Robert Lehman Art Center includes two spacious studios, a ceramics studio with potters' wheels and kilns, gallery space and a digital art center. Students have the use of a music room, two activity rooms for dance, music and drama rehearsals, a gymnasium and a playground. The physical education program also makes use of park facilities, neighborhood sports centers, and a nearby swimming pool.

### *The Project*

As discussed elsewhere, having Grace Church continue to hold nominal authority over the School has become neither practical nor efficient. To achieve the desired structure, the School's Board of Trustees has, with the permission of the Church's Vestry, formed a new corporation to take over the task of running the School.

As part of the separation of Church and School, the Church is selling its interest in the School buildings to the School for \$8 million. This price is the product of a discussion of what constituted the value of property less the improvements in the property made by the School over the last 111 years.

The second part of the project is the construction of an athletic center on the southern portion of the property that the School will be leasing from Grace Church for the next 110 years. The full-sized gymnasium located at 65 East 10<sup>th</sup> St will be underground and has been fully approved by the New York City Landmarks Preservation Commission. All permits from the New York City Department of Buildings have been received. The gym will be divisible into two separate teaching areas and will include bleacher seating for game spectators. There will be locker rooms for the students and office space for the physical education staff. Some remodeling will take place in the main school building at 86 Fourth Avenue in order to provide interior access to the gym.

The architectural firm of Alspector and Anderson has developed plans for the gym. The construction firm of Structuretone has been chosen to serve as construction manager. Construction work on the project began in December 2005 and is expected to take 13-16 months to complete. The School is paying Grace Church \$1 million for the right to build the gym on its property and to lease that property for the next 110 years. The terms of the lease are a part of the ground lease mentioned above. The Board of the School has set a budget of \$13 million, including contingency and soft costs for the construction of the gym.

### **Faculty and Staff**

The School currently has a staff of 90, which includes 59 faculty members, 52 full-time and 7 part-time. Additional instructional support staff includes a nurse, a psychologist and a guidance counselor. 66% of the faculty holds advanced degrees and 75% have taught at the School for over five years. In addition to

the faculty, the School employs administrators in the Offices of the Head, Development, Admissions and Business, as well as the Division Heads.

The 2005-06 median salary for full time faculty members is \$62,100. Faculty members receive one-year appointments. There is no system of tenure and there are no unionized workers at the School. The School works cooperatively with its employees and includes them on board committees. The average length of service of full-time faculty members at Grace Church School is 14 years, which is evidence of the excellent relations between the school and its employees.

*Student Applications, Enrollments and Attrition*

The School's enrollment for the current year and the preceding four years is listed below:

Grade	2005-06	2004-05	2003-04	2002-03	2001-02
Junior Kindergarten	31	31	32	32	31
Kindergarten	42	43	41	42	42
Grade 1	47	44	44	45	43
Grade 2	42	41	43	39	45
Grade 3	41	42	41	44	43
Grade 4	40	39	40	39	38
Grade 5	41	37	42	35	39
Grade 6	36	42	33	40	40
Grade 7	40	36	39	41	41
Grade 8	35	37	41	38	37
Total	395	392	396	394	399

Junior Kindergarten is the main entry point for admission to the School. The following table shows admissions statistics for this grade:

	2005-06	2004-05	2003-04	2002-03	2001-02
Applications	92	94	106	103	73
Acceptances	34	32	34	33	32
% Acceptances	37%	34%	32%	33%	44%
Matriculants	31	31	32	32	31
Yield*	92%	97%	94%	97%	97%

\* Yield = Matriculants/Acceptances

**The statistics for Junior Kindergarten for Fall 2006, as of April 2006, are as follows:**

- Applications (118)
- Acceptances (33)
- % Acceptances (28%)
- Matriculants (31)
- Yield (94%)

### Competition

The School's primary composition is families from Manhattan. Students also come from the boroughs of Brooklyn, the Bronx and Queens, with some students from New Jersey, Long Island and Westchester.

The School's primary competition comes from co-educational schools in Manhattan, including Little Red School House/Elisabeth Irvin, the Village Community School, Friends Seminary, Spence and Dalton. The School's 2005-06 tuition and all required fees; along with same for each of its primary competitors, is given below:

Grade	GCS	LRSH/EI	VCS*	Friends*	Spence	Dalton
N/Pre-K	\$22,650	22,800	NA	NA	NA	NA
K	24,300	22,800	21,550	26,190	26,000	26,680
1-2	24,300	23,960	21,550	26,190	26,000	26,680
3-4	24,300	23,960	21,930	26,190	26,000	27,320
5-6	25,150	24,875	22,780	26,890	27,000	27,320
7-8	25,150	25,875	22,870	26,890	27,000	27,320

Source: Guild of Independent Schools Survey of Tuition and Financial Aid 2004-05

\* Lunch not included in tuition

Listed below is the schedule of the School's tuition and fees, which cover all regularly grade-sponsored trips, for the current year and four years previous:

#### (1) Tuition

Class	2005-06	2004-05	2003-04	2002-03	2001-02
Junior Kindergarten	\$22,650	\$20,650	\$19,350	\$18,000	\$16,050
K-4	24,300	22,300	20,900	19,500	18,700
5-8	25,150	23,150	21,700	20,200	19,350

#### (2) Fees

Class	2005-06	2004-05	2003-04	2002-03	2001-02
5	\$290	\$250	\$225	\$225	\$200
6-8	440	400	350	350	290

The School does not charge any additional fees. For 2006-07, tuition for Junior Kindergarten is \$25,500, K-4 is \$26,000, and 5-8 is \$26,600.

### Financial Aid

Financial aid at the School exists to promote the broadest possible diversity of the student body. To that end, financial aid is awarded to families based on impartial, needs-based analysis. Students are admitted to the School on a needs-blind basis and the School provides aid commensurate with the needs demonstrated by the student's parents. Aid is awarded by the School's Financial Aid Committee which consists of the Head, Assistant Head, Director of Admissions (who also serves as the Director of Financial

Aid), Chief Financial Officer, Board Treasurer and Board Secretary. All are voting members except the Assistant Head.

Financial aid applications are automatically sent to families of current financial aid recipients on November 15 of each year. Families who are not currently receiving aid and new families wishing to apply must request applications from the admissions office. Completed applications are due no later than the second week in January. The Director of Financial Aid makes a preliminary review of applications and final decisions are made by the committee at its meeting in late January after the full Board has approved the budget (which includes the budgeted total financial aid) and tuition rates for the upcoming year. The committee makes no full awards and an effort is made to distribute aid as evenly as possible to all grades so that the proportion of families receiving financial aid is somewhat uniform throughout the School.

Preliminary grants are based upon demonstrated need, using information from the completed application and the prior year's tax return. Families are notified of grants by an award letter. The award is also itemized on the enrollment contract. Grants are subject to revision and are finalized after receipt of the current year's tax return by April 15.

Tuition discounts of 3% and 5% are given to first and second siblings, respectively.

The School does not discriminate on the basis of race, color, national or ethnic origin or religious affiliation in the administration of its financial aid.

The table below shows certain financial aid statistics for the current year and the four preceding years.

	<i>2005-06</i>	<i>2004-05</i>	<i>2003-04</i>	<i>2002-03</i>	<i>2001-02</i>
<b>Total Tuition and Capital Assessments</b>	\$9,738,000	\$8,875,000	\$8,400,000	\$7,801,000	\$7,517,000
<b>Financial Aid Awards</b>	\$1,433,000	\$1,304,000	\$1,248,000	\$1,075,000	\$1,033,000
<b>% Of Financial Aid to Tuition and Fees</b>	14.7%	14.7%	14.9%	13.8%	13.7%
<b>Total Enrollment</b>	395	392	394	394	399
<b>Number of Students Receiving Financial Aid</b>	81	85	89	83	85
<b>%Students Receiving Financial Aid</b>	20.5%	21.7%	22.6%	21.1%	21.3%
<b>Average Tuition</b>	\$24,654	\$22,640	\$21,319	\$19,801	\$18,839
<b>Average Grant</b>	\$17,691	\$15,341	\$14,022	\$12,952	\$12,153
<b>Average Grant as % of Average Tuition</b>	71.7%	67.8%	65.8%	65.4%	64.5%
<b>Approximate % of Aid Recipients Receiving Grants &gt;50% of Tuition</b>	75.3%	68%	66%	70%	60%

### Student Applications and Enrollment

Each year, the School's students gain access to some of the premier private secondary schools in New York City and elsewhere. The following is a list of the secondary schools in which the School's students have enrolled in the past five years.

Andover (1)	Exeter (1)	Packer Collegiate (16)
Bard (1)	Fieldston (2)	Poly Prep (5)
Berkeley Carroll (6)	Friends Seminary (7)	Professional Children's (2)
Birch Wathen Lenox (1)	George (3)	Regis High School (1)
Brearley (5)	Groton (5)	Riverdale Country (6)
Bronx Science (2)	Gunnery (3)	Sacred Heart (3)
Brooklyn Friends (5)	Hill (1)	Spence (6)
Brooklyn Tech (2)	Horace Mann (2)	St. Andrew's (1)
Brooks (3)	Kent (3)	St. Ann's (3)
Browning (1)	LaGuardia HS for Performing Arts (2)	St. John's Prep (1)
Calhoun (4)	Lawrenceville (3)	Stuyvesant (1)
Chapin (9)	Marymount (9)	Tabor (1)
Collegiate (4)	Masters (2)	Taft (2)
Convent of the Sacred Heart (1)	Middlesex (1)	Trevor Day (4)
Cushing (1)	Millbrook (2)	Trinity (14)
Dalton (15)	Miss Hall's (2)	Virginia Episcopal (1)
Darrow (3)	Nightingale-Bamford (3)	Other Public Schools (2)
Dwight (3)	Northfield Mt. Hermon (1)	

### *Financial Statements*

The School operates on a fiscal year ending June 30. Its financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles. The School accounts and reports its finances for each entity, Grace Church School and Friends of Grace Church School, through three fund groups: Unrestricted-Operating, Temporarily Restricted and Permanently Restricted Net Assets.

The table below sets forth a summary of revenue and expenses for the combined Unrestricted Operating Funds for the last five years (in thousands):

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
<b>Operating</b>	<b>(Budget)</b>					
<b>Revenue &amp; Support</b>						
Tuition and Trip Fees	\$ 9,738	\$ 8,875	\$ 8,400	\$ 7,801	\$ 7,517	\$ 6,930
Financial Aid	(1,433)	(1,301)	(1,248)	(1,075)	(1,033)	(938)
Tuition Discounts	(108)	(93)	(61)	(57)	(55)	(84)
Net Tuition and Fees	8,198	7,481	7,091	6,669	6,429	5,908
Contributions/Fund Raising	1,021	898	689	572	537	542
Investment Revenues	330	307	259	279	296	387
Ancillary Program Services	270	263	271	254	257	142
Other Revenues	159	213	116	164	167	149
<b>Total Revenues</b>	<b>\$ 9,978</b>	<b>\$ 9,162</b>	<b>\$ 8,426</b>	<b>\$ 7,938</b>	<b>\$ 7,686</b>	<b>\$ 7,128</b>
<b>Expenses</b>						
Instructional Program	5,540	5,289	5,097	4,789	4,474	4,221
Food Service	481	532	507	479	495	471
Plant Operations and Maintenance	850	777	736	692	630	622
Ancillary Program Services	270	265	272	240	249	220
Administration	1,651	1,506	1,313	1,200	1,169	1,056
General	309	340	314	332	254	200
<b>Total Expenses</b>	<b>\$ 9,100</b>	<b>\$ 8,708</b>	<b>\$ 8,239</b>	<b>\$ 7,731</b>	<b>\$ 7,272</b>	<b>\$ 6,791</b>
<b>Excess of Operating Revenues over Expenses</b>	<b>\$ 878</b>	<b>\$ 454</b>	<b>\$ 187</b>	<b>\$ 206</b>	<b>\$ 414</b>	<b>\$ 338</b>
<b>Board Approved Transfers to Other Funds</b>	<b>(878)</b>	<b>(454)</b>	<b>(187)</b>	<b>(206)</b>	<b>(414)</b>	<b>(338)</b>
<b>Net Operating Surplus (Deficit)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Discussion of Financial Performance*

**Endowment**

The value of the School's long-term net assets as of June 30, 2005, including amounts recorded as pledges, was \$15,323,900. This amount is comprised of the following:

Board Designated Endowment	\$6,291,000
Permanently Restricted Fund	<u>9,032,900</u>
Total Endowment Fund	\$15,323,900

The funds specified for long-term investment are invested in both equity and fixed income funds. The investment committee regularly reviews the allocation of assets in the investment portfolios as well as the performance of the fund's investment managers. Current investment committee policy mandates transferring into the operating budget 3% of the value of the endowment investments as of the previous December 31.



The table below shows the allocation of endowment investments as of June 30, 2005:

Description	Market Value (6/30/05)	% of Portfolio (6/30/05)
Cash	\$1,816,000	18%
Fixed Income	4,959,000	49%
Equities	3,210,000	31%
Partnerships	200,000	2%
Total	\$10,185,000	100%

In addition, Grace Church holds permanently restricted endowment funds for the benefit of Grace Church School. The market value of those funds, as of June 30, 2005, was approximately \$925,000.

The approximate market value of the School's restricted endowment funds for the last five years is shown in the table below. The values are exclusive of amounts held by Grace Church and board-designated endowment funds.

