

In the opinion of 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 Issuer and the International Leadership Charter School described herein, interest on the Series 2013 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. Bond Counsel is further of the opinion that interest on the Series 2013 Bonds is exempt from personal income taxation imposed by the state of New York or any political subdivision thereof including The City of New York, pursuant to the General Municipal Law. See "TAX MATTERS" herein regarding certain other tax considerations.

\$17,750,000

**BUILD NYC RESOURCE CORPORATION
REVENUE BONDS, SERIES 2013
(INTERNATIONAL LEADERSHIP CHARTER SCHOOL PROJECT)**

Dated: Date of Delivery**Due: As shown on the inside front cover**

The Series 2013 Bonds are to be issued by Build NYC Resource Corporation (the "Issuer") only in fully registered form in a minimum denomination of \$250,000 and in any integral multiple of \$5,000 in excess thereof, and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"). Purchases of the Series 2013 Bonds will be made in book-entry only form. See "Book-Entry Only System" herein. Interest on the Series 2013 Bonds will be payable by U.S. Bank National Association, as trustee for the Series 2013 Bonds (the "Trustee"), on each January 1 and July 1, commencing July 1, 2013.

Only Qualified Institutional Buyers ("QIBs") as defined under Rule 144A promulgated under the Securities Act of 1933, as amended, may purchase the Series 2013 Bonds. Investors who qualify as "Accredited Investors" as defined under Regulation D of the Securities Act of 1933, as amended, but who do not also qualify as QIBs are not eligible to purchase Series 2013 Bonds or to become beneficial owners of the Series 2013 Bonds.

The Series 2013 Bonds are subject to redemption prior to maturity, as described herein.

The Series 2013 Bonds are being issued for the benefit of the International Leadership Charter School, a New York not-for-profit education corporation ("ILCS"), pursuant to an Indenture of Trust dated as of March 1, 2013 (the "Indenture") between the Issuer and the Trustee in order to provide a portion of the funds required to (i) finance, refinance or reimburse ILCS for certain of the costs of acquiring, constructing, renovating, equipping and/or furnishing of an approximately 28,500 square foot three-story school facility for grades 9 through 12, with the capacity to accommodate approximately 400 students in the Kingsbridge neighborhood of The Bronx, New York (the "Project"), (ii) fund a debt service reserve fund for the Series 2013 Bonds, (iii) fund interest on the Series 2013 Bonds during construction for a period of sixteen months, and (iv) pay certain costs relating to the issuance of the Series 2013 Bonds, all as more fully described herein.

The Series 2013 Bonds are special limited revenue obligations of the Issuer, payable as to principal, redemption price and interest, from and secured by (i) certain unconditional payments to be made pursuant to the Loan Agreement (the "Loan Agreement"), dated as of March 1, 2013, between ILCS and the Issuer, (ii) a pledge of certain funds and accounts established under the Indenture, and (iii) a mortgage on the Project. Neither the State of New York (the "State") nor any political subdivision thereof, including The City of New York (the "City"), shall be obligated to pay the principal or redemption price of, or the interest on, the Series 2013 Bonds. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, including the City, is pledged to the payment of the Series 2013 Bonds. The Series 2013 Bonds will not be payable out of any funds of the Issuer other than those pledged therefor pursuant to the Indenture. The Series 2013 Bonds will not give rise to a pecuniary liability or charge against the credit or taxing powers of the State or any political subdivision thereof, including the City. No recourse will be had for the payment of the principal of, or the interest on, the Series 2013 Bonds against any member, officer, director, employee or agent of the Issuer. The Issuer has no taxing power.

The Series 2013 Bonds are offered, when, as and if issued and accepted by the Underwriter, subject to the approval of legality by Nixon Peabody LLP, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Issuer by Richard E. Marshall, Esq., its Vice President for Legal Affairs, and for ILCS by its special counsel, Edwards Wildman Palmer LLP, New York, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Harris Beach PLLC, New York, New York. It is expected that delivery of the Series 2013 Bonds will occur through the facilities of DTC on or about March 21, 2013.

TD Securities

The date of this Official Statement is March 13, 2013.

\$17,750,000
BUILD NYC RESOURCE CORPORATION
REVENUE BONDS, SERIES 2013
(INTERNATIONAL LEADERSHIP CHARTER SCHOOL PROJECT)

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND CUSIPS

\$2,920,000 5.00% Term Bonds Due July 1, 2023 CUSIP¹: 12008EBC9

\$5,360,000 5.75% Term Bonds Due July 1, 2033 CUSIP¹: 12008EBD7

\$9,470,000 6.00% Term Bonds Due July 1, 2043 CUSIP¹: 12008EBB1

Price of all Bonds: 100%

1. CUSIP[®] is a registered trademark of the American Bankers Association (“ABA”). The CUSIP numbers herein are provided by CUSIP Global Services, which is managed by Standard & Poor’s, a business unit of The McGraw-Hill Companies, Inc., on behalf of the ABA. The CUSIP numbers are provided for convenience of reference only. Neither the Issuer, ILCS nor the Trustee takes any responsibility for the accuracy of such numbers.

REGARDING THIS OFFICIAL STATEMENT

The information set forth herein has been obtained from the Issuer, ILCS and other sources which are believed to be reliable. As to information from ILCS, it is to be construed as a representation by ILCS and not by the Issuer. No dealer, salesman, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the Series 2013 Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, ILCS, the Trustee or the Underwriter. The information contained in this Official Statement is 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 information or opinions stated herein or in the affairs of the Issuer or ILCS since the date hereof.

The Issuer has provided the information set forth under the headings “THE ISSUER” and “ABSENCE OF LITIGATION – The Issuer” and makes no representation, warranty or certification as to the adequacy or accuracy of the information set forth anywhere else in this Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as 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 and this Official Statement is not to be construed as the promise or guarantee of the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2013 Bonds in any jurisdiction in which such offer, solicitation or sale is not qualified under applicable law or to any person to whom it is unlawful to make such offer, solicitation or sale.

The Series 2013 Bonds have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission, nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used, such as “plan”, “expect”, “estimate”, “budget”, “intend”, “projection” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A — “INTERNATIONAL LEADERSHIP CHARTER SCHOOL”. Such forward-looking statements speak only as of the date of this Official Statement.

Forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of ILCS. ILCS disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of ILCS with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

RELATING TO

\$17,750,000

**BUILD NYC RESOURCE CORPORATION
REVENUE BONDS, SERIES 2013
(INTERNATIONAL LEADERSHIP CHARTER SCHOOL PROJECT)**

INTRODUCTION

This Official Statement (including the front cover page, the inside front cover page and the Appendices) is being distributed in connection with the offering and sale of \$17,750,000 in aggregate principal amount of Build NYC Resource Corporation Revenue Bonds, Series 2013 (International Leadership Charter School Project) (the “Series 2013 Bonds”) of Build NYC Resource Corporation (the “Issuer”). The Issuer is a not-for-profit local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York at the direction of the Mayor of the City of New York. *See APPENDIX D for definitions of certain of the words and terms used in this Official Statement.*

The Series 2013 Bonds are authorized to be issued under and pursuant to a resolution of the Issuer adopted on December 11, 2012 authorizing the issuance and sale of the Series 2013 Bonds and an Indenture of Trust dated as of March 1, 2013 (the “Indenture”) between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). The Trustee will also serve as Paying Agent and Bond Registrar for the Series 2013 Bonds.

The proceeds from the sale of the Series 2013 Bonds are being loaned to International Leadership Charter School, a not-for-profit education corporation organized and existing under the laws of the State of New York (“ILCS” or the “Charter School”), pursuant to the Loan Agreement dated as of March 1, 2013 (the “Loan Agreement”) between the Issuer and ILCS, for the purposes described below. ILCS will be obligated under the Loan Agreement and the Promissory Note from ILCS to the Issuer and the Trustee (the “Promissory Note”) to make payments sufficient to pay the principal or redemption price of, and interest on, the Series 2013 Bonds, as and when the same become due. The obligations of ILCS to make such payments under the Loan Agreement and Promissory Note are unconditional and will be secured by (i) an assignment of the Issuer’s right to receive payment thereunder to the Trustee, (ii) a pledge of amounts held under the Indenture (other than amounts in the Rebate Fund), and (iii) first mortgage liens granted to the Issuer by ILCS on the property and the facility comprising the Project pursuant to the Mortgage and Security Agreement (Acquisition Loan), the Mortgage and Security Agreement (Building Loan) and the Mortgage and Security Agreement (Indirect Loan), each dated as of March 1, 2013 (collectively, the “Mortgages”) from ILCS to the Issuer and assigned by the Issuer to the Trustee. *See APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT”.* In addition, ILCS has entered into a Deposit Account Control Agreement (the “Custody Agreement”) pursuant to which it has agreed to the establishment of a special depository account (the “Custody Account”) into which it will deposit all State Education

Operating Aid and Disability Aid (each as defined in the Indenture) as well as any other cash derived from the operation of the Project. Pursuant to the Custody Agreement, ILCS has provided irrevocable instructions for the bank maintaining the Custody Account to disburse moneys on deposit in the Custody Account to the Trustee at the times and in the amounts necessary to enable the Issuer to pay the principal of, Sinking Fund Installments and interest on the Series 2013 Bonds as the same shall become due. However, moneys in the Custody Account are not pledged to the payment of the principal of, Sinking Fund Installments and interest on the Series 2013 Bonds. See “SECURITY FOR THE BONDS – The Custody Agreement”.

Pursuant to the Indenture, the Issuer will assign to the Trustee substantially all of its right, title and interest in and to the Mortgage and the Loan Agreement (except for the Issuer’s Reserved Rights), including all rights to receive the payments of principal or redemption price of, and interest on, the Series 2013 Bonds to be made by ILCS pursuant to the Loan Agreement and the Promissory Note.

The proceeds from the sale of the Series 2013 Bonds will be used, together with other available funds, to (i) finance, refinance or reimburse ILCS for certain of the costs of acquiring, constructing, renovating, equipping and/or furnishing of an approximately 28,500 square foot three-story school facility for grades 9 through 12, with the capacity to accommodate approximately 400 students in the Kingsbridge neighborhood of The Bronx, New York, as more fully described under “THE PLAN OF FINANCE” below (collectively, the “Project”), (ii) fund the Debt Service Reserve Fund established under the Indenture in an amount equal to the Debt Service Reserve Fund Requirement for the Series 2013 Bonds, (iii) fund interest on the Series 2013 Bonds during construction for a period of sixteen months, and (iv) pay certain costs of issuing the Series 2013 Bonds.

The Series 2013 Bonds are secured by the pledge and assignment to the Trustee of the Trust Estate for the benefit of the Holders of the Series 2013 Bonds. The obligations of ILCS under the Loan Agreement will be secured by the Mortgages. The Mortgages will be assigned to the Trustee for the benefit of the Holders of the Series 2013 Bonds.

Subject to compliance by ILCS with the provisions of the Loan Agreement summarized below under the heading “SECURITY FOR THE SERIES 2013 BONDS—Limitations on Incurrence of Additional Indebtedness ” and in APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT—Financial Covenants”, the Issuer may, upon the request of ILCS, issue Additional Bonds under the Indenture (collectively with the Series 2013 Bonds, the “Bonds”) for the benefit of ILCS. See “SECURITY FOR THE SERIES 2013 BONDS—Additional Bonds” below.

Only Qualified Institutional Buyers (“QIBs”) as defined under Rule 144A promulgated under the Securities Act of 1933, as amended, may purchase the Series 2013 Bonds. Investors who qualify as “Accredited Investors” as defined under Regulation D of the Securities Act of 1933, as amended, but who do not also qualify as QIBs are not eligible to purchase Series 2013 Bonds or to become beneficial owners of the Series 2013 Bonds.

The forepart of this Official Statement contains brief descriptions of the Issuer, ILCS, the Series 2013 Bonds, the Indenture, the Loan Agreement, the Promissory Note and the Continuing Disclosure Agreement to be executed by ILCS on the date of issuance of the Series 2013 Bonds (the “Continuing Disclosure Agreement”). Additional information about ILCS is set forth in

APPENDIX A. The audited financial statements of ILCS as of and for the years ended June 30, 2012, June 30, 2011 and June 30, 2010 and Unaudited Financial Information of ILCS for the six-month periods ended December 31, 2012 and 2011 are included in APPENDIX B. Certain of the defined terms used herein are set forth in APPENDIX D. Summaries of certain provisions of the Loan Agreement and the Indenture are included as APPENDICES E and F, respectively. The proposed form of the Continuing Disclosure Agreement is included in APPENDIX G. The proposed form of opinion of Bond Counsel is included in APPENDIX H.

All references herein to the Indenture, the Loan Agreement, the Promissory Note, the Mortgage and the Continuing Disclosure Agreement are qualified in their entirety by reference to such documents, and the description of the Series 2013 Bonds herein is qualified in its entirety by reference to the terms thereof and the information with respect thereto included in the Indenture and the Loan Agreement. All such descriptions are further qualified in their entirety by reference to laws relating to or affecting the enforcement of creditors' rights generally. Copies of the Indenture and the Loan Agreement may be obtained prior to the date of issuance of the Series 2013 Bonds from TD Securities (USA) LLC (the "Underwriter") at its offices at 31 West 52nd Street, New York, NY 10019 and, on and after the date of issuance of the Series 2013 Bonds, from the Trustee at its offices at 100 Wall Street, Suite 1600, New York, New York 10005, Attention: Corporate Trust Administration.

This introduction is subject in all respects to the additional information contained in this Official Statement, including APPENDICES A through G.

THE ISSUER

The Issuer, created in 2011, is a not-for-profit local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York (the "State") at the direction of the Mayor of The City of New York (the "City"). The Issuer is not an agency of State or City government and is not subject to administrative direction by any department, commission, board or agency of the State or of the City. The Issuer is authorized by the Not-For-Profit Corporation Law of the State and the Issuer's Certificate of Incorporation to promote community and economic development, and the creation of jobs in the non-profit and profit sectors for residents of the City by developing and providing programs for not-for-profit institutions, manufacturing and industrial businesses and other entities to access low interest tax-exempt and non-tax-exempt financing for their eligible projects.

The Issuer has offered and plans to offer other obligations from time to time to finance projects for other not-for-profit institutions and, under certain circumstances, manufacturing and industrial businesses, with respect to facilities located in the City. Such obligations have been and will be issued pursuant to and secured by instruments separate and apart from the Indenture.

The Issuer has not prepared or assisted in the preparation of this Official Statement, except for statements under the sections captioned "THE ISSUER" and "ABSENCE OF LITIGATION—THE ISSUER" and, except as aforesaid, the Issuer is not responsible for any statements made in this Official Statement. Except for the execution and delivery of documents required to effect the issuance of the Series 2013 Bonds, the Issuer has not otherwise assisted in the public offer, sale or distribution of the Series 2013 Bonds. Accordingly, except as aforesaid, the Issuer

disclaims responsibility for the disclosures set forth in this Official Statement or otherwise made in connection with the offer, sale and distribution of the Series 2013 Bonds.

The Series 2013 Bonds are special limited revenue obligations of the Issuer payable solely from the payments made by ILCS under the Loan Agreement and the Promissory Note and from the Trust Estate as described in the Indenture. Neither the Issuer nor its directors or officers are personally liable with respect to the Series 2013 Bonds. Accordingly, no financial information with respect to the Issuer or its directors or officers has been included in this Official Statement.

ILCS

ILCS is a New York State public charter high school located in District #10 (The Bronx). ILCS received initial authorization from the New York City Department of Education (“DOE”) in December 2005 and the New York State Board of Regents voted to grant ILCS its charter on January 9, 2006. The charter for ILCS was renewed for a five year period on January 11, 2011. For additional information about ILCS, see APPENDIX A and APPENDIX B hereto.

CHARTER SCHOOL FUNDING IN THE STATE OF NEW YORK

Primarily all of the revenues of ILCS derived from the operation of its charter school are derived from State Education Operating Aid and Disability Aid (collectively “State Payments”). Accordingly, this section is intended to provide a brief overview of New York State’s current system for funding charter schools. Prospective purchasers of the Series 2013 Bonds should note that the overview contained below and the summary of relevant New York Code provisions noted by cross-reference are provided for the convenience of prospective purchasers but are not and do not purport to be comprehensive. Additional information regarding various aspects of charter school funding in New York is available on various State-maintained websites and through other publicly available sources. Potential purchasers should note that the law applicable to charter schools in New York has developed over time and is subject to further changes in the future. See “BONDHOLDERS’ RISKS – Future Changes to Charter School Laws”.

General

Charter schools are eligible to receive funds from State, federal and private sources, though the majority of charter school funding comes from the State. The principal source of charter school funding in New York is “Charter School Basic Tuition” that charter schools are paid by the school district of the residence of the students attending the charter schools. The enrollment of students attending charter schools is included in the enrollment, attendance, membership and, if applicable, count of students with disabilities of the school district in which the pupil resides. The Charter School Basic Tuition paid by the school district is determined by taking 100% of the “Expense Per Pupil” for the school district for the year prior to the “base year” increased by the percentage in the State total “Approved Operating Expense” from two years prior to the base year to the base year. In addition, school districts pay to charter schools any federal or state aid attributable to a student with a disability attending the charter school in proportion to the level of services for such student that the charter school provides directly or indirectly. This amount may be reduced pursuant to an agreement between the school district and

the charter school as set forth in the charter. In the event the school district fails to make the payments required under New York law, the State comptroller is directed to deduct from any State funds which become due to such school district an amount equal to the unpaid obligation, which the comptroller will then pay to the charter school. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING.

Charter School Basic Tuition

Charter School Basic Tuition is calculated according to a series of statutory formulas, which are detailed and complicated. By way of overview, a general description of certain of the main Charter School Basic Tuition funding formulas is provided in the paragraphs that follow. Generally, a charter school’s Charter School Basic Tuition is defined as the school district’s “Expense Per Pupil” for the year prior to the “base year” (i.e., the school year immediately preceding the current year) increased by the percentage in the state total “Approved Operating Expense” from two years prior to the base year to the base year. The calculation for Expense Per Pupil is a function of Approved Operating Expense for the year prior to the base year divided by the sum, computed using year prior to the base year pupil counts, of: (i) “Total Aidable Pupil Units” and (ii) “Weighted Pupils With Disabilities”. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING – Charter School Basic Tuition”.

For this purpose, “Total Aidable Pupil Units” is the sum of: (i) the school district’s “Adjusted Average Daily Attendance” for the year prior to the base year multiplied by the “Enrollment Index” for the base year, plus (ii) the “Additional Aidable Pupil Units” for the year prior to the base year.

Adjusted Average Daily Attendance

For purposes of computing Adjusted Average Daily Attendance, the average daily attendance of public school pupils in a full-day kindergarten and grades 1-6 is counted as the basic unit, with the attendance of such pupils in one-half day kindergartens counted as one-half of such basic unit and the attendance of such pupils in grades 7-12 counted as one and one-quarter of such base unit. The sum of all such units of attendance is the Adjusted Average Daily Attendance. Adjusted Average Daily Attendance is calculated by: (i) determining the number of religious holidays which fall on a school day within a school year according to regulations established by the commissioner; (ii) deducting the aggregate attendance on such religious holidays from the total aggregate attendance, by grade level; (iii) deducting such religious holidays from the total number of days of session, by grade level; and (iv) computing the adjusted average daily attendance for the school year.

Enrollment Index

Enrollment Index is computed by dividing the public school enrollment for the current year by public school enrollment for the base year, with the result carried to three decimal places without rounding. Enrollment means the unduplicated count of all children to receive educational services in grades K-12, including children in ungraded programs, as registered on the date prior to November 1 that is specified by the Commissioner as the enrollment reporting

date. Public school district enrollment means the sum of: (1) the number of children on a regular enrollment register of a public school district on such date; (2) the number of children eligible to receive home instruction in the school district on such date; (3) the number of children for whom equivalent attendance must be computed on such date; (4) the number of children with disabilities who are residents of such district who are registered on such date to attend certain programs under the Education Law; (5) the number of children eligible to receive educational services on such date but not claimed for aid; and (6) the number of children registered on such date to attend certain programs pursuant to the Education Law.

Additional Aidable Pupil Units

Additional Aidable Pupil Units is the sum of: (i) the attendance of summer session pupils multiplied by 12%, and (ii) the Weighted Pupils With Special Education Needs". Weighted Pupils With Disabilities is calculated as the attendance of pupils with disabilities who have been determined by a school district committee on special education to require any of the following types and levels of programs or services, and who receive such programs and services from the school district of attendance during the base year, multiplied by a special services weighting determined as follows:

- (i) for placement for 60% or more of the school day in a special class, or home or hospital instruction for a period of more than sixty days, or special services or programs for more than 60% of the school day, the special services weighting is 170%;
- (ii) for placement for 20% or more of the school week in a resource room or special services or programs including related services required for 20% or more of the school week, or in the case of pupils in grades 7-12 or a multi-level middle school program or in the case of pupils in grades 4-6 in an elementary school operating on a period basis, the equivalent of five periods per week, but not less than the equivalent of 180 minutes in a resource room or in other special services or programs including related services, or for at least two hours per week of direct or indirect consultant teacher services, the special services weighting is 90%.

Federal and State Aid Attributable to a Student with a Disability

In addition to the Charter School Basic Tuition, school districts are required to pay directly to charter schools any federal or state aid attributable to a student with a disability attending the charter school in proportion to the level of services for such student with a disability that the charter school provides directly or indirectly. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING – Financing of Charter Schools".

State aid attributable to a student with a disability attending a charter school is calculated as the sum of: (i) "excess cost aid" payable to a public school district pursuant to the Education Law based on the resident weighted enrollment in the charter school of pupils with disabilities receiving special services or programs provided directly or indirectly by the charter school in the current school year; and (ii) any apportionment payable to such public school district pursuant to the Education Law that is based on the cost of special services or programs provided directly or

indirectly by the charter school to such pupil in the current school year. "Excess cost aid" is calculated as the product of: (i) excess cost aid per pupil calculated pursuant to the Education Law; (ii) the proportion of the weighting attributable to the student's level of service provided directly or indirectly by the charter school pursuant to the Education Law; and (iii) the student's enrollment in such charter school in the current school year. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING – Public School District Payments to Charter Schools".

Federal aid attributable to a student with a disability attending a charter school is calculated as follows:

- (i) for the first year of operation of the charter school, the allocation that would be attributable to the charter school pursuant to 20 U.S.C. 1411 and 1419 for a pupil who is identified as a student with a disability, who is included in a report to the commissioner of pupils so identified as of December 1st of the current school year, or for such other pupil count as specified by the federal government for the current school year, provided that the enrollment of such students in the charter school during the current school year is used for this purpose until such report, or a report of such other pupil count, has been received by the commissioner; and
- (ii) for the second year of operation of the charter school and thereafter, the allocation that would be attributable to the charter school pursuant to 20 U.S.C. 1411 and 1419 for a pupil who is identified as a student with a disability, who is included in a report to the commissioner of pupils so identified as of December 1st of the base year, or for such other pupil count as specified by the federal government.

Payments for federal or state aid attributable to a student with a disability to charter schools must be made by the school district in six substantially equal installments each year beginning on the first business day of July and every two months thereafter. "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING – Financing of Charter Schools".

Public School Payments to Charter Schools

The Charter School Basic Tuition is set annually in June. School districts are required to pay no later than the first business day of July, September, November, January, March and May the appropriate payment amounts as specified in the Education Law relating to the Charter School Basic Tuition. The payments are made in equal installments, adjusted for any supplemental payments due or overpayments to be recovered for the prior school year. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING – Financial Obligations of Charter Schools, Public School Districts and Education Department".

THE PLAN OF FINANCE

The Project

Substantially all of the proceeds from the sale of the Series 2013 Bonds will be used to (i) finance, refinance or reimburse ILCS for certain of the costs of the Project, (ii) fund the Debt Service Reserve Fund established under the Indenture in an amount equal to the Debt Service Reserve Fund Requirement for the Series 2013 Bonds, (iii) fund interest on the Series 2013 Bonds during construction for a period of sixteen months, and (iv) pay certain costs of issuing the Series 2013 Bonds. The Project will consist of the acquisition, construction, renovation and equipping and or furnishing of an approximately 28,500 square foot, three-story, state of the art school facility for grades 9 through 12, with the capacity to accommodate approximately 400 students in the Kingsbridge neighborhood of The Bronx, New York. The Project will allow ILCS to expand its student enrollment by 25%. ILCS currently owns the land that will be used for the Project, subject to a short term mortgage which will be paid off with a portion of the proceeds of the Series 2013 Bonds.

THE SERIES 2013 BONDS

The information under this heading is subject in its entirety to the information set forth below under the heading "Book-ENTRY ONLY SYSTEM" while the Bonds are held in DTC's book-entry only system.

General

The Series 2013 Bonds shall be dated their date of delivery and will bear interest from such date, payable initially on July 1, 2013 and semiannually thereafter on each January 1 and July 1 (each an "Interest Payment Date") computed on the basis of a 360-day year of twelve 30-day months. The Series 2013 Bonds shall mature (subject to prior redemption) in the principal amounts and on the dates set forth on the inside front cover page of this Official Statement. The Series 2013 Bonds shall be issuable only in fully registered, book-entry only form in a minimum denomination of \$250,000 and in any integral multiple of \$5,000 in excess thereof (the "Authorized Denomination"). See "BOOK-ENTRY ONLY SYSTEM" herein.

Only Qualified Institutional Buyers ("QIBs") as defined under Rule 144A promulgated under the Securities Act of 1933, as amended, may purchase the Series 2013 Bonds. Investors who qualify as "Accredited Investors" as defined under Regulation D of the Securities Act of 1933, as amended, but who do not also qualify as QIBs are not eligible to purchase Series 2013 Bonds or to become beneficial owners of the Series 2013 Bonds.