Year (as of 6/30)	Value	Endowment per Student
2005	\$8,525,000	\$21,700
2004	7,760,000	19,700
2003	6,675,000	16,900
2002	6,160,000	15,400
2001	5,380,000	13,400

### *Development and Fundraising*

The School undertakes a full program of fundraising activities through its allied tax-exempt corporation, Friends of Grace Church School, Inc. It employs four full-time staff members and relies heavily on volunteers from among its parents and alumni who work with the office on fundraising activities. The Director of Development works closely with the Board of Trustees and other committees, including the Parents' Association, Alumni Committee, Development Committee, and Capital Campaign Committee. The Director also attends meetings of other committees, as needed, including Building and Grounds, and the Investment Committee. During the past five years, the principal fundraising objectives of the school have included:

#### **1. Annual Giving**

Unrestricted Annual Fund gifts of cash and securities are intended for use in the operating budget of the fiscal year following the year the funds are received. Restricted gifts are generally designated by the donors for financial aid or specific programs. Following is a breakdown of annual giving cash receipts:

	<b>Unrestricted Annual Giving</b>	<b>Restricted Annual Giving</b>	<b>Total Annual Giving</b>
2004-05	\$956,063	\$43,346	\$999,409
2003-04	832,114	28,124	860,238
2002-03	702,000	32,927	734,927
2001-02	572,373	84,537	656,910
2000-01	536,647	63,190	599,837

## **2. Gifts for Capital Purposes**

Capital gifts fall into three categories: Endowment, Facilities and Unrestricted funds for capital purposes to be allocated as needed. Following is a breakdown of cash received for these categories:

	<b>Endowment</b>	<b>Facilities</b>	<b>Unrestricted Capital Purposes</b>
2004-05	\$814,302	\$185,090	\$2,576,040
2003-04	840,254	146,106	0
2002-03	829,950	112,717	0
2001-02	860,875	171,944	0
2000-01	828,265	357,227	0

Total unrestricted capital gifts and pledges for the Campaign for Grace Church School as of April 30, 2006 amounted to \$9,660,322.

## **3. Other**

In addition to its annual fundraising mailing and phonathon, the School organizes several events throughout the course of the school year. Each March, there is a benefit auction, and each May, a May Fair is held, both sponsored by the Parents Association. These and other events generally provide approximately \$500,000 toward the endowment.

The School has also, on occasion, organized additional capital fund drives to provide for building and program improvements.

#### ***4. Capital Campaign***

In 2004, the School commissioned Raybin Associates to conduct a feasibility study for The Campaign for Grace Church School. Based on the results of the study, which indicated the capacity to successfully conduct a \$15 million campaign, the School launched the silent phase of the campaign in March 2005. Just three months later, the silent phase resulted in pledges of over \$7.4 million. Encouraged by this success, the School, with the concurrence of Raybin Associates, decided to go public with a campaign goal of \$18.5 million. The public phase of the campaign began in mid-October 2005.

The School's Board of Trustees has established a Capital Campaign Committee, chaired by three couples, all current parents. The Committee is actively soliciting and meets biweekly to review progress. The core group being solicited is current parents and the ability to also target grandparents and alumni is being investigated.

\$11.5 million has been earmarked for improvement to school facilities, \$3 million for program development and \$4 million for endowment growth.

The last formal capital campaign undertaken by the School was the "Second Century Campaign" that was begun in 1994 in celebration of the School's centennial. The goal of that campaign was \$3.5 million and, when it closed in 1997, the School had received \$4.2 million in pledges. Since 1997 the school has continued to raise capital for specific projects. In 1998 and 1999 the school collected \$1.7 million to build a new floor in what was known as the Loft Campaign. The School received \$1.5 million to renovate its lobby Kindergarten and dance and drama spaces. The School also each year dedicates all of the proceeds of its benefit auction to its endowment for financial aid. The auction has raised over \$500,000 each of the last two years.

#### ***Annual Budgeting***

In October of each year, the School's budget process begins with a preliminary review with the Finance Committee to establish tuition rates, enrollment, salaries and benefits for the following year. Between October and December, management works through several drafts and meets with department heads before presenting a preliminary budget to the Finance Committee. Tuition rates are benchmarked with other schools in the New York area. Financial aid funded from operations is set at 12.9% of gross tuition and fees. Additional financial aid is funded from endowed scholarship funds. Discounts are given for siblings at 3% for the first sibling and 5% for the second.

An endowment spending amount of 3% of the current December 31 endowment balances is budgeted in operating income for the following year. Annual gifts are budgeted for the following year at the amount expected to be received in the current year. Ancillary program services are principally fees charged for after-school programs for students. Other revenues consist of application fees, late charges, and amounts expected to be received from the State of New York for mandated services.

Labor costs, representing approximately 78% of the overall budget, are projected using the profile of current employees and recommended increases from the compensation and benefits committee. Departmental expense budgets are set using current year budget allocations increased by an assumed inflation rate. Specific lines may be further increased or decreased based upon requests from the department heads. Remaining expense lines are based upon a combination of historical data and assumptions about the future. Finally, it has been the standard practice over the past several years to budget for a surplus and then transfer this amount to reserves for property, plant and equipment replacement and/or a contingency reserve. In January, the preliminary budget is then presented by the

Board Treasurer to the full Board for approval. At that time, tuition levels and salary levels are set for the following year.

The approved preliminary budget is reviewed and adjusted in early September to reflect income and labor costs based upon actual enrollment and employee profiles. The final budget is presented, discussed and adopted at the September Board meeting.

#### *Pension Plans and Benefits*

The School provides all eligible employees with individual health & dental insurance at no cost to the employee. Family coverage also is available at an additional cost. Group term life insurance is provided equal to the employee's annual salary up to a maximum of \$50,000. Long-term disability benefits are provided at 60% of monthly basic pay to a maximum benefit of \$6,000/month. All employees, after one year of service, are eligible to contribute to a 403(b) retirement plan, administered by TIAA/CREF. Under this plan, employees must contribute 3-5% of their salary and the School will match this contribution at various rates, based on years of service. The School also offers a Section 125 cafeteria plan to fund eligible medical and dependent care expenses and Premium TransitChek for commutation expenses.

#### *Insurance*

The School currently has commercial property insurance covering improvements and betterments to the buildings it occupies. After closing of the bond issue and purchase of the buildings from the Church, the School will have additional buildings and contents insurance to cover the value of the assets purchased. The School also has Builder's Risk insurance covering the new gymnasium during the construction period. Other coverages include commercial general and auto liability, workers' compensation, directors and officers' liability, umbrella liability, and business interruption insurance.

#### **Litigation**

The School is not aware of any litigation pending or threatened wherein an unfavorable decision would have a materially adverse effect on the financial condition, property or operations of the School.

**APPENDIX E**

**FINANCIAL STATEMENTS OF THE INSTITUTION**

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**GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.**

**COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2005 AND 2004**

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

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## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
GRACE CHURCH SCHOOL AND FRIENDS OF GRACE CHURCH SCHOOL, INC.

We have audited the accompanying combined balance sheets of Grace Church School of Grace Church in the City of New York and Friends of Grace Church School, Inc. as of June 30, 2005 and 2004, and the related combined statements of activities, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the School's management. 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Grace Church School of Grace Church in the City of New York and Friends of Grace Church School, Inc. as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
December 2, 2005

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
COMBINED BALANCE SHEETS

	June 30,	
	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,180,393	\$ 3,171,385
Investments	10,868,691	7,618,403
Student account receivables, net of allowance for doubtful accounts of \$165,822 and \$130,563, respectively	268,314	265,001
Unconditional promises to give, net of allowance for uncollectible promises of \$20,000	4,700,322	597,788
Other receivables	123,509	162,506
Prepaid expenses and other current assets	142,089	140,693
Due from Grace Church	-	62,850
Total Current Assets	19,283,318	12,018,626
 Property and equipment, net of accumulated depreciation and amortization of \$3,379,172 and \$2,901,297, respectively	 4,643,546	 4,216,223
 <b>TOTAL ASSETS</b>	 <b>\$ 23,926,864</b>	 <b>\$ 16,234,849</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 825,221	\$ 714,180
Tuition and fees paid in advance	1,359,685	1,283,024
Other current liabilities	61,726	76,102
Due to Grace Church	80,784	-
Total liabilities	2,327,416	2,073,306
 <b>COMMITMENTS AND CONTINGENCIES</b>	 -	 -
 <b>NET ASSETS</b>		
Unrestricted	12,499,989	5,533,812
Temporarily restricted	66,590	324,036
Permanently restricted	9,032,869	8,303,695
Total net assets	21,599,448	14,161,543
 <b>TOTAL LIABILITES AND NET ASSETS</b>	 <b>\$ 23,926,864</b>	 <b>\$ 16,234,849</b>

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

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	GCS	Friends	Combined	Friends	Friends	
<b>REVENUES</b>						
Net Tuition and Trip Fees	\$ 7,481,103	\$ -	\$ 7,481,103	\$ -	\$ -	\$ 7,481,103
Contributions/Fundraising	-	7,834,542	7,834,542	55,926	141,290	8,031,758
Auction Income, Net	-	-	-	-	518,010	518,010
Investment Income, net	40,902	88,993	129,895	1,455	308,214	439,564
Ancillary Program Revenue	262,626	-	262,626	-	-	262,626
Other Revenue	212,881	-	212,881	-	-	212,881
Total Revenues	<u>7,997,512</u>	<u>7,923,535</u>	<u>15,921,047</u>	<u>57,381</u>	<u>967,514</u>	<u>16,945,942</u>
<b>EXPENSES</b>						
Educational and Instructional Expenses	5,393,910	-	5,393,910	-	-	5,393,910
Food Services Expenses	531,928	-	531,928	-	-	531,928
Plant Operations and Maintenance Expenses	776,594	-	776,594	-	-	776,594
Ancillary Program Expenses	264,646	-	264,646	-	-	264,646
Administrative Expenses	1,064,878	-	1,064,878	-	-	1,064,878
Development Expenses	-	399,345	399,345	-	-	399,345
General Expenses	340,350	110,435	450,785	50,308	18,340	519,433
Depreciation Expense	477,875	-	477,875	-	-	477,875
Reorganization Costs	79,428	-	79,428	-	-	79,428
Total Expenses	<u>8,929,609</u>	<u>509,780</u>	<u>9,439,389</u>	<u>50,308</u>	<u>18,340</u>	<u>9,508,037</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	(932,097)	7,413,755	6,481,658	7,073	949,174	7,437,905
Transfers between GCS and Friends	767,362	(545,292)	222,070	(2,070)	(220,000)	-
Internal Transfers	-	262,449	262,449	(262,449)	-	-
CHANGE IN NET ASSETS	(164,735)	7,130,912	6,966,177	(257,446)	729,174	7,437,905
NET ASSETS @ JULY 1, 2004	3,076,619	2,457,193	5,533,812	324,036	8,303,695	14,161,543
NET ASSETS @ JUNE 30, 2005	<u>\$ 2,911,884</u>	<u>\$ 9,588,105</u>	<u>\$ 12,499,989</u>	<u>\$ 66,590</u>	<u>\$ 9,032,869</u>	<u>\$ 21,599,448</u>

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

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted			Temporarily	Permanently	Total
	GCS	Friends	Combined	Restricted Friends	Restricted Friends	
<b>REVENUES</b>						
Net Tuition and Trip Fees	\$ 7,090,996	\$ -	\$ 7,090,996	\$ -	\$ -	\$ 7,090,996
Contributions/Fundraising	-	841,545	841,545	234,332	202,042	1,277,919
Auction Income, net	-	-	-	-	454,784	454,784
Investment Income, net	57,128	5,073	62,201	848	269,006	332,055
Ancillary Program Revenue	271,263	-	271,263	-	-	271,263
Other Revenue	115,707	-	115,707	-	-	115,707
Total Revenues	<u>7,535,094</u>	<u>846,618</u>	<u>8,381,712</u>	<u>235,180</u>	<u>925,832</u>	<u>9,542,724</u>
<b>EXPENSES</b>						
Educational and Instructional Expenses	5,096,815	-	5,096,815	-	-	5,096,815
Food Services Expenses	506,861	-	506,861	-	-	506,861
Plant Operations and Maintenance Expenses	735,642	-	735,642	-	-	735,642
Ancillary Program Expenses	272,215	-	272,215	-	-	272,215
Administrative Expenses	951,827	-	951,827	-	-	951,827
Development Expenses	-	373,102	373,102	-	-	373,102
General Expenses	314,572	50,616	365,188	45,669	18,341	429,198
Depreciation Expense	483,968	-	483,968	-	-	483,968
Total Expenses	<u>8,361,900</u>	<u>423,718</u>	<u>8,785,618</u>	<u>45,669</u>	<u>18,341</u>	<u>8,849,628</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	(826,806)	422,900	(403,906)	189,511	907,491	693,096
Transfers between GCS and Friends	(330,745)	511,845	181,100	(1,100)	(180,000)	-
Internal Transfers	-	42,911	42,911	(44,995)	2,084	-
CHANGE IN NET ASSETS	(1,157,551)	977,656	(179,895)	143,416	729,575	693,096
NET ASSETS @ JULY 1, 2003	4,234,170	1,479,537	5,713,707	180,620	7,574,120	13,468,447
NET ASSETS @ JUNE 30, 2004	<u>\$ 3,076,619</u>	<u>\$ 2,457,193</u>	<u>\$ 5,533,812</u>	<u>\$ 324,036</u>	<u>\$ 8,303,695</u>	<u>\$ 14,161,543</u>

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

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINED STATEMENTS OF CASH FLOWS

	For the Years Ended	
	June 30,	
	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$7,437,905	\$ 693,096
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	477,875	483,968
Bad debt expense	69,574	56,506
Unrealized (gain) loss	(126,552)	19,607
(Increase) decrease in promises to give	(4,102,534)	76,933
(Increase) in student accounts receivable	(72,887)	(79,682)
Decrease (increase) in other receivables	38,997	(74,314)
(Increase) in prepaid expenses and other current assets	(1,396)	(16,944)
Decrease (increase) in due from/to Grace Church	143,634	(8,255)
Increase in accounts payable and accrued expenses	111,041	29,432
Increase in tuition and fees paid in advance	76,661	101,385
(Decrease) in other current liabilities	<u>(14,376)</u>	<u>(20,703)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>4,037,942</u>	<u>1,261,029</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase/sale of investments	(3,123,736)	(2,374,625)
Property and equipment	<u>(905,198)</u>	<u>(493,723)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(4,028,934)</u>	<u>(2,868,348)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,008	(1,607,319)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>3,171,385</u>	<u>4,778,704</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 3,180,393</u>	<u>\$ 3,171,385</u>

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

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of business and basis of presentation

The accompanying financial statements include the accounts of Grace Church School of Grace Church in the City of New York ("GCS") and Friends of Grace Church School, Inc. ("Friends").

GCS is an independent school with classes from Junior Kindergarten through Eighth Grade. GCS is operated and managed by an independent, self-governing Board of Trustees, as authorized and directed by the Vestry of Grace Church in an enabling resolution. The accounts of the Rector, Church Wardens, and Vestrymen of Grace Church in the City of New York (the "Church") are not included.

Friends is a separately incorporated fundraising organization that conducts development efforts on behalf of GCS and holds the GCS endowment. All funds solicited by Friends are intended by the contributor to be transferred to or invested to generate income for GCS. Accordingly, the results of operations of GCS and Friends are required to be reported on a combined basis.

GCS and Friends are collectively referred to as (the "School") throughout the report.

b) Basis of accounting

The financial statements of the School have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

c) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d) Financial statement presentation

The School has adopted Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the School is required to present a statement of cash flows.

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Contributions

The School has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

f) Promises to give

Unconditional promises to give are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value, if they are expected to be collected in one year, and at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The School uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

g) Income taxes

GCS is a not-for-profit educational institution that is fully owned by the Church, which is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. See Note 2.

Friends is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

h) Cash and cash equivalents

For purposes of the statements of cash flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

i) Investments

The School has elected to adopt SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Unrealized gains and losses are included in investment income in the changes in net assets.

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Fair values of financial instruments

The following methods and assumptions have been used by the School in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term investments and promises to give due in less than one year: the carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Promises to give due in more than one year: the fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows using current risk-free rates of return based on U.S. Treasury Securities yields with maturity dates similar to the expected collection period.

Long-term investments: the fair values of long-term investments are based on quoted market prices for those or similar investments.

k) Property and equipment

Property and equipment is carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

l) Deferred revenue

Tuition and fees paid in advance for the following school years are deferred and recognized during the period in which the tuition and fees relate.

m) Concentration of credit risk

The School places its cash in what it believes to be credit-worthy financial institutions. However, cash balances exceed FDIC insured levels at various times during the year.

n) Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

NOTE 2 - REORGANIZATION

The Rector, Wardens and Vestrymen of the Church have agreed in a letter of intent dated May 5, 2005, to sell certain buildings to and enter into a ground lease with a newly formed corporation to carry out the functions of Grace Church School. The School has applied for tax exempt status under Section 501 (c)(3) of the Internal Revenue Code.

Upon closing of title, the School will pay a sum of \$8,000,000 for the buildings and \$1,000,000 for the right to construct a new gymnasium on church land. In addition, the school will enter into a ground lease for a term of one hundred and ten years at a rental of one dollar per year.



GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 JUNE 30, 2005 AND 2004

NOTE 2 - REORGANIZATION (Continued)

Upon receipt of the tax exempt status, the school intends to issue tax exempt bonds through the New York City Industrial Development Agency, to finance the purchase of the buildings and construction of the gymnasium.

NOTE 3 - INVESTMENTS

The School's investments at June 30, 2005 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
U.S. Government and agency bonds	\$ 3,395,785	\$ 3,429,784
Mutual Funds - Fixed Income	3,967,016	4,028,929
Mutual Funds - Equities	3,160,412	3,210,190
Partnerships	160,000	199,788
	<u>\$10,683,213</u>	<u>\$10,868,691</u>

Unrealized gains totaled \$185,478 at June 30, 2005.

The School's investments at June 30, 2004 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
U.S. Government and agency bonds	\$ 4,673,596	\$ 4,700,626
Corporate Bonds	301,723	306,319
Common stocks	2,212,157	2,486,532
Partnership	110,000	124,926
	<u>\$ 7,297,476</u>	<u>\$ 7,618,403</u>

Unrealized gains totaled \$320,927 at June 30, 2004.

NOTE 4 - PROMISES TO GIVE

Unconditional promises to give were as follows:

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receivables in less than one year	\$ 2,053,652	\$ 250,552
Receivables in one to five years	3,231,592	435,752
Total unconditional promises to give	5,285,244	686,304
Less: Discounts to net present value	(564,922)	(68,516)
Less: Allowance for uncollectible promises receivable	(20,000)	(20,000)
Net unconditional promises	<u>\$4,700,322</u>	<u>\$ 597,788</u>

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 JUNE 30, 2005 AND 2004

NOTE 4 - PROMISES TO GIVE (Continued)

At June 30, 2005, the school had net unconditional promises to give in the amount of \$4,324,590 for a capital campaign which will be designated for unrestricted endowments, capital improvements, and other program activities.

The School, as of June 30, 2005 and 2004, also had unconditional promises to give that consisted of:

	June 30,	
	2005	2004
Charitable remainder trust	\$ 89,000	\$ 89,000
Life insurance	\$ 41,000	\$ 41,000
Bequest	\$ 20,000	\$ 20,000

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following at:

	June 30,	
	2005	2004
Leasehold improvements	\$ 6,514,364	\$ 6,062,788
Furniture and equipment	1,272,302	1,054,732
Construction in Progress	236,052	-
	8,022,718	7,117,520
Less: accumulated depreciation and amortization	(3,379,172)	(2,901,297)
Property and equipment, net	\$ 4,643,546	\$ 4,216,223

Depreciation and amortization expense for the years ending June 30, 2005 and 2004 was \$477,875 and \$483,968, respectively.

Construction in progress represents design and engineering costs in connection with the construction of a new gymnasium which is expected to be completed in the year ending June 30, 2007.

NOTE 6 - GRACE CHURCH IN THE CITY OF NEW YORK

The School had a cost sharing lease agreement with the Church for the space upon which the School is located. The Church also pays certain expenses on behalf of the School and the School processes the Church's payroll. These transactions are recorded through the due from/to Grace Church account. The School has a (payable) and a receivable due to/from the Church of \$(80,784) and \$62,850 at June 30, 2005 and 2004, respectively.

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

NOTE 6 - GRACE CHURCH IN THE CITY OF NEW YORK (Continued)

The Church also has permanently restricted net assets relating to Stokes and endowment contributions that have been restricted by the donors to generate income for the benefit of the School. The combined net assets approximated \$925,000 and \$944,000 as of June 30, 2005 and 2004, respectively.

Under the reorganization discussed in Note 2, the Church and the School will enter into a new space sharing agreement, and the endowment investments held by the Church on behalf of the School will be recorded by the School.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The School has a three year compensation agreement through June 30, 2008 and to continue thereafter for consecutive two-year periods until terminated (as defined in the agreement) with the Head of Grace Church School. The agreement calls for an annual salary ranging from \$279,000 to \$308,000, 12½% of salary for retirement annuity, major medical, hospitalization and dental coverage, \$36,000 housing allowance and reimbursement for other expenses incurred on behalf of the School.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

**TO THE BOARD OF TRUSTEES OF  
GRACE CHURCH SCHOOL AND FRIENDS OF GRACE CHURCH SCHOOL, INC.**

We have audited the accompanying combined financial statements of The Grace Church School of Grace Church in the City of New York and Friends of Grace Church School, Inc. as of, and for, the years ended June 30, 2005 and 2004, and issued our report on December 2, 2005. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information is presented only for analysis purposes and is not a required part of the basic financial statements. Such information contains certain classifications that are not consistent with the combined classifications, but has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**FRUCHTER ROSEN & COMPANY, P.C.**  
Certified Public Accountants

New York, New York  
December 2, 2005

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINING BALANCE SHEET  
 JUNE 30, 2005

	GCS	FRIENDS	Combined before Adjustments	Adjustments	Combined after Adjustments
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 125,629	\$ 3,054,764	\$ 3,180,393	\$ -	\$ 3,180,393
Investments	-	10,868,691	10,868,691	-	10,868,691
Student account receivables	268,314	-	268,314	-	268,314
Unconditional promises to give	-	4,700,322	4,700,322	-	4,700,322
Employee and other receivables	123,509	-	123,509	-	123,509
Prepaid expenses and other current assets	129,891	12,198	142,089	-	142,089
Due from Grace Church	-	102,250	102,250	(102,250)	-
Total Current Assets	<u>647,343</u>	<u>18,738,225</u>	<u>19,385,568</u>	<u>(102,250)</u>	<u>19,283,318</u>
Property and equipment, net of accumulated depreciation	4,643,546	-	4,643,546	-	4,643,546
<b>TOTAL ASSETS</b>	<u>\$ 5,290,889</u>	<u>\$ 18,738,225</u>	<u>\$ 24,029,114</u>	<u>\$ (102,250)</u>	<u>\$ 23,926,864</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 825,221	\$ -	\$ 825,221	\$ -	\$ 825,221
Tuition and fees paid in advance	1,359,685	-	1,359,685	-	1,359,685
Other current liabilities	11,065	50,661	61,726	-	61,726
Due to Friends of GCS	102,250	-	102,250	(102,250)	-
Due to Grace Church	80,784	-	80,784	-	80,784
Total Liabilities	<u>2,379,005</u>	<u>50,661</u>	<u>2,429,666</u>	<u>(102,250)</u>	<u>2,327,416</u>
<b>COMMITMENTS AND CONTINGENCIES</b>					
<b>NET ASSETS</b>					
Unrestricted	2,911,884	9,588,105	12,499,989	-	12,499,989
Temporarily Restricted	-	66,590	66,590	-	66,590
Permanently Restricted	-	9,032,869	9,032,869	-	9,032,869
Total Net Assets	<u>2,911,884</u>	<u>18,687,564</u>	<u>21,599,448</u>	<u>-</u>	<u>21,599,448</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,290,889</u>	<u>\$ 18,738,225</u>	<u>\$ 24,029,114</u>	<u>\$ (102,250)</u>	<u>\$ 23,926,864</u>

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINING BALANCE SHEET  
 JUNE 30, 2004

	<u>GCS</u>	<u>FRIENDS</u>	<u>Combined before Adjustments</u>	<u>Adjustments</u>	<u>Combined after Adjustments</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 281,007	\$ 2,890,378	\$ 3,171,385	\$ -	\$ 3,171,385
Investments	-	7,618,403	7,618,403	-	7,618,403
Student account receivables	265,001	-	265,001	-	265,001
Unconditional promises to give	-	597,788	597,788	-	597,788
Other receivables	162,506	-	162,506	-	162,506
Prepaid expenses and other current assets	94,808	45,885	140,693	-	140,693
Due from Friends of Grace Church School	7,416	-	7,416	(7,416)	-
Due from Grace Church School	62,850	-	62,850	-	62,850
Total Current Assets	<u>873,588</u>	<u>11,152,454</u>	<u>12,026,042</u>	<u>(7,416)</u>	<u>12,018,626</u>
Property and equipment, net of accumulated depreciation and amortization	<u>4,216,223</u>	<u>-</u>	<u>4,216,223</u>	<u>-</u>	<u>4,216,223</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,089,811</u>	<u>\$ 11,152,454</u>	<u>\$ 16,242,265</u>	<u>\$ (7,416)</u>	<u>\$ 16,234,849</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 714,180	\$ -	\$ 714,180	\$ -	\$ 714,180
Tuition and fees paid in advance	1,283,024	-	1,283,024	-	1,283,024
Other current liabilities	15,988	60,114	76,102	-	76,102
Due to Grace Church	-	7,416	7,416	(7,416)	-
Total Liabilities	<u>2,013,192</u>	<u>67,530</u>	<u>2,080,722</u>	<u>(7,416)</u>	<u>2,073,306</u>
<b>COMMITMENTS AND CONTINGENCIES</b>					
	-	-	-	-	-
<b>NET ASSETS</b>					
Unrestricted	3,076,619	2,457,193	5,533,812	-	5,533,812
Temporarily Restricted	-	324,036	324,036	-	324,036
Permanently Restricted	-	8,303,695	8,303,695	-	8,303,695
Total Net Assets	<u>3,076,619</u>	<u>11,084,924</u>	<u>14,161,543</u>	<u>-</u>	<u>14,161,543</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,089,811</u>	<u>\$ 11,152,454</u>	<u>\$ 16,242,265</u>	<u>\$ (7,416)</u>	<u>\$ 16,234,849</u>

FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS  
 JULY 1, 2004 THROUGH JUNE 30, 2005