Each Series 2013 Bond shall be transferable only upon compliance with the restrictions on transfer set forth on such Series 2013 Bond and only upon the books of the Issuer, which shall be kept for the purpose at the designated corporate trust office of the Trustee, by the registered owner thereof in person or by his duly authorized attorney-in-fact, upon surrender of such Series 2013 Bond together with a written instrument of transfer in the form appearing on such Series 2013 Bond duly executed by the registered owner or his duly authorized attorney-in-fact with a guaranty of the signature thereon. Upon the transfer of any Series 2013 Bond, the Trustee shall prepare and issue in the name of the transferee one or more new Series 2013 Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Series 2013 Bond.

Any Series 2013 Bond, upon surrender thereof at the designated corporate trust office of the Trustee with a written instrument of transfer in the form appearing on such Series 2013 Bond, duly executed by the registered owner or his duly authorized attorney-in-fact, with a guaranty of the signature thereon, may, at the option of the owner thereof, be exchanged for an equal aggregate principal amount of Series 2013 Bonds of the same maturity and interest rate of any other Authorized Denominations. However, the Trustee will not be required to (i) transfer or exchange any Series 2013 Bonds during the period between a Record Date and the following Interest Payment Date or during the period of fifteen (15) days next preceding any day for the selection of Series 2013 Bonds to be redeemed, or (ii) transfer or exchange any Series 2013 Bonds selected, called or being called for redemption in whole or in part.

The Issuer, the Bond Registrar, the Trustee and any Paying Agent may deem and treat the Person in whose name any Series 2013 Bond shall be registered as the absolute owner of such Series 2013 Bond, whether such Series 2013 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, Sinking Fund Installments for, and interest on such Series 2013 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 Series 2013 Bond to the extent of the sum or sums so paid, and neither the Issuer, ILCS, the Bond Registrar, the Trustee nor any Paying Agent shall be affected by any notice to the contrary.

Payment of Principal and Interest

The principal of, Sinking Fund Installments for, and the Redemption Price, if applicable, on all Series 2013 Bonds shall be payable by check or draft at maturity or upon earlier redemption to the Persons in whose names such Series 2013 Bonds are registered on the bond registration books maintained by the Trustee as Bond Registrar at the maturity or redemption date thereof, upon the presentation and surrender of such Series 2013 Bonds at the designated corporate trust office of the Trustee, as Paying Agent.

The interest payable on each Series 2013 Bond on any Interest Payment Date shall be paid by the Trustee to the registered owner of such Series 2013 Bond, as shown on the bond registration books of the Trustee as Bond Registrar at the close of business on the Record Date for such interest, (1) by check or draft mailed to such registered owner at his address as it appears on the bond registration books or at such other address as is furnished to the Trustee in writing by such owner, or (2) for so long as the Series 2013 Bonds shall no longer be held in book-entry only form, at the written request addressed to the Trustee by any registered owner of Series 2013 Bonds in the aggregate principal amount of at least \$1,000,000 that all such payments be made by electronic transfer in immediately available funds to the bank for credit to the ABA routing number and account number filed with the Trustee, no later than five (5) Business Days before an Interest Payment Date, but no later than a Record Date for any interest payment.

Interest on any Series 2013 Bond that is due and payable but not paid on the date due (“Defaulted Interest”) shall cease to be payable to the owner of such Series 2013 Bond on the Record Date and shall be payable to the owner in whose name such Series 2013 Bond is registered at the close of business on a special record date (the “Special Record Date”) for the

payment of such Defaulted Interest, which Special Record Date shall be fixed as provided in the Indenture.

Redemption Provisions

Optional Redemption

The Series 2013 Bonds shall be subject to redemption, on or after July 1, 2023, in whole at any time or in part on any Interest Payment Date (but if in part in integral of \$250,000 and in any integral multiple of \$5,000 in excess thereof) at the option of the Issuer (which option shall be exercised only upon the giving of notice by ILCS of its intention to prepay loan payments due under the Loan Agreement), at the Redemption Price of 100% of the unpaid principal amount of the Series 2013 Bonds to be redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Installment Redemption

The Series 2013 Bonds maturing on July 1, 2023, July 1, 2033 and July 1, 2033 shall be subject to mandatory redemption by the Issuer prior to maturity, in part by lot, at a Redemption Price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments on the dates and in the principal amounts set forth below, provided that the amounts of such Sinking Fund Installments shall be reduced by the credits provided for in the Indenture:

SERIES 2013 TERM BONDS MATURING JULY 1, 2023

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2015 | \$265,000 | 2020 | \$340,000 |
| 2016 | 280,000 | 2021 | 355,000 |
| 2017 | 290,000 | 2022 | 375,000 |
| 2018 | 305,000 | 2023* | 390,000 |
| 2019 | 320,000 | | |

* Maturity

SERIES 2013 TERM BONDS MATURING JULY 1, 2033

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2024 | \$410,000 | 2029 | \$545,000 |
| 2025 | 435,000 | 2031 | 575,000 |
| 2026 | 460,000 | 2031 | 610,000 |
| 2027 | 485,000 | 2032 | 645,000 |
| 2028 | 515,000 | 2033* | 680,000 |

* Maturity

SERIES 2013 TERM BONDS MATURING JULY 1, 2043

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2034 | \$720,000 | 2039 | \$ 960,000 |
| 2035 | 760,000 | 2040 | 1,020,000 |
| 2036 | 810,000 | 2041 | 1,080,000 |
| 2037 | 855,000 | 2042 | 1,145,000 |
| 2038 | 905,000 | 2043* | 1,215,000 |

* Maturity

Extraordinary Redemption

The Series 2013 Bonds are subject to extraordinary redemption prior to maturity, at the option of the Issuer, exercised at the direction of ILCS, in whole or in part on any date, at 100% of the principal amount to be redeemed plus interest accrued to the redemption date, if one or more of the following events shall have occurred:

The Facility shall have been damaged or destroyed, in whole or in part to such extent that, as evidenced by a certificate of an Independent Engineer filed with the Issuer and the Trustee, (A) the Facility, or portion thereof, cannot be reasonably restored within a period of one year from the date of such damage or destruction to the condition thereof immediately preceding such damage or destruction, (B) ILCS is thereby prevented or likely to be prevented from carrying on its normal operation at the Facility for a period of one year 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

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 ILCS being thereby prevented or likely to be prevented from carrying on its normal operation at the Facility for a period of one year from the date of such taking or condemnation, as evidenced by a certificate of an Independent Engineer filed with the Issuer and the Trustee; or

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 ILCS, the Loan 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 ILCS by reason of the operation of the Facility.

Mandatory Redemption From Excess Proceeds and Certain Other Amounts

The Series 2013 Bonds are subject to mandatory redemption prior to maturity on any date, in whole or in part, by lot, at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Series 2013 Bonds to be redeemed, together with interest accrued thereon to the date of redemption, in the event and to the extent of: (i) excess Series 2013 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 Loan Agreement and the Indenture, (iii) excess proceeds shall remain after the release or substitution of Facility Realty or Facility Personalty, or (iv) certain funds received by ILCS pursuant to any capital campaign which are earmarked for specific Project Costs shall remain with ILCS and shall not be required for completion of the Project or related Project Costs.

Mandatory Redemption Upon Failure to Operate the Facility for the Approved Project Operations, Material Violation of Material Legal Requirements, False Representation or Failure to Maintain Liability Insurance.

The Series 2013 Bonds are subject to mandatory redemption prior to maturity, at the option of the Issuer, as a whole only, in the event (i) the Issuer shall determine that (w) ILCS is operating the Facility or any portion thereof, or is allowing the Facility or any portion thereof to be operated, not for the Approved Project Operations, (x) ILCS, any Principal of ILCS or any Person that directly or indirectly Controls, is Controlled by or is under common Control with ILCS has committed a material violation of a material Legal Requirement, (y) any Conduct Representation is false, misleading or incorrect in any material respect at any date, as if made on such date, or (z) a Required Disclosure Statement delivered to the Issuer under any Project Document is not acceptable to the Issuer acting in its sole discretion, or (ii) ILCS shall fail to obtain or maintain the liability insurance with respect to the Facility required under the Loan Agreement, and, in the case of clause (i) or (ii) above, ILCS shall fail to cure any such default or failure within the applicable time periods set forth in the Loan Agreement following the receipt by ILCS of written notice of such default or failure from the Issuer and a demand by the Issuer on ILCS to cure the same. Any such redemption shall be made upon notice or waiver of notice to the Bondholders as provided in the Indenture, at the Redemption Price of one hundred percent (100%) of the unpaid principal amount of the Series 2013 Bonds, together with interest accrued thereon to the date of redemption.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2013 BONDS, ALL PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF, SINKING FUND INSTALLMENTS FOR, AND INTEREST ON THE SERIES 2013 BONDS WILL BE MADE DIRECTLY TO DTC. DISBURSEMENT OF SUCH PAYMENTS TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) WILL BE THE RESPONSIBILITY OF DTC, AND DISBURSEMENT OF SUCH PAYMENTS TO BENEFICIAL OWNERS (AS HEREINAFTER DEFINED) WILL BE THE RESPONSIBILITY OF THE DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS (AS HEREINAFTER DEFINED). SEE "BOOK-ENTRY ONLY SYSTEM" HEREIN.

Purchase in Lieu of Optional Redemption

In lieu of calling the Series 2013 Bonds for optional redemption, the Series 2013 Bonds are subject to mandatory tender for purchase by ILCS at the direction of the Issuer, upon the direction of ILCS on any date on or after July 1, 2023, in whole or in part (but if in part in a minimum principal amount of \$250,000 and in any integral multiple of \$5,000 in excess thereof), at a Purchase Price equal to the applicable Redemption Price for any optional redemption of such Series 2013 Bonds, plus accrued interest to the purchase date. The Series 2013 Bonds so

purchased are not required to be cancelled subject to the compliance by ILCS of the provisions of the Loan Agreement with respect thereto.

General Redemption Provisions

In the event of redemption of less than all the Outstanding Series 2013 Bonds of a maturity, the particular Series 2013 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 that (i) Series 2013 Bonds to be redeemed from Sinking Fund Installments shall be redeemed by lot, and (ii) to the extent practicable, the Trustee shall select Series 2013 Bonds for redemption such that no Series 2013 Bond shall be of a denomination of less than the Authorized Denomination. In the event of redemption of less than all the Outstanding Series 2013 Bonds stated to mature on different dates, the principal amount of such Series 2013 Bonds to be redeemed shall be applied in inverse order of maturity of the Outstanding Series 2013 Bonds to be redeemed and by lot within a maturity. The portion of Series 2013 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 Series 2013 Bonds for redemption, the Trustee shall treat each such Series 2013 Bond as representing that number of Series 2013 Bonds which is obtained by dividing the principal amount of such registered Series 2013 Bond by the minimum Authorized Denomination thereof (referred to below as a "unit") then issuable rounded down to the integral multiple of such minimum Authorized Denomination. If it is determined that one or more, but not all, of the units of principal amount represented by any such Series 2013 Bond is to be called for redemption, then, upon notice of intention to redeem such unit or units, the Holder of such Series 2013 Bond shall forthwith surrender such Series 2013 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 Series 2013 Bond or Series 2013 Bonds in the aggregate unpaid principal amount of the unredeemed balance of the principal amount of such Series 2013 Bond. New Series 2013 Bonds of the same maturity representing the unredeemed balance of the principal amount of such Series 2013 Bond shall be issued to the registered Holder thereof, without charge therefor. If the Holder of any such Series 2013 Bond of a denomination greater than a unit shall fail to present such Series 2013 Bond to the Trustee for payment and exchange as aforesaid, such Series 2013 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).

When redemption of any Series 2013 Bond is requested or required pursuant to the Indenture, the Trustee shall give notice of such redemption in the name of the Issuer, specifying the name of the Series 2013 Bonds, CUSIP number, Series 2013 Bond numbers, the date of original issue of such Series 2013 Bonds, the date of mailing of the notice of redemption, maturities, interest rates and principal amounts of the Series 2013 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 Series 2013 Bonds or portions thereof to be payable and, if less than all of the Series 2013 Bonds of any maturity are to be redeemed, the numbers of such Series 2013 Bonds or portions thereof to be so redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2013 Bond or portion thereof to be redeemed the Redemption Price thereof together with interest accrued to 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 Issuer, shall mail a copy of such notice by first class mail, postage prepaid, not more than sixty (60) nor less than thirty (30) days prior to the date fixed for redemption, to the registered owners of any Series 2013 Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration books, but any defect in such notice shall not affect the validity of the proceedings for the redemption of such Series 2013 Bonds with respect to which proper mailing was effected. Any notice mailed as provided in the Indenture and described above shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice. If any Series 2013 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 Series 2013 Bonds for payments on or after any redemption date shall be retained by the Trustee for a period of at least one year after the final maturity date of such Series 2013 Bonds.

If notice of redemption shall have been given in the manner provided in the Indenture and described above, the Series 2013 Bonds called for redemption shall become due and payable on the redemption date; provided, however, that with respect to any optional redemption of the Series 2013 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, redemption premium, if any, and interest on the Series 2013 Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Issuer shall not be required to redeem the Series 2013 Bonds. In the event that such notice of optional redemption contains such a condition and such moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received. If a notice of optional redemption shall be unconditional, or if the conditions of a conditional notice of optional redemption shall have been satisfied, then upon presentation and surrender of the Bonds of such Series so called for redemption at the place or places of payment, such Series of Bonds shall be redeemed. Notice having been given in the manner provided in the Indenture, the Series 2013 Bonds, or such portions thereof so called for redemption shall become due and payable on the redemption dates so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date.

If, on the redemption date, moneys for the redemption of all the Series 2013 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 in the manner provided by the Indenture and described above, then, from and after the redemption date, (i) interest on the Series 2013 Bonds or portions thereof so called for redemption shall cease to accrue and become payable, (ii) the Series 2013 Bonds or portions thereof so called for redemption shall cease to be entitled to any lien, benefit or security under the Indenture, and (iii) the Holders of the Series 2013 Bonds or portions thereof so called for redemption shall have no rights in respect thereof, except to receive payment of the Redemption Price together with interest accrued to the redemption date. 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.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully registered bonds 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 certificate will be issued for each maturity of the Series 2013 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2013 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Bonds 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 interests in Series 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee

do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, defaults and proposed amendments to bond documents. For example, Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 Bonds 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest and redemption prices on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

The information set forth above under this heading concerning DTC and DTC's book-entry system has been obtained from sources the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

NO REPRESENTATION IS MADE BY THE ISSUER, THE TRUSTEE, ILCS OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF THE INFORMATION SET FORTH ABOVE UNDER THIS HEADING NOR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and ILCS's obligations under the Loan Agreement, to the extent of the payments so made.

Prior to any discontinuation of the book-entry only system described above, the Trustee and the Issuer may treat DTC or its nominee, Cede & Co., as, and deem DTC or its nominee, Cede & Co., to be, the absolute owner of the Series 2013 Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of and interest on the Series 2013 Bonds, (ii) giving notices of redemption and other matters with respect to the Series 2013 Bonds, (iii) registering transfers with respect to the Series 2013 Bonds and (iv) the selection of Series 2013 Bonds for redemption.

NONE OF THE ISSUER, THE TRUSTEE, ILCS OR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO (i) THE ACCURACY OF THE RECORDS OF DTC, ITS NOMINEE OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT WITH RESPECT TO ANY BENEFICIAL OWNERSHIP INTEREST IN ANY SERIES 2013 BOND, (ii) THE DELIVERY TO ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN AN OWNER, AS SHOWN IN THE BOND REGISTER, OF ANY NOTICE WITH RESPECT TO ANY SERIES 2013 BOND, INCLUDING, WITHOUT LIMITATION, ANY NOTICE OF REDEMPTION OR ANY EVENT WHICH WOULD OR COULD GIVE RISE TO AN OPTION WITH RESPECT TO ANY SERIES 2013 BOND, (iii) THE PAYMENT OF ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN AN OWNER, AS SHOWN IN THE BOND REGISTER, OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON ANY SERIES 2013 BOND OR (iv) ANY CONSENT GIVEN BY DTC AS REGISTERED OWNER.

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SECURITY FOR THE SERIES 2013 BONDS

General

Concurrently with the issuance of the Series 2013 Bonds, the Issuer will enter into the Loan Agreement with ILCS pursuant to which the Issuer will loan the proceeds from the sale of the Series 2013 Bonds to ILCS. ILCS will be unconditionally obligated under the Loan Agreement and the Promissory Note to make bimonthly payments no later than the fifth (5th) day after each State Education Operating Aid Payment Date (the first business day in January, March, May, July, September and November), to the Trustee in an amount sufficient to pay one-sixth (1/6) of the principal of, and one-third (1/3) of the interest on, the Series 2013 Bonds and any Additional Bonds, as the same shall become due on the next Interest Payment Date. ILCS will also be unconditionally obligated under the Loan Agreement to make up deficiencies in the Debt Service Reserve Fund and to make payments to the Repair and Replacement Fund. See "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT" in APPENDIX E herein. Pursuant to the Indenture, the Issuer will assign to the Trustee all of its right, title and interest in and to the Loan Agreement and the Promissory Note, including all amounts payable thereunder with respect to the principal or redemption price of, and interest on, the Bonds, except for the Issuer's Reserved Rights.

The Series 2013 Bonds will be secured under the Indenture by the pledge and assignment of the Trust Estate and by the lien and security interests granted under the Mortgages. At the time of delivery of the Series 2013 Bonds, a portion of the proceeds of the Series 2013 Bonds will be used to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement (see "DEBT SERVICE RESERVE FUND" below).

The Custody Agreement

General

Pursuant to the Custody Agreement, ILCS has covenanted to pay or cause to be paid directly to the Custodian all payments received by ILCS in connection with the operation of the Project. The Charter Schools Act of the New York Education Law prohibits a charter school from pledging or assigning State Payments in connection with the construction, acquisition, reconstruction, rehabilitation or improvement of a school facility. Accordingly, pursuant to the Custody Agreement, ILCS has (i) established a special depository account (the "Custody Account") at Capital One, N.A. (the bank at which ILCS maintains its operating account); (ii) agreed to deposit all moneys derived from the operation of the Project (primarily State Payments) in the Custody Account; (iii) provided irrevocable instructions to Capital One, N.A., as the agent of ILCS (the "Custodian"), to transfer, not later than the first business day following the deposit of monies to the Custody Account (A) to the Trustee, an amount equal to one-sixth (1/6) of the principal of, and one-third (1/3) of the interest on, the Series 2013 Bonds, as the same shall become due on the next Interest Payment Date or principal payment date, as the case may be, and (B) to ILCS operating account, the remaining balance. The Custody Agreement also provides that upon written notice from the Trustee of (i) any overdue and unpaid amounts due the Trustee, and (ii) any amount due for the replenishment of the Debt Service Reserve Fund, the Custodian shall promptly transfer such amounts to the Trustee before transferring any remaining balance in the Custody Account to ILCS operating account.

Moneys in the Custody Account are not pledged to the payment of the principal of, Sinking Fund Installments and interest on the Series 2013 Bonds.

Covenants of the Custodian

Pursuant to the Custody Agreement, the Custodian covenants and agrees with ILCS and the Trustee that from and after the date of the Custody Agreement until the Series 2013 Bonds are paid in full that following each State Education Operating Aid Payment Date (the first Business Day of each January, March, May, July, September and November, commencing May 1, 2013), it will perform the following actions:

- (i) transfer to the Trustee the amount of money set forth in the schedule provided by ILCS (which amount is equal to one-third (1/3) of the interest payable on the Bonds on the next succeeding Interest Payment Date and one-sixth (1/6) of the principal payable on the Bonds on the next succeeding principal payment date or Sinking Fund Payment Date, as the case may be).
- (ii) transfer to the Trustee any deficiency in amounts previously due and unpaid following any previous State Education Operating Aid Payment Date.
- (iii) transfer any replenishment of the Debt Service Reserve Fund then due or previously due and unpaid following any previous State Education Operating Aid Payment Date.

Following the transfer of moneys to the Trustee described above, the Custodian is required to immediately transfer all remaining amounts to the operating account of ILCS, unless the Custodian receives the written instructions from ILCS to the contrary.

The Custodian is required to immediately notify the Trustee and ILCS in the event that there is an insufficient amount on deposit in the Custody Account to make a scheduled transfer to the Trustee of any amount due under the Indenture.

Debt Service Reserve Fund

The Indenture establishes a Debt Service Reserve Fund to be held by the Trustee and pledged to secure the payment of the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2013 Bonds.

The Debt Service Reserve Fund for the Series 2013 Bonds shall be maintained at an amount equal to the lesser of (i) the greatest amount required in the then current or any future calendar year to pay the sum of interest on Outstanding Series 2013 Bonds payable during such year, and the principal and Sinking Fund Installments of Outstanding Series 2013 Bonds payable on or prior to July 1 of such year or (ii) the maximum amount permitted under the Code.

If on (A) any Interest Payment Date or redemption date on the Series 2013 Bonds the amount in the Interest Account of the Bond Fund shall be less than the amount of interest then due and payable on the Series 2013 Bonds, or (B) any principal payment date or Sinking Fund Installment payment date the amount in the Principal Account or the Sinking Fund Installment

Account, as the case may be, shall be less than the amount of principal of, or Sinking Fund Installment on, the Bonds then due and payable, the Trustee shall transfer moneys from the Debt Service Reserve Fund, first, to such Interest Account, second to such Principal Account, and third, to such Sinking Fund Installment Account, all to the extent necessary to make good any such deficiency.

The Loan Agreement requires that ILCS restore the Debt Service Reserve Fund to its requirement by paying to the Trustee for deposit in the Debt Service Reserve Fund not later than the fifth day of each month in which moneys are deposited to the Custody Account, commencing with the first such month following the receipt by ILCS of notice of such deficiency, and not later than the fifth day of each of the five (5) succeeding such months, or over such longer time period as shall be consented to in writing by the Majority Holders, an amount equal to one sixth (1/6th) of such deficiency in the Debt Service Reserve Fund

Any moneys in the Debt Service Reserve Fund in excess of its requirement shall be withdrawn and applied in accordance with the Indenture. See “APPENDIX F - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE”.

Security and Mortgage Interests

The obligations of ILCS under the Loan Agreement will be secured by the Mortgages. The Mortgages will be assigned to the Trustee for the benefit of the Holders of the Series 2013 Bonds.

Additional Bonds

Subject to compliance by ILCS with the provisions of the Loan Agreement summarized below under the subheading “LIMITATIONS ON INCURRENCE OF ADDITIONAL INDEBTEDNESS” and in APPENDIX E—“SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT—Financial Covenants”, the Issuer may, upon the request of ILCS, issue Additional Bonds under the Indenture for the purpose of (i) completing the Project, (ii) providing funds in excess of Net Proceeds of insurance or eminent domain to repair, relocate, replace, rebuild or restore the Facility in the event of damage, destruction or taking by eminent domain, (iii) providing extensions, additions or improvements to any of the Facility or (iv) refunding Outstanding Bonds. Additional Bonds will be secured on a parity basis with the Series 2013 Bonds under the Indenture.

Limitations on Incurrence of Additional Indebtedness

The Loan Agreement provides that ILCS may not incur Additional Indebtedness that is senior to the Series 2013 Bonds and its obligations under the Loan Agreement. The Loan Agreement further provides that ILCS may incur Additional Indebtedness (including Additional Bonds) on a parity with the Series 2013 Bonds and its obligations under the Loan Agreement only upon providing to the Trustee a certificate of an Authorized Representative of ILCS, accompanied by a confirming accountant’s certificate, showing that the Net Income Available for Debt Service (defined below), as determined in the most recent audited financial statements of ILCS, is at least equal to 1.35x the combined maximum annual debt service for the Series 2013 Bonds and the Additional Indebtedness proposed to be incurred.

ILCS may incur Additional Indebtedness subordinate to its obligations under the Loan Agreement only upon providing to the Trustee a certificate of an Authorized Representative of ILCS, accompanied by a confirming accountant's certificate, showing that Net Income Available for Debt Service, as determined in the most recent audited financial statements of ILCS, is at least equal to 1.10x the combined maximum annual debt service for the Series 2013 Bonds and the Additional Indebtedness proposed to be incurred.

See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT—Financial Covenants".

Financial Covenants

Debt Service Coverage Ratio Covenant

ILCS will covenant in the Loan Agreement that, as long as the Series 2013 Bonds are outstanding, it will maintain a Long-Term Debt Service Coverage Ratio (defined below) greater than 1.10x. Beginning with ILCS' fiscal year commencing July 1, 2014, ILCS shall, within 30 days of the close of each fiscal year, calculate the Long-Term Debt Service Coverage Ratio as of June 30 of the most recently completed fiscal year, and shall provide a copy of such calculation verified and certified by public accountants who completed the audit of ILCS' financial statements for the corresponding fiscal year to the Trustee at the time of delivery of the annual audited financial statements. If the Long-Term Debt Service Coverage Ratio shall be less than 1.10x but equal to or greater than 1.0x, ILCS shall within 30 days of the date of such calculation, provide the Trustee with a detailed written explanation from an Authorized Representative of ILCS stating the reason for ILCS' failure to achieve the required Long-Term Debt Service Coverage Ratio of 1.10x and its plan for achieving such Long-term Debt Service Coverage Ratio by the end of the next fiscal year.

In the event that ILCS is unable to comply with the above Long-Term Debt Service Coverage Ratio requirement within 12 months of the initial non-compliance, then the Owners of a majority of the Outstanding Bonds shall have the right to direct the Trustee to require ILCS to engage, at ILCS' expense, a Management Consultant, acceptable to such Owners, within 20 days' notice from the Trustee. Upon its engagement, the Management Consultant shall deliver a written report to the Trustee and ILCS within 60 days following its engagement containing recommendations concerning ILCS' (i) operations; (ii) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities; (iii) management practices, including use of consultants, budgeting practices, and on-going financial systems and monitoring of ILCS' financial condition; (iv) governance and administrative practices; and (v) other factors relevant to or affecting ILCS' ability to achieve the required 1.10x Long-Term Debt Service Coverage Ratio.

ILCS agrees in the Loan Agreement that, within 30 days of receipt of the Management Consultant's report, it shall to the maximum extent permitted by law, implement the written recommendations of the Management Consultant. If ILCS so implements the recommendations of the Management Consultant, the failure of ILCS to achieve a 1.10x Long-Term Debt Service Coverage Ratio for any subsequent calculation period (except as noted in the paragraph below), shall not constitute an Event of Default under the Loan Agreement. See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT—Financial Covenants".

Notwithstanding anything to the contrary contained in the Loan Agreement, ILCS' failure to maintain a Long-Term Debt Service Coverage Ratio of at least 1.0x for any calculation period shall constitute an immediate Event of Default under the Loan Agreement.

For purposes of the financial covenants described above, the following definitions shall apply.

“Long-Term Debt Service Coverage Ratio” means for any fiscal year of ILCS, the ratio determined by dividing the Net Income Available for Debt Service by the debt service due and payable for such fiscal year.

“Net Income Available for Debt Service” means for any period of determination, State Education Operating Aid, Disability Aid and unrestricted cash of ILCS, for such period, minus ILCS' total operating expenses for such period, but excluding from unrestricted cash (i) any profits which would be regarded as extraordinary items under generally accepted accounting principles, (ii) proceeds of insurance policies not used to redeem Series 2013 Bonds, (iii) the proceeds of any sale, transfer, or other disposition of the Project and any condemnation award not used to redeem Series 2013 Bonds, (iv) moneys in the Repair and Replacement Fund, and (v) amounts derived from any lines of credit or similar facilities for borrowed monies.

Days' Cash on Hand Covenant

ILCS covenants and agrees in the Loan Agreement to maintain a minimum of 30 Days' Cash on Hand as of June 30 for each of its Fiscal Years. “Days' Cash on Hand” means, as of the end of any fiscal year, the product obtained by multiplying the number of days in such Fiscal Year by a fraction (a) the numerator of which is ILCS' Cash and Cash Equivalents, and (b) the denominator of which is ILCS's Total Expenses, both as reported in the audited financial statements for such Fiscal Year. Notwithstanding the foregoing, in the event that any law now or hereafter applicable to ILCS or its operations results in a limitation on the amount of cash and cash equivalents that ILCS may maintain, as reported in the audited financial statements for the Fiscal Year then ended, the foregoing number of Days' Cash on Hand shall be reduced to a number equivalent to the maximum amount then permitted by law.

In the event that ILCS is unable to comply with the above liquidity covenant as of any June 30, then the Owners of a majority of the Outstanding Bonds shall have the right to direct the Trustee to require ILCS to engage, at ILCS' expense, a Management Consultant, acceptable to such Owners, within 20 days' notice from the Trustee. Upon its engagement, the Management Consultant shall deliver a written report to the Trustee and ILCS within 60 days following its engagement containing recommendations concerning ILCS' (i) operations; (ii) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities; (iii) management practices, including use of consultants, budgeting practices, and on-going financial systems and monitoring of ILCS' financial condition; (iv) governance and administrative practices; and (v) other factors relevant to or affecting ILCS' ability to achieve the required 30 days cash on hand requirement.

ILCS agrees in the Loan Agreement that, within 30 days of receipt of the Management Consultant's report, it shall to the maximum extent permitted by law, implement the written recommendations of the Management Consultant. If ILCS so implements the recommendations of the Management Consultant, the failure of ILCS to meet the foregoing liquidity covenant as of

any June 30, shall not constitute an Event of Default under the Loan Agreement. See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT—Financial Covenants".

Negative Covenant with Respect to Pledge of Endowment Funds

ILCS covenants in the Loan Agreement that it shall not grant any security interest in its endowment or board-designated funds unless ILCS shall first grant to the Trustee a security interest in such funds which is in all respects equal to any other security interest it grants in such funds. ILCS may remove the board designation from previously board-designated funds at any time without restriction, and the foregoing covenant will not apply to such funds thereafter.

Repair and Replacement Fund

Commencing with the month after ILCS begins operations at the Project, and during each month thereafter, ILCS is required to deposit \$5,000 into a separate repair and replacement fund (the "R&R Fund") maintained at a financial institution until the balance therein is equal to \$250,000. Monies in the R&R Fund shall be used by ILCS from time to time for capital repairs to the Project while the Series 2013 Bonds are outstanding. Any amounts withdrawn from the R&R Funds shall be replenished by ILCS through monthly payments at the rate of \$5,000 per month commencing (A) in the seventh month after a withdrawal of up to \$125,000 or (B) in the thirteenth month after a withdrawal of more than \$125,000, until the amount on deposit in the R&R Fund equals \$250,000. Monies in the R&R Funds are not pledged for the benefit of the Holders of the Series 2013 Bonds. In the event that ILCS shall establish the R&R Fund with the Trustee, moneys in the R&R Fund shall be held separate and apart from all other funds held by the Trustee, shall be available only to pay costs of repairing or replacing capital improvements to the Project, and shall not be pledged to or made available for the payment of debt service on the Series 2013 Bonds.

Limited Obligations

THE SERIES 2013 BONDS ARE SPECIAL LIMITED REVENUE OBLIGATIONS OF THE ISSUER, PAYABLE AS TO PRINCIPAL, REDEMPTION PRICE AND INTEREST, SOLELY FROM THE TRUST ESTATE AND CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE. NEITHER THE STATE OF NEW YORK NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF NEW YORK, SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2013 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NEW YORK OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF NEW YORK, IS PLEDGED TO SUCH PAYMENT OF THE SERIES 2013 BONDS. THE SERIES 2013 BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OF THE ISSUER OTHER THAN THOSE PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE SERIES 2013 BONDS WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OR CHARGE AGAINST THE CREDIT OR TAXING POWERS OF THE STATE OF NEW YORK OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF NEW YORK. NO RECOURSE WILL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES 2013 BONDS AGAINST ANY MEMBER, OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE ISSUER. THE ISSUER HAS NO TAXING POWER.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2013 Bonds, together with certain other funds, are expected to be applied as follows:

Sources of Funds

| | |
|---------------------------------------|----------------------------|
| Principal Amount of Series 2013 Bonds | \$17,750,000 |
| ILCS Contributed Equity | <u>225,000</u> |
| Total Sources | <u>\$17,975,000</u> |

Uses of Funds

| | |
|---------------------------|----------------------------|
| Payment of Project Costs | \$14,754,060 |
| Capitalized Interest | 1,306,400 |
| Debt Service Reserve Fund | 1,289,650 |
| Costs of Issuance* | <u>624,890</u> |
| Total Uses | <u>\$17,975,000</u> |

* Include the Issuer fee, underwriting discount, legal, accounting and other fees and expenses related to the financing

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service on the Series 2013 Bonds.

| Twelve-Month Period Ending <u>July 1</u> | <u>Principal Payments on Series 2013 Bonds</u> | <u>Interest Payments on Series 2013 Bonds</u> | <u>Annual Total Debt Service</u> |
|---|---|--|---|
| 2013 | - | \$ 284,000.00 | \$ 284,000.00 |
| 2014 | - | 1,022,400.00 | 1,022,400.00 |
| 2015 | \$ 265,000 | 1,022,400.00 | 1,287,400.00 |
| 2016 | 280,000 | 1,009,150.00 | 1,289,150.00 |
| 2017 | 290,000 | 995,150.00 | 1,285,150.00 |
| 2018 | 305,000 | 980,650.00 | 1,285,650.00 |
| 2019 | 320,000 | 965,400.00 | 1,285,400.00 |
| 2020 | 340,000 | 949,400.00 | 1,289,400.00 |
| 2021 | 355,000 | 932,400.00 | 1,287,400.00 |
| 2022 | 375,000 | 914,650.00 | 1,289,650.00 |
| 2023 | 390,000 | 895,900.00 | 1,285,900.00 |
| 2024 | 410,000 | 876,400.00 | 1,286,400.00 |
| 2025 | 435,000 | 852,825.00 | 1,287,825.00 |
| 2026 | 460,000 | 827,812.50 | 1,287,812.50 |
| 2027 | 485,000 | 801,362.50 | 1,286,362.50 |
| 2028 | 515,000 | 773,475.00 | 1,288,475.00 |
| 2029 | 545,000 | 743,862.50 | 1,288,862.50 |
| 2030 | 575,000 | 712,525.00 | 1,287,525.00 |
| 2031 | 610,000 | 679,462.50 | 1,289,462.50 |
| 2032 | 645,000 | 644,387.50 | 1,289,387.50 |
| 2033 | 680,000 | 607,300.00 | 1,287,300.00 |
| 2034 | 720,000 | 568,200.00 | 1,288,200.00 |
| 2035 | 760,000 | 525,000.00 | 1,285,000.00 |
| 2036 | 810,000 | 479,400.00 | 1,289,400.00 |
| 2037 | 855,000 | 430,800.00 | 1,285,800.00 |
| 2038 | 905,000 | 379,500.00 | 1,284,500.00 |
| 2039 | 960,000 | 325,200.00 | 1,285,200.00 |
| 2040 | 1,020,000 | 267,600.00 | 1,287,600.00 |
| 2041 | 1,080,000 | 206,400.00 | 1,286,400.00 |
| 2042 | 1,145,000 | 141,600.00 | 1,286,600.00 |
| 2043 | <u>1,215,000</u> | <u>72,900.00</u> | <u>1,287,900.00</u> |
| | <u>\$17,750,000</u> | <u>\$20,887,512.50</u> | <u>\$38,637,512.50</u> |

BONDHOLDERS' RISKS

The following is a discussion of certain risks that could affect the ability of ILCS to make timely Loan Agreement payments with respect to the Series 2013 Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with all other parts of this Official Statement, and such discussion should not be considered to be a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2013 Bonds should carefully review the information contained in this Official Statement, including the Appendices hereto, and in the financing documents, copies of which are available as described herein.

General

The Series 2013 Bonds are payable solely from the payments to be made by ILCS pursuant to the Loan Agreement and the Promissory Note. Such payments will be made from the revenues derived by ILCS from its operations and from other non-operating revenues received by ILCS, income from the investment of funds held for the security of the Series 2013 Bonds and, under certain circumstances, proceeds of casualty insurance or condemnation awards. No representation or assurance is made that revenues will be realized by ILCS in the amounts necessary to make payments due under the Loan Agreement. The amount of ILCS's future revenues and expenses are subject to, among other things: (a) enrollment levels; (b) competition from other educational institutions; (c) the continuation of support from private contributions, grants and various federal and State programs; (d) endowment and investment performance; (e) the capabilities of management of ILCS; and (f) future economic and other conditions, all of which are unpredictable and which may affect ILCS's revenues and thereby payment of principal or redemption price of, and interest on, the Series 2013 Bonds.

Speculative Investment

Purchase of the Series 2013 Bonds involves a high degree of risk and the Series 2013 Bonds are a speculative investment. The Series 2013 Bonds are unrated. Although any explanation of the significance of the rating may be obtained only from rating agencies, bonds that are unrated are typically high-yield, high-risk securities, sometimes referred to as "junk bonds". Such securities may exhibit price fluctuations due to changes in interest rate or bond yield levels. As a result, the value of the Series 2013 Bonds may fluctuate significantly in the short-term. Further, such securities have a less liquid resale market. As a result, potential investors may have difficulty selling or disposing of the Series 2013 Bonds quickly in certain markets or market environments. Such securities are also considered predominately speculative with respect to the obligor's continuing ability to make principal and interest payments. See also "RISK FACTORS – General" above. The Series 2013 Bonds should not be purchased by any potential investor who, because of financial condition, investment policies or otherwise, does not desire to assume, or have the ability to bear, the risks inherent in an investment in the Series 2013 Bonds.

Limitation of Pledge

Under the Charter Schools Act of the New York Education Law, ILCS may not legally assign or pledge any interest in State Payments payable to ILCS to secure its obligations under the Loan Agreement and with respect to the Series 2013 Bonds. At closing, ILCS will enter into

the Custody Agreement which, among other provisions, contains irrevocable instructions to the Custodian to transfer monies deposited in the Custody Account to the Trustee in the amounts and at the designated times in order for the Trustee to have on deposit in the Bond Fund sufficient money to timely pay the principal of, Sinking Fund Installments, and interest on the Series 2013 Bonds.

Special, Limited Obligations

The Series 2013 Bonds constitute nonrecourse obligations of the Issuer, and no assets of the Issuer are pledged or otherwise put at risk in connection with the Series 2013 Bonds. The Series 2013 Bonds are special obligations of the Issuer and neither the State of New York, nor any political subdivision thereof is obligated to pay, and neither the full faith and credit nor the taxing authority of the state of New York or any political subdivision thereof (including The City of New York) is pledged to the payment of principal of, premium, if any, or interest on the Series 2013 Bonds. The Series 2013 Bonds are payable solely from and are secured by revenues of the Issuer under the Loan Agreement and other monies available therefor as described herein. The Issuer has no taxing authority and ILCS may not charge tuition. See “SECURITY FOR THE SERIES 2013 BONDS”.

Factors Associated with Education

There are a number of factors affecting schools in general, including ILCS, which could have an adverse effect on ILCS’s financial position and the ability of ILCS to generate sufficient revenues for payment of debt service on the Series 2013 Bonds. These factors include, but are not limited to, ILCS’s ability to execute on its growth plans and attract and retain a sufficient number of students; increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; increasing operating costs of ILCS; changes in existing statutes pertaining to the powers of ILCS and legislation or regulations which may affect funding. ILCS cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

Dependence on State Payments that are Subject to Annual Appropriation and Political Factors

New York charter schools such as ILCS may not charge tuition and have no taxing authority. The principal source of charter school funding in New York is “Charter School Basic Tuition” that charter schools are paid by the school district of the residence of the students attending the charter schools, and the amount of aid received by an individual school is based on a variety of factors. See “CHARTER SCHOOL FUNDING IN THE STATE OF NEW YORK” and “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CHARTER SCHOOL FUNDING”. The overall amount of Education Aid provided by the State in any year is subject to appropriation by the New York Legislature. The Legislature may base its decisions about appropriations on many factors, including the State’s economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for ILCS to generate sufficient revenue to meet its operating expenses and to make payments under the Loan Agreement representing debt service

on the Series 2013 Bonds. No liability would accrue to the State in such event, and the State would not be obligated or liable for any future payments or any damages. If the State were to withhold Education Aid payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, ILCS could be forced to close.

Budget Delays and Adverse Effects on Appropriations for Funding

Charter schools depend on revenues from the State for a large portion of their operating budgets. The availability of State funds for public education is a function of legal provisions affecting school revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund) and the budget process. In the absence of an effective budget, and in the absence of any special or emergency legislation enacted to continue appropriations, many appropriations of the State cease to continue at the end of the State's budget year (March 31). ILCS would be materially harmed by any budget failure which delays or otherwise adversely affects appropriations for charter school funding.

State Financial Difficulties

Charter schools depend on revenues from the State for a large portion of their operating budgets. The availability of State funds for public education is a function of legal provisions affecting school district revenues and expenditures, the condition of the State economy and the annual budget process. Decreases in State revenues may adversely affect education appropriations made by the Legislature. As noted, the Legislature bases its decisions about appropriations on many factors, including the State's economic performance, and, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding. See "RISK FACTORS – Dependence on State Payments that are Subject to Annual Appropriation and Political Factors", above.

Any future decreases in State revenues may adversely affect education appropriations made by the Legislature. Neither ILCS nor any other party to the Bond transaction can predict how State income or State education funding will vary over the entire term of the Series 2013 Bonds. No parties to the Bond transaction take any responsibility for informing owners of the Series 2013 Bonds about any such changes. Information about the financial condition of the State, as well as its budget and spending for education, is available and regularly updated on various State-maintained websites. Such information is prepared by the respective State entity maintaining each such website and not by any of the parties to this transaction. The parties to this transaction take no responsibility for the accuracy, completeness or timeliness of such information or the continued accuracy of the internet addresses noted herein, and no such information is incorporated herein by these references.

Future Changes to Charter School Laws

The law applicable to charter schools in New York has developed over time and is subject to further changes in the future. Future changes to applicable law by the New York Legislature could be adverse to the financial interests of ILCS and could adversely affect the security for the Series 2013 Bonds. There can be no assurance that the Legislature will not in the future change such laws in a manner which is adverse to the interests of the registered owners of the Series 2013 Bonds. Charter School law provisions are subject to amendment, including the

reduction of funding, which could adversely affect ILCS. Adverse State budget considerations could increase the likelihood that the State Legislature would change the laws governing charter schools, and in particular charter school funding provisions. Further, State budget considerations may adversely affect appropriations for charter school funding. For more information on the laws governing charter schools in New York, see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW”.

Revocation or Termination of Charter

Under New York law (New York Education Law, Article 56), ILCS’s Charter is subject to revocation or termination for, among other reasons: (i) when a charter school’s outcome on student assessment measures adopted by the Board of Regents falls below the level that would allow the Commissioner to revoke the registration of another public school, and student achievement on such measures has not shown improvement over the preceding three school years; (ii) serious violations of law; (iii) material and substantial violation of the Charter, including fiscal mismanagement; (iv) when the public employment relations board makes a determination that the charter school demonstrates a practice and pattern of egregious and intentional violations related to improper employer practices of the civil service law involving interference with or discrimination against employee rights under the Public Employees’ Fair Employment Act of the civil service law; or (v) repeated failure to comply with the requirement to meet or exceed enrollment and retention targets of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program pursuant to targets established by the Board of Regents or the board of trustees of the State University of New York, as applicable. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW – CAUSES FOR REVOCATION OR TERMINATION” and “– REVIEW AND ASSESSMENT”. Pursuant to its terms, ILCS’s current Charter is also subject to termination or revocation upon mutual agreement of the parties. If ILCS’s Charter is not renewed, or is revoked, terminated or suspended, ILCS could be forced to close.

Management and Key Personnel; Challenges with Respect to Growth Plans

ILCS’s creation, curriculum, educational philosophy and operations have depended on the vision and commitment of a few, key personnel who comprise the officers and administrators of ILCS. Loss of any such key personnel could similarly adversely affect ILCS. For more information regarding ILCS’s key personnel, see “APPENDIX A – INTERNATIONAL LEADERSHIP CHARTER SCHOOL – Governance and Management”.

Operating History, Reliance on Projections

ILCS’s ability to make payments under the Loan Agreement representing debt service payments on the Series 2013 Bonds depends on its receipt of Education Aid payments. ILCS has conducted operations only since the 2006-07 school year. The projections of revenues and expenses contained in “APPENDIX A – INTERNATIONAL LEADERSHIP CHARTER SCHOOL” herein were prepared by ILCS. See “APPENDIX A – INTERNATIONAL LEADERSHIP CHARTER SCHOOL – Enrollment”. The projections of revenues and expenses have not been independently verified by any party other than ILCS. No feasibility studies have been conducted with respect to operations of ILCS pertinent to the Series 2013 Bonds. The projections prepared by ILCS are “forward-looking statements” and are subject to the general qualifications and limitations described under “REGARDING THIS OFFICIAL STATEMENT” with respect to such statements.

Neither the Issuer nor the Underwriter has independently verified such projections, and each makes no representation nor gives any assurances that such projections or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Series 2013 Bonds will be outstanding.

The projections are derived from the actual operations of ILCS and from assumptions made by ILCS about its future student enrollment and expenses. There can be no assurance that the actual enrollment, revenues and expenses for ILCS will be consistent with the assumptions underlying the projections contained herein. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there is no assurance that actual events will correspond with the assumptions made by ILCS. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of difficulty with or failure of ILCS's growth plans, insufficient enrollment, reduced Education Aid payments, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, factors associated with education, competition for students, and changes in local or general economic conditions.

Refer to "APPENDIX A – INTERNATIONAL LEADERSHIP CHARTER SCHOOL" to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results. Refer to "REGARDING THIS OFFICIAL STATEMENT" above, for qualifications and limitations applicable to forward-looking statements.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE CAN BE NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY ILCS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF DIFFICULTY WITH OR FAILURE OF ILCS'S GROWTH PLANS, INSUFFICIENT ENROLLMENT, REDUCED EDUCATION AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENT REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, FACTORS ASSOCIATED WITH EDUCATION, COMPETITION FOR STUDENTS, AND CHANGES IN LOCAL OR GENERAL ECONOMIC CONDITIONS.

Competition for Students

ILCS primarily competes for students with other public, private and charter schools in New York City. The charter school Law requires that when the number of applications exceeds the seats available, a lottery must be conducted on or before April 1st. Those students not selected in the lottery are placed on the enrollment waiting list and are notified by mail as soon as seats become available.

For the 2012-13 academic year, ILCS received a total of 238 applications for the 9th grade cohort (ILCS only accepts applications for incoming 9th graders), and accepted its target

number of 100 students. The charter school law allows for a 20% increase in cohort enrollment numbers within the total enrollment limit. Until the Project is completed, ILCS will not be able to increase its current enrollment due to space limitations at its current facility.

ILCS faces ongoing competition for students and there can be no assurance that ILCS will continue to attract and retain, or increase the number of students that are needed to (i) meet its student enrollment projections for its new school facility or (ii) generate sufficient revenues (which are derived primarily from State Operating Aid Payments that are based on enrollment) to meet its Loan Agreement payments which the Issuer uses to pay debt service on the Series 2013 Bonds.

Compliance with the No Child Left Behind Act of 2001

The accountability provisions of Title I of the New York State Elementary and Secondary Education Act, were restructured in response to the No Child Left Behind Act of 2001 (“NCLB”), requiring all public schools, school districts, and the State to be evaluated for Adequate Yearly Progress (“AYP”). In order to achieve “AYP” status determination, ILCS must demonstrate student achievement scores that meet New York State Education Department standards in the areas of English and Mathematics. These standards require pass rates of at least 75% of all the students seated for the exam. ILCS has consistently maintained AYP since its inception. There can be no assurance that ILCS will make AYP in the future. Any failure by ILCS to make AYP may have a material adverse effect on ILCS and its ability to generate sufficient revenues to make payments under the Loan Agreement representing debt service on the Series 2013 Bonds.

Project Approvals and Construction Process

ILCS will use a portion of the proceeds of the Series 2013 Bonds to finance the renovation of an approximately 28,500 square foot three-story building. ILCS represents that it has or will obtain all necessary approvals, consents, certificates and permits as needed in order to construct the Project in a timely fashion. Any failure by ILCS to obtain such approvals, consents, certificates and permits could result in delay with respect to completion of the Project, and any such delay could adversely affect ILCS’s operations and its ability to generate revenues sufficient to pay debt service with respect to the Series 2013 Bonds.

Construction Costs and Completion of Construction

As described in Appendix A to this Official Statement, ILCS has retained the services of an architectural firm, an “owner’s representative” and a consulting firm specializing in the preparation of estimating local construction costs of facilities similar to the Project, but as of the date of this Official Statement, ILCS has not selected a general contractor for the Project and is not expected to enter into a construction contract prior to the date of delivery of the Series 2013 Bonds. ILCS has solicited proposals from qualified bidders and expects to complete the competitive bid process to select a general contractor, as a first step toward securing a guaranteed maximum price (“GMP”), by February 22, 2013. ILCS anticipates that the construction contract with the selected general contractor will provide for substantial completion of the Project by no later than August 1, 2014, and that it will be able to operate the Project beginning with the 2014-15 school year.

Even with a GMP construction contract in place, there can be no guaranty that actual construction costs will not exceed the GMP, and hence exceed the amount available to ILCS for construction purposes, as a result of an overrun of allowance items, unforeseen site conditions, adverse weather conditions and other acts of force majeure, public approvals, unusual delays in deliveries of building materials or delays due to the fault of ILCS, its architect, general contractor or other parties relevant to construction of the Project. However, to the extent possible, the Project's contingency plan and the critical path construction schedule anticipates such potential delays and builds in options for mitigating these delays. Notably, substantive and extensive investigation of site conditions has already been undertaken. The Project will also be constructed on a non-union basis and, as a result, labor disputes, and the delays associated with them, are unlikely to occur with respect to the Project.

No assurance can be given that construction of the Project will be completed on time or for the amount of proceed of the Series 2013 Bonds allocated for such purpose.

Lease Commitment and Early Termination of Lease

ILCS entered into a lease agreement for its current administrative offices and instructional facilities with an unrelated third party in a commercial facility in The Bronx, New York. The original term of the lease expired on August 15, 2011 and negotiations to enter into a renewal term were not successful. However, the lease agreement included a provision for an additional five year term. Since August 16, 2011, ILCS has been paying rent on the same terms and conditions under the original lease. The landlord has taken the position that by remaining in the premises after August 15, 2011, ILCS agreed to extend the lease for a five-year term commencing on August 16, 2011 through and including August 15, 2016. Under the terms and conditions of the lease agreement, ILCS has calculated the monthly lease payments to be \$52,049, which is subject to an annual consumer price index escalation adjustment until a new lease is formally negotiated and finalized or the lease terminates. In the event that ILCS should formally terminate the lease prior to August 15, 2016, and stop paying rent, the landlord has advised ILCS that it may initiate legal action in this matter and if it prevails, ILCS would incur significant financial obligations to the landlord.

Foreclosure Deficiency and Delays

If revenues are insufficient to pay the principal of and interest on the Series 2013 Bonds, the Trustee may seek to foreclose on the Mortgage. There can be no assurance that the value of ILCS's interests in the Facility would be sufficient to meet all remaining debt service requirements with respect to the Series 2013 Bonds at the time of any foreclosure. In addition, the time necessary to institute and complete foreclosure proceedings would likely substantially delay receipt of funds from a foreclosure.

Damage or Destruction of the Facility

The Loan Agreement requires that the Facility be insured against certain risks. There can be no assurance that the amount of insurance required to be obtained or actually obtained with respect to the Facility will be adequate, or that the cause of any damage or destruction to the Facility will be as a result of a risk which is insured. Further, there can be no assurance with

respect to the ongoing creditworthiness of the insurance companies from which ILCS obtains insurance policies.