Description	Balances, Beginning of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers To/From GCS	Balances, End of Year
<b>Unrestricted</b>								
Annual Fund	\$ 807,616	\$ 921,672	\$ -	\$ 12,644	\$ (399,345)	\$ -	\$ (426,547)	\$ 916,040
Parents Association	31,000	31,000	-	-	-	-	(31,000)	31,000
School Working Capital	1,139,427	-	-	48,724	-	(416,237)	722,372	1,494,286
Plant Reserve	-	-	-	334	-	615,164	(461,529)	153,969
Contingency Fund	521,206	-	-	11,129	-	347,000	(177,567)	701,768
CC 2004 Unrestricted	(42,056)	6,881,870	-	16,162	(110,435)	(283,478)	(171,021)	6,291,042
<b>Total Unrestricted</b>	<b>\$ 2,457,193</b>	<b>\$ 7,834,542</b>	<b>\$ -</b>	<b>\$ 88,993</b>	<b>\$ (509,780)</b>	<b>\$ 262,449</b>	<b>\$ (545,292)</b>	<b>\$ 9,588,105</b>
<b>Temporarily Restricted</b>								
<u>Building and Grounds</u>								
General Building and Grounds	\$ -	\$ 25,000	\$ -	\$ -	\$ -	\$ (25,000)	\$ -	\$ -
Gymnasium Fund	25,807	5,000	-	359	(3,100)	-	-	28,066
Music Room Fund	200,401	5,450	-	-	-	(205,851)	-	-
3rd Floor Loft	25,256	-	-	374	-	(25,630)	-	-
Duchovny Learning Center	2,375	125	-	18	-	(2,518)	-	-
<b>Total Building and Grounds</b>	<b>253,839</b>	<b>35,575</b>	<b>-</b>	<b>751</b>	<b>(3,100)</b>	<b>(258,999)</b>	<b>-</b>	<b>28,066</b>
<u>Program Development</u>								
Faculty Prof Development	18,980	-	-	140	(31,250)	12,270	-	140
<b>Total Program Development</b>	<b>18,980</b>	<b>-</b>	<b>-</b>	<b>140</b>	<b>(31,250)</b>	<b>12,270</b>	<b>-</b>	<b>140</b>
<u>Student Support</u>								
Student Support Fund	15,908	5,111	-	175	(13,180)	-	-	8,014
Learning Issues Fund	6,760	-	-	100	-	-	-	6,860
<b>Total Student Support</b>	<b>22,668</b>	<b>5,111</b>	<b>-</b>	<b>275</b>	<b>(13,180)</b>	<b>-</b>	<b>-</b>	<b>14,874</b>
<u>Other Temporarily Restricted</u>								
Rest Annual – Scholarship	-	500	-	4	-	-	-	504
Rest Annual – Misc.	1,413	6,801	-	73	-	-	-	8,287
Rest Annual – Abacus Prog	2,281	3,000	-	36	(689)	-	(2,069)	2,558
Rest Annual – Science Award	-	50	-	-	(50)	-	-	-
Head’s Discretionary Fund	3,450	2,250	-	67	(40)	-	-	5,727
Family Crisis Fund	8,324	-	-	109	(2,000)	-	-	6,433
CC94 – Unrestricted	13,081	2,639	-	-	-	(15,720)	-	-
<b>Total Other Temporarily Restricted</b>	<b>28,549</b>	<b>15,240</b>	<b>-</b>	<b>289</b>	<b>(2,779)</b>	<b>(15,720)</b>	<b>(2,069)</b>	<b>23,510</b>
<b>Total Temporarily Restricted</b>	<b>\$ 324,036</b>	<b>\$ 55,926</b>	<b>\$ -</b>	<b>\$ 1,455</b>	<b>\$ (50,308)</b>	<b>\$ (262,449)</b>	<b>\$ (2,069)</b>	<b>\$ 66,590</b>

FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)  
 JULY 1, 2004 THROUGH JUNE 30, 2005

Description	Balances, Beginning of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers To/From GCS	Balances, End of Year
<b>Permanently Restricted</b>								
<u>Scholarship Endowment</u>								
CC94-Scholarship Endowment	\$ 620,312	\$ 5,521	\$ -	\$ 22,010	\$ -	\$ -	\$ (20,451)	\$ 627,392
General Scholarship Endowment	616,483	305	-	21,848	-	-	(18,313)	620,323
PA Scholarship Endowment	2,741,483	-	518,010	107,279	-	-	(75,414)	3,291,358
E.A. Grant Scholarship Fund	32,600	-	-	1,151	-	-	(1,073)	32,677
Cornell Fund for Inclusion	20,366	-	-	720	-	-	(671)	20,415
Hughes Family Scholarship Fund	21,809	1,300	-	795	-	-	(706)	23,198
Arrial Cogan Scholarship Fund	3,500	61,632	-	1,253	-	-	-	66,385
Total Scholarship Endowment	\$ 4,056,553	\$ 68,758	\$ 518,010	\$ 155,056	\$ -	\$ -	\$ (116,629)	\$ 4,681,748
<u>Faculty Endowment</u>								
CC94-Faculty Endowment	\$ 912,924	\$ -	\$ -	\$ 32,247	\$ -	\$ -	\$ (30,000)	\$ 915,172
General Faculty Endowment	22,854	200	-	806	-	-	(852)	23,008
8th Grade Fund for Faculty	325,870	23,245	-	12,038	(15,939)	-	-	345,213
KE Fund for Excellence in Teaching	21,549	-	-	760	-	-	(710)	21,599
Total Faculty Endowment	\$ 1,283,197	\$ 23,445	\$ -	\$ 45,851	\$ (15,939)	\$ -	\$ (31,562)	\$ 1,304,992
<u>Other Endowment</u>								
CC94-Unrestricted Endowment	\$ 7,980	\$ -	\$ -	\$ 221	\$ -	\$ -	\$ (1,938)	\$ 6,253
Unrestricted General Endowment	2,056,483	35,987	-	75,104	-	-	(48,129)	2,119,445
Kahn Endowment	36,119	1,500	-	1,314	(1,783)	-	(1,207)	37,150
J. Bailey Library Books Fund	33,071	325	-	1,206	(429)	-	-	34,174
Phil Hourwich Fund	3,707	-	-	135	-	-	-	3,842
Chaloner Poetry Prize Fund	813	450	-	38	-	-	-	1,301
Joanna Phillips Fund	11,263	2,500	-	457	-	-	-	14,220
Minthorne Fund for Performing Arts	43,080	1,000	-	1,592	-	-	-	45,671
Nadine Russell Endowment	327,730	-	-	11,576	-	-	(10,805)	328,501
Lehman Art Endowment	331,405	-	-	11,705	-	-	(10,926)	332,184
Pitt Chorister Award Fund	43,703	-	-	1,598	-	-	-	45,301
Wassman Fund for Grandparents Day	21,659	-	-	788	(189)	-	-	22,257
Kim Walker Memorial Fund	46,931	7,325	-	1,573	-	-	-	55,829
Total Other Endowment	\$ 2,963,945	\$ 49,087	\$ -	\$ 107,307	\$ (2,401)	\$ -	\$ (71,809)	\$ 3,046,129
Total Permanently Restricted Funds	\$ 8,303,695	\$ 141,290	\$ 518,010	\$ 308,214	\$ (18,340)	\$ -	\$ (220,000)	\$ 9,032,869
TOTAL ALL FUNDS	\$ 11,084,924	\$ 8,031,757	\$ 518,010	\$ 398,662	\$ (578,428)	\$ -	\$ (767,361)	\$ 18,687,564



FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS  
 JULY 1, 2003 THROUGH JUNE 30, 2004

Description	Balances, Beg. of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers to/ from GCS	Balances, End of Year
<b>Unrestricted</b>								
Annual Fund	\$ 659,283	\$ 801,985	\$ -	\$ 5,325	\$ (373,102)	\$ -	\$ (285,875)	\$ 807,616
Parents Association	30,179	31,000	-	-	-	-	(30,179)	31,000
School Working Capital	-	-	-	2,137	-	-	1,137,290	1,139,427
Plant Reserve	125,600	-	-	(1,401)	-	39,911	(164,110)	-
Contingency Fund	664,475	-	-	(988)	-	3,000	(145,281)	521,206
CC 2004 Unrestricted	-	8,560	-	-	(50,616)	-	-	(42,056)
Total Unrestricted	\$ 1,479,537	\$ 841,545	\$ -	\$ 5,073	\$ (423,718)	\$ 42,911	\$ 511,845	\$ 2,457,193
<b>Temporarily Restricted</b>								
<u>Building and Grounds</u>								
General Building and Grounds	\$ 1,900	\$ 18,100	\$ -	\$ -	\$ -	\$ (20,000)	\$ -	\$ -
Gymnasium fund	-	42,417	-	236	-	(16,846)	-	25,807
Music Room Fund	-	188,050	-	-	-	12,351	-	200,401
3rd Floor Loft	40,877	(3,621)	-	-	-	(12,000)	-	25,256
Duchovny Learning Center	4,625	250	-	-	-	(2,500)	-	2,375
Total Building and Grounds	47,402	245,196	-	236	-	(38,995)	-	253,839
<u>Program Development</u>								
Faculty Prof Development	38,718	-	-	205	(19,943)	-	-	18,980
Total Program Development	38,718	-	-	205	(19,943)	-	-	18,980
<u>Student Support</u>								
Student Support Fund	29,551	1,500	-	194	(15,337)	-	-	15,908
Learning Issues Fund	9,311	-	-	72	(2,623)	-	-	6,760
Total Student Support	38,862	1,500	-	266	(17,960)	-	-	22,668
<u>Other Temporarily Restricted</u>								
Rest Annual - Scholarship	500	500	-	-	-	-	(1,000)	-
Rest Annual - Misc.	2,551	1,563	-	11	(2,712)	-	-	1,413
Rest Annual - Abacus Prog	3,740	2,499	-	36	(3,994)	-	-	2,281
Rest Annual - Science Award	50	50	-	-	-	-	(100)	-
Head's Discretionary Fund	1,695	1,800	-	15	(60)	-	-	3,450
Family Crisis Fund	9,245	-	-	79	(1,000)	-	-	8,324
CC94 - Unrestricted	37,857	(18,776)	-	-	-	(6,000)	-	13,081
Total Other Temporarily Restricted	55,638	(12,364)	-	141	(7,766)	(6,000)	(1,100)	28,549
Total Temporarily Restricted	\$ 180,620	\$ 234,332	\$ -	\$ 848	\$ (45,669)	\$ (44,995)	\$ (1,100)	\$ 324,036

FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)  
 JULY 1, 2003 THROUGH JUNE 30, 2004

Description	Balances, Beg. of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers to GCS	Balances, End of Year
<b>Permanently Restricted</b>								
<u>Scholarship Endowment</u>								
CC94-Scholarship Endowment	\$ 617,116	\$ -	\$ -	\$ 21,908	\$ -	\$ -	\$ (18,712)	\$ 620,312
General Scholarship Endowment	598,242	13,770	-	19,563	-	-	(15,092)	616,483
PA Scholarship Endowment	2,266,221	-	454,784	79,981	-	-	(59,503)	2,741,483
E.A. Grant Scholarship Fund	32,382	50	-	1,150	-	-	(982)	32,600
Cornell Fund for Inclusion	20,262	-	-	719	-	-	(615)	20,366
Hughes Family Scholarship Fund	20,644	1,000	-	756	-	-	(591)	21,809
Arrial Cogan Scholarship Fund	-	3,500	-	-	-	-	-	3,500
Total Scholarship Endowment	<u>3,554,867</u>	<u>18,320</u>	<u>454,784</u>	<u>124,077</u>	<u>-</u>	<u>-</u>	<u>(95,495)</u>	<u>4,056,553</u>
<u>Faculty Endowment</u>								
CC94-Faculty Endowment	905,289	-	-	32,131	-	3,000	(27,496)	912,924
General Faculty Endowment	22,777	200	-	817	-	-	(940)	22,854
8th Grade Fund for Faculty	305,873	21,375	-	11,118	(12,496)	-	-	325,870
KE Fund for Excellence in Teaching	21,438	-	-	761	-	-	(650)	21,549
Total Faculty Endowment	<u>1,255,377</u>	<u>21,575</u>	<u>-</u>	<u>44,827</u>	<u>(12,496)</u>	<u>3,000</u>	<u>(29,086)</u>	<u>1,283,197</u>
<u>Other Endowment</u>								
Unrestricted General Endowment	1,885,191	138,022	-	68,565	-	-	(35,295)	2,056,483
CC94-Unrestricted Endowment	7,939	-	-	282	-	-	(241)	7,980
Kahn Endowment	34,067	2,500	-	1,302	(1,750)	-	-	36,119
J. Bailey Library Books Fund	32,974	525	-	1,220	(1,648)	-	-	33,071
Phil Hourwich Fund	3,624	-	-	133	(50)	-	-	3,707
Chaloner Poetry Prize Fund	899	-	-	33	(119)	-	-	813
Joanna Phillips Fund	-	11,250	-	13	-	-	-	11,263
Minthorne Fund for Performing Arts	41,559	-	-	1,521	-	-	-	43,080
Nadine Russell Endowment	326,042	-	-	11,574	-	-	(9,886)	327,730
Lehman Art Endowment	329,698	-	-	11,704	-	-	(9,997)	331,405
Pitt Chorister Award Fund	44,331	-	-	1,599	(2,227)	-	-	43,703
Wassman Fund for Grandparents Day	20,944	-	-	767	(51)	-	-	21,660
Kim Walker Memorial Fund	36,608	9,850	-	1,389	-	(916)	-	46,931
Total Other Endowment	<u>2,763,876</u>	<u>162,147</u>	<u>-</u>	<u>100,102</u>	<u>(5,845)</u>	<u>(916)</u>	<u>(55,419)</u>	<u>2,963,945</u>
Total Permanently Restricted Funds	<u>\$ 7,574,120</u>	<u>\$ 202,042</u>	<u>\$ 454,784</u>	<u>\$ 269,006</u>	<u>\$ (18,341)</u>	<u>\$ 2,084</u>	<u>\$ (180,000)</u>	<u>\$ 8,303,695</u>
TOTAL ALL FUNDS	<u>\$ 9,234,277</u>	<u>\$ 1,277,919</u>	<u>\$ 454,784</u>	<u>\$ 274,927</u>	<u>\$ (487,728)</u>	<u>\$ -</u>	<u>\$ 330,745</u>	<u>\$ 11,084,924</u>

GRACE CHURCH SCHOOL  
STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET  
JULY 1, 2004 THROUGH JUNE 30, 2005

	Unrestricted Net Assets				Total
	Operating Fund Budget	Operating Fund	Plant Fund	Contingency Fund	
<b>OPERATING TRANSACTIONS</b>					
<u>Revenue and Support</u>					
Tuition and Trip Fees	\$ 8,874,900	\$ 8,874,903	\$ -	\$ -	\$8,874,903
Financial Aid	(1,326,000)	(1,300,920)	-	-	(1,300,920)
Sibling Discounts	(92,533)	(92,880)	-	-	(92,880)
Net Tuition and Trip Fees	<u>7,456,367</u>	<u>7,481,103</u>	-	-	<u>7,481,103</u>
Contributions/Fund Raising	898,216	-	-	-	-
Investment Revenue	305,800	40,902	-	-	40,902
Ancillary Program Services	285,000	262,626	-	-	262,626
Other Revenue	116,000	212,881	-	-	212,881
Total Revenue	<u>9,061,383</u>	<u>7,997,512</u>	-	-	<u>7,997,512</u>
<u>Expenses</u>					
Instructional Program					
Labor Costs	4,775,254	4,754,658	-	105,674	4,860,332
Departmental Expenses	340,700	268,741	-	-	268,741
Trips	59,300	58,256	-	-	58,256
Operating Expenses	207,250	206,581	-	-	206,581
Total Instructional Program	<u>5,382,504</u>	<u>5,288,236</u>	-	<u>105,674</u>	<u>5,393,910</u>
Food Service					
Labor Costs	254,424	266,047	-	-	266,047
Operating Expenses	250,000	265,881	-	-	265,881
Total Food Service	<u>504,424</u>	<u>531,928</u>	-	-	<u>531,928</u>
Plant Operations and Maintenance					
Labor Costs	371,260	378,979	-	-	378,979
Loft Occupancy Costs	46,000	42,892	-	-	42,892
Space Allocation	230,000	211,686	-	-	211,686
Operating Expenses	111,550	143,037	-	-	143,037
Total Plant Operations and Maintenance	<u>758,810</u>	<u>776,594</u>	-	-	<u>776,594</u>
Ancillary Program Services					
Operating Expenses	280,000	264,646	-	-	264,646
Total Ancillary Program Services	<u>280,000</u>	<u>264,646</u>	-	-	<u>264,646</u>