Environmental Regulation

A Phase I Environmental Site Assessment has been conducted with respect to the Facility. See “APPENDIX A – INTERNATIONAL LEADERSHIP CHARTER SCHOOL – Environmental Assessment”. The report prepared in connection with the assessment speaks only as of its dates, and no additional assessments have been requested or performed subsequent to that date. Potential purchasers should refer to the complete reports for additional information regarding the assessments performed.

More generally, the Facility is and will be subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability for remediating adverse environmental conditions on or relating to the Facility, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at the Facility. Costs incurred with respect to environmental remediation or liability could adversely affect ILCS’s financial condition and its ability to generate revenues sufficient to pay debt service on the Series 2013 Bonds.

Potential Effects of Bankruptcy

If ILCS were to file a petition for relief (or if a petition were filed against ILCS as debtor) under the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended, or other state insolvency, liquidation or receivership laws, the filing could operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against ILCS, or the property of ILCS. If the bankruptcy court or other state or federal court so ordered, the property and revenues of ILCS could be used for the benefit of ILCS despite the claims of its creditors (including the owners of the Series 2013 Bonds).

In a bankruptcy proceeding under Chapter 11 of the Bankruptcy Code, ILCS could file a plan of reorganization that would modify the rights of creditors generally or the rights of any class of creditors, secured or unsecured (including the owners of the Series 2013 Bonds). The plan, when approved (“confirmed”) by the bankruptcy court, binds all creditors who had notice or knowledge of the plan and discharges all claims against ILCS except as otherwise provided for in the plan. No plan may be confirmed by a bankruptcy court unless, among other conditions, the plan is in the best interest of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Enforcement of Remedies

The remedies available to the Trustee or the registered owners of the Series 2013 Bonds upon an Event of Default under the Indenture and the Loan Agreement are in many respects dependent upon judicial actions that are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies provided in the Indenture and the Loan Agreement may not be readily available or may be limited. The various legal

opinions to be delivered concurrently with the delivery of the Series 2013 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the sovereign powers of the State and the constitutional powers of the United States of America, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Determination of Taxability

The excludability from gross income for federal income taxation purposes of the interest on the Series 2013 Bonds is based on the continuing compliance by the Trustee, ILCS and the Issuer with certain covenants contained in the Indenture, the Loan Agreement and the Tax Regulatory Agreement, dated as of the date of delivery of the Series 2013 Bonds, and executed by the Issuer and ILCS. These covenants relate generally to restrictions on the use of the Facility by ILCS, restrictions on use of the Facility by organizations other than ILCS, arbitrage limitations, and rebate of certain excess investment earnings, if any, to the federal government. Failure to comply with such covenants could cause interest on the Series 2013 Bonds to become subject to federal income taxation retroactive to the date of issuance of the Series 2013 Bonds.

Loss of Tax-Exempt Status

The tax-exempt status of the Series 2013 Bonds presently depends upon maintenance by ILCS of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanctions and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by ILCS could result in loss of tax exemption of the Series 2013 Bonds and defaults in covenants regarding the Series 2013 Bonds and other obligations would likely be triggered. Loss of tax-exempt status by ILCS could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of ILCS could have material adverse consequences on the financial condition of ILCS.

ILCS or the Series 2013 Bonds may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest, and penalties. An IRS audit ultimately could affect the tax-exempt status of ILCS, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2013 Bonds and any other tax-exempt debt issued for benefit of ILCS.

Secondary Market

There is no guarantee that a secondary trading market will develop for the Series 2013 Bonds. Consequently, prospective bond purchasers should be prepared to hold their Series

2013 Bonds to maturity or prior redemption. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends but is not obligated to make a market in the Series 2013 Bonds.

Failure to Provide Ongoing Disclosure

ILCS will enter into a Continuing Disclosure Agreement pursuant to Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (“Rule 15c2-12”) in connection with the issuance of the Series 2013 Bonds. Failure to comply with the Continuing Disclosure Agreement and Rule 15c2-12 in the future may adversely affect the liquidity of the Series 2013 Bonds and their market price in the secondary market. See “CONTINUING DISCLOSURE AGREEMENT” and “APPENDIX G – FORM OF CONTINUING DISCLOSURE AGREEMENT”.

ABSENCE OF LITIGATION

The Issuer

There is not now pending any litigation of which the Issuer has notice restraining or enjoining the issuance or delivery of the Series 2013 Bonds or questioning or affecting the validity of the Series 2013 Bonds or the proceedings and authority under which the Series 2013 Bonds are to be issued or the validity or enforceability of the Security Documents. Neither the creation, organization or existence of the Issuer, nor the title of the present directors or other officials of the Issuer to their respective offices, is, to the best knowledge of the Issuer, being contested.

ILCS

ILCS has advised that no litigation, proceeding or investigation is pending or, to its knowledge, threatened against ILCS, except (i) as disclosed in APPENDIX A, (ii) litigation, proceedings or investigations for which the probable ultimate recoveries and the estimated costs and expenses of defense will be entirely within applicable insurance policy limits (subject to applicable deductibles) or are not in excess of the total reserves held under applicable self-insurance programs or otherwise available, or (iii) litigation, proceedings or investigations in which there is no reasonable likelihood that an adverse determination will result or which, if an adverse determination were to result, would not have a materially adverse effect on the financial condition or results of operations of ILCS. ILCS has also advised that no litigation, proceedings or investigations are pending or, to its knowledge, threatened against ILCS that in any manner question the right of ILCS to participate in the transactions described in this Official Statement.

LEGAL MATTERS

Legal matters in connection with the authorization, issuance and sale of the Series 2013 Bonds are subject to the approving opinion of Nixon Peabody LLP, New York, New York, Bond Counsel, which opinion will be substantially in the form attached hereto as APPENDIX H. Certain legal matters will be passed upon for the Issuer by Richard E. Marshall, Esq., its Vice President for Legal Affairs, and for ILCS by its special counsel, Edwards Wildman Palmer LLP, New York, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Harris Beach PLLC, New York, New York.

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 2013 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 2013 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2013 Bonds. Pursuant to the Bond Resolution, the Indenture, the Loan Agreement and the Tax Regulatory Agreement, the Issuer and ILCS have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2013 Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Issuer and ILCS have made certain representations and certifications in the Bond Resolution, the Indenture, the Loan Agreement and the Tax Regulatory Agreement. Bond Counsel will also rely on the opinion of Edwards Wildman Palmer LLP as to all matters concerning the status of ILCS 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 representations and certifications 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 Issuer and ILCS described above, interest on the Series 2013 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 2013 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 interest on the Series 2013 Bonds is exempt from personal income taxation imposed by the state of New York or any political subdivision thereof including The City of New York. Bond Counsel expresses no opinion as to other New York state or local tax consequences arising with respect to the Series 2013 Bonds nor as to the taxability of the Series 2013 Bonds or the income therefrom under the laws of any state other than the state of New York.

Ancillary Tax Matters

Ownership of the Series 2013 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, and individuals seeking to claim the earned income credit. Ownership of the Series 2013 Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2013 Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2013 Bonds is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2013 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinions attached as APPENDIX H. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2013 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2013 Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2013 Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2013 Bonds from gross income for federal or state income tax purposes, or otherwise. We note that in 2011, and again in 2012, President Obama released legislative proposals that would limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2013 Bonds) for taxpayers whose income exceeds certain thresholds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2013 Bonds may occur. Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2013 Bonds. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2013 Bonds may affect the tax status of interest on the Series 2013 Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Series 2013 Bonds, or the interest thereon, if any action is taken with respect to the Series 2013 Bonds or the proceeds thereof upon the advice or approval of other counsel.

UNDERWRITING

Pursuant to the terms of a Bond Purchase Agreement (the “Bond Purchase Agreement”) among the Issuer, ILCS and TD Securities (USA) LLC (the “Underwriter”), the Underwriter has agreed to purchase the Series 2013 Bonds at a purchase price of \$17,438,710, which purchase price is equal to the par amount of the Series 2013 Bonds, less an underwriting discount of \$311,290. ILCS has also agreed to reimburse the Underwriter for its reasonable expenses. The Bond Purchase Agreement provides that the obligations of the Underwriter are subject to certain conditions precedent and that the Underwriter will be obligated to purchase all of the Series 2013 Bonds if any of the Series 2013 Bonds are purchased. The Series 2013 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2013 Bonds into investment

trusts, accounts or funds) and others at prices lower than the initial public offering price. After the initial public offering, the public offering price of the Series 2013 Bonds may be changed from time to time by the Underwriter. ILCS has agreed to indemnify the Underwriter and the Issuer against certain liabilities or to contribute to any payments required to be made by the Underwriter relating to such liabilities, including liabilities under the federal securities laws.

INDEPENDENT AUDITORS

The financial statements of ILCS as of and for the years ended June 30, 2012, 2011 and 2010, included in APPENDIX B to this Official Statement, have been audited by O'Connor Davis, LLP, independent auditors, as stated in their report appearing in APPENDIX B.

CONTINUING DISCLOSURE

On the date of issuance of the Series 2013 Bonds, ILCS will enter into the Continuing Disclosure Agreement for the benefit of the beneficial owners of the Series 2013 Bonds. Under the Continuing Disclosure Agreement, ILCS is required to file certain information annually with, and to provide notice of certain events to, the Municipal Securities Rulemaking Board (the "MSRB") using its Electronic Municipal Market Access system ("EMMA"), pursuant to Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission. The information to be provided on an annual basis and the events that are required to be noticed on an occurrence basis are set forth in the proposed form of the Continuing Disclosure Agreement included in APPENDIX G hereto. ILCS has also agreed in the Continuing Disclosure Agreement to conduct an annual continuing disclosure conference call with beneficial owners of the Series 2013 Bonds within 120 days after the close of each of its Fiscal Years. The Continuing Disclosure Agreement will constitute ILCS's first obligation to provide continuing disclosure pursuant to the Rule.

MISCELLANEOUS

The foregoing summaries or descriptions of provisions in the Indenture, the Loan Agreement, the Promissory Note, the Continuing Disclosure Agreement and the other agreements and documents referred to herein, and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not constitute complete statements of such provisions or purport to summarize all of the pertinent provisions thereof. Reference is made to the complete Indenture and the Loan Agreement, copies of which may be obtained prior to the date of issuance of the Series 2013 Bonds from the Underwriter and thereafter from the Trustee.

The information contained in this Official Statement is the responsibility of ILCS, except for the information contained under the heading "BOOK-ENTRY ONLY SYSTEM", which has been provided by DTC to the extent described therein, and the information under the headings "THE ISSUER" and "ABSENCE OF LITIGATION—The Issuer", which has been provided by the Issuer. The Issuer makes no representation, warranty or certification as to the adequacy or accuracy of the information set forth in this Official Statement, other than the information set forth under the headings "THE ISSUER" and "ABSENCE OF LITIGATION—The Issuer". This Official Statement is not intended to be construed as a contract or agreement between the Issuer and the purchasers or holders of the Series 2013 Bonds.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are set forth as such, and not as representations of facts. No representation is made that any of the opinions or estimates will be realized.

The distribution of this Official Statement has been duly authorized by the Issuer and by ILCS.

BUILD NYC RESOURCE CORPORATION

By: /s/ Jeffrey T. Lee
 Executive Director

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

By: /s/ Dr. Elaine Ruiz-Lopez
 Chief Executive Officer

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APPENDIX A

**INTERNATIONAL LEADERSHIP CHARTER SCHOOL
AND
NYC DEPARTMENT OF EDUCATION PROGRESS REPORT
FOR ILCS FOR 2011-12**

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GENERAL/SUMMARY

The International Leadership Charter School (the “Charter School” or “ILCS”) is a New York public charter high school located in District #10 (Bronx) (the “District”) and whose charter authorizes it to serve up to 352 students in grade 9-12. The New York State charter school law further allows enrollment to fluctuate by 20% of the authorization. ILCS received initial authorization from the New York City Department of Education (“DOE”) in December 2005.

The New York State Board of Regents voted to grant the Charter on January 9, 2006, and renewed the Charter for the period January 11, 2011 to June 30, 2015. Thereafter the Charter is subject to renewal, non-renewal or suspension for failure to achieve positive student achievement outcomes or meet charter terms in accordance with the New York Charter Schools Act of 1998 every five years.

CHARTER SCHOOL LEGISLATION IN NEW YORK

General

The New York State Charter Schools Act of 1998 provides that charter schools are independent public schools that operate under five year charters. A charter school is free to organize around a core mission, curriculum, theme, or innovative teaching model. A charter school controls its own budget and employs its own teachers and staff. In return for this freedom, a charter school must demonstrate success within five years or risk losing a subsequent five year renewal of its charter.

New York law defines charter schools as public agents that are eligible to obtain tax-exempt financing through various local government bond issuers. The law further provides that charter schools are education corporations, and deems them independent and autonomous public schools.

As public schools, charter schools are funded by public tax dollars that pass through the student's school district of residence. When a student transfers from a traditional public school to a public charter school, the funding associated with that student will follow the student to the public charter school. As a result, charter schools do not add any new costs to the state's public education system since they constitute a reallocation of school funding from one type of school to another. Because not all monies received by a school district are included in the calculation, charter schools receive only between 60-80% of what school districts actually spend on a per pupil basis.

THE CURRENT FACILITY

The Charter School currently operates in a leased commercial property totaling approximately 19,000 square feet and located at 2900 Exterior Street, Bronx, NY 10463 (the “Current Facility”). The Charter School's current annual lease payment is \$624,581. In addition, the Charter School pays a portion of the utilities and property taxes consistent with the terms of the lease. The Current Facility is at maximum capacity, with no ability to expand, so the Charter School's current enrollment remains at 313 students.



THE PROJECT

The project is a 28,500 square foot, three-story, state of the art facility that will contain 17 classrooms and nine flex rooms, supporting student activities and development space, and with the capacity to accommodate approximately 400 students (the “Project”). The Project will allow ILCS to expand its student current enrollment by 28% to 400 students. The Project will be located on two contiguous parcels totaling 15,400 square feet at 322 West 231st Street in the Kingsbridge neighborhood of the Bronx, only a few blocks away from the Charter School’s current location in the Marble Hill neighborhood. The Charter School currently owns the land that will be used for the Project, subject to a mortgage with a lender. Proceeds from the sale of the Series 2013 Bonds will be used to pay off the current mortgage on the land and to fund the demolition of the existing building and the construction and equipping of the Project

ILCS has engaged Perkins Eastman Architects, PC (“Perkins Eastman”), a leading architectural firm founded in 1981 with local and international experience designing a broad range of institutional and commercial facilities, including a significant practice designing K-12 educational facilities, as architects for the Project. Perkins Eastman and its engineering team has completed final drawings for the Project and such drawings provided the basis to (i) complete the zoning override approval process with the Mayor’s Office of Environmental Coordination, (ii) receive a written official approval from the Mayor’s Office, (iii) inform the estimating and bidding process and (iv) document the construction of the facility. Perkins Eastman will provide ongoing architectural services during the construction of the Project.

ILCS has engaged Landair, Inc. (“Landair”), an owners’ representative firm with 20+ years of experience overseeing the planning, design and construction of more than \$1 billion of institutional facilities similar to the Project on behalf of not-for-profit clients in New York City. Landair serves as the owner’s representative on key elements of the Project’s development and will oversee the general contractor (“GC”) selected by ILCS and assist ILCS in the construction of the Project.

Prior to soliciting formal bids from general contractors, Landair recommended that ILCS engage a third party estimator to provide ILCS with an independent assessment of the anticipated construction costs associated with the Project. Dack Consulting Solutions (“Dack”), a multi-faceted construction consulting firm specializing in the preparation of estimating local construction costs of facilities similar to the Project, issued a current cost estimate in January 2013 to serve as a benchmark for the leveling of bids and negotiating the guaranteed maximum price (“GMP”) construction contract proposals currently under analysis.

Landair, on behalf of ILCS, initiated a competitive bidding process for a GC and a GMP construction contract for the Project. Following the solicitation of proposals from qualified bidders, ILCS selected Procida Construction Corp. of NY as GC for the Project, and will enter into a GMP construction contract prior to the date of delivery of the Series 2013 Bonds. The GC was selected based upon a combination of price (best value, most competitive, realistic and achievable estimates of cost), financial capacity, safety record, knowledge of the unique features of constructing within New York City, including familiarity with local conditions and the public approval process, relationships with trades, and the ability to complete the work within the established construction schedule. The GMP to be agreed upon will not exceed the estimated construction cost of the Project (\$11,200,000) and the construction contract will provide for



substantial completion of the Project by no later than August 1, 2014, so that ILCS will be able to operate the Project beginning with the 2014-15 school year.

The construction contract will provide that (i) delivery of trade work is the responsibility of the GC, and (ii) subcontracts will be entered into between the GC and the various prime trade contractors for all components of construction. Major trades (notably foundations and superstructure) will be subject to payment and performance bonds which will be included in the GMP. In addition to a cap on trade costs, the GMP will include provision for construction contingencies as well as sufficient allowances for trade items acquired toward the end of the purchasing cycle, the cost of insurance and bonds, a guaranteed cap on general conditions and construction management fees, overhead and profit. In addition to the GMP construction contract with the GC, project contingencies for design and construction are expected to absorb any potential cost overruns. However, in the event of a substantial unanticipated overrun of allowance items, unforeseen site conditions, adverse weather conditions and other acts of force majeure, public approvals, unusual delays in deliveries of building materials or delays due to the fault of ILCS, Perkins Eastman, the GC or other parties relevant to construction of the Project, there can be no assurance that construction of the Project will be completed on time or for the amount of proceeds of the Series 2013 Bonds allocated for construction purposes. Also, the GMP construction contract will not include demolition of existing structures on the site of the Project. ILCS has completed a competitive bidding process for entering into a separate demolition contract and has selected A. Russo Wrecking Inc. and entered into the demolition contract. However, to the extent possible, the Project's critical path construction schedule anticipates such potential delays and builds in options for mitigating these delays. Notably, substantive and extensive investigation of site conditions has already been undertaken. The Project will also be constructed on a non-union basis and, as a result, labor disputes, and the delays associated with them, are unlikely to occur with respect to the Project.

No assurance can be given that construction of the Project will be completed on time or for the amount of proceed of the Series 2013 Bonds allocated for such purpose.

ESTIMATED PROJECT COSTS

| | |
|--------------------------------------|----------------------------|
| Pay off current mortgage | \$ 2,500,000 |
| Construction Costs | 11,200,000 |
| Architectural Costs | 807,000 |
| Furnishing & Equipment | 150,000 |
| TOTAL ESTIMATED PROJECT COSTS | <u>\$14,657,000</u> |

ENVIRONMENTAL ASSESSMENT

ILCS has engaged Langan Engineering and Environmental Services, Inc. ("Langan") and Onsite Environmental Corporation to assess the Project Site. Based on their assessment, the Mayor's Office of Environmental Coordination approved a zoning override and ILCS received written official approval from the Mayor's Office that allows the Charter School to move forward with the Project and build a school at the 322 West 231st site. Specific standard



environmental remedial recommendations were made and will be implemented during the demolition and pre-construction activities on site.

MISSION STATEMENT & CURRICULUM

The Charter School's mission is to operate a public charter high school that is rooted in excellence, and high student achievement outcomes consistent with the stated goals and objectives approved by the New York State Board of Regents and that meets or exceeds expectations pursuant to our Charter goals.

The Charter School has implemented an academically rigorous Regents and college preparatory curriculum that elevates students' intellectual capacity. The Charter School seeks to expand students' knowledge of international studies, including the social, economic and political issues that affect their daily lives, and to cultivate their leadership skills through a commitment to community service, social action and participation in the global economy. Since its inception, ILCS has demonstrated academic success through students' performance on the New York State Regents examinations, daily attendance and rate of completion of graduation requirements. The Charter School's model of acceleration versus remediation coupled with our belief that "failure is not an option" has been implemented through a framework of best practices that have raised the level of student achievement. According to the 2011-2012 New York State School Report Card ILCS students have achieved 100% passing rates on the English, Living Environment and United States History Regents Exams, 90% passing rates on Integrated Algebra, and 87% passing rates on Global History. Additionally, for last two consecutive school years ILCS has received grade of A on the DOE Progress Report. In the most recent (2011-12) DOE Progress Report, ILCS is ranked in the top 1% of all New York City high schools.

Vision Statement

- We see the sustainability of a charter school that has a culture of high social, academic and cultural expectations.
- We see 100% of our students graduating from high school and being accepted to the higher education institution of their choice.
- We see the development of leaders who have a local and global perspective.
- We see alumni who will contribute to the social and economic development of their communities of origin and engage in a lifetime of service learning.
- We see neighborhoods that will flourish as a result of the transformational power of a college preparatory education that has a community development focus.

The philosophical underpinnings for the Charter School's culture are rooted in:

- Failure is not an Option
- Authentic Pedagogy
- PEACE: Principles of Learning (ILCS, 2010)
- Extended Day: 60/90 minute blocks of instruction



Approach to Education

- E.D. Hirsch, Core Knowledge
- Best Practices of Accelerated Learning in Mathematics and Science
- College Preparatory Sequence
- Doug Lemov, Teach Like a Champion: 49 Techniques that will Put Students on Path to College
- Preparation for academic rigor in a thinking curriculum
- Engagement with students, parents and community
- Advisory and student development
- CARE (our core values)
- Ensuring achievement for all students through a system for prevention and intervention.

ILCS After School Support

- Regents Review: Teacher & Peer Tutoring
- Living Environment/Chemistry/Physics
- Algebra/Geometry/Trigonometry/Pre-Calculus
- English I-IV
- Global History/US History/Economics & Financial Literacy
- Community Development Projects

Clubs

- Model United Nations
- Music Theory
- Dance

Assessment & Instruction

- Our Charter renewal process required the submission of a “*Retrospective Analysis*” of our first four years of performance data and analysis of our student achievement goals as articulated in our charter and compared with neighboring high schools and the District as a whole.
- Over a period of five years (2006-2011) the Charter School in collaboration with NYU Metro Center reviewed our curriculum in every content area to ensure alignment with the stated goals and objectives approved by the New York State Board of Regents.
- Over the past six years we followed established benchmarks, including our Charter goals and assessment tools to achieve our instructional objectives.
- Over the past six years we have had a program of ongoing professional development for all faculty, and a review of quarterly report card and final annual New York State Regents exam data.
- We have implemented an academic coach and support model for core content areas, ongoing collection of data and item analysis to inform teacher practice, and use of this data to drive daily classroom instruction.
- We have implemented a process of consistently analyzing disaggregated data generated from special needs students, English Language Learners, students who are economically disadvantaged, and gender-based differences.



GOVERNANCE

Board of Trustees: The New York State Charter Law (the “Law”) provides that charter school Boards of Trustees are autonomous, and that their powers include the full set of rights of trustees under the not-for-profit corporation law of the State.

Consistent with the Charter School By-Laws there is a requirement to maintain a minimum of five and a maximum of nine board members. Terms of service are established at each Annual Meeting and terms can be extended based on consensus.

The Charter School’s Board of Trustees (the “Board”) holds the Charter School’s charter and is legally responsible for the Charter School. Globally, the Board is responsible for all governance, operational and fiscal oversight issues. To provide oversight in each of these areas, the Board elects a Chair, Treasurer, and Secretary, and has established standing committees including but not limited to, Executive, Finance, and Academic. Specifically, the Board is responsible for the following:

- a) Establishing and updating the Charter School’s mission, policy and strategic planning and insuring that the strategic direction and articulated goals are met over time.
- b) Providing financial oversight, reviewing and approving the Charter School’s annual budget and insuring adherence to the budget throughout the fiscal year.
- c) Insuring legal and regulatory compliance with all applicable laws and regulations.
- d) Selecting, managing and evaluating the Chief Executive Officer (“CEO”), and determining the CEO’s annual compensation.
- e) Promoting the Charter School and maintaining its accountability to the public by expanding the Charter School’s networks and relationships, including the organization of fundraisers to support the Charter School’s finances.

The current members of the ILCS Board are as follows:

| Name | Position on Board | Affiliation/Title | Time Served on Board |
|-----------------------|--------------------------|--|-----------------------------|
| John Paul Gonzalez | Interim Board Chair | New York City Dept. of Health | 4 Years |
| Lupe Samuels | Secretary | Retired New York City Teacher | 1 Year |
| Dr. Doris Torres | Treasurer | Administrator/CUNY | |
| Dr. John Jenkins | Member | Diploma Plus | 3 Years |
| Dr. Elaine Ruiz Lopez | Founding Trustee | CEO/ILCS | 6 Years |
| Nubia Moreno | Member | Parent Volunteer/Community Education Council District 10 | 2 Years |
| Tonya Alford | Member | Parent Liaison/Harlem Hospital | 2 Years |



Management Team: The Leadership and Management team is responsible for the Charter School's daily operational management and efficient running. There are several distinct leadership positions within the organization. The CEO has oversight responsibilities in the areas of compliance related to Finance, Operations and Academics, and supervises all fiscal and operations associates. The Director of Curriculum and Instruction has instructional responsibilities and supervises 22 members of the teaching faculty and students. There are several managers, associates and supervisors of various aspects of the Charter School's academic program including a Special Education Coordinator and a Program Director for College Preparation.

| Name | Title |
|-----------------------|--|
| Dr. Elaine Ruiz-Lopez | Chief Executive Officer |
| Jenny Peguero | Special Project Manager for Finance |
| Rosarie Jean | Director of Instruction & Curriculum |
| Jessy Simon | Program Director, Special Education & Community Development Projects |
| Evelyn Ortiz | Program Director, College Prep |

Dr. Elaine Ruiz-Lopez

Dr. Elaine Ruiz- Lopez is the Founder of ILCS and its Chief Executive Officer. Dr. Ruiz- Lopez was born and raised in the Bronx and has worked in the field of education since 1980. During her career, she has held various leadership positions in public schools, universities and private corporations. She founded ILCS in 2005 with the goals of creating a collaborative process among faculty for a performance based charter school and developing a professional learning community to deliver instruction in an academically rigorous college preparatory environment. She earned her Doctorate in Special Education/Administration and Masters of Education from the Teachers College at Columbia University, a Master's of Science in Bilingual Special Education from Bank Street College of Education, and a Bachelor of Science in Elementary Education from The City College of New York.

Jenny Peguero

Ms. Peguero joined ILCS as a Special Project Manager in August 2012. Prior that Ms. Peguero worked in the financial sector for over 14 years. She began her Wall Street career in 1997, working at Muriel Siebert & Co. Inc., in the firm's retail division. In 1999, she joined Siebert Capital Markets, working directly with the managing director and assisting the sales force and traders with equity, fixed income and mutual fund trades. From 2001 to 2004, she was Assistant Vice President of the Institutional Equity Sales and Trading Division. From 2005 to 2009 she was Vice President of the Institutional Equity Sales and Trading Division responsible for developing and managing institutional relationships at Utendahl Capital Partners, LLC. Ms. Peguero graduated Magna Cum Laude and received her BA in Economics from Lehman College. She holds FINRA Series 7, 63 and 65 Licenses.



Rosarie Jean

Ms. Jean joined ILCS as Director of Instruction & Curriculum in August 2012. Ms. Jean began her career in education in 1999 as a science teacher at Eleanor Roosevelt Intermediate School in New York City. She taught Communication Art, Reading and Science. In 2006, she entered a Principal preparation program at the New York City Department of Education. She is licensed as a School Administrator and is certified to teach Biology 7-12. Prior to transitioning to the education sector, Ms. Jean worked in the corporate sector and was member of the Macy's Executive Training Program in 1988.

Jessy Simon

Mrs. Simon joined ILCS in September 2010. Mrs. Simon has been teaching Community Development Project course to the 11th and 12th grade and works as a Special Education and Internship Coordinator. Mrs. Simon received her Bachelors in History and Masters in Special Education and Social Studies from Manhattanville College in Purchase, New York. Mrs. Simon currently holds a dual certification in teaching for Social Studies and Special education (5-12). As an educator, Mrs. Simon's philosophy is to provide a world class education to students and prepare them to be a leader in this global economy.

Evelyn Ortiz

Ms. Ortiz joined ILCS in September 2009. Ms. Ortiz has developed and incorporated a college preparatory curriculum throughout the academic year for the 11th and 12th graders. Ms. Ortiz decided to pursue a career in education in order to guide students from urban communities to a successful transition from high school to college. Her passion for guidance stemmed from what she felt was a lacking part of her high school experience. Ms. Ortiz was a recipient of the Chancellor's Award for Student Excellence and graduated with Honors receiving her bachelor degree from SUNY New Paltz. She obtained her Master's in Education with a concentration in school counseling from CUNY Hunter College.

FACULTY AND STAFF

Employees and Labor Relations

All ILCS employees are compensated directly by the Charter School. The faculty and staff are employed pursuant to letters of hire for periods of one year. The Charter School believes that the faculty, administration and the Board have a strong and collaborative working relationship. ILCS is a non-collective bargaining entity and all employees are employed at will. Therefore our management does not participate in any contractual negotiations with any union entity.

ILCS has 22 teachers who collectively have an average of six years of experience. The Charter School monitors and evaluates its teachers and staff and makes annual, performance-based determinations regarding their ongoing employment status. ILCS considers its relationship with the faculty to be excellent. ILCS has a high faculty retention rate, as evidenced by the consistent renewal of employment for 2/3 of faculty who are part of the founding faculty



and have taught at the Charter School for more than five years. ILCS maintains a student/teacher ratio of 14:1 overall and for each of its grades individually.

APPLICATION PROCESS

The Law requires that enrollment in the Charter School is open to any New York City public school student. There is no centralized system for enrollment for New York City’s charter schools. The Law requires charter schools to give preference to returning students, siblings of students already enrolled in the school and students who reside in the local School District in which the charter school is located. In addition, charter schools are permitted to give preference to students at risk of academic failure. This includes English Language Learners (ELL) and special education students, students who are eligible for free or reduced price lunch, and students who did not score at the proficient level on the standardized State tests.

Enrollment

The Charter School accepts applications for enrollment all year round. The Law requires that when the number of applications exceeds the seats available, a lottery must be conducted on or before April 1st. Those students not selected in the lottery are placed on the enrollment waiting list and are notified by mail as soon as seats become available. The Charter School received a total of 300 applications for the 2012-13 9th grade cohort, and accepted its target number of 100 students. The Charter law allows for a 20% increase in cohort enrollment numbers within the total enrollment limit.

The Charter School only accepts applications for incoming 9th graders. The Charter School is currently unable to increase its enrollment due to space limitations at the Current Facility.

Annual Applications Received

| Grade 9 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---------|---------|---------|---------|---------|---------|---------|---------|
| | 100 | 150 | 180 | 216 | 259 | 275 | 300 |

Actual Enrollment

| Grade | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-------|---------|---------|---------|-----------|-----------|-----------|-----------|
| 9 | 76 | 97 | 101 | 108 | 93 | 94 | 100 |
| 10 | | 73 | 67 | 104 | 99 | 78 | 88 |
| 11 | | | 59 | 60 | 69 | 64 | 72 |
| 12 | | | | <u>50</u> | <u>51</u> | <u>65</u> | <u>53</u> |
| Total | 76 | 170 | 227 | 322 | 312 | 301 | 313 |

Student Retention

ILCS’s Charter requires the Charter School to maintain student retention rates of at least 85%, as measured by data collected on average daily attendance. The following table shows the number of ILCS students who returned for the academic years 2006-2012.



Student Retention

| | | | | | |
|---------|---------|---------|---------|---------|---------|
| 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
| 85% | 93% | 90% | 90% | 95% | 95% |

Service Area and Competing Schools

The vast majority of the Charter School’s students live in the Bronx, New York. Thirty percent of our students have attended public schools in the District and reside in the District. However, students are enrolled from neighboring public school districts, as well. The Charter School competes for students with other New York City Public High Schools and select private parochial schools in the Bronx and Northern Manhattan. ILCS is located in one of the most economically disadvantaged neighborhoods in New York City, and serves a high-needs population. For example, 84% of the students are eligible for the "Free or Reduced Price" meals program.

The demographic data collected for the Charter School shows that our student population is predominantly Latino (77 %); African American (20%); Asian or Pacific Islander (2%); and White (1%). In addition, the student population is linguistically and ethnically diverse with varying levels of proficiency and literacy in English. In addition, approximately 12% are English Language Learners and 10 % are identified as Special Education students.

Below is a chart of the Charter School’s enrollment based on student district of residence.

| Public School District of Residence | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Students Attending the Charter School | | | | | | | |
| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| | Number (%) | Number (%) | Number (%) | Number (%) | Number (%) | Number (%) | Number (%) |
| Distnct 10 | 65 (85) | 138 (81) | 200 (88) | 209 (65) | 218 (70) | 217 (72) | 244 (78) |
| Outside Distnct 10 | 11 (15) | 32 (19) | 27 (12) | 113 (35) | 94 (30) | 84 (28) | 69 (22) |

ACADEMIC PERFORMANCE

Adequate Yearly Progress: The accountability provisions of Title I of the New York State Elementary and Secondary Education Act, were restructured in response to the No Child Left Behind Act of 2001 (“NCLB”), requiring all public schools, school districts, and the State to be evaluated for Adequate Yearly Progress (“AYP”). In order to achieve “AYP” status determination, the Charter School must demonstrate student achievement scores that meet New York State Education Department standards in the areas of English and Mathematics. These standards require pass rates of at least 75% of all the students seated for the exam. The Charter School has consistently maintained AYP since its inception.



International Leadership Charter School Adequate Yearly Progress Goals & Results

| Goals | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---------------|---------|--------------------|---------|---------|---------|
| ILCS shall make AYP in ELA Measured by the cumulative performance on the Final Quarter of Academic Year. AYP Achieved | 100% | 100% | 100% | 100% | 100% | 100% |
| ILCS shall make AYP in English as measured by the NYS Regents Exam in English* | NA | NA | 97% | 97% | 95% | 100% |
| AYP Achieved | | | Yes | Yes | Yes | Yes |
| ILCS shall make AYP in Mathematics as measured by the NYS Regents Exam in Mathematics | Math A 62% | 72% | 68% | 78% | 90% | 90% |
| AYP Achieved | Yes | Yes | Yes | Yes | Yes | Yes |
| 75% of students who sit annually for Regents Exam in Science will pass | | | Living Environment | | | |
| | 66% | 88% | 90% | 95% | 98% | 100% |
| AYP Achieved: | No | Yes | Yes | Yes | Yes | Yes |
| 75% of 1 st cohort continuously enrolled will graduate within four years ** | NA | NA | NA | 80% | 85% | 100% |
| AYP Achieved: | | | | Yes | Yes | Yes |
| Value-Added | | | | | | |
| ILCS shall outperform neighboring community high schools in US History* | NA | NA | 80% | 100% | 94% | 87% |
| AYP Achieved: | | | Yes | Yes | Yes | Yes |
| Comparative | | | | | | |
| 75% of students will have higher pass rate on the NYS Regents exams in English, Math and Science and 20% higher pass rate on NYS Regents exam in the community district | No | Yes | Yes | Yes | Yes | Yes |

* NY State Regents Exam for English and US History are given in 11th grade. 2008-09 was the Charter School's first 11th grade class

** First Graduating class was 2010

NYS Regents Exams: With the enactment of NCLB, every state is required to perform annual standards-based assessments of all children in grades 9 to 12 in the following subject areas: Integrated Algebra, English, Global History, Living Environment and US History & Government.

Below are charts showing results for the percentage of Charter School students passing the Regents compared to all 32 high schools in District 10 in the aggregate and specific surrounding high schools identified in ILCS charter. According to the 2011-2012 New York State School Report Card ILCS students have achieved 100% passing rates on the English, Living Environment and United States History Regents Exams, 90% passing rates on Integrated



Algebra, and 87% passing rates on Global History. Comparative information for the surrounding high schools will be available when the NYS report card for 2011-2012 is released.

| NY State English Regents Exams** | | | | | |
|---|--|--|--|--|--|
|---|--|--|--|--|--|

| Year | ILCS | All District 10 | | Dewitt | | Riverdale/ Kingsbridge HS | |
|----------|------|-----------------|--------|------------|--|------------------------------|--|
| | | High Schools | JFK HS | Clinton HS | | | |
| 2010-11* | 95% | 68% | 37% | 59% | | 85% | |
| 2009-10 | 97% | 78% | 57% | 76% | | 91% | |
| 2008-09 | 97% | 74% | 54% | 76% | | 94% | |

| NY State Integrated Algebra Regents Exams | | | | | |
|--|--|--|--|--|--|
|--|--|--|--|--|--|

| Year | ILCS | All District 10 | | Dewitt | | Riverdale/ Kingsbridge HS | |
|----------|------|-----------------|--------|------------|--|------------------------------|--|
| | | High Schools | JFK HS | Clinton HS | | | |
| 2010-11* | 73% | 59% | 37% | 60% | | 71% | |
| 2009-10 | 89% | 74% | 54% | 71% | | 82% | |
| 2008-09 | 81% | 69% | 56% | 66% | | 89% | |
| 2007-08 | 79% | 68% | 35% | 74% | | 92% | |

| NY State Global History and Geography Regents Exams | | | | | |
|--|--|--|--|--|--|
|--|--|--|--|--|--|

| Year | ILCS | All District 10 | | Dewitt | | Riverdale/ Kingsbridge HS | |
|----------|------|-----------------|--------|------------|--|------------------------------|--|
| | | High Schools | JFK HS | Clinton HS | | | |
| 2010-11* | 69% | 52% | 31% | 50% | | 66% | |
| 2009-10 | 95% | 69% | 46% | 70% | | 70% | |
| 2008-09 | 73% | 73% | 70% | 75% | | 83% | |
| 2007-08 | 69% | 68% | 63% | 73% | | 78% | |

| NY State U.S. History and Government Regents Exams** | | | | | |
|---|--|--|--|--|--|
|---|--|--|--|--|--|

| Year | ILCS | All District 10 | | Dewitt | | Riverdale/ Kingsbridge HS | |
|----------|------|-----------------|--------|------------|--|------------------------------|--|
| | | High Schools | JFK HS | Clinton HS | | | |
| 2010-11* | 84% | 66% | 43% | 61% | | 80% | |
| 2009-10 | 93% | 79% | 54% | 86% | | 88% | |
| 2008-09 | 91% | 71% | 34% | 87% | | 89% | |

| NY State Living Environment Regents Exams | | | | | |
|--|--|--|--|--|--|
|--|--|--|--|--|--|

| Year | ILCS | All District 10 | | Dewitt | | Riverdale/ Kingsbridge HS | |
|----------|------|-----------------|--------|------------|--|------------------------------|--|
| | | High Schools | JFK HS | Clinton HS | | | |
| 2010-11* | 94% | 65% | 20% | 60% | | 90% | |
| 2009-10 | 98% | 75% | 43% | 74% | | 84% | |
| 2008-09 | 94% | 82% | 73% | 84% | | 92% | |
| 2007-08 | 80% | 78% | 66% | 75% | | 94% | |

* In 2010 NY State raised the passing score for Regents Exams to 65%

** NY State Regents Exam for English and US History are given in 11th grade. 2008-2009 was the Charter School's first 11th grade class.



High School Graduation: The Charter School’s academic program has produced a graduation rate of 95%. This exceeds the graduation rate for District 10 as well as New York City public schools (see attached DOE Progress Report 2011-12).

| Cohort | Graduation Rate | College Acceptance | College Enrollment |
|--------------------|------------------------|---------------------------|---------------------------|
| 2010 First Cohort | 65% | 90% | 95% |
| 2011 Second Cohort | 85% | 97% | 98% |
| 2012 Third Cohort | 95% | 100% | 98% |

ILCS College Bound Guidance Process: The College Bound Scholars (CBS) program is mandatory for all students and provides incoming freshmen with an understanding of what an academically rigorous, accelerated college preparatory high school curriculum entails. This process continues through senior year where students who are about to graduate are prepared for college-level work and the transition to college life.

CBS classes are taught by faculty members, each of whom focuses on a different aspect of the program. The CBS classes are divided into two areas of concentration. The first section concentrates on practical skills such as college essay writing, research and college composition, test preparation, financial literacy, vocabulary, time management, résumé development and study skills. The second section explores values and character building -- discovering who a student is, defining success, setting goals, building a sense of citizenship and how they see themselves in the world. Students explore and expand their cultural knowledge and address college preparation, including the connections to the outside world of careers, cultural institutions and global citizenship.

Key Components of the CBS Process:

Year One: Self-Discovery and High Charter School: In Year One, incoming freshmen attend a one-week “Bridge” orientation and seminar. Students then meet once a week with teachers and support staff, and with guest speakers who facilitate conversations to assist with the transition from middle school into an accelerated college preparatory high school curriculum. Topics include the Charter School’s Code of Conduct, credit accumulation, youth development issues such as leadership and self-confidence, academic discipline and critical thinking.

Year Two: Group Discovery and Community: In Year Two, the emphasis is on team-building and community awareness. Working within the ILCS structural support system, students are involved in study groups, Academic Super Bowls, and corporate-sponsored community service development projects. Meeting twice a week, 10th graders focus on values exploration, career assessment, internships, exploring college majors and the development of college profiles. For example our 10th and 11th grade students met with representatives from SUNY, CUNY, Fordham University, Hofstra University, Bard College, Adelphi University, Manhattan Monroe College, Mercy College and others, to inspire the students’ thinking about meeting the challenges for college preparation.



Year Three: CBS: In Year Three, students are engaged in day and overnight trips to State University of New York (SUNY) and out of state visits to historically predominately African American Colleges & Universities, Hispanic Serving Colleges and Universities, and other institutions that will assist ILCS's students with Financial Aid and Scholarships. The 11th grade meets two to three times a week to focus on researching colleges, academic majors, and scholarships. They work on college profiles, essays, portfolios, applications, and SAT I, SAT II, and ACT test preparation. Parent/student planning conferences are a vital part of the process. The students continue to build "cultural capital" and take advantage of the variety of opportunities New York City affords in student internships and extra-curricular activities.

Year Four: World Discovery: In Year Four, we prepare and support the development of our students' global perspective. The seniors meet one to three times per week with their counselors and faculty advisors, which might include a senior seminar designed to have students experience college-level work. In the college bound classes the students prepare to take the SAT and/or ACT tests; they send out college and scholarship applications, gather recommendations and compile all necessary documents for financial aid. In the fall semester of the senior year, students work on financial aid packets, personal essays as part of their application process and prepare for the transition to college life.

The majority of the Charter School's graduates have matriculated into a 4-year colleges and/or universities. Colleges that accepted graduates include: SUNY, CUNY, Adelphi University, Baruch College, Howard University, Pace University, Penn State University, St. Johns University, Manhattan College and others.

CHARTER SCHOOL FINANCES

The Charter School derives substantially all of its revenue from the Per Pupil Allocation from the State Education Aid which is flowed through the New York City Department of Education. The allocations are made in 6 cycle payments on the 1st business day of each January, March, May, July, September and November. According to the terms of the Custody Agreement with Capital One, N.A. (the "Custodian"), these payments will be made directly to an account subject to the Custody Agreement (the Controlled Account"). The Custodian is directed to immediately pay from this account amounts due under the Loan Agreement in connection with the payment of the principal of, Sinking Fund Installments and interest on the Series 2013 Bonds to the Bond Fund of the Indenture. Any money remaining in the Controlled Account after the Charter School's obligations under the Indenture have been satisfied will be transferred to an account controlled by the Charter School and not subject to any Custody Agreement.

The Charter School has historically received all State Education Aid payments on time.

Summary of Historical Revenue and Expenses

The following table sets forth a summary of the Charter School's historical revenues and expenses for the years shown below. The information presented for the fiscal years ended June 30, 2008, 2009, 2010, 2011 and 2012 is actual audited data as prepared by the Charter School's independent certified public accountant O'Connor Davies, LLP.



REVENUES AND EXPENDITURES FOR FY 2008-2012

| | Audited 2007-08 | Audited 2008-09 | Audited 2009-10 | Audited 2010-11 | Audited 2011-12 | 6 months Unaudited 12/31/11 | 6 months Unaudited 12/31/12 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------------------|-----------------------------------|
| REVENUES AND SUPPORT | | | | | | | |
| State and local per pupil operation revenue | \$1,999,326 | \$2,933,956 | \$4,212,629 | \$4,185,474 | \$3,999,107 | \$2,989,346 | \$2,819,043 |
| Government grants and contracts | \$285,083 | \$702,474 | \$302,408 | \$398,436 | \$215,052 | \$22,386 | \$286,274 |
| Contributions | | \$550 | \$100 | \$3,156 | \$130,760 | \$5,350 | \$1,290 |
| Other income | \$293 | \$3,784 | \$19,215 | \$33,312 | \$60,080 | \$35,629 | \$7,837 |
| Donated services | \$46,534 | \$59,400 | \$2,500 | | | | |
| Total Revenue and Support | <u>\$2,331,236</u> | <u>\$3,700,164</u> | <u>\$4,536,852</u> | <u>\$4,620,378</u> | <u>\$4,404,999</u> | <u>\$3,052,712</u> | <u>\$3,114,446</u> |
| EXPENSES | | | | | | | |
| Education services | \$1,748,962 | \$2,341,104 | \$3,348,706 | \$3,346,280 | \$3,038,764 | \$1,655,267 | \$1,774,369 |
| Management and general | \$741,909 | \$976,313 | \$1,036,074 | \$966,862 | \$968,675 | \$466,870 | \$244,391 |
| Total Expenses | \$2,490,871 | \$3,317,417 | \$4,384,780 | \$4,313,142 | \$4,007,439 | \$2,122,137 | \$2,018,760 |
| Change in Net Assets | <u>\$(159,635)</u> | <u>\$382,747</u> | <u>\$152,072</u> | <u>\$307,236</u> | <u>\$397,560</u> | <u>\$930,575</u> | <u>\$1,095,685</u> |
| NET ASSETS | | | | | | | |
| Beginning of year | \$75,566 | (\$84,069) | \$298,678 | \$450,750 | \$757,986 | \$757,987 | \$1,155,546 |
| End of year | <u>(\$84,069)</u> | <u>\$298,678</u> | <u>\$450,750</u> | <u>\$757,986</u> | <u>\$1,155,546</u> | <u>\$1,688,561</u> | <u>\$2,251,231</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year 2011- 2012

Fiscal year 2012 was strong for the Charter School. Net assets (unrestricted) increased by \$397,560, or 52%, in 2012 compared to 2011, with a 2012 year-end total of \$1,155,546. The Charter School's positive financial results were obtained through careful stewardship of its available resources and a fiscally conservative spending philosophy. Total expenses decreased by \$305,703, or -7%, in 2012 compared to 2011. The primary changes in the Charter School's Statement of Net Assets compared to FY 2011 were the Charter School's continuing efforts to identify needs of its facilities and pursuit of financing in addition to what the Charter School receives from state funding.

Revenue from federal, state and local government is based on the number of students enrolled, and is recorded when services are performed in accordance with the Charter. The Charter School's operating revenues decreased by \$186,367 in 2012 compared to 2011. The decrease is attributed to the reconciliation of actual enrollment that takes place in the month of November and a reduction in payments for special education services. To compensate for the difference after reconciliation the Charter School raised about \$130,000 in grants during FY 2012.

The current liabilities increased due to the acquisition of the land by \$2,038,660 in FY 2012 compared to 2011, with year-end total of \$2,273,564.

Leasehold improvements of \$350,000 were funded through a State Stimulus grant awarded in prior years by the State University of New York Charter School Institute. Land and construction in progress pertain to the parcel of land purchased by the Charter School for the



Project. Depreciation expense for the years FY 2012 decreased to \$62,152, compared to \$370,146 in 2011.

The improvements also include the build-out of six additional classrooms, which was necessary to build the required capacity for teaching the required courses for the 11th and 12th grades under the requirements of the New York State Regents. Further, an additional class space provided the capacity to accommodate the enrollment requirements for and compliance with the Charter School's goals for expansion at year three.

The Law requires that charter schools implement a sound plan for governance and fiscal oversight. The summary of the "Financial Management Plan" in the section below is required as part of the process for authorization and the charter renewal process. Fiscal Oversight requirements include but are not limited to the various sections described below.

FINANCIAL MANAGEMENT PLAN

Payroll

Policy: The Charter School shall maintain a payroll system approved by the Board of Trustees.

Procedure: Documentation of authorized pay rates shall be maintained in the employee's personnel file. ILCS will contract with a payroll service to provide payroll processing. The CEO will receive the payroll reports and document approval. All payroll changes will be authorized by the CEO. The fiscal department will record each payroll to the accounting system, including any payroll accruals, in accordance with GAAP.

Purchases

Policy: The Charter School will make all purchasing decisions based on: (a) price; (b) quality; and (c) dependability. The Board grants the CEO the authorization to purchase materials and enter into contracts that follow the allocations specified in the Board-approved budget, up to \$20,000. Single purchases or combined purchases to one vendor within one month that exceed that amount need Board approval.

Procedure: A purchase request is to be prepared for all purchases of \$500 or more. For capital purchases, including the Project, the Board of Trustees provides a written Resolution for approval of expenditures for such projects. Three written bids must be obtained for procurement of furnishings and equipment. Whenever the vendor selected is other than the lowest bidder, reasons for the selection will be documented via internal memorandum and attached to the purchase documentation. The receipt of goods by mail shipment or other carrier must be signed for and received by someone who is independent of both the ordering and payment process. ILCS will present a request for exemption from sales tax on all qualifying purchases. Additional procurement requirements for specific contracts are followed and procedures are modified as needed.

Accounting System

Policy: ILCS shall use the accrual basis accounting in accordance with GAAP. All financial statements and any reporting to the IRS or other governmental entities shall be completed using this method.



Procedure: ILCS shall maintain an accrual basis accounting in accordance with GAAP. All financial statements and any reporting to the IRS or other governmental entities shall be completed by ILCS or accounting firm selected by the Board of Trustees, on an accrual basis or otherwise in accordance with IRS or other regulations, and shall be submitted to such entities by ILCS.

Audits

Policy: Independent audits of the financial statements shall be conducted annually by a New York State Certified Public Accountant selected by the Board of Trustees. Annual audits will be conducted in accordance with generally accepted auditing standards (“GAAP”).

Procedure: Appropriate financial forms and reports shall be filed with the charter entity, federal government and appropriate state agencies. Upon completion, audits shall be reviewed and submitted to the Board of Trustees for review and approval.

Accounts Receivable

Policy: ILCS will maintain accounts receivable in accordance with GAAP for scheduled receipts from the school districts, grants or any other amounts due but not yet received.

Procedure: All revenues will be recorded on an accrual basis in accordance with GAAP. Management will maintain an aged schedule of amounts receivable, which list payer, date, description, and account. The Fiscal Manager will reconcile such schedule to the general ledger on a monthly basis.

Accounts Payable

Policy: The Charter School, whenever practical, shall pay invoices within 60 days of their issue, unless alternative arrangements are made with vendors or unless a dispute arises. Invoices of an amount which precludes payment within 60 days may be put on a payment plan, allowing a monthly payment agreeable to both the Charter School and the vendor, unless another arrangement is reached agreeable to both the Charter School and the vendor.

Procedure: All accounts payable shall be recorded on an accrual basis in accordance with GAAP. Accounts payable shall be maintained by the Fiscal Manager, who shall maintain an aging of accounts payable schedule listing the payee, transaction date, amount and payable description and account. Payments of invoices shall be processed on or about the end of each week. All purchases in excess of \$5,000 shall be approved by the CEO. All invoices will be approved by the CEO prior to payment. No payment will be made without a properly approved invoice or other supporting documentation. All contracts and loans shall be approved by the Board of Trustees.