GRACE CHURCH SCHOOL  
 STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET (CONTINUED)  
 JULY 1, 2004 THROUGH JUNE 30, 2005

	<u>Operating Fund Budget</u>	<u>Operating Fund</u>	<u>Plant Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
<b>Administration</b>					
Labor Costs	\$ 1,357,278	\$ 1,021,266	\$ -	\$ -	1,021,266
Departmental Expenses	142,200	43,612	-	-	43,612
Total - Administration	<u>1,499,478</u>	<u>1,064,878</u>	-	-	1,064,878
<b>Other Expenses</b>					
General Expenses	300,600	340,330	20	-	340,350
Depreciation	-	-	477,875	-	477,875
Reorganization Costs	-	-	-	79,428	79,428
Total - Other Expenses	<u>300,600</u>	<u>340,000</u>	<u>477,895</u>	<u>79,428</u>	<u>897,653</u>
<b>Total Expenses</b>	<u>\$ 8,725,816</u>	<u>\$ 8,266,612</u>	<u>\$ 477,895</u>	<u>\$ 185,102</u>	<u>\$ 8,929,609</u>
<b>INCREASE/(DECREASE) IN OPERATIONS</b>	<u>\$ 335,567</u>	<u>\$ (269,100)</u>	<u>\$ (477,895)</u>	<u>\$ (185,102)</u>	<u>\$ (932,097)</u>
<b>NON-OPERATING TRANSACTIONS</b>					
Transfer (to)/from Friends of Grace Church School	\$ -	\$ 254,812	\$ 512,550	\$ -	\$ 767,362
Purchases of Property and Equipment	(85,567)	(105,850)	105,850	-	-
Transfers of Operating Surplus	<u>(250,000)</u>	<u>(347,000)</u>	<u>-</u>	<u>347,000</u>	<u>-</u>
<b>NET INCREASE/(DECREASE) IN NON- OPERATING TRANSACTIONS</b>	<u>\$ (335,567)</u>	<u>\$ (198,038)</u>	<u>\$ 618,400</u>	<u>\$ 347,000</u>	<u>\$ 767,362</u>
<b>NET CHANGE IN UNRESTRICTED ASSETS</b>	\$ -	\$ (467,138)	\$ 140,505	\$ 161,898	\$ (164,735)
<b>NET ASSET BALANCE @ July 1, 2004</b>	<u>-</u>	<u>(1,145,665)</u>	<u>4,222,284</u>	<u>-</u>	<u>3,076,619</u>
<b>NET ASSET BALANCE @ June 30, 2005</b>	<u>\$ -</u>	<u>\$ (1,612,803)</u>	<u>\$ 4,362,789</u>	<u>\$ 161,898</u>	<u>\$ 2,911,884</u>

GRACE CHURCH SCHOOL  
 STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET  
 JULY 1, 2003 THROUGH JUNE 30, 2004

	Operating Fund Budget	Unrestricted Operating Fund	Net Plant Fund	Assets Contingency Fund	Total
<b>OPERATING TRANSACTIONS</b>					
<b>Revenue and Support</b>					
Tuition and Trip Fees	\$ 8,399,800	\$ 8,399,800	\$ -	\$ -	\$ 8,399,800
Financial Aid	(1,243,700)	(1,247,759)	-	-	(1,247,759)
Sibling Discounts	( 61,000)	( 61,045)	-	-	( 61,045)
Net Tuition and Trip Fees	<u>7,095,100</u>	<u>7,090,996</u>	-	-	<u>7,090,996</u>
Contributions/Fund Raising	689,100	-	-	-	-
Investment Revenues	297,000	57,128	-	-	57,128
Ancillary Program Services	285,000	271,263	-	-	271,263
Other Revenues	124,000	115,707	-	-	115,707
Total Revenue and Support	<u>8,490,200</u>	<u>7,535,094</u>	-	-	<u>7,535,094</u>
<b>Expenses</b>					
<b>Instructional Program</b>					
Labor Costs	4,614,400	4,586,679	-	-	4,586,679
Departmental Expenses	263,800	270,903	-	-	270,903
Trips	62,000	50,836	-	-	50,836
Operating Expenses	190,400	188,397	-	-	188,397
Total Instructional Program	<u>5,130,600</u>	<u>5,096,815</u>	-	-	<u>5,096,815</u>
<b>Food Service</b>					
Labor Costs	262,200	262,681	-	-	262,681
Operating Expenses	248,300	244,180	-	-	244,180
Total Food Service	<u>510,500</u>	<u>506,861</u>	-	-	<u>506,861</u>
<b>Plant Operations and Maintenance</b>					
Labor Costs	359,900	370,294	-	-	370,294
Loft Occupancy Costs	46,000	46,000	-	-	46,000
Space Allocation	220,600	210,848	-	-	210,848
Operating Expenses	107,250	108,500	-	-	108,500
Total Plant Operations and Maintenance	<u>733,750</u>	<u>735,642</u>	-	-	<u>735,642</u>
<b>Ancillary Program Services</b>					
Operating Expenses	280,000	272,215	-	-	272,215
Total Ancillary Program Services	<u>280,000</u>	<u>272,215</u>	-	-	<u>272,215</u>

GRACE CHURCH SCHOOL  
STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET (CONTINUED)  
JULY 1, 2003 THROUGH JUNE 30, 2004

	Operating Fund Budget	Unrestricted Net Assets			Total
		Operating Fund	Plant Fund	Contingency Fund	
Administration					
Labor Costs	1,200,800	910,091	-	-	910,091
Departmental Expenses	142,000	41,736	-	-	41,736
Total – Administration	<u>1,342,800</u>	<u>951,827</u>	<u>-</u>	<u>-</u>	<u>951,827</u>
Other Expenses					
General	279,100	314,442	130	-	314,572
Depreciation	-	-	483,968	-	483,968
Total - Other Expenses	<u>279,100</u>	<u>314,442</u>	<u>484,098</u>	<u>-</u>	<u>798,540</u>
Total Expenses	<u>8,276,750</u>	<u>7,877,802</u>	<u>484,098</u>	<u>-</u>	<u>8,361,900</u>
NET INCREASE/(DECREASE) IN OPERATIONS	<u>213,450</u>	<u>( 342,708)</u>	<u>(484,098)</u>	<u>-</u>	<u>( 826,806)</u>
NON-OPERATING TRANSACTIONS					
Transfer (to)/from Friends of Grace Church School	-	( 619,957)	289,212	-	( 330,745)
Purchases of property and equipment	-	( 183,000)	183,000	-	-
Transfer of operating surplus	<u>(213,450)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE/(DECREASE) IN NON-OPERATING TRANSACTIONS	<u>(213,450)</u>	<u>( 802,957)</u>	<u>472,212</u>	<u>-</u>	<u>( 330,745)</u>
NET CHANGE IN UNRESTRICTED NET ASSETS	-	(1,145,665)	( 11,886)	-	(1,157,551)
NET ASSET BALANCE @ July 1, 2003	-	-	4,234,170	-	4,234,170
NET ASSET BALANCE @ June 30, 2004	<u>\$ -</u>	<u>\$ (1,145,665)</u>	<u>\$ 4,222,284</u>	<u>\$ -</u>	<u>\$3,076,619</u>

**GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.**

**COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2004 AND 2003**

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

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## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
GRACE CHURCH SCHOOL AND FRIENDS OF GRACE CHURCH SCHOOL, INC.

We have audited the accompanying combined balance sheets of Grace Church School of Grace Church in the City of New York and Friends of Grace Church School, Inc. as of June 30, 2004 and 2003, and the related combined statements of activities, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the School's management. 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Grace Church School of Grace Church in the City of New York and Friends of Grace Church School, Inc. as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

MERDINGER, FRUCHTER, ROSEN & COMPANY, LLP  
Certified Public Accountants

New York, New York  
October 22, 2004

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
COMBINED BALANCE SHEETS

	June 30,	
	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,171,385	\$ 4,778,704
Investments	7,618,403	5,263,385
Student account receivables, net of allowance for doubtful accounts of \$130,563 and \$76,307, respectively	265,001	241,825
Unconditional promises to give, net of allowance for uncollectible promises of \$20,000 and \$75,000, respectively	597,788	674,721
Other receivables	162,506	88,192
Prepaid expenses and other current assets	140,693	123,749
Due from Grace Church	62,850	54,595
Total Current Assets	12,018,626	11,225,171
 Property and equipment, net of accumulated depreciation and amortization of \$2,901,297 and \$2,417,325, respectively	 4,216,223	 4,206,468
<b>TOTAL ASSETS</b>	<b>\$ 16,234,849</b>	<b>\$ 15,431,639</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 714,180	\$ 684,748
Tuition and fees paid in advance	1,283,024	1,181,639
Other current liabilities	76,102	96,805
Total liabilities	2,073,306	1,963,192
 <b>COMMITMENTS AND CONTINGENCIES</b>	 -	 -
 <b>NET ASSETS</b>		
Unrestricted	5,533,812	5,713,707
Temporarily restricted	324,036	180,620
Permanently restricted	8,303,695	7,574,120
Total net assets	14,161,543	13,468,447
<b>TOTAL LIABILITES AND NET ASSETS</b>	<b>\$ 16,234,849</b>	<b>\$ 15,431,639</b>

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

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	GCS	Friends	Combined	Friends	Friends	
<b>REVENUES</b>						
Net Tuition and Trip Fees	\$ 7,090,996	\$ -	\$ 7,090,996	\$ -	\$ -	\$ 7,090,996
Contributions/Fundraising	-	841,545	841,545	234,332	202,042	1,277,919
Auction Income, net	-	-	-	-	454,784	454,784
Investment Income, net	57,128	5,073	62,201	848	269,006	332,055
Ancillary Program Revenue	271,263	-	271,263	-	-	271,263
Other Revenue	115,707	-	115,707	-	-	115,707
<b>Total Revenues</b>	<b>7,535,094</b>	<b>846,618</b>	<b>8,381,712</b>	<b>235,180</b>	<b>925,832</b>	<b>9,542,724</b>
<b>EXPENSES</b>						
Educational and Instructional Expenses	5,096,815	-	5,096,815	-	-	5,096,815
Food Services Expenses	506,861	-	506,861	-	-	506,861
Plant Operations and Maintenance Expenses	735,642	-	735,642	-	-	735,642
Ancillary Program Expenses	272,215	-	272,215	-	-	272,215
Administrative Expenses	951,827	-	951,827	-	-	951,827
Development Expenses	-	373,102	373,102	-	-	373,102
General Expenses	314,572	50,616	365,188	45,669	18,341	429,198
Depreciation Expense	483,968	-	483,968	-	-	483,968
<b>Total Expenses</b>	<b>8,361,900</b>	<b>423,718</b>	<b>8,785,618</b>	<b>45,669</b>	<b>18,341</b>	<b>8,849,628</b>
<b>CHANGE IN NET ASSETS BEFORE TRANSFERS</b>	<b>( 826,806)</b>	<b>422,900</b>	<b>(403,906)</b>	<b>189,511</b>	<b>907,491</b>	<b>693,096</b>
Transfers between GCS and Friends	( 330,745)	511,845	181,100	( 1,100)	(180,000)	-
Internal Transfers	-	42,911	42,911	(44,995)	2,084	-
<b>CHANGE IN NET ASSETS</b>	<b>(1,157,551)</b>	<b>977,656</b>	<b>(179,895)</b>	<b>143,416</b>	<b>729,575</b>	<b>693,096</b>
<b>NET ASSETS @ JULY 1, 2003</b>	<b>4,234,170</b>	<b>1,479,537</b>	<b>5,713,707</b>	<b>180,620</b>	<b>7,574,120</b>	<b>13,468,447</b>
<b>NET ASSETS @ JUNE 30, 2004</b>	<b>\$ 3,076,619</b>	<b>\$ 2,457,193</b>	<b>\$ 5,533,812</b>	<b>\$ 324,036</b>	<b>\$ 8,303,695</b>	<b>\$ 14,161,543</b>

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

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2003

	Unrestricted		Temporarily	Permanently	Total
	GCS	Friends	Restricted Friends	Restricted Friends	
<b>REVENUES</b>					
Net Tuition and Trip Fees	\$ 6,669,248	\$ -	\$ 6,669,248	\$ -	\$ 6,669,248
Contributions/Fundraising	-	731,382	731,382	6,799	1,350,123
Auction Income, Net	-	-	-	-	307,733
Investment Income, net	131,113	39,232	170,345	675	375,539
Ancillary Program Revenue	253,555	-	253,555	-	253,555
Other Revenue	163,590	-	163,590	-	163,590
Total Revenues	<u>7,217,506</u>	<u>770,614</u>	<u>7,988,120</u>	<u>7,474</u>	<u>9,119,788</u>
<b>EXPENSES</b>					
Educational and Instructional Expenses	4,789,112	-	4,789,112	-	4,789,112
Food Services Expenses	478,954	-	478,954	-	478,954
Plant Operations and Maintenance Expenses	692,435	-	692,435	-	692,435
Ancillary Program Expenses	239,511	-	239,511	-	239,511
Administrative Expenses	866,186	-	866,186	-	866,186
Development Expenses	-	315,091	315,091	-	315,091
General Expenses	364,674	16,173	380,847	30,565	431,936
Depreciation Expense	435,834	-	435,834	-	435,834
Total Expenses	<u>7,866,706</u>	<u>331,264</u>	<u>8,197,970</u>	<u>30,565</u>	<u>8,249,059</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	(649,200)	439,350	(209,850)	( 23,091)	1,103,670
Transfers between GCS and Friends	(256,660)	481,585	224,925	( 79,925)	(145,000)
Internal Transfers	-	-	-	( 3,250)	3,250
CHANGE IN NET ASSETS	(905,860)	920,935	15,075	(106,266)	961,920
NET ASSETS @ JULY 1, 2002	5,140,030	558,602	5,698,632	286,886	6,612,200
NET ASSETS @ JUNE 30, 2003	<u>\$ 4,234,170</u>	<u>\$ 1,479,537</u>	<u>\$ 5,713,707</u>	<u>\$ 180,620</u>	<u>\$ 7,574,120</u>
					<u>\$ 13,468,447</u>