Investing

Policy: The Charter School’s funds shall be invested in a money market fund and/or certificates of deposits.

Procedure: The CEO shall identify excess funds available for investment, and seek approval of the Board of Trustees prior to the transfer of such funds.



ILCS ESTIMATES FOR FY 2012-13 AND PROJECTIONS FOR FY 2013-14 - 2017-18

Information included in this section includes “forward-looking statements” based on the beliefs and assumptions of management of the Charter School and on the information currently available to such management. Events that could cause future results to differ materially include the impact or outcome of any factors that are described throughout the Official Statement and Appendix A. Although the ultimate impact of such factors is uncertain, they may cause future performance to differ materially from results or outcomes that are currently sought or expected by the Charter School.

The Charter School anticipates operating at a surplus in each of the fiscal years 2012-13 through 2017-18. Student demand is projected to continue to be robust and ILCS is confident that it will be able to maintain enrollment at its maximum charter limit, particularly given ILCS’ current ranking in at top 1% of New York City High Schools (2011-2012 DOE Progress Report).

SUMMARY OF FY 2010-11, 2011-12 BUDGET VS. ACTUAL AND 2012-13 BUDGET

| | 2010-11 | | 2011-12 | | 2012-13 |
|---|-----------------------|--------------------|--------------------|--------------------|--------------------|
| | Budget | Actual | Budget | Actual | Budget |
| REVENUES AND SUPPORT | | | | | |
| State and local per pupil operation revenue | \$4,925,299 | \$4,185,474 | \$4,904,349 | \$3,999,107 | \$4,328,640 |
| Government grants and contracts | \$409,242 | \$398,436 | \$454,426 | \$215,052 | \$356,442 |
| Contributions | \$407,226 | \$3,156 | \$228,085 | \$130,760 | \$207,584 |
| Other income | \$200,000 | \$33,312 | \$99,076 | \$60,080 | \$99,076 |
| Donated services | | | | | \$125,000 |
| Total Revenue and Support | \$5,941,766 | \$4,620,378 | \$5,685,936 | \$4,404,999 | \$5,116,742 |
| EXPENSES | | | | | |
| Education services | \$1,833,364 | \$3,346,280 | \$2,234,070 | \$3,038,764 | \$2,050,998 |
| Management and general | \$3,101,988 | \$966,862 | \$2,759,023 | \$968,675 | \$2,730,080 |
| Total Expenses | \$4,941,351.87 | \$4,313,142 | \$4,993,093 | \$4,007,439 | \$4,781,078 |
| Change in Net Assets | \$1,000,414.13 | \$307,236 | \$692,843 | \$397,560 | \$335,664 |

The table below sets forth the Charter School’s pro-forma debt service coverage ratio calculated in accordance with the provisions of the Indenture and the Loan Agreement. The Loan Agreement requires the Charter School to generally maintain a debt service coverage ratio of 1.10.



| Fiscal Year | | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|----|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Enrollment | | 313 | 313 | 400 | 400 | 400 | 400 |
| Per Pupil Rate | | \$13,527 | \$13,527 | \$13,527 | \$13,527 | \$13,527 | \$13,527 |
| Special Education (20-59%) | | 31 | 31 | 40 | 40 | 40 | 40 |
| Special Education (20-59%) Rate | | \$10,390 | \$10,390 | \$10,390 | \$10,390 | \$10,390 | \$10,390 |
| State and local per pupil operating revenue | | \$4,556,041 | \$4,556,041 | \$5,826,400 | \$5,826,400 | \$5,826,400 | \$5,826,400 |
| Revenue Adjustments | | | | | | | |
| Government grants and contracts | 6% | \$273,362 | \$352,121 | \$352,121 | \$352,121 | \$352,121 | \$352,121 |
| Contributions | 5% | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 |
| Other Income (Student Dues, etc) | 3% | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 |
| Total Revenue and Support | | \$4,874,403 | \$4,953,162 | \$6,223,521 | \$6,223,521 | \$6,223,521 | \$6,223,521 |

| Expenses | | | | | | | |
|--------------------------------------|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Salaries | | \$1,656,000 | \$1,705,680 | \$1,756,850 | \$1,809,556 | \$1,863,843 | \$1,919,758 |
| Payroll taxes and benefits | | 662,400 | 682,272 | 702,740 | 723,822 | 745,537 | 767,903 |
| Curriculum and books | | 50,800 | 103,824 | 76,939 | 79,247 | 81,625 | 84,073 |
| Instructional supplies and equipment | | 91,390 | 197,132 | 203,046 | 209,137 | 215,411 | 221,874 |
| Student meals | | 145,000 | 149,350 | 153,831 | 158,445 | 163,199 | 168,095 |
| Contractual services | | 122,280 | 125,948 | 129,726 | 133,618 | 137,627 | 141,756 |
| Professional services | | 172,339 | 177,509 | 182,834 | 188,319 | 193,969 | 199,788 |
| Marketing and recruiting | | 67,881 | 69,918 | 72,015 | 74,176 | 76,401 | 78,693 |
| Office supplies | | 53,365 | 54,966 | 56,615 | 58,313 | 60,063 | 61,865 |
| Postage, printing & subscriptions | | 57,950 | 18,489 | 19,044 | 19,615 | 20,203 | 20,810 |
| Rent | | 624,581 | 312,291 | | | | |
| Utilities | | 138,715 | 138,715 | 221,425 | 228,068 | 234,910 | 241,957 |
| Security | | 70,000 | 70,000 | 106,090 | 109,273 | 112,551 | 115,927 |
| Faculty maintenance and equipment | | 95,500 | 95,500 | 143,752 | 148,065 | 152,506 | 157,082 |
| Insurance | | 110,000 | 110,000 | 116,699 | 120,200 | 123,806 | 127,520 |
| Travel | | 35,000 | 35,000 | 37,132 | 38,245 | 39,393 | 40,575 |
| Professional development | | 230,000 | 133,900 | 137,917 | 142,055 | 146,316 | 150,706 |
| Other expenses | | 38,850 | 40,016 | 41,216 | 42,452 | 43,726 | 45,038 |
| Total Expenses | | \$4,422,051 | \$4,220,510 | \$4,157,871 | \$4,282,606 | \$4,411,086 | \$4,543,420 |

| | | | | | | | |
|--|--|----------------|----------------|------------------|------------------|------------------|------------------|
| Income Available for Debt Service | | 452,352 | 732,653 | 2,065,650 | 1,940,915 | 1,812,435 | 1,680,101 |
|--|--|----------------|----------------|------------------|------------------|------------------|------------------|

| | | | | | | | |
|---------------------------------------|--|---------|-----------|-----------|-----------|-----------|-----------|
| Proforma Capitalized Interest | | 385,902 | 1,014,050 | 0 | 0 | 0 | 0 |
| Pro-forma Debt Service | | 385,902 | 1,014,050 | 1,284,050 | 1,285,550 | 1,286,300 | 1,286,300 |
| Pro-forma Debt Service Coverage Ratio | | NA | NA | 1.61 | 1.51 | 1.41 | 1.31 |

NO RATING

The Charter School has not sought a rating in connection with the bond issue.

INSURANCE

The Charter School maintains a comprehensive insurance program including Comprehensive General Liability, Workers Compensation and Directors & Officers Insurance.

LITIGATION

There are no pending, or to the knowledge of the Charter School, threatened, litigation matters or disputes which, if determined adversely to the Charter School, would have a materially adverse effect on its financial condition.

DEBT

ILCS has an existing mortgage and promissory note for the land acquired for the Project totaling \$1,750,000. In addition ILCS has a \$1,000,000 promissory note to Capital One Bank. Upon the issuance of the Series 2013 Bonds, the mortgage and the promissory note to Capital One Bank will be satisfied and the Charter School's only indebtedness will be the Series 2013 Bonds.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF ILCS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010**

AND

**UNAUDITED FINANCIAL INFORMATION OF ILCS
FOR THE SIX MONTH PERIODS ENDED DECEMBER 31, 2012 AND 2011**

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International Leadership Charter School

Financial Statements

June 30, 2012 and 2011

International Leadership Charter School

Financial Statements
June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT**The Board of Trustees
International Leadership Charter School**

We have audited the accompanying statements of financial position of International Leadership Charter School (the "Charter School") as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 financial position of International Leadership Charter School as of June 30, 2012 and 2011 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 on our consideration of International Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Charter School as a whole. The schedule of functional expenses for the period ending June 30, 2012 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

O'Connor Davies, LLP

New York, New York
November 9, 2012

O'CONNOR DAVIES, LLP
665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | www.odpkf.com

International Leadership Charter School

Statements of Financial Position

| | June 30, | |
|---|---------------------|---------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 895,309 | \$ 706,453 |
| Accounts receivable | 110,261 | 24,961 |
| Prepaid expenses | 934 | 3,462 |
| Funds held in escrow and other deposits | <u>142,737</u> | <u>392,737</u> |
| Total Current Assets | 1,149,241 | 1,127,613 |
| Property and equipment, net | <u>3,279,869</u> | <u>115,277</u> |
| | <u>\$ 4,429,110</u> | <u>\$ 1,242,890</u> |
| | | |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 273,564 | \$ 234,904 |
| Line of Credit | 100,000 | - |
| Short term loan payable - Promesa Enterprises, Ltd. | 150,000 | - |
| Short term loan payable - KIMSL 231st Street LLC | <u>1,750,000</u> | <u>-</u> |
| Total Current Liabilities | 2,273,564 | 234,904 |
| | | |
| Note payable - Capital One | <u>1,000,000</u> | <u>250,000</u> |
| Total Liabilities | 3,273,564 | 484,904 |
| Net Assets - Unrestricted | <u>1,155,546</u> | <u>757,986</u> |
| | <u>\$ 4,429,110</u> | <u>\$ 1,242,890</u> |

See notes to financial statements

International Leadership Charter School

Statements of Activities

| | Year ended June 30, | |
|---|---------------------|-------------------|
| | <u>2012</u> | <u>2011</u> |
| UNRESTRICTED | | |
| REVENUE AND SUPPORT | | |
| Public School District - | | |
| State and local per pupil operating revenue | \$ 3,999,107 | \$ 4,185,474 |
| Government grants and contracts | 215,052 | 398,436 |
| Contributions | 130,760 | 3,156 |
| Other income | <u>60,080</u> | <u>33,312</u> |
| Total Revenue and Support | <u>4,404,999</u> | <u>4,620,378</u> |
| EXPENSES | | |
| Education services | 3,038,764 | 3,346,280 |
| Management and general | <u>968,675</u> | <u>966,862</u> |
| Total Expenses | <u>4,007,439</u> | <u>4,313,142</u> |
| Change in Net Assets | 397,560 | 307,236 |
| NET ASSETS | | |
| Beginning of year | <u>757,986</u> | <u>450,750</u> |
| End of year | <u>\$ 1,155,546</u> | <u>\$ 757,986</u> |

See notes to financial statements

International Leadership Charter School

Statements of Cash Flows

| | Year ended June 30, | |
|--|---------------------|------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 397,560 | \$ 307,236 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 62,152 | 370,146 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (85,300) | (21,580) |
| Prepaid expenses | 2,528 | (1,274) |
| Accounts payable and accrued expenses | 38,660 | 8,582 |
| Net Cash from Operating Activities | 415,600 | 663,110 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (3,226,744) | (32,380) |
| Funds held in escrow | 250,000 | (250,000) |
| Net Cash from Operating Activities | (2,976,744) | (282,380) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowing | 2,750,000 | 250,000 |
| Net Change in Cash and Cash Equivalents | 188,856 | 630,730 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 706,453 | 75,723 |
| End of Year | \$ 895,309 | \$ 706,453 |

See notes to financial statements

International Leadership Charter School

Notes to Financial Statements June 30, 2012 and 2011

1. Organization and Tax Status

The International Leadership Charter School (the "Charter School") is an educational corporation that operates in the borough of the Bronx, New York City. On January 10, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration. On January 11, 2011, the Board of Regents of the University of the State of New York extended the provisional charter, and any amendments thereto, up to and including June 30, 2015.

The fiscal year ended June 30, 2012 is the sixth year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in the 9th, 10th, 11th and 12th grades.

The Charter School's mission is to provide a rigorous curriculum, and a disciplined environment and supportive community where students are academically and socially prepared to excel in demanding college and university settings.

The Charter School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Use of Estimates and Basis of Presentation

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 contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the period then ended. Actual results could differ from those estimates.

The net assets of the Charter School and changes therein are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2012.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue from the state and local governments resulting from the Charter School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the Charter School when qualifying expenditures are incurred.

The Charter School follows Financial Accounting Standards Board (FASB) guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the Charter School if they had not been provided by contribution; or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the Charter School to develop its programs and to serve on the Charter School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

Contributions and Unconditional Promises to Give

Contributions received and unconditional promises to give are measured at their fair values and are classified as unrestricted, temporarily restricted, or permanently restricted support. If donor restrictions are met within the same reporting period as when the contribution was made, those contributions are recorded as unrestricted support.

Accounting For Uncertainty in Income Taxes

The Charter School recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Charter School has no uncertain tax positions that would require financial statement recognition. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2009.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Charter School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents. Included in Cash and Cash Equivalents is a reserve fund of \$70,000 to cover debts in the event of the Charter School's dissolution.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

Functional Expenses

Expenses are classified according to the functional categories for which they are incurred, as follows:

Education services – represents expenses directly associated with general education and special educational for certain students requiring additional attention and guidance.

Management and general – represents expenses related to the overall administration and operation of the Charter School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the Charter School not earned by their pupil revenue and grants from federal, state and local government.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 9, 2012 and has accounted for or disclosed such events, as appropriate, in these financial statements.

3. Concentration of Credit Risk and Revenue

The Charter School maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Charter School has not experienced any losses in these accounts.

The Charter School also receives a majority of its revenues from the New York State Education Department through the New York City Department of Education. The New York State Education Department provides general operating support to the Charter School based upon the location and the number of students enrolled. Per Pupil General Education and Special Education support provided to the Charter School totaled \$3,999,107 and \$4,195,474 for the years ending June 30, 2012 and 2011. The Charter School is dependent upon this level of funding in order to continue its operations.

International Leadership Charter School

Notes to Financial Statements June 30, 2012 and 2011

4. Property and Equipment, Net

Property and equipment consist of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|---------------------|-------------------|
| Land | \$ 2,530,000 | \$ - |
| Computers and other equipment | 271,750 | 215,357 |
| Furniture and fixtures | 57,642 | 57,642 |
| Leasehold improvements | 836,030 | 836,030 |
| Pre-construction costs | <u>640,351</u> | <u>-</u> |
| | 4,335,773 | 1,109,029 |
| Less: Accumulated depreciation | <u>1,055,904</u> | <u>993,752</u> |
| | <u>\$ 3,279,869</u> | <u>\$ 115,277</u> |

Leasehold improvements include a build-out of a science laboratory to support instruction in biology, chemistry and physics. These subjects are critical to students completing their graduation requirements and receiving a Regents–endorsed diploma in accordance with the Charter approved by the New York State Education Department. The improvements also include the build-out of six additional classrooms, which are necessary to build the required capacity for teaching the required courses for the 11th and 12th grades under the requirements of the New York State Regents. Further, an additional class space provided the capacity to accommodate the enrollment requirements for and compliance with the Charter School's goals for expansion at year three.

Leasehold improvements of \$350,000 were funded through a State Stimulus grant awarded in prior years by the State University of New York Charter School Institute.

Land and construction in progress pertain to the parcel of land purchased by the Charter School for the site of its future educational facility.

Depreciation expense for the years ended June 30, 2012 and 2011 were \$62,152 and \$370,146 respectively.

International Leadership Charter School

Notes to Financial Statements June 30, 2012 and 2011

5. Loans Payable and Line of Credit

The Charter School is currently in pursuit of obtaining private financing to build a state of the art facility that will allow for hundreds of students to follow their dream for a college education and enhance our community. The financing of the land is part of a long term strategic expansion plan to acquire the facility that will benefit the students, staff and community by opening enrollment to approximately 25% additional students and creating new jobs.

The Charter School made a promissory note payable to Capital One, N.A. (the "Bank") on May 31, 2011 wherein the Charter School may borrow and repay, in whole or in part, amounts up to \$1,000,000 until September 1, 2011. As of June 30, 2012 and 2011, the Charter School has borrowed a total of \$1,000,000 and \$250,000, respectively.

Monthly payments of interest commenced on July 1, 2011, due on the first day of each month, at the floating rate equal to the Bank's prime lending rate minus 0.25%. Commencing October 1, 2011 and on the first day of each month thereafter, monthly interest payments shall be due until June 1, 2014, when all principal and interest will be due in full. Prepayment in whole or in part may be made at anytime without penalty. Payments by the Charter School shall be applied first to interest then to reduction of principal.

The note payable is secured by an interest in the Charter School's savings and reserve account, pursuant to the Pledge Agreement entered into by the Charter School and the Bank on May 31, 2011.

On February 8, 2012, the Charter School made a short term promissory note to KIMSL 231 Street LLC., the seller of the purchased parcel of land, for the balance not financed by the Bank, amounting to \$1,750,000, payable in full on November 22, 2012 at a rate of 6.5% per annum from February 8 through August 7, 2012 and 7.5% per annum from August 8 through November 22, 2012. The loan maturity is extended through March 2013.

On June 25, 2012, the Charter School made a short term promissory note to Promesa Enterprises Ltd. for \$150,000 at an interest rate of 5% per annum. The amount is payable 90 days from the date of the note's execution. This note was paid in full on September 23, 2012.

Principal payments due on these notes by fiscal year are as follows:

| | |
|------|---------------------|
| 2013 | \$ 1,900,000 |
| 2014 | <u>1,000,000</u> |
| | <u>\$ 2,900,000</u> |

In addition, the Charter School has an outstanding line of credit with Capital One for \$100,000, with an annual percentage rate of 4%, which is fully utilized as of June 30, 2012.

Interest expense on these promissory notes and line of credit was \$73,332 for the year ended June 30, 2012.

As of the audit date, the Charter School is continuing discussions to obtain the required capital project financing through tax-exempt revenue bonds. Management believes that a financing contract will be achieved within the next 120 days.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

6. Commitments

The Charter School's has an operating lease agreement with an unrelated third party in a commercial facility in the Bronx, New York for its administrative offices and instructional location expired on August 15, 2011. The lease agreement included an option to extend for another five-year period. Since August 16, 2011, the Charter School entered into a month-to-month arrangement while in the process of negotiating an agreement to extend the lease for an additional eighteen months. The monthly lease payment is \$52,049, which is subject to an annual consumer price index escalation adjustment until a new lease is negotiated and finalized.

7. Contingencies

Certain grants and contracts are subject to audit by funding sources. Such audits may result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have material effect on the accompanying financial statements.

8. Employee Benefit Plan

The Charter School maintains a deferred compensation plan for all qualified employees. The Charter School elects to make contributions to the plan on a discretionary basis. For the years ended June 30, 2012 and 2011, the Charter School had not contributed to the plan.

* * * * *

**International Leadership Charter School
Additional Information**

International Leadership Charter School

Schedule of Functional Expenses
 Year Ended June 30, 2012
 (With summarized totals for the year ended June 30, 2011)

| | Education | Management | Totals | |
|--------------------------------------|---------------------|-------------------|---------------------|---------------------|
| | Services | and General | 2012 | 2011 |
| Salaries | \$ 912,063 | \$ 241,042 | \$ 1,153,105 | \$ 1,320,519 |
| Payroll taxes and benefits | 512,798 | 135,523 | 648,321 | 734,786 |
| Curricula and books | 55,952 | - | 55,952 | 79,153 |
| Instructional supplies and equipment | 23,925 | - | 23,925 | 40,799 |
| Student meals | 149,897 | - | 149,897 | 138,836 |
| Contractual services | 67,903 | 17,945 | 85,848 | 52,548 |
| Professional services | 143,419 | 37,903 | 181,322 | 252,618 |
| Marketing and recruiting | 7,123 | 27,762 | 34,885 | 27,762 |
| Office supplies | 382 | 62,619 | 63,001 | 62,619 |
| Postage, printing and subscriptions | 14,558 | 3,847 | 18,405 | 41,408 |
| Rent | 488,779 | 129,175 | 617,954 | 570,948 |
| Utilities | 94,493 | 24,973 | 119,466 | 132,335 |
| Security | 97,675 | 25,814 | 123,489 | 113,236 |
| Facility maintenance and equipment | 154,853 | 40,925 | 195,778 | 92,601 |
| Insurance | 25,690 | 6,790 | 32,480 | 36,400 |
| Travel | 31,624 | 8,358 | 39,982 | 31,985 |
| Professional development | 24,734 | 144,449 | 169,183 | 144,449 |
| Local taxes | 51,654 | 13,651 | 65,305 | - |
| Depreciation | 49,160 | 12,992 | 62,152 | 370,146 |
| Other expenses | 132,082 | 34,907 | 166,989 | 69,994 |
| Totals | \$ 3,038,764 | \$ 968,675 | \$ 4,007,439 | \$ 4,313,142 |

See independent auditors' report

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

**To the Board of Trustees
International Leadership Charter School**

We have audited the financial statements of International Leadership Charter School (the "Charter School") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 9, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Charter School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

**Board of Trustees
International Leadership Charter School
Page 2**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the Department of Education of the City of New York, the State Education Department of the University of the State of New York and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Connor Davies, LLP

New York, New York
November 9, 2012

International Leadership Charter School

Financial Statements

June 30, 2011 and 2010

International Leadership Charter School

Financial Statements

June 30, 2011 and 2010

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O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees International Leadership Charter School

We have audited the accompanying statements of financial position of International Leadership Charter School (the "Charter School") as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 financial position of International Leadership Charter School as of June 30, 2011 and 2010 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 on our consideration of International Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
October 7, 2011

International Leadership Charter School

Statements of Financial Position

June 30,

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 706,453 | \$ 75,723 |
| Accounts receivable | 24,961 | 3,381 |
| Prepaid expenses | 3,462 | 2,188 |
| Funds held in escrow and other deposits | 392,737 | 142,737 |
| Property and equipment, net | <u>115,277</u> | <u>453,043</u> |
| | <u>\$ 1,242,890</u> | <u>\$ 677,072</u> |
| | | |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 234,904 | \$ 226,322 |
| Note payable | <u>250,000</u> | <u>-</u> |
| Total Liabilities | 484,904 | 226,322 |
| Net Assets - Unrestricted | <u>757,986</u> | <u>450,750</u> |
| | <u>\$ 1,242,890</u> | <u>\$ 677,072</u> |

See notes to financial statements

International Leadership Charter School

Statements of Activities

Years Ended June 30,

| UNRESTRICTED | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| REVENUE AND SUPPORT | | |
| Public School District - | | |
| State and local per pupil operating revenue | \$ 4,185,474 | \$ 4,212,629 |
| Government grants and contracts | 398,436 | 302,408 |
| Contributions | 3,156 | 100 |
| Donated services | - | 2,500 |
| Other income | <u>33,312</u> | <u>19,215</u> |
| Total Revenue and Support | <u>4,620,378</u> | <u>4,536,852</u> |
| EXPENSES | | |
| Education services | 3,346,280 | 3,348,706 |
| Management and general | <u>966,862</u> | <u>1,036,074</u> |
| Total Expenses | <u>4,313,142</u> | <u>4,384,780</u> |
| Change in Net Assets | 307,236 | 152,072 |
| NET ASSETS | | |
| Beginning of year | <u>450,750</u> | <u>298,678</u> |
| End of year | <u>\$ 757,986</u> | <u>\$ 450,750</u> |

See notes to financial statements

International Leadership Charter School

Statements of Cash Flows

Years Ended June 30,

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 307,236 | \$ 152,072 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 370,146 | 368,822 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (21,580) | (900) |
| Prepaid expenses | (1,274) | 1,778 |
| Other deposits | - | 1,125 |
| Accounts payable and accrued expenses | 8,582 | (298,353) |
| Due to related party | - | (32,600) |
| Due to SUNY-CSI | - | (100,000) |
| Net Cash from Operating Activities | <u>663,110</u> | <u>91,944</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (32,380) | (83,881) |
| Funds held in escrow | <u>(250,000)</u> | <u>-</u> |
| Net Cash from Operating Activities | <u>(282,380)</u> | <u>(83,881)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowing | <u>250,000</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | 630,730 | 8,063 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>75,723</u> | <u>67,660</u> |
| End of Year | <u>\$ 706,453</u> | <u>\$ 75,723</u> |

See notes to financial statements

International Leadership Charter School

Notes to Financial Statements

1. Organization and Tax Status

The International Leadership Charter School (the "Charter School") is an educational corporation that operates in the borough of the Bronx, New York City. On January 10, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The fiscal year ended June 30, 2011 is the fifth year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in the 9th, 10th, 11th and 12th grades.

The Charter School's mission is to provide a rigorous curriculum, and a disciplined environment and supportive community where students are academically and socially prepared to excel in demanding college and university settings.

The Charter School is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Contributions and Unconditional Promises to Give

The Charter School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Charter School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue Recognition

Revenue from the state and local governments resulting from the Charter School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the Charter School when qualifying expenditures are incurred.

International Leadership Charter School

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Revenue Recognition (continued)

The Charter School follows Financial Accounting Standards Board (FASB) guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the Charter School if they had not been provided by contribution or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the Charter School to develop its programs and to serve on the Charter School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

Accounting For Uncertainty in Income Taxes

Management has determined that the Charter School has no uncertain tax positions that would require financial statement recognition. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2008.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Charter School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

International Leadership Charter School

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

Functional Expenses

Expenses are classified according to the functional categories for which they are incurred, as follows:

Education services – represents expenses directly associated with general education and special educational for certain students requiring additional attention and guidance.