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

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 693,096	\$ 870,729
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	483,968	435,834
Bad debt expense	56,506	50,000
Unrealized (gain) loss	19,607	( 92,548)
Decrease (increase) in promises to give	76,933	( 5,446)
(Increase) in student accounts receivable	( 79,682)	( 43,433)
(Increase) decrease in other receivables	( 74,314)	133,526
(Increase) in prepaid expenses and other current assets	( 16,944)	( 32,711)
(Increase) in due from/to Grace Church	( 8,255)	(139,361)
Increase (decrease) in accounts payable and accrued expenses	29,432	( 35,044)
Increase in tuition and fees paid in advance	101,385	54,429
(Decrease) in other current liabilities	( 20,703)	( 28,889)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,261,029</b>	<b>1,167,086</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase/sale of investments	(2,374,625)	261,145
Property and equipment	( 493,723)	(541,552)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,868,348)</b>	<b>(280,407)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,607,319)</b>	<b>886,679</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>4,778,704</b>	<b>3,892,025</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$3,171,385</b>	<b>\$ 4,778,704</b>

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

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of business and basis of presentation

The accompanying financial statements include the accounts of Grace Church School of Grace Church in the City of New York ("GCS") and Friends of Grace Church School, Inc. ("Friends").

GCS is an independent school with classes from Junior Kindergarten through Eighth Grade. GCS is operated and managed by an independent, self-governing Board of Trustees, as authorized and directed by the Vestry of Grace Church in an enabling resolution. The accounts of the Rector, Church Wardens, and Vestrymen of Grace Church in the City of New York (the "Church") are not included.

Friends is a separately incorporated fundraising organization that conducts development efforts on behalf of GCS and holds the GCS endowment. All funds solicited by Friends are intended by the contributor to be transferred to or invested to generate income for GCS. Accordingly, the results of operations of GCS and Friends are required to be reported on a combined basis.

GCS and Friends are collectively referred to as (the "School") throughout the report.

b) Basis of accounting

The financial statements of the School have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

c) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d) Financial statement presentation

The School has adopted Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the School is required to present a statement of cash flows.

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Contributions

The School has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

f) Promises to give

Unconditional promises to give are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value, if they are expected to be collected in one year, and at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The School uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

g) Income taxes

GCS is a not-for-profit educational institution that is fully owned by the Church, which is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Friends is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

h) Cash and cash equivalents

For purposes of the statements of cash flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

i) Investments

The School has elected to adopt SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Unrealized gains and losses are included in investment income in the changes in net assets.

GRACE CHURCH SCHOOL/  
FRIENDS OF GRACE CHURCH SCHOOL, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- j) Fair values of financial instruments  
The following methods and assumptions have been used by the School in estimating its fair value disclosures for financial instruments:
- Cash, cash equivalents, short-term investments and promises to give due in less than one year: the carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.
- Promises to give due in more than one year: the fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows using current risk-free rates of return based on U.S. Treasury Securities yields with maturity dates similar to the expected collection period.
- Long-term investments: the fair values of long-term investments are based on quoted market prices for those or similar investments.
- k) Property and equipment  
Property and equipment is carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.
- l) Deferred revenue  
Tuition and fees paid in advance for the following school years are deferred and recognized during the period in which the tuition and fees relate.
- m) Concentration of credit risk  
The School places its cash in what it believes to be credit-worthy financial institutions. However, cash balances exceed FDIC insured levels at various times during the year.



GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 JUNE 30, 2004 AND 2003

NOTE 2 - INVESTMENTS

The School's investments at June 30, 2004 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
U.S. Government and agency bonds	\$ 4,673,596	\$ 4,700,626
Corporate Bonds	301,723	306,319
Common stocks	2,212,157	2,486,532
Partnership	110,000	124,926
	<u>\$ 7,297,476</u>	<u>\$ 7,618,403</u>

Unrealized gains totaled \$320,927 at June 30, 2004.

The School's investments at June 30, 2003 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
U.S. Government and agency bonds	\$ 3,559,170	\$ 3,763,958
Corporate Bonds	413,188	432,934
Common stocks	891,010	991,493
Partnerships	75,000	75,000
	<u>\$ 4,938,368</u>	<u>\$ 5,263,385</u>

Unrealized gains totaled \$325,017 at June 30, 2003.

NOTE 3 - PROMISES TO GIVE

Unconditional promises to give were as follows:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receivables in less than one year	\$ 250,552	\$ 438,780
Receivables in one to five years	435,752	404,000
Total unconditional promises to give	686,304	842,780
Less: Discounts to net present value	(68,516)	(93,059)
Less: Allowance for uncollectible promises receivable	(20,000)	(75,000)
Net unconditional promises	<u>\$ 597,788</u>	<u>\$ 674,721</u>

The School, as of June 30, 2004 and 2003, also had unconditional promises to give that consisted of:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Charitable remainder trust	\$ 89,000	\$ 89,000
Life insurance	\$ 41,000	\$ 41,000
Bequest	<u>\$ 20,000</u>	<u>\$ 20,000</u>

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 JUNE 30, 2004 AND 2003

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following at:

	June 30,	
	2004	2003
Leasehold improvements	\$ 6,062,788	\$ 5,675,932
Furniture and equipment	1,054,732	947,861
	7,117,520	6,623,793
Less: accumulated depreciation and amortization	(2,901,297)	(2,417,325)
Property and equipment, net	\$ 4,216,223	\$ 4,206,468

Depreciation and amortization expense for the years ending June 30, 2004 and 2003 was \$483,968 and \$435,834, respectively.

NOTE 5 - GRACE CHURCH IN THE CITY OF NEW YORK

The School has a cost sharing lease agreement with the Church for the space upon which the School is located. The Church also pays certain expenses on behalf of the School and the School processes the Church's payroll. These transactions are recorded through the due from/to Grace Church Account. The School has a receivable due from the Church of \$62,850 and \$54,595 at June 30, 2004 and 2003, respectively.

The Church also has permanently restricted net assets relating to Stokes and endowment contributions that have been restricted by the donors to generate income for the benefit of the School. The combined net assets totaled \$654,886 and \$646,490 as of June 30, 2004 and 2003, respectively.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The School has a compensation agreement through June 30, 2005 and thereafter for consecutive three-year periods until terminated (as defined in the agreement) with the Head of Grace Church School. The agreement calls for an annual salary ranging from \$166,000 to \$236,000, 12½% of salary for retirement annuity, major medical and hospitalization coverage, \$36,000 housing allowance and reimbursement for other expenses incurred on behalf of the School.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF  
GRACE CHURCH SCHOOL AND FRIENDS OF GRACE CHURCH SCHOOL, INC.

We have audited the accompanying combined financial statements of The Grace Church School of Grace Church in the City of New York and Friends of Grace Church School, Inc. as of, and for, the years ended June 30, 2004 and 2003, and issued our report on October 22, 2004. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information is presented only for analysis purposes and is not a required part of the basic financial statements. Such information contains certain classifications that are not consistent with the combined classifications, but has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MERDINGER, FRUCHTER, ROSEN & COMPANY, LLP  
Certified Public Accountants

New York, New York  
October 22, 2004

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINING BALANCE SHEET  
 JUNE 30, 2004

	GCS	FRIENDS	Combined before Adjustments	Adjustments	Combined after Adjustments
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 281,007	\$ 2,890,378	\$ 3,171,385	\$ -	\$ 3,171,385
Investments	-	7,618,403	7,618,403	-	7,618,403
Student account receivables	265,001	-	265,001	-	265,001
Unconditional promises to give	-	597,788	597,788	-	597,788
Other receivables	162,506	-	162,506	-	162,506
Prepaid expenses and other current assets	94,808	45,885	140,693	-	140,693
Due from Friends of Grace Church School	7,416	-	7,416	(7,416)	-
Due from Grace Church School	62,850	-	62,850	-	62,850
<b>Total Current Assets</b>	<b>873,588</b>	<b>11,152,454</b>	<b>12,026,042</b>	<b>(7,416)</b>	<b>12,018,626</b>
Property and equipment, net of accumulated depreciation and amortization	4,216,223	-	4,216,223	-	4,216,223
<b>TOTAL ASSETS</b>	<b>\$ 5,089,811</b>	<b>\$ 11,152,454</b>	<b>\$ 16,242,265</b>	<b>\$ (7,416)</b>	<b>\$ 16,234,849</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 714,180	\$ -	\$ 714,180	\$ -	\$ 714,180
Tuition and fees paid in advance	1,283,024	-	1,283,024	-	1,283,024
Other current liabilities	15,988	60,114	76,102	-	76,102
Due to Grace Church	-	7,416	7,416	(7,416)	-
<b>Total Liabilities</b>	<b>2,013,192</b>	<b>67,530</b>	<b>2,080,722</b>	<b>(7,416)</b>	<b>2,073,306</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-	-	-	-
<b>NET ASSETS</b>					
Unrestricted	3,076,619	2,457,193	5,533,812	-	5,533,812
Temporarily Restricted	-	324,036	324,036	-	324,036
Permanently Restricted	-	8,303,695	8,303,695	-	8,303,695
<b>Total Net Assets</b>	<b>3,076,619</b>	<b>11,084,924</b>	<b>14,161,543</b>	<b>-</b>	<b>14,161,543</b>
<b>TOTAL LIABILITES AND NET ASSETS</b>	<b>\$ 5,089,811</b>	<b>\$ 11,152,454</b>	<b>\$ 16,242,265</b>	<b>\$ (7,416)</b>	<b>\$ 16,234,849</b>

GRACE CHURCH SCHOOL/  
 FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 COMBINING BALANCE SHEET  
 JUNE 30, 2003

	GCS	FRIENDS	Combined before Adjustments	Adjustments	Combined after Adjustments
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 1,094,848	\$ 3,683,856	\$ 4,778,704	\$ -	\$ 4,778,704
Investments	-	5,263,385	5,263,385	-	5,263,385
Student account receivables	241,825	-	241,825	-	241,825
Unconditional promises to give	-	674,721	674,721	-	674,721
Employee and other receivables	84,767	3,425	88,192	-	88,192
Prepaid expenses and other current assets	119,407	4,342	123,749	-	123,749
Due from Friends of Grace Church School	316,211	-	316,211	(316,211)	-
Due from Grace Church	54,595	-	54,595	-	54,595
<b>Total Current Assets</b>	<b>1,911,653</b>	<b>9,629,729</b>	<b>11,541,382</b>	<b>(316,211)</b>	<b>11,225,171</b>
Property and equipment, net of accumulated depreciation	4,206,468	-	4,206,468	-	4,206,468
<b>TOTAL ASSETS</b>	<b>\$ 6,118,121</b>	<b>\$ 9,629,729</b>	<b>\$ 15,747,850</b>	<b>\$ (316,211)</b>	<b>\$ 15,431,639</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 684,748	\$ -	\$ 684,748	\$ -	\$ 684,748
Tuition and fees paid in advance	1,181,639	-	1,181,639	-	1,181,639
Other current liabilities	17,564	79,241	96,805	-	96,805
Due to Grace Church School	-	316,211	316,211	(316,211)	-
<b>Total Liabilities</b>	<b>1,883,951</b>	<b>395,452</b>	<b>2,279,403</b>	<b>(316,211)</b>	<b>1,963,192</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>					
Unrestricted	4,234,170	1,479,537	5,713,707	-	5,713,707
Temporarily Restricted	-	180,620	180,620	-	180,620
Permanently Restricted	-	7,574,120	7,574,120	-	7,574,120
<b>Total Net Assets</b>	<b>4,234,170</b>	<b>9,234,277</b>	<b>13,468,447</b>	<b>-</b>	<b>13,468,447</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,118,121</b>	<b>\$ 9,629,729</b>	<b>\$ 15,747,850</b>	<b>\$ (316,211)</b>	<b>\$ 15,431,639</b>

**FRIENDS OF GRACE CHURCH SCHOOL, INC.**  
**DETAILED STATEMENT OF CHANGES IN NET ASSETS**  
**JULY 1, 2003 THROUGH JUNE 30, 2004**

Description	Balances, Beg. of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers to/ from GCS	Balances, End of Year
<b>Unrestricted</b>								
Annual Fund	\$ 659,283	\$ 801,985	\$ -	\$ 5,325	\$ ( 373,102)	\$ -	\$ (285,875)	\$ 807,616
Parents Association	30,179	31,000	-	-	-	-	( 30,179)	31,000
School Working Capital	-	-	-	2,137	-	-	1,137,290	1,139,427
Plant Reserve	125,600	-	-	(1,401)	-	39,911	(164,110)	-
Contingency Fund	664,475	-	-	( 988)	-	3,000	(145,281)	521,206
CC 2004 Unrestricted	-	8,560	-	-	( 50,616)	-	-	(42,056)
<b>Total Unrestricted</b>	<b>\$ 1,479,537</b>	<b>\$ 841,545</b>	<b>\$ -</b>	<b>\$ 5,073</b>	<b>\$ (423,718)</b>	<b>\$ 42,911</b>	<b>\$ 511,845</b>	<b>\$ 2,457,193</b>
<b>Temporarily Restricted</b>								
<b><u>Building and Grounds</u></b>								
General Building and Grounds	\$ 1,900	\$ 18,100	\$ -	\$ -	\$ -	\$ (20,000)	\$ -	\$ -
Gymnasium fund	-	42,417	-	236	-	(16,846)	-	25,807
Music Room Fund	-	188,050	-	-	-	12,351	-	200,401
3rd Floor Loft	40,877	(3,621)	-	-	-	(12,000)	-	25,256
Duchovny Learning Center	4,625	250	-	-	-	( 2,500)	-	2,375
<b>Total Building and Grounds</b>	<b>47,402</b>	<b>245,196</b>	<b>-</b>	<b>236</b>	<b>-</b>	<b>(38,995)</b>	<b>-</b>	<b>253,839</b>
<b><u>Program Development</u></b>								
Faculty Prof Development	38,718	-	-	205	( 19,943)	-	-	18,980
<b>Total Program Development</b>	<b>38,718</b>	<b>-</b>	<b>-</b>	<b>205</b>	<b>( 19,943)</b>	<b>-</b>	<b>-</b>	<b>18,980</b>
<b><u>Student Support</u></b>								
Student Support Fund	29,551	1,500	-	194	( 15,337)	-	-	15,908
Learning Issues Fund	9,311	-	-	72	( 2,623)	-	-	6,760
<b>Total Student Support</b>	<b>38,862</b>	<b>1,500</b>	<b>-</b>	<b>266</b>	<b>( 17,960)</b>	<b>-</b>	<b>-</b>	<b>22,668</b>
<b><u>Other Temporarily Restricted</u></b>								
Rest Annual - Scholarship	500	500	-	-	-	-	(1,000)	-
Rest Annual - Misc.	2,551	1,563	-	11	( 2,712)	-	-	1,413
Rest Annual - Abacus Prog	3,740	2,499	-	36	( 3,994)	-	-	2,281
Rest Annual - Science Award	50	50	-	-	-	-	( 100)	-
Head's Discretionary Fund	1,695	1,800	-	15	( 60)	-	-	3,450
Family Crisis Fund	9,245	-	-	79	( 1,000)	-	-	8,324
CC94 - Unrestricted	37,857	(18,776)	-	-	-	( 6,000)	-	13,081
<b>Total Other Temporarily Restricted</b>	<b>55,638</b>	<b>(12,364)</b>	<b>-</b>	<b>141</b>	<b>( 7,766)</b>	<b>( 6,000)</b>	<b>(1,100)</b>	<b>28,549</b>
<b>Total Temporarily Restricted</b>	<b>\$ 180,620</b>	<b>\$ 234,332</b>	<b>\$ -</b>	<b>848</b>	<b>\$ ( 45,669)</b>	<b>\$ (44,995)</b>	<b>\$ (1,100)</b>	<b>\$ 324,036</b>

FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)  
 JULY 1, 2003 THROUGH JUNE 30, 2004

Description	Balances, Beg. of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers to GCS	Balances, End of Year
<b>Permanently Restricted</b>								
<u>Scholarship Endowment</u>								
CC94-Scholarship Endowment	\$ 617,116	\$ -	\$ -	\$ 21,908	\$ -	\$ -	\$ ( 18,712)	\$ 620,312
General Scholarship Endowment	598,242	13,770	-	19,563	-	-	( 15,092)	616,483
PA Scholarship Endowment	2,266,221	-	454,784	79,981	-	-	( 59,503)	2,741,483
E.A. Grant Scholarship Fund	32,382	50	-	1,150	-	-	( 982)	32,600
Cornell Fund for Inclusion	20,262	-	-	719	-	-	( 615)	20,366
Hughes Family Scholarship Fund	20,644	1,000	-	756	-	-	( 591)	21,809
Arrial Cogan Scholarship Fund	-	3,500	-	-	-	-	-	3,500
Total Scholarship Endowment	<u>3,554,867</u>	<u>18,320</u>	<u>454,784</u>	<u>124,077</u>	<u>-</u>	<u>-</u>	<u>( 95,495)</u>	<u>4,056,553</u>
<u>Faculty Endowment</u>								
CC94-Faculty Endowment	905,289	-	-	32,131	-	3,000	( 27,496)	912,924
General Faculty Endowment	22,777	200	-	817	-	-	( 940)	22,854
8th Grade Fund for Faculty	305,873	21,375	-	11,118	( 12,496)	-	-	325,870
KE Fund for Excellence in Teaching	21,438	-	-	761	-	-	( 650)	21,549
Total Faculty Endowment	<u>1,255,377</u>	<u>21,575</u>	<u>-</u>	<u>44,827</u>	<u>( 12,496)</u>	<u>3,000</u>	<u>( 29,086)</u>	<u>1,283,197</u>
<u>Other Endowment</u>								
Unrestricted General Endowment	1,885,191	138,022	-	68,565	-	-	( 35,295)	2,056,483
CC94-Unrestricted Endowment	7,939	-	-	282	-	-	( 241)	7,980
Kahn Endowment	34,067	2,500	-	1,302	( 1,750)	-	-	36,119
J. Bailey Library Books Fund	32,974	525	-	1,220	( 1,648)	-	-	33,071
Phil Hourwich Fund	3,624	-	-	133	( 50)	-	-	3,707
Chaloner Poetry Prize Fund	899	-	-	33	( 119)	-	-	813
Joanna Phillips Fund	-	11,250	-	13	-	-	-	11,263
Minthorne Fund for Performing Arts	41,559	-	-	1,521	-	-	-	43,080
Nadine Russell Endowment	326,042	-	-	11,574	-	-	( 9,886)	327,730
Lehman Art Endowment	329,698	-	-	11,704	-	-	( 9,997)	331,405
Pitt Chorister Award Fund	44,331	-	-	1,599	( 2,227)	-	-	43,703
Wassman Fund for Grandparents Day	20,944	-	-	767	( 51)	-	-	21,660
Kim Walker Memorial Fund	36,608	9,850	-	1,389	-	(916)	-	46,931
Total Other Endowment	<u>2,763,876</u>	<u>162,147</u>	<u>-</u>	<u>100,102</u>	<u>( 5,845)</u>	<u>(916)</u>	<u>( 55,419)</u>	<u>2,963,945</u>
Total Permanently Restricted Funds	<u>\$ 7,574,120</u>	<u>\$ 202,042</u>	<u>\$ 454,784</u>	<u>\$ 269,006</u>	<u>\$ ( 18,341)</u>	<u>\$ 2,084</u>	<u>\$ (180,000)</u>	<u>\$ 8,303,695</u>
TOTAL ALL FUNDS	<u>\$ 9,234,277</u>	<u>\$ 1,277,919</u>	<u>\$ 454,784</u>	<u>\$ 274,927</u>	<u>\$ (487,728)</u>	<u>\$ -</u>	<u>\$ 330,745</u>	<u>\$ 11,084,924</u>

FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS  
 JULY 1, 2002 THROUGH JUNE 30, 2003

Description	Balances, Beginning of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers to GCS	Balances, End of Year
<b>Unrestricted</b>								
Annual Fund	\$ 558,602	\$ 671,382	\$ -	\$ 3,902	\$ (331,264)	\$ -	\$ (243,339)	\$ 659,283
Parents Association	-	60,000	-	179	-	-	( 30,000)	30,179
Plant Reserve	-	-	-	35,121	-	-	90,479	125,600
Contingency Fund	-	-	-	30	-	-	664,445	664,475
Total Unrestricted	<u>\$ 558,602</u>	<u>\$ 731,382</u>	<u>\$ -</u>	<u>\$ 39,232</u>	<u>\$ (331,264)</u>	<u>\$ -</u>	<u>\$ 481,585</u>	<u>\$ 1,479,537</u>
<b>Temporarily Restricted</b>								
<u>Building and Grounds</u>								
General Building and Grounds	\$ 1,900	\$ 40,996	\$ -	\$ -	\$ -	\$ -	\$ ( 40,996)	\$ 1,900
3rd Floor Loft	61,227	4,650	-	-	-	-	( 25,000)	40,877
Duchovny Learning Center	9,275	5,528	-	-	-	-	( 10,178)	4,625
Total Building and Grounds	<u>72,402</u>	<u>51,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 76,174)</u>	<u>47,402</u>
<u>Program Development</u>								
Faculty Prof Development	48,464	-	-	229	( 9,975)	-	-	38,718
Total Program Development	<u>48,464</u>	<u>-</u>	<u>-</u>	<u>229</u>	<u>( 9,975)</u>	<u>-</u>	<u>-</u>	<u>38,718</u>
<u>Student Support</u>								
Student Support Fund	39,517	-	-	175	(10,141)	-	-	29,551
Learning Issues Fund	9,256	-	-	55	-	-	-	9,311
Total Student Support	<u>48,773</u>	<u>-</u>	<u>-</u>	<u>230</u>	<u>(10,141)</u>	<u>-</u>	<u>-</u>	<u>38,862</u>
<u>Other Temporarily Restricted</u>								
Rest Annual – Scholarship	500	500	-	-	-	-	( 500)	500
Rest Annual – Misc.	-	2,736	-	174	( 359)	-	-	2,551
Rest Annual – Abacus Prog	3,871	2,000	-	22	( 2,153)	-	-	3,740
Rest Annual – Science Award	-	50	-	-	-	-	-	50
Head’s Discretionary Fund	9,022	100	-	10	( 7,437)	-	-	1,695
Family Crisis Fund	7,635	2,100	-	10	( 500)	-	-	9,245
CC94 – Unrestricted	96,219	(51,861)	-	-	-	(3,250)	( 3,251)	37,857
Total Other Temporarily Restricted	<u>117,247</u>	<u>(44,375)</u>	<u>-</u>	<u>216</u>	<u>(10,449)</u>	<u>(3,250)</u>	<u>( 3,751)</u>	<u>55,638</u>
Total Temporarily Restricted	<u>\$ 286,886</u>	<u>\$ 6,799</u>	<u>\$ -</u>	<u>\$ 675</u>	<u>\$ (30,565)</u>	<u>\$ (3,250)</u>	<u>\$ ( 79,925)</u>	<u>\$ 180,620</u>



FRIENDS OF GRACE CHURCH SCHOOL, INC.  
 DETAILED STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)  
 JULY 1, 2002 THROUGH JUNE 30, 2003

Description	Balances, Beginning of Year	Contributions	Auction Income, Net	Investment Income, Net	Expenses	Interfund Transfers	Transfers to GCS	Balances, End of Year
<b>Permanently Restricted</b>								
<u>Scholarship Endowment</u>								
CC94-Scholarship Endowment	\$ 613,968	\$ -	\$ -	\$ 20,555	\$ -	\$ -	\$ ( 17,407)	\$ 617,116
General Scholarship Endowment	467,064	123,888	-	18,345	-	-	( 11,055)	598,242
PA Scholarship Endowment	1,943,490	-	307,733	65,273	( 1,953)	-	( 48,322)	2,266,221
E.A. Grant Scholarship Fund	32,216	-	-	1,079	-	-	( 913)	32,382
Cornell Fund for Inclusion	20,159	-	-	675	-	-	( 572)	20,262
Hughes Family Scholarship Fund	14,965	5,366	-	688	-	-	( 375)	20,644
Total Scholarship Endowment	<u>3,091,862</u>	<u>129,254</u>	<u>307,733</u>	<u>106,615</u>	<u>( 1,953)</u>	<u>-</u>	<u>( 78,644)</u>	<u>3,554,867</u>
 <u>Faculty Endowment</u>								
CC94-Faculty Endowment	900,545	-	-	30,154	-	-	(25,410)	905,289
General Faculty Endowment	15,239	3,700	-	1,040	-	3,250	( 452)	22,777
8th Grade Fund for Faculty	284,683	26,982	-	9,290	( 15,082)	-	-	305,873
KE Fund for Excellence in Teaching	21,329	-	-	714	-	-	( 605)	21,438
Total Faculty Endowment	<u>1,221,796</u>	<u>30,682</u>	<u>-</u>	<u>41,198</u>	<u>( 15,082)</u>	<u>3,250</u>	<u>(26,467)</u>	<u>1,255,377</u>
 <u>Other Endowment</u>								
Unrestricted General Endowment	1,446,955	429,834	-	29,572	-	-	(21,170)	1,885,191
CC94-Unrestricted Endowment	7,899	-	-	264	-	-	( 224)	7,939
Kahn Endowment	24,156	10,000	-	1,111	( 1,200)	-	-	34,067
J. Bailey Library Books Fund	33,258	300	-	1,098	( 1,682)	-	-	32,974
Phil Hourwich Fund	3,503	-	-	121	-	-	-	3,624
Chaloner Poetry Prize Fund	869	-	-	30	-	-	-	899
Minthorne Fund for Performing Arts	40,175	-	-	1,384	-	-	-	41,559
Nadine Russell Endowment	324,378	-	-	10,860	-	-	( 9,196)	326,042
Lehman Art Endowment	328,015	-	-	10,982	-	-	( 9,299)	329,698
Pitt Chorister Award Fund	41,778	2,507	-	263	( 217)	-	-	44,331
Wassman Fund for Grandparents Day	20,636	-	-	698	( 390)	-	-	20,944
Kim Walker Memorial Fund	26,920	9,365	-	323	-	-	-	36,608
Total Other Endowment	<u>2,298,542</u>	<u>452,006</u>	<u>-</u>	<u>56,706</u>	<u>( 3,489)</u>	<u>-</u>	<u>(39,889)</u>	<u>2,763,876</u>
Total Permanently Restricted Funds	<u>\$ 6,612,200</u>	<u>\$ 611,942</u>	<u>\$ 307,733</u>	<u>\$ 204,519</u>	<u>\$ ( 20,524)</u>	<u>\$ 3,250</u>	<u>\$ (145,000)</u>	<u>\$ 7,574,120</u>
<b>TOTAL ALL FUNDS</b>	<u>\$ 7,457,688</u>	<u>\$ 1,350,123</u>	<u>\$ 307,733</u>	<u>\$ 244,426</u>	<u>\$ (382,353)</u>	<u>\$ -</u>	<u>\$ 256,660</u>	<u>\$ 9,234,277</u>