Management and general – represents expenses related to the overall administration and operation of the Charter School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the Charter School not earned by their pupil revenue and grants from federal, state and local government.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 7, 2011 and has accounted for or disclosed such events, as appropriate, in these financial statements.

3. Concentration of Credit Risk

The Charter School maintains its cash and cash equivalents in bank deposit accounts which, at times may exceed federally insured limits. The Charter School has not experienced any losses in these accounts.

International Leadership Charter School

Notes to Financial Statements

4. Property and Equipment, Net

Property and equipment consist of the following at June 30:

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Computers and other equipment | \$ 215,357 | \$ 182,977 |
| Furniture and fixtures | 57,642 | 57,642 |
| Leasehold improvements | 836,030 | 836,030 |
| | 1,109,029 | 1,076,649 |
| Less: Accumulated depreciation | 993,752 | 623,606 |
| | \$ 115,277 | \$ 453,043 |

Leasehold improvements include a build-out of a science laboratory to support instruction in biology, chemistry and physics. These subjects are critical to students completing their graduation requirements and receiving a Regents-endorsed diploma in accordance with the Charter approved by the New York State Education Department. The improvements also include the build-out of six additional classrooms, which are necessary to build the required capacity for teaching the required courses for the 11th and 12th grades under the requirements of the New York State Regents. Further, an additional class space provided the capacity to accommodate the enrollment requirements for and compliance with the Charter School's goals for expansion at year three.

Leasehold improvements of \$350,000 were funded through a State Stimulus grant awarded in prior years by the State University of New York Charter School Institute.

Depreciation expense for the years ended June 30, 2011 and 2010 were \$370,146 and \$368,822 respectively.

5. Note Payable

The Charter School made a promissory note payable to Capital One, N.A. (the "Bank") on May 31, 2011 wherein the Charter School may borrow and repay, in whole or in part, amounts up to \$1,000,000 until September 1, 2011. As of June 30, 2011, the Charter School has borrowed a total of \$250,000. The Charter School borrowed additional \$750,000 on August 10, 2011.

Monthly payments of interest shall only commence on July 1, 2011, due on the first day of each month, at the floating rate equal to the Bank's prime lending rate minus .25%. Commencing October 1, 2011 and on the first day of each month thereafter, monthly interest payments shall be due until June 1, 2014, when all principal and interest will be due in full. Prepayment in whole or in part may be made at anytime without penalty. Payments by the Charter School shall be applied first to interest then to reduction of principal.

International Leadership Charter School

Notes to Financial Statements

5. Note Payable (continued)

The note payable is secured by an interest in the savings account of the Charter School in the amount of \$250,000, pursuant to the Pledge Agreement entered into by the Charter School and the Bank on May 31, 2011.

Principal payments due by fiscal year are as follows:

| | | |
|------|----|------------------|
| 2012 | \$ | - |
| 2013 | | - |
| 2014 | | 250,000 |
| | | <u>\$250,000</u> |

Interest expense on the promissory note was \$583 for the year ended June 30, 2011.

6. Agreement of Sale

The Charter School entered into a certain agreement of sale (the "Agreement of Sale") dated as of June 2, 2011 with KIMSL 231 Street, LLC (KIMSL), a Delaware limited liability company, wherein KIMSL agreed to sell while the Charter School agreed to purchase a property (as defined in the Agreement of Sale) located in Bronx, New York for a total purchase price of \$2,500,000.

On the execution date, the Charter School made a deposit amounting to \$250,000 to First American Title Insurance Company (the "Escrow Agent"), pursuant to the Agreement of Sale. The Escrow Agent shall continue holding the deposit unless either KIMSL or the Charter School makes a written demand upon the Escrow Agent for the deposit and upon mutual consent by both parties. The deposit shall be credited against the total purchase price at actual conveyance of the title of the property to the Charter School.

7. Commitments

The Charter School entered into a five-year non-cancellable operating lease agreement with an unrelated third party for a facility in the Bronx, New York for its administrative offices and instructional location. The lease will expire on August 15, 2011 and the Charter School has an option to extend the agreement for another five-year period. As of the report date, the Charter School is still in the process of negotiating an eighteen months agreement.

The future minimum lease payments under the lease payable through August 15, 2011 amount to \$71,368.

International Leadership Charter School

Notes to Financial Statements

8. Contingencies

The charter school is a party to an employment related lawsuit which is covered through their insurance. However the court referred this matter to a local law school as part of their mediation program. The proceeding will be off the record and the law students will use the facts of this proceeding as part of their mediation program.

Certain grants and contracts are subject to audit by funding sources. Such audits may result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have material effect on the accompanying financial statements.

9. Employee Benefit Plan

The Charter School maintains a deferred compensation plan for all qualified employees. The Charter School elects to make contributions to the plan on a discretionary basis. For the year ended June 30, 2011, the Charter School had not contributed to the plan.

**International Leadership Charter School
Additional Information**

International Leadership Charter School
Statement of Financial Position
December 31,

| | 2012 | 2011 |
|---|-----------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,626,725 | \$ 2,235,036 |
| Accounts receivable | \$ 18,528.00 | 24,961 |
| Prepaid expenses | \$ 934.00 | 6,622 |
| Security deposits and other assets | 152,737 | 142,737 |
| Property and equipment, net | 3,309,037 | 419,735 |
| | \$ 5,107,961.37 | \$ 2,829,091 |
| LIABILITIES AND NET ASSETS (DEFICIT) | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 161,628.83 | \$ 140,529 |
| Short Term Note Payable | 1,850,000.00 | |
| Long Term Loan CapitalOne | 1,000,000.00 | 1,000,000 |
| | \$ 3,011,628.83 | \$ 1,140,529 |
| Total Liabilities | | |
| Net Assets (Deficit) - Unrestricted | 2,096,332.54 | 1,688,561 |
| | \$ 5,107,961.37 | \$ 2,829,091 |

International Leadership Charter School
Statement of Activities
Period Ended December 31,

| | 2012 | | | 2011 | | |
|---|------------------|---------------------------|------------------|------------------|---------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| REVENUE AND SUPPORT | | | | | | |
| Public School District - | | | | | | |
| State and Local per pupil operating revenue | \$ 2,819,043 | \$ - | \$ 2,819,043 | \$ 2,989,346 | \$ - | \$ 2,989,346 |
| Government Grants and contracts | 85,278 | - | 85,278 | 22,386 | - | 22,386 |
| Contributions | 1,291 | - | 1,291 | 5,350 | - | 5,350 |
| Other Income | 5,557 | - | 5,557 | 35,629 | - | 35,629 |
| Total Revenue and Support | 2,911,168 | - | 2,911,168 | 3,052,712 | - | 3,052,712 |
| EXPENSES | | | | | | |
| Program services | 1,194,885 | - | 1,194,885 | 1,655,267 | - | 1,655,267 |
| General and administrative | 775,497 | - | 775,497 | 466,870 | - | 466,870 |
| Total Expenses | 1,970,382 | - | 1,970,382 | 2,122,137 | - | 2,122,137 |
| | | | - | | | - |
| Change in Net Assets | 940,787 | - | 940,787 | 930,575 | - | 930,575 |
| NET ASSETS (DEFICIT) | | | | | | |
| Beginning of year | 1,155,546 | - | 1,155,546 | 757,987 | - | 757,987 |
| | | | - | | | - |
| End of Year | \$ 2,096,333 | \$ - | \$ 2,096,333 | \$ 1,688,561 | \$ - | \$ 1,688,561 |

International Leadership Charter School

Statement of Cash Flows

Period Ended December 31,

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 940,787 | \$ 930,575 |
| Accounts receivables | 91,733 | |
| Accounts payable and accrued expenses | (57,491) | (94,375) |
| Pre-paid expenses | | (3,160) |
| Net Cash From Operating Activities | <u>975,029</u> | <u>833,040</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets and leasehold improvements | (37,848) | (54,457) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Financing for Land Purchase | <u>(150,000)</u> | <u>750,000</u> |
| | | |
| Net Changes in Cash and Cash Equivalents | 787,181 | 1,528,583 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>895,309</u> | <u>706,453</u> |
| | | |
| End of Year | <u>\$ 1,682,490</u> | <u>\$ 2,235,036</u> |

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF NEW YORK CHARTER SCHOOL LAW

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This Appendix C summarizes certain provisions of New York charter school law. This Appendix provides a summary only, and only for informational purposes. Potential investors should refer to and independently evaluate applicable provisions of the charter school law in their entirety, with assistance from counsel as necessary, for a complete understanding of their terms. Further, potential investors should note that the provisions summarized below are subject to change, and this summary only pertains to certain aspects of currently existing law. See “BONDHOLDERS’ RISKS — Future Changes to Charter School Laws”.

Purpose (New York Education Law § 2850)

The purpose of this article is to authorize a system of charter schools to provide opportunities for teachers, parents, and community members to establish and maintain schools that operate independently of existing schools and school districts in order to accomplish the following objectives:

- (a) Improve student learning and achievement;
- (b) Increase learning opportunities for all students, with special emphasis on expanded learning experiences for students who are at-risk of academic failure;
- (c) Encourage the use of different and innovative teaching methods;
- (d) Create new professional opportunities for teachers, school administrators and other school personnel;
- (e) Provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; and
- (f) Provide schools with a method to change from rule-based to performance-based accountability systems by holding the schools established under this article accountable for meeting measurable student achievement results.

Eligible Applicants; Applications; Submission (New York Education Law § 2851-1-3)

An application to establish a charter school may be submitted by teachers, parents, school administrators, community residents or any combination thereof. Such application may be filed in conjunction with a college, university, museum, educational institution, not-for-profit corporation exempt from taxation under paragraph 3 of subsection (c) of section 501 of the internal revenue code or for-profit business or corporate entity authorized to do business in New York state. Provided however, for-profit business or corporate entities shall not be eligible to submit an application to establish a charter school pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article, or operate or manage a charter school for a charter issued pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article. For charter schools established in conjunction with a for-profit business or corporate entity, the charter shall specify the extent of the entity’s participation in the management and operation of the school.

The information provided on the application shall be consistent with the provisions of this article and other applicable laws, rules and regulations.

An applicant shall submit the application to a charter entity for approval. For purposes of this article, a charter entity shall be:

(a) The board of education of a school district eligible for an apportionment of aid under subdivision four of section thirty-six hundred two (apportionment of public moneys to school districts employing eight or more teachers) of this chapter;

(b) The board of trustees of the state university of New York; or

(c) The board of regents. The board of regents shall be the only entity authorized to issue a charter pursuant to this article.

The board of regents shall be the only entity authorized to issue a charter pursuant to this article. Notwithstanding any provision of this subdivision to the contrary, an application for the conversion of an existing public school to a charter school shall be submitted to, and may only be approved by, the charter entity set forth in paragraph (a) of this subdivision. Notwithstanding any law, rule or regulation to the contrary, any such application for conversion shall be consistent with this section but shall not be subject to the process pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article, and the charter entity shall require that the parents or guardians of a majority of the students then enrolled in the existing public school vote in favor of converting the school to a charter school.

Charter Renewal (New York Education Law § 2851-4)

Charters may be renewed, upon application, for a term of up to five years in accordance with the provisions of this article for the issuance of such charters pursuant to section twenty-eight hundred fifty-two of this article;

Such renewal application shall be submitted to the charter entity no later than six months prior to the expiration of the charter; provided, however, that the charter entity may waive such deadline for good cause shown.

Charter School Organization (New York Education Law § 2853-1)

(a) Upon the approval of a charter by the board of regents, the board of regents shall incorporate the charter school as an education corporation for a term not to exceed five years, provided however in the case of charters issued pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article the board of regents shall incorporate the charter school as an education corporation for a term not to exceed five years in which instruction is provided to pupils plus the period commencing with the effective date of the charter and ending with the opening of the school for instruction. Such certificate of incorporation shall not modify or limit any terms of the charter approved by the board of regents. Upon approval of an application to renew a charter, the board of regents shall extend the certificate of incorporation for a term not to exceed five years. Upon termination or nonrenewal of the charter of a charter school pursuant to section twenty-eight hundred fifty-five of this article, the certificate of incorporation of the charter school shall be revoked by the board of regents pursuant to section two hundred nineteen of this chapter (change of charter), provided that compliance with the notice and hearing requirements of such section twenty-eight hundred fifty-five of this article shall be deemed to satisfy the notice and hearing requirements of such section two hundred nineteen. It shall be the duty of the trustees of the charter school to obtain federal tax-exempt status no later than one year following approval of a charter school by the board of regents. For purposes of this article, "certificate of incorporation" shall mean the provisional charter issued by the board of regents to form the charter school as an educational corporation pursuant to sections two hundred sixteen (charters) and two hundred seventeen (provisional charters) of this chapter.

(b) An education corporation organized to operate a charter school shall have all corporate powers necessary and desirable for carrying out a charter school program in accordance with the

provisions of this article, other applicable laws and regulations and the terms of the charter, including all of the powers of an education corporation formed to operate an elementary or secondary school and those powers granted under the provisions of the not-for-profit corporation law that are made applicable to charter schools by section two hundred sixteen-a (applicability of not-for-profit corporation law) of this chapter. The powers of the trustees of the charter school shall include those powers specified in section two hundred twenty-six (powers of trustees of institutions) of this chapter.

(b-I) An education corporation operating a charter school shall be authorized to operate more than one school or house any grade at more than one site, provided that a charter must be issued for each such additional school or site in accordance with the requirements for the issuance of a charter pursuant to this article and that each such additional school or site shall count as a charter issued pursuant to subdivision nine of section twenty-eight hundred fifty-two of this article; and provided further that:

(i) a charter school may operate in more than one building at a single site; and

(ii) a charter school which provides instruction to its students at different locations for a portion of their school day shall be deemed to be operating at a single site.

(c) A charter school shall be deemed an independent and autonomous public school, except as otherwise provided in this article. The charter entity and the board of regents shall be deemed to be the public agents authorized to supervise and oversee the charter school.

(d) The powers granted to a charter school under this article constitute the performance of essential public purposes and governmental purposes of this state. A charter school shall be exempt to the same extent as other public schools from all taxation, fees, assessments or special ad valorem levies on its earnings and its property, including property leased by the charter school. Instruments of conveyance to or from a charter school and any bonds or notes issued by a charter school, together with the income therefrom, shall at all times be exempt from taxation.

(e) A charter school shall not have the power to levy taxes or to acquire property by eminent domain.

(f) The board of trustees of the charter school shall have final authority for policy and operational decisions of the school. Nothing herein shall prohibit the board of trustees of a charter school from delegating decision-making authority to officers and employees of the school in accordance with the provisions of the charter.

(g) Notwithstanding any provision of law to the contrary, no civil liability shall attach to any charter entity, the board of regents, or to any of their members or employees, individually or collectively, for any acts or omissions of the charter school. Neither the local school district, the charter entity nor the state shall be liable for the debts or financial obligations of a charter school or any person or corporate entity who operates a charter school.

Public and Private Assistance to Charter Schools (New York Education Law § 2853-4)

(Effective until June 30, 2015)

**a) For purposes of sections seven hundred one (power to designate text-books; purchase and loan of text-books; purchase of supplies), seven hundred eleven (aid for purchase of school library materials), seven hundred fifty-one (aid for computer software purchases) and nine hundred twelve (health and welfare services to all children) of this chapter, a charter school shall be deemed a nonpublic school in the school district within which the charter school is located. Special education programs and services shall be provided to students with a disability attending a charter school in accordance with the

individualized education program recommended by the committee or subcommittee on special education of the student's school district of residence. The charter school may arrange to have such services provided by such school district of residence or by the charter school directly or by contract with another provider. Where the charter school arranges to have the school district of residence provide such special education programs or services, such school district shall provide services in the same manner as it serves students with disabilities in other public schools in the school district, including the provision of supplementary and related services on site to the same extent to which it has a policy or practice of providing such services on the site of such other public schools. **

(Effective on June 30, 2015)

******(a) For purposes of sections seven hundred one (power to designate text-books; purchase and loan of text-books; purchase of supplies), seven hundred eleven (aid for purchase of school library materials), seven hundred fifty-one (aid for computer software purchases) and nine hundred twelve (health and welfare services to all children) of this chapter, a charter school shall be deemed a nonpublic school in the school district within which the charter school is located. Special education programs and services shall be provided to students with a disability attending a charter school in accordance with the individualized education program recommended by the committee or subcommittee on special education of the student's school district of residence. The charter school may arrange to have such services provided by such school district of residence or by the charter school directly or by contract with another provider. **

(b) For purposes of section thirty-six hundred thirty-five (transportation) of this chapter, a charter school shall be deemed a nonpublic school. The charter and application therefor shall set forth the manner in which students ineligible for transportation pursuant to section thirty-six hundred thirty-five of this chapter shall be transported to and from school. Any supplemental transportation provided by a charter school shall comply with all transportation safety laws and regulations applicable to other public schools. A school district may enter into a contract for the provision of supplemental transportation services to a charter school, and any such services shall be provided by the school district at cost.

(c) A charter school may contract with a school district or the governing body of a public college or university for the use of a school building and grounds, the operation and maintenance thereof. Any such contract shall provide such services or facilities at cost.

(d) Private persons and organizations are encouraged to provide funding and other assistance to the establishment or operation of charter schools.

(e) The school district of residence of children attending a charter school may, but is not required to, allow such children to participate in athletic and extra-curricular activities of the district's schools.

Applicability of Other Laws (New York Education Law § 2854-1)

(a) Notwithstanding any provision of law to the contrary, to the extent that any provision of this article is inconsistent with any other state or local law, rule or regulation, the provisions of this article shall govern and be controlling.

(b) A charter school shall meet the same health and safety, civil rights, and student assessment requirements applicable to other public schools, except as otherwise specifically provided in this article. A charter school shall be exempt from all other state and local laws, rules, regulations or policies governing public or private schools, boards of education and school districts, including those relating to school personnel and students, except as specifically provided in the school's charter or in this

article. Nothing in this subdivision shall affect the requirements of compulsory education of minors established by part one of article sixty-five (compulsory education and school census) of this chapter.

(c) A charter school shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in the charter and shall be subject to audits of the comptroller of the state of New York at his or her discretion. Such procedures and standards shall be consistent with generally accepted accounting and audit standards. Independent fiscal audits shall be required at least once annually.

(d) A charter school shall design its educational programs to meet or exceed the student performance standards adopted by the board of regents and the student performance standards contained in the charter. Students attending charter school shall be required to take regents examinations to the same extent such examinations are required of other public school students.

(e) A charter school shall be subject to the provisions of articles six (freedom of information law) and seven of the public officers (open meetings law) law.

(f) A charter school shall be subject to the provisions of sections eight hundred (definitions), eight hundred one (conflicts of interest prohibited), eight hundred two (exceptions), eight hundred three (disclosure of interest), eight hundred four (contracts void), eight hundred four-a (certain interests prohibited), eight hundred five (violations), eight hundred five-a (certain action prohibited), eight hundred five-b (solemnization of marriages) and eight hundred six (code of ethics) of the general municipal law to the same extent such sections apply to school districts.

Admission; Enrollment; Students (New York Education Law § 2854-2)

A charter school shall be nonsectarian in its programs, admission policies, employment practices, and all other operations and shall not charge tuition or fees; provided that a charter school may require the payment of fees on the same basis and to the same extent as other public schools. A charter school shall not discriminate against any student, employee or any other person on the basis of ethnicity, national origin, gender, or disability or any other ground that would be unlawful if done by a school. Admission of students shall not be limited on the basis of intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion, or ancestry; provided, however, that nothing in this article shall be construed to prevent the establishment of a single-sex charter school or a charter school designed to provide expanded learning opportunities for students at-risk of academic failure or students with disabilities and English language learners; and provided, further, that the charter school shall demonstrate good faith efforts to attract and retain a comparable or greater enrollment of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program when compared to the enrollment figures for such students in the school district in which the charter school is located. A charter shall not be issued to any school that would be wholly or in part under the control or direction of any religious denomination, or in which any denominational tenet or doctrine would be taught.

(b) Any child who is qualified under the laws of this state for admission to a public school is qualified for admission to a charter school. Applications for admission to a charter school shall be submitted on a uniform application form created by the department and shall be made available by a charter school in languages predominately spoken in the community in which such charter school is located. The school shall enroll each eligible student who submits a timely application by the first day of April each year, unless the number of applications exceeds the capacity of the grade level or building. In such cases, students shall be accepted from among applicants by a random selection process, provided, however, that an enrollment preference shall be provided to pupils returning to the charter school in the second or any subsequent year of operation and pupils residing in the school district in which the charter

school is located, and siblings of pupils already enrolled in the charter school. The commissioner shall establish regulations to require that the random selection process conducted pursuant to this paragraph be performed in a transparent and equitable manner and to require that the time and place of the random selection process be publicized in a manner consistent with the requirements of section one hundred four of the public officers law and be open to the public.

(c) A charter school shall serve one or more of the grades one through twelve, and shall limit admission to pupils within the grade levels served. Nothing herein shall prohibit a charter school from establishing a kindergarten program.

(d) A student may withdraw from a charter school at any time and enroll in a public school. A charter school may refuse admission to any student who has been expelled or suspended from a public school until the period of suspension or expulsion from the public school has expired, consistent with the requirements of due process.

Causes for Revocation or Termination (New York Education Law § 2855)

The charter entity, or the board of regents, may terminate a charter upon any of the following grounds:

(a) When a charter school's outcome on student assessment measures adopted by the board of regents falls below the level that would allow the commissioner to revoke the registration of another public school, and student achievement on such measures has not shown improvement over the preceding three school years;

(b) Serious violations of law;

(c) Material and substantial violation of the charter, including fiscal mismanagement;

(d) When the public employment relations board makes a determination that the charter school demonstrates a practice and pattern of egregious and intentional violations of subdivision one of section two hundred nine-a (improper employer practices) of the civil service law involving interference with or discrimination against employee rights under article fourteen (Public Employees' Fair Employment Act) of the civil service law; or

(e) Repeated failure to comply with the requirement to meet or exceed enrollment and retention targets of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program pursuant to targets established by the board of regents or the board of trustees of the state university of New York, as applicable. Provided, however, if no grounds for terminating a charter are established pursuant to this section other than pursuant to this paragraph, and the charter school demonstrates that it has made extensive efforts to recruit and retain such students, including outreach to parents and families in the surrounding communities, widely publicizing the lottery for such school, and efforts to academically support such students in such charter school, then the charter entity or board of regents may retain such charter,

Notice of intent to revoke a charter shall be provided to the board of trustees of a charter school at least thirty days prior to the effective date of the proposed revocation. Such notice shall include a statement of reasons for the proposed revocation. The charter school shall be allowed at least thirty days to correct the problems associated with the proposed revocation. Prior to revocation of the charter, a charter school shall be provided an opportunity to be heard, consistent with the requirements of due process. Upon the termination of a charter, the charter school shall proceed with dissolution pursuant to the procedures of the charter and direction of the charter entity and the board of regents.

In addition to the provisions of subdivision two of this section, the charter entity or the board of regents may place a charter school falling within the provisions of subdivision one of this section on probationary status to allow the implementation of a remedial action plan. The failure of a charter school to comply with the terms and conditions of a remedial action plan may result in summary revocation of the school's charter.

Any individual or group may bring a complaint to the board of trustees of a charter school alleging a violation of the provisions of this article, the charter, or any other provision of law relating to the management or operation of the charter school. If, after presentation of the complaint to the board of trustees of a charter school, the individual or group determines that such board has not adequately addressed the complaint, they may present that complaint to the charter entity, which shall investigate and respond. If, after presentation of the complaint to the charter entity, the individual or group determines that the charter entity has not adequately addressed the complaint, they may present that complaint to the board of regents, which shall investigate and respond. The charter entity and the board of regents shall have the power and the duty to issue appropriate remedial orders to charter schools under their jurisdiction to effectuate the provisions of this section.

The regulatory power of the board of regents and the commissioner shall not extend to charter schools except as otherwise specifically provided in this article.

Review and Assessment (New York Education Law § 2857-2-5)

Each charter school shall submit to the charter entity and to the board of regents an annual report. Such report shall be issued no later than the first day of August of each year for the preceding school year and shall be made publicly available by such date and shall be posted on the charter school's website. The annual report shall be in such form as shall be prescribed by the commissioner and shall include at least the following components:

(a) a charter school report card, which shall include measures of the comparative academic and fiscal performance of the school, as prescribed by the commissioner in regulations adopted for such purpose. Such measures shall include, but not be limited to, graduation rates, dropout rates, performance of students on standardized tests, college entry rates, total spending per pupil and administrative spending per pupil. Such measures shall be presented in a format that is easily comparable to similar public schools. In addition, the charter school shall ensure that such information is easily accessible to the community including making it publicly available by transmitting it to local newspapers of general circulation and making it available for distribution at board of trustee meetings.

(b) discussion of the progress made towards achievement of the goals set forth in the charter.

(c) a certified financial statement setting forth, by appropriate categories, the revenues and expenditures for the preceding school year, including a copy of the most recent independent fiscal audit of the school and any audit conducted by the comptroller of the state of New York.

(d) efforts taken by the charter school in the existing school year, and a plan for efforts to be taken in the succeeding school year, to meet or exceed enrollment and retention targets set by the board of regents or the board of trustees of the state university of New York, as applicable, of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program established pursuant to paragraph (e) of subdivision four of section twenty-eight hundred fifty-one of this article.

The board of regents shall report annually to the governor, the temporary president of the senate, and the speaker of the assembly the following information:

(a) The number, distribution, and a brief description of new charter schools established during the preceding year;

(a-1) A list including the number of charter schools closed during the preceding year, and a brief description of the reasons therefor including, but not limited to, non-renewal of the charter or revocation of the charter;

(b) The department's assessment of the current and projected programmatic and fiscal impact of charter schools on the delivery of services by school districts;

(c) The academic progress of students attending charter schools, as measured against comparable public and nonpublic schools with similar student population characteristics wherever practicable;

(d) A list of all actions taken by a charter entity on charter application and the rationale for the renewal or revocation of any charters; and

(e) Any other information regarding charter schools that the board of regents deems necessary. The format for this annual report shall be developed in consultation with representatives of school districts and charter school officials.