GRACE CHURCH SCHOOL  
 STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET  
 JULY 1, 2003 THROUGH JUNE 30, 2004

	Operating Fund Budget	Unrestricted Operating Fund	Net Plant Fund	Assets Contingency Fund	Total
<b>OPERATING TRANSACTIONS</b>					
<u>Revenue and Support</u>					
Tuition and Trip Fees	\$ 8,399,800	\$ 8,399,800	\$ -	\$ -	\$ 8,399,800
Financial Aid	(1,243,700)	(1,247,759)	-	-	(1,247,759)
Sibling Discounts	( 61,000)	( 61,045)	-	-	( 61,045)
Net Tuition and Trip Fees	<u>7,095,100</u>	<u>7,090,996</u>	-	-	<u>7,090,996</u>
Contributions/Fund Raising	689,100	-	-	-	-
Investment Revenues	297,000	57,128	-	-	57,128
Ancillary Program Services	285,000	271,263	-	-	271,263
Other Revenues	124,000	115,707	-	-	115,707
Total Revenue and Support	<u>8,490,200</u>	<u>7,535,094</u>	-	-	<u>7,535,094</u>
<u>Expenses</u>					
<u>Instructional Program</u>					
Labor Costs	4,614,400	4,586,679	-	-	4,586,679
Departmental Expenses	263,800	270,903	-	-	270,903
Trips	62,000	50,836	-	-	50,836
Operating Expenses	190,400	188,397	-	-	188,397
Total Instructional Program	<u>5,130,600</u>	<u>5,096,815</u>	-	-	<u>5,096,815</u>
<u>Food Service</u>					
Labor Costs	262,200	262,681	-	-	262,681
Operating Expenses	248,300	244,180	-	-	244,180
Total Food Service	<u>510,500</u>	<u>506,861</u>	-	-	<u>506,861</u>
<u>Plant Operations and Maintenance</u>					
Labor Costs	359,900	370,294	-	-	370,294
Loft Occupancy Costs	46,000	46,000	-	-	46,000
Space Allocation	220,600	210,848	-	-	210,848
Operating Expenses	107,250	108,500	-	-	108,500
Total Plant Operations and Maintenance	<u>733,750</u>	<u>735,642</u>	-	-	<u>735,642</u>
<u>Ancillary Program Services</u>					
Operating Expenses	280,000	272,215	-	-	272,215
Total Ancillary Program Services	<u>280,000</u>	<u>272,215</u>	-	-	<u>272,215</u>

GRACE CHURCH SCHOOL  
 STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET (CONTINUED)  
 JULY 1, 2003 THROUGH JUNE 30, 2004

	Operating Fund Budget	Unrestricted Net Assets			Total
		Operating Fund	Plant Fund	Contingency Fund	
Administration					
Labor Costs	1,200,800	910,091	-	-	910,091
Departmental Expenses	142,000	41,736	-	-	41,736
Total – Administration	<u>1,342,800</u>	<u>951,827</u>	<u>-</u>	<u>-</u>	<u>951,827</u>
Other Expenses					
General	279,100	314,442	130	-	314,572
Depreciation	-	-	483,968	-	483,968
Total - Other Expenses	<u>279,100</u>	<u>314,442</u>	<u>484,098</u>	<u>-</u>	<u>798,540</u>
Total Expenses	<u>8,276,750</u>	<u>7,877,802</u>	<u>484,098</u>	<u>-</u>	<u>8,361,900</u>
NET INCREASE/(DECREASE) IN OPERATIONS	<u>213,450</u>	<u>( 342,708)</u>	<u>(484,098)</u>	<u>-</u>	<u>( 826,806)</u>
NON-OPERATING TRANSACTIONS					
Transfer (to)/from Friends of Grace Church School	-	( 619,957)	289,212	-	( 330,745)
Purchases of property and equipment	-	( 183,000)	183,000	-	-
Transfer of operating surplus	<u>(213,450)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE/(DECREASE) IN NON-OPERATING TRANSACTIONS	<u>(213,450)</u>	<u>( 802,957)</u>	<u>472,212</u>	<u>-</u>	<u>( 330,745)</u>
NET CHANGE IN UNRESTRICTED NET ASSETS	<u>-</u>	<u>(1,145,665)</u>	<u>( 11,886)</u>	<u>-</u>	<u>(1,157,551)</u>
NET ASSET BALANCE @ July 1, 2003	<u>-</u>	<u>-</u>	<u>4,234,170</u>	<u>-</u>	<u>4,234,170</u>
NET ASSET BALANCE @ June 30, 2004	<u>\$ -</u>	<u>\$ (1,145,665)</u>	<u>\$ 4,222,284</u>	<u>\$ -</u>	<u>\$3,076,619</u>

GRACE CHURCH SCHOOL  
STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET  
JULY 1, 2002 THROUGH JUNE 30, 2003

	Operating Fund Budget	Unrestricted Net Assets			Total
		Operating Fund	Plant Fund	Contingency Fund	
<b>OPERATING TRANSACTIONS</b>					
<u>Revenue and Support</u>					
Tuition and Trip Fees	\$ 7,794,000	\$ 7,801,400	\$ -	\$ -	\$ 7,801,400
Financial Aid	(1,130,000)	(1,074,820)	-	-	(1,074,820)
Sibling Discounts	( 43,000)	( 57,332)	-	-	( 57,332)
Net Tuition and Trip Fees	6,621,000	6,669,248	-	-	6,669,248
Contributions/Fund Raising	572,000	-	-	-	-
Investment Revenue	302,000	133,757	(2,644)	-	131,113
Ancillary Program Services	260,000	253,555	-	-	253,555
Other Revenue	137,000	163,590	-	-	163,590
Total Revenue	7,892,000	7,220,150	(2,644)	-	7,217,506
<u>Expenses</u>					
Instructional Program					
Labor Costs	4,275,000	4,285,576	-	-	4,285,576
Departmental Expenses	260,000	250,924	-	-	250,924
Trips	50,000	59,759	-	-	59,759
Operating Expenses	159,000	192,853	-	-	192,853
Total Instructional Program	4,744,000	4,789,112	-	-	4,789,112
Food Service					
Labor Costs	239,000	248,246	-	-	248,246
Operating Expenses	239,000	230,708	-	-	230,708
Total Food Service	478,000	478,954	-	-	478,954
Plant Operations and Maintenance					
Labor Costs	316,000	344,621	-	-	344,621
Loft Occupancy Costs	46,000	45,028	-	-	45,028
Space Allocation	191,000	191,200	-	-	191,200
Operating Expenses	99,000	111,586	-	-	111,586
Total Plant Operations and Maintenance	652,000	692,435	-	-	692,435
Ancillary Program Services					
Operating Expenses	255,000	239,511	-	-	239,511
Total Ancillary Program Services	255,000	239,511	-	-	239,511

GRACE CHURCH SCHOOL  
 STATEMENT OF ACTIVITIES WITH COMPARISON TO OPERATING FUND BUDGET (CONTINUED)  
 JULY 1, 2002 THROUGH JUNE 30, 2003

OPERATING TRANSACTIONS (CONTINUED)	Operating Fund Budget	Operating Fund	Unrestricted Net Assets		Total
			Plant Fund	Contingency Fund	
Administration					
Labor Costs	1,091,000	827,545	-	-	827,545
Departmental Expenses	142,000	38,641	-	-	38,641
Total - Administration	<u>1,233,000</u>	<u>866,186</u>	<u>-</u>	<u>-</u>	<u>866,186</u>
Other Expenses					
General Expenses	261,000	331,781	738	32,155	364,674
Depreciation	-	-	435,834	-	435,834
Total - Other Expenses	<u>261,000</u>	<u>331,781</u>	<u>436,572</u>	<u>32,155</u>	<u>800,508</u>
Total Expenses	<u>7,623,000</u>	<u>7,397,979</u>	<u>436,572</u>	<u>32,155</u>	<u>7,866,706</u>
INCREASE/(DECREASE) IN OPERATIONS	<u>269,000</u>	<u>(177,829)</u>	<u>(439,216)</u>	<u>(32,155)</u>	<u>(649,200)</u>
NON-OPERATING TRANSACTIONS					
Transfer (to)/from Friends of Grace Church School	-	383,839	20,696	(661,195)	(256,660)
Transfers between Funds	<u>(269,000)</u>	<u>(206,010)</u>	<u>206,010</u>	<u>-</u>	<u>-</u>
NET INCREASE/(DECREASE) IN NON- OPERATING TRANSACTIONS	<u>(269,000)</u>	<u>177,829</u>	<u>226,706</u>	<u>(661,195)</u>	<u>(256,660)</u>
NET CHANGE IN UNRESTRICTED ASSETS	-	-	(212,510)	(693,350)	(905,860)
NET ASSET BALANCE @ July 1, 2002	-	-	4,446,680	693,350	5,140,030
NET ASSET BALANCE @ June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,234,170</u>	<u>\$ -</u>	<u>\$ 4,234,170</u>

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**APPENDIX F**

**FORM OF TENDER NOTICE**

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**FORM OF NOTICE OF MANDATORY TENDER**

To the holders of  
New York City Industrial Development Agency  
Variable Rate Demand Civic Facility Revenue Bonds  
(Grace Church School Project), Series 2006

NOTICE IS HEREBY GIVEN pursuant to Section 2.06 of the Indenture of Trust dated as of June 1, 2006 (the "Indenture") between the New York City Industrial Development Agency (the "Agency") and The Bank of New York, as Trustee (the "Trustee"), that the above-referenced Bonds are subject to mandatory tender for purchase on \_\_\_\_\_.

**[INSERT CAUSE FOR MANDATORY  
TENDER FOR PURCHASE]**

[Grace Church School (the "Institution")] [First Albany Capital Inc.] (the "Remarketing Agent") has elected pursuant to Section 2.03(b) of this Indenture to adjust on the effective date of [INSERT DATE] (the "Conversion Date") the method of determining the interest rate on the captioned Bonds from a [TYPE OF RATE] (as defined in this Indenture).

The new Interest Rate Determination Method shall be determined by the Remarketing Agent as follows: [INSERT DESCRIPTION]

The Remarketing Agent will provide the initial interest rate [and Fixed Interest Rate Period] to the Bondholders upon request by telephone or in writing to the Remarketing Agent as follows:

**[INSERT ADDRESS AND TELEPHONE NUMBER OF REMARKETING AGENT]**

While Bonds bear interest at the [TYPE OF RATE] Rate, the Interest Payment Dates for the Bonds will be on [INTEREST PAYMENT DATE] and the Record Date will be on each [RECORD DATE]. Principal, interest and purchase price of the Bonds will be paid in [TYPE OF FUNDS] as follows: [INSERT METHOD OF PAYMENTS]

[The Letter of Credit currently in effect is [DESCRIPTION OF LETTER OF CREDIT] and is scheduled to expire or terminate on \_\_\_\_\_, \_\_\_\_\_.]

The Bondholders [do] [do not] have a right to put their Bonds after the Conversion Date. [The procedures to follow for Bondholders putting their Bonds after the Conversion Date are [SET FORTH PROCEDURE].]

After the Conversion Date, the redemption provisions applicable to the Bonds are as follows: [TO BE SUPPLIED].

The RATING/RATINGS expected to be assigned to the Bonds by [RATING AGENCY] effective on the Conversion Date [is/are] [RATING/RATINGS]. The existing RATING/RATINGS assigned to the Bonds by [RATING AGENCY] is being withdrawn due to the expiration or termination of the Letter of Credit on [DATE], and [is/are] being withdrawn due to a conversion of the Interest Rate Determination Method.]

**[IF THE CHANGE IS TO FIXED INTEREST RATE PERIOD, INSERT:**

The Fixed Interest Rate Period shall begin on [DATE] and end on [DATE].

The Fixed Rate for the Fixed Interest Rate Period will be determined by the Remarketing Agent on a Business Day not earlier than 15 days and not later than 2 days prior to the effective date thereof.

The Fixed Rate may be obtained from the Remarketing Agent upon request in the same manner as set forth in the third paragraph of this notice.

[During the Fixed Interest Rate Period, the Bonds shall [not] be secured by [DESCRIPTION OF FIXED RATE CREDIT FACILITY] [any Fixed Rate Credit Facility].]

[INSERT IF MANDATORY REPURCHASE IS A RESULT OF EXPIRATION OR TERMINATION OF THE LETTER OF CREDIT:]

[The Letter of Credit currently in effect is [DESCRIPTION OF LETTER OF CREDIT]. Such Letter of Credit will [expire/be terminated] [and replaced with [DESCRIPTION OF NEW LETTER OF CREDIT] ON [EFFECTIVE DATE]. [DESCRIBE TERMS OF ANY NEW LETTER OF CREDIT.] The existing rating or ratings assigned to the Bonds will/will not be [reduced to [RATING/RATINGS] or withdrawn] due to the termination and replacement.]

[INSERT IF MANDATORY REPURCHASE IS A RESULT OF EVENT OF DEFAULT UNDER THE REIMBURSEMENT AGREEMENT]

[INSERT NAME OF BANK] has delivered notice of the occurrence of an "event of default" under the Reimbursement Agreement.

[INSERT FOLLOWING TWO PARAGRAPHS IN ALL NOTICES OF

MANDATORY REPURCHASE] The Bonds are subject to mandatory repurchase on the [Conversion Date/Mandatory Repurchase Date (of Expiration or Termination)]. The owners shall tender their Bonds to The Bank of New York, as Trustee, properly endorsed to the Trustee. All purchases will be made in [immediately available funds/next-day funds on] the [Conversion Date/Mandatory Tender Date] and will be at a purchase price of 100% of the principal amount of Bonds being purchased [plus any applicable premium] plus interest accrued to, but excluding, the [Conversion Date/Mandatory Repurchase Date].

All terms used herein which are not defined herein shall have the meanings assigned to them in the Indenture.

Dated:

THE BANK OF NEW YORK, as Trustee

By: \_\_\_\_\_

Name:

Title:

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