The board of regents shall on an annual basis review and make available to school districts best educational practices employed by charter schools.

CHARTER SCHOOL FUNDING

Financing of Charter Schools (New York Education Law § 2856)

(Effective until June 30, 2015)

**The enrollment of students attending charter schools shall be included in the enrollment, attendance, membership and, if applicable, count of students with disabilities of the school district in which the pupil resides. The charter school shall report all such data to the school districts of residence in a timely manner. Each school district shall report such enrollment, attendance and count of students with disabilities to the department. The school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the school district the charter school basic tuition, which shall be an amount equal to one hundred percent of the amount calculated pursuant to paragraph f of subdivision one of section thirty-six hundred two ("expense per pupil" definition) of this chapter for the school district for the year prior to the base year increased by the percentage change in the state total approved operating expense calculated pursuant to paragraph t of subdivision one of section thirty-six hundred two ("approved operating expense" definition) of this chapter from two years prior to the base year to the base year; provided, however, that for the two thousand twelve--two thousand thirteen school year, the charter school basic tuition shall be the amount payable by such district as charter school basic tuition for the two thousand ten — two thousand eleven school year.

The school district shall also pay directly to the charter school any federal or state aid attributable to a student with a disability attending charter school in proportion to the level of services for such student with a disability that the charter school provides directly or indirectly, Notwithstanding anything in this section to the contrary, amounts payable pursuant to this subdivision from state or local funds may be reduced pursuant to an agreement between the school and the charter entity set forth in the charter. Payments made pursuant to this subdivision shall be made by the school district in six substantially equal installments each year beginning on the first business day of July and every two months thereafter. Amounts payable under this subdivision shall be determined by the commissioner. Amounts payable to a

charter school in its first year of operation shall be based on the projections of initial-year enrollment set forth in the charter until actual enrollment data is reported to the school district by the charter school. Such projections shall be reconciled with the actual enrollment as actual enrollment data is so reported and at the end of the school's first year of operation and each subsequent year based on a final report of actual enrollment by the charter school, and any necessary adjustments resulting from such final report shall be made to payments during the school's following year of operation.

Notwithstanding any other provision of this subdivision to the contrary, payment of the federal aid attributable to a student with a disability attending a charter school shall be made in accordance with the requirements of section 8065-a of title twenty of the United States code and sections 76.785-76.799 and 300.209 of title thirty-four of the code of federal regulations. **

(Effective June 30, 2015)

The enrollment of students attending charter schools shall be included in the enrollment, attendance and, if applicable, count of students with disabilities of the school district in which the pupil resides. The charter school shall report all such data to the school districts of residence in a timely manner. Each school district shall report such enrollment, attendance and count of students with disabilities to the department. The school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the school district the charter school basic tuition which shall be an amount equal to one hundred percent of the amount calculated pursuant to paragraph f of subdivision one of section thirty-six hundred two ("expense per pupil" definition) of this chapter for the school district for the year prior to the base year increased by the percentage change in the state total approved operating expense calculated pursuant to paragraph t of subsection one of section thirty-six hundred two of this chapter from two years prior to the base year to the base year; provided, however, that for the two thousand twelve—two thousand thirteen school year, the charter school basic tuition shall be the amount payable by such district as charter school basic tuition for the two thousand ten--two thousand eleven school year. The school district shall also pay directly to the charter school any federal or state aid attributable to a student with a disability attending charter school in proportion to the level of services for such student with a disability that the charter school provides directly or indirectly. Notwithstanding anything in this section to the contrary, amounts payable pursuant to this subdivision may be reduced pursuant to an agreement between the school and the charter entity set forth in the charter. Payments made pursuant to this subdivision shall be made by the school district in six substantially equal installments each year beginning on the first business day of July and every two months thereafter. Amounts payable under this subdivision shall be determined by the commissioner. Amounts payable to a charter school in its first year of operation shall be based on the projections of initial-year enrollment set forth in the charter. Such projections shall be reconciled with the actual enrollment at the end of the school's first year of operation, and any necessary adjustments shall be made to payments during the school's second year of operation.

In the event of the failure of the school district to make payments required by this section, the state comptroller shall deduct from any state funds which become due to such school district an amount equal to the unpaid obligation. The comptroller shall pay over such sum to the charter school upon certification of the commissioner. The commissioner shall promulgate regulations to implement the provisions of this subdivision.

Nothing in this article shall be construed to prohibit any person or organization from providing funding or other assistance to the establishment or operation of a charter school. The board of trustees of a charter school is authorized to accept gifts, donations or grants of any kind made to the charter school and to expend or use such gifts, donations or grants in accordance with the conditions prescribed by the donor; provided, however, that no gift, donation or grant may be accepted if subject to a condition that is contrary to any provision of law or term of the charter.

Charter School Basic Tuition (New York Education Law § 3602)

As referenced in the New York Education Law § 2856, “expense per pupil” shall mean approved operating expense for the year prior to the base year divided by the sum, computed using year prior to the base year pupil counts, of the total aidable pupil units plus weighted pupils with disabilities. Expense per pupil for each borough in the city school district of the city of New York shall be the expense per pupil of the entire city school district.

“Base year” shall mean the school year immediately preceding the current year.

“Weighted pupils with disabilities” shall be computed as follows:

(a) “Pupils with disabilities” shall mean pupils of school age who are identified as students with disabilities pursuant to article eighty-nine of this chapter and the regulations of the commissioner and who receive special education services or attend special education programs which meet criteria established by the commissioner, operated by a school district eligible for total foundation aid pursuant to this section or by a board of cooperative educational services, whether or not the school district is a component of such board.

(b) “Weighted pupils with disabilities” shall mean the attendance, as defined in the regulations of the commissioner, of pupils with disabilities who have been determined by a school district committee on special education to require any of the following types and levels of programs or services specified in this subparagraph, and who receive such programs and services from the school district of attendance during the base year, multiplied by a special services weighting determined as follows:

(i) for placement for sixty per centum or more of the school day in a special class, or home or hospital instruction for a period of more than sixty days, or special services or programs for more than sixty per centum of the school day, the special services weighting shall be one hundred seventy percent;

(ii) for placement for twenty per centum or more of the school week in a resource room or special services or programs including related services required for twenty per centum or more of the school week, or in the case of pupils in grades seven through twelve or a multi-level middle school program as defined by the commissioner or in the case of pupils in grades four through six in an elementary school operating on a period basis, the equivalent of five periods per week, but not less than the equivalent of one hundred eighty minutes in a resource room or in other special services or programs including related services, or for at least two hours per week of direct or indirect consultant teacher services, in accordance with regulations of the commissioner adopted for such purpose, the special services weighting shall be ninety percent.

Computation of total aidable pupil units. A district’s total aidable pupil units shall be the sum of the district’s adjusted average daily attendance computed pursuant to this section for the year prior to the base year multiplied by the enrollment index computed pursuant to this section for the base year plus the additional aidable pupil units computed for the year prior to the base year under paragraph c of this subdivision.

(a) For purposes of this section weighted average daily attendance of a school district for any school year shall be computed as follows:

(1) Weighted average daily attendance shall be determined by using the average daily attendance of public school pupils in a full-day kindergarten and grades one through six as the basic unit, with the attendance of such pupils in one-half day kindergartens measured at one-half of such basic unit and the attendance of such pupils in grades seven through twelve measured at one and one-quarter of such basic unit. The sum of all such units of attendance shall be the weighted average daily attendance.

(2) In computing such attendance, the school district shall (i) determine the number of religious holidays which fall on a school day within a school year according to regulations established by the commissioner, such religious holidays to be duly recognized as such for purposes of this section by duly adopted resolution of the board of education; (ii) deduct the aggregate attendance on such religious holidays from the total aggregate attendance, by grade level; (iii) deduct such religious holidays from the total number of days of session, by grade level; (iv) compute the weighted average daily attendance for the school year.

(3) In any instance where a pupil is a resident of another state or an Indian pupil is a resident of any portion of a reservation located wholly or partly within the borders of the state pursuant to subdivision four of section forty-one hundred one (duties of commissioner regarding Indian children) of this chapter or a pupil is living on federally owned land or property, such pupil's attendance shall be counted as part of the weighted average daily attendance of the school district in which such pupil is enrolled.

(4) Resident weighted average daily attendance for purposes of determining the aid ratio of a school district for any school year shall be the weighted average daily attendance for the school year immediately preceding the base year, less the weighted average daily attendance of nonresident pupils attending public schools in the district for such school year, plus the weighted average daily attendance of pupils resident in the district but attending public schools in another district or state plus the weighted average daily attendance of pupils resident in the district but attending full-time a school operated by a board of cooperative educational services or a county vocational education and extension board for such school year. The attendance of nonresident pupils attending public school in the district and resident pupils attending such schools outside of the district shall be determined by applying to the number of such pupils registered during the school year in each case the ratio of aggregate days attendance to the possible aggregate days attendance of all pupils in attendance in the district. Indian pupils of a reservation attending public school, or pupils living on the United States military reservation at West Point attending public school, shall be deemed to be resident pupils of the district providing such school, for purposes of this paragraph. Where a school district has entered into a contract with the state university pursuant to subdivision two of section three hundred fifty-five (powers and duties of trustees — administrative and fiscal functions) of this chapter under which the school district makes payments in the nature of tuition for the education of certain children residing in the district, such children for whom such tuition payments are made shall be deemed to be resident pupils of such district for the purposes of this paragraph.

(5) In determining the resident weighted average daily attendance of a component school district of a central high school district for computing the aid ratio the weighted average daily attendance of high school pupils residing in such component district and attending the central high school shall be included. The resident weighted average daily attendance of a central high school district itself shall be the sum of the

resident weighted average daily attendance of each component school district computed as provided in the first sentence of this paragraph.

(6) Notwithstanding the provisions of subparagraphs four and five of this paragraph, when a school district shall experience an increase in resident weighted average daily attendance during the current year because of the closing in whole, or in part, of a non-public school or a campus school, or a school previously operated by the United States government on the United States military reservation at West Point, the commissioner, in computing any aid ratio of such district, shall permit the use of such additional resident weighted average daily attendance for aid ratio purposes during the current year and the next succeeding year, provided that such additional resident weighted average daily attendance attributable to such closing, or part thereof, shall be in excess of one hundred students; provided, however, that such district which qualifies for an increase in total wealth pupil units pursuant to paragraph f of this subdivision, shall use the increase in resident weighted average daily attendance, even if such increase in resident weighted average daily attendance is less than one hundred.

(b) For purposes of this section adjusted average daily attendance of a school district for any school year shall be computed as follows:

(1) Adjusted average daily attendance shall be determined by using the average daily attendance of public school pupils in a full-day kindergarten and grades one through twelve as the basic unit, with the attendance of such pupils in one-half day kindergartens measured at one-half of such basic unit. The sum of all such units of attendance shall be the adjusted average daily attendance.

(2) In computing such attendance, the school district shall (i) determine the number of religious holidays which fall on a school day within a school year according to regulations established by the commissioner, such religious holidays to be duly recognized as such for purposes of this section by duly adopted resolution of the board of education; (ii) deduct the aggregate attendance on such religious holidays from the total aggregate attendance, by grade level; (iii) deduct such religious holidays from the total number of days of session, by grade level; (iv) compute the adjusted average daily attendance for the school year.

(3) In any instance where a pupil is a resident of another state or an Indian pupil is a resident of any portion of a reservation located wholly or partly within the borders of the state pursuant to subdivision four of section forty-one hundred one (duties of commissioner regarding Indian children) of this chapter or a pupil is living on federally owned land or property, such pupil's attendance shall be counted as part of the adjusted average daily attendance of the school district in which such pupil is enrolled.

(c) Computation of additional aidable pupil units. The additional aidable pupil units used to compute total aidable pupil units pursuant to paragraph e of this subdivision shall be the sum of the attendance of summer session pupils multiplied by twelve per centum and the weighted pupils with special educational needs. Nothing contained in this paragraph shall be construed to result in the inclusion of the attendance of summer session pupils in the computation of weighted or adjusted average daily attendance pursuant to this subdivision.

"Enrollment index" shall be computed by dividing the public school enrollment for the current year by public school enrollment for the base year, both as defined in paragraph n of this subdivision, with the result carried to three places without rounding.

(a) “Enrollment” shall mean the unduplicated count of all children registered to receive educational services in grades kindergarten through twelve, including children in ungraded programs, as registered on the date prior to November first that is specified by the commissioner as the enrollment reporting date for the school district or nonpublic school, as reported to the commissioner.

(b) “Public school district enrollment” shall mean the sum of: (1) the number of children on a regular enrollment register of a public school district on such date; (2) the number of children eligible to receive home instruction in the school district on such date; (3) the number of children for whom equivalent attendance must be computed pursuant to this subdivision on such date; (4) the number of children with disabilities who are residents of such district who are registered on such date to attend programs under the provisions of paragraph c of subdivision two of section forty-four hundred one (children with handicapping conditions definitions) of this chapter; (5) the number of children eligible to receive educational services on such date but not claimed for aid pursuant to subdivision seven of section thirty-two hundred two (public schools free to resident pupils; tuition from nonresident pupils) of this chapter; and (6) the number of children registered on such date to attend programs (i) pursuant to subdivision two of section three hundred fifty-five (powers and duties of trustees — administrative and fiscal functions) of this chapter or (ii) pursuant to an agreement between the city school district of the city of New York and Hunter College pursuant to section sixty-two hundred sixteen of this chapter.

(c) Equivalent attendance shall mean the quotient of the total number of student hours of instruction in programs in a public school of a school district or a board of cooperative educational services leading to a high school diploma or a high school equivalency diploma as defined in regulations of the commissioner for pupils under the age of twenty-one not on a regular day school register of the district, divided by one thousand.

The “approved operating expense” for the apportionments to any school district hereunder shall mean the amount computed as follows: The apportionment to any school district for operating expense shall be based upon the total expenditures from its general fund and from its capital fund and from its risk retention fund for purposes of employee benefit claims related to salaries paid from the general fund, and for any city school districts with a population of more than one hundred twenty-five thousand inhabitants its expenditures from the special aid fund of grant moneys for improving pupil performance and categorical aid for special reading programs as provided in the aid to localities budget during the applicable year as approved by the commissioner, and in accordance with the classification of expenditures in use by the commissioner for the reporting by school districts of receipts, expenditures and other financial data. For the purpose of this paragraph operating expense shall be defined as total cash expenditures during the applicable year, but shall exclude:

(1) any balances and transfers;

(2) any payments for transportation of pupils to and from school during the regular school year inclusive of capital outlays and debt service therefor;

(2-a) a portion of any payments for transportation of pupils to and from district operated summer school programs pursuant to subdivision six of section thirty-six hundred twenty-two-a (aidable regular transportation) of this article, inclusive of capital outlays and debt service therefor, equal to the product of such expenditures multiplied by the quotient of the total apportionment after the proration, if any, required by such subdivision six of such section divided by the total apportionment prior to such proration;

(3) any payments for capital outlay and debt service for school building purposes, provided, however, that in the case of a school district which has entered into a contract with state university pursuant to paragraph o of subdivision two of section three

hundred fifty-five (conduct of research and experiments) of this chapter, under which the school district makes payment to state university on account of capital outlay relating to certain children residing in such school district, such payments shall not be so excluded;

- (4) any payments for cafeteria or school lunch programs;
- (5) any proceeds of short term borrowings in the general fund and any payments from the proceeds of the sale of obligations in the capital fund;
- (6) any cash receipts which reduce the cost of an item when applied against the expenditure therefor, except gifts, donations and earned interest and any refunds made;
- (7) any payments made to boards of cooperative educational services for purposes or programs for which an apportionment is paid pursuant to other sections of this chapter, except that payments attributable to eligible pupils with disabilities and ineligible pupils residing in noncomponent districts shall be included in operating expense;
- (8) any tuition payments made to other school districts inclusive of payments made to a central high school district by one of its component school districts;
- (9) any apportionment or payment received from the state for experimental or special programs paid under provisions other than those found in this section and other than any apportionments or payments received from the state by the city school district of the city of Yonkers for the purpose of funding an educational improvement program pursuant to a court order and other than any other state grants in aid identified by the commissioner for general use as specified by the board of education pursuant to subdivision two of section seventeen hundred eighteen (limitation upon expenditures) of this chapter;
- (10) any funds received from the federal government except the federal share of Medicaid subject to the provisions of section thirty-six hundred nine-a (moneys apportioned, when and how payable commencing July first, two thousand seven) of this part and except Impact Aid funds received pursuant to sections two and six of Public Law eighty-one-eight hundred seventy-four (PL 81-874) or any law superseding such law in any such district which received aid pursuant to both such sections; provided further, however, that there shall be excluded from such federal funds or other apportionments any payments from such funds already deducted pursuant to this paragraph;
- (11) any payments made for which an apportionment is disallowed pursuant to regulations of the commissioner;
- (12) any expenditures made for accounting, tabulation, or computer equipment, in excess of ten thousand dollars unless such expenditures shall have been specifically approved by the commissioner;
- (13) any rentals received payments received pursuant to the provisions of section four hundred three-a (Leasing of school property) of this chapter;

(14) any rentals or other annual payments received pursuant to the provisions of section four hundred three-b (Leasing of school buildings and facilities) of this chapter;

(15) any expenditures made for persons twenty-one years of age or over attending employment preparation education programs pursuant to subdivision eleven of this section;

(16) any tuition payments made pursuant to a contract under the provisions of paragraphs e, f, g, h, i and l of subdivision two of section forty-four hundred one ("special services or programs" definition) of this chapter or any tuition payments on behalf of pupils attending a state school under paragraph d of such subdivision;

(17) in any year in which expenditures are made to the New York state teachers' retirement system or the New York state and local employees' retirement system for both the prior school year and the current school year, any expenditures made to such retirement systems and recorded in the school year prior to the school year in which such obligations are paid; and

(18) any payments to the commissioner of taxation and finance pursuant to article twenty-three (metropolitan commuter transportation mobility tax) of the tax law.

Transitional Aid for Charter School Payments (New York Education Law § 3602)

In addition to any other apportionment under this section, for the two thousand seven — two thousand eight school year and thereafter, a school district other than a city school district in a city having a population of one million or more shall be eligible for an apportionment in an amount equal to the sum of:

(a) the product of (i) the product of eighty percent multiplied by the charter school basic tuition computed for such school district for the base year pursuant to section twenty-eight hundred fifty-six of this chapter, multiplied by (ii) the positive difference, if any, of the number of resident pupils enrolled in the charter school in the base year less the number of resident pupils enrolled in a charter school in the year prior to the base year, provided, however, that a school district shall be eligible for an apportionment pursuant to this paragraph only if the number of its resident pupils enrolled in charter schools in the base year exceeds two percent of the total resident public school district enrollment of such school district in the base year or the total general fund payments made by such district to charter schools in the base year for resident pupils enrolled in charter schools exceeds two percent of total general fund expenditures of such district in the base year, plus

(b) the product of (i) the product of sixty percent multiplied by the charter school basic tuition computed for such school district for the base year pursuant to section twenty-eight hundred fifty-six of this chapter, multiplied by (ii) the positive difference, if any, of the number of resident pupils enrolled in the charter school in the year prior to the base year less the number of resident pupils enrolled in a charter school in the year two years prior to the base year, provided, however, that a school district shall be eligible for an apportionment pursuant to this paragraph only if the number of its resident pupils enrolled in charter schools in the year prior to the base year exceeds two percent of the total resident public school district enrollment of such school district in the year prior to the base year or the total general fund payments made by such district to charter schools in the year prior to the base year for resident pupils enrolled in charter schools exceeds two percent of the total general fund expenditures of such district in the year prior to the base year, plus

(c) the product of (i) the product of forty percent multiplied by the charter school basic tuition computed for such school district for the base year pursuant to section twenty-eight hundred fifty-six of this chapter, multiplied by (ii) the positive difference, if any, of the number of resident pupils enrolled in the charter school in the year two years prior to the base year less the number of resident pupils enrolled in a charter school in the year three years prior to the base year, provided, however, that a school district shall be eligible for an apportionment pursuant to this paragraph only if the number of its resident pupils enrolled in charter schools in the year two years prior to the base year exceeds two percent of the total resident public school district enrollment of such school district in the year two years prior to the base year or the total general fund payments made by such district to charter schools in the year two years prior to the base year for resident pupils enrolled in charter schools exceeds two percent of the total general fund expenditures of such district in the year two years prior to the base year.

(d) For purposes of this subdivision the number of pupils enrolled in a charter school shall not include pupils enrolled in a charter school for which the charter was approved by a charter entity contained in paragraph a of subdivision three of section twenty-eight hundred fifty-one of this chapter.

Public School District Payments to Charter Schools (N.Y. Comp. Codes & Regs. Title 8, § 119.1(a), (b))

In the event of the failure of a school district to make payments to a charter school as required by section 2856 of the Education Law, the commissioner shall certify the amount of the unpaid obligation to the comptroller to be deducted from any State aid payments which become due to such school district. The amount of each school district's obligation shall be calculated in accordance with this section.

For the purposes of this section:

(a) Legally absent means to be absent for: personal illness, illness or death in the family, impassable roads or weather, religious observance, quarantine, required court appearances, attendance at health clinics, approved college visits, military obligations, disciplinary detention of an incarcerated youth, or for such other reasons as may be approved by the commissioner.

(b) Period of enrollment means that period commencing on the first day of the school year that a pupil is enrolled in and is physically present at, or legally absent from, an educational program or service of a charter school and ending on the last day of the school year that such pupil is so enrolled and physically present at, or legally absent from, such program or service.

(c) Enrollment for each charter school student shall mean the quotient, calculated to three decimals without rounding, obtained when the total number of weeks of the period of enrollment of such student is divided by the total number of weeks in the full school year of the educational program or service of the charter school. For the purposes of this section, three consecutive days of enrollment within the same week and within the same month shall be the equivalent of one week of enrollment, provided that no more than four weeks of enrollment may be counted in any calendar month.

(d) Levels of service shall mean the categories of programs for students with disabilities specified in section 3602(19)(b)(1)-(4) of the Education Law.

(e) Approved operating expense shall mean the amount calculated pursuant to section 3602(11) of the Education Law.

(f) Expense per pupil shall mean the amount calculated pursuant to section 3602(1)(f) of the Education Law for the school district using year prior to the base year expenditures and pupils, as established by the commissioner based on the electronic data file prepared by the commissioner on May

15th of the base year pursuant to section 305(21)(b) of the Education Law. Where the expense per pupil is not available for a school district, the expense per pupil shall be deemed to be the average expense per pupil for the county in which the school district is located.

(g) Adjusted expense per pupil shall be the district's expense per pupil increased by the percent change in the State total approved operating expense calculated pursuant to section 3602(11) of the Education Law from two years prior to the base year to the base year, as established by the commissioner based on the electronic data file prepared by the commissioner on May 15th of the base year pursuant to section 305(21)(b) of the Education Law.

(h) State aid attributable to a student with a disability attending a charter school shall mean the sum of excess cost aid payable to a public school district pursuant to section 3602(19)(4) of the Education Law based on the resident weighted enrollment in the charter school of pupils with disabilities receiving special services or programs provided directly or indirectly by the charter school in the current school year and any apportionment payable to such public school district pursuant to paragraph 5 of such subdivision 19 of the Education Law that is based on the cost of special services or programs provided directly or indirectly by the charter school to such pupil in the current school year. Excess cost aid for the purposes of this section shall equal the product of excess cost aid per pupil calculated pursuant to section 3602(19)(3) of the Education Law, the proportion of the weighting attributable to the student's level of service provided directly or indirectly by the charter school pursuant to section 3602(19)(b)(1)-(4) of the Education Law, and the student's enrollment in such charter school in the current school year.

(i) Federal aid attributable to a student with a disability attending a charter school, and receiving special education services or programs provided directly or indirectly by the charter school, shall mean:

(i) for the first year of operation of the charter school, the allocation that would be attributable to the charter school pursuant to 20 U.S.C. 1411 and 1419 (United States Code, 1994 edition, Supplement III, Volume 2; Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9328; 1998 - available at the Office of Vocational and Educational Services for Individuals with Disabilities, Room 1624, One Commerce Plaza, Albany, NY 12234) for a pupil who is identified as a student with a disability, as such term is defined in section 200.1 of this Title, who is included in a report to the commissioner of pupils so identified as of December 1st of the current school year, or for such other pupil count as specified by the Federal government for the current school year, provided that the enrollment of such students in the charter school during the current school year shall be used for this purpose until such report, or a report of such other pupil count, has been received by the commissioner; and

(ii) for the second year of operation of the charter school and thereafter, the allocation that would be attributable to the charter school pursuant to 20 U.S.C. 1411 and 1419 (United States Code, 1994 edition, Supplement III, Volume 2; Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9328; 1998 - available at the Office of Vocational and Educational Services for Individuals with Disabilities, Room 1624, One Commerce Plaza, Albany, NY 12234) for a pupil who is identified as a student with a disability, as such term is defined in section 200.1 of this Title, who is included in a report to the commissioner of pupils so identified as of December 1st of the base year, or for such other pupil count as specified by the Federal government.

Financial Obligations of Charter Schools, Public School Districts and Education Department (N.Y. Comp. Codes & Regs. Title 8, § 119.1(c)-(e))

Charter school obligations:

(a) No later than 30 days prior to the first business day of July, September, November, January, March and May, each charter school shall report to each public school district with resident pupils attending the charter school and to the department an updated estimate of the enrollment of students attending the charter school in the current school year who are residents of such public school district and any reduced amounts per pupil that shall be payable to the charter school for such students pursuant to subdivision one of section 2856 of the Education Law that has been established pursuant to an agreement between the charter school and the charter school entity as set forth in the charter. For each student with a disability attending such charter school, such report shall also indicate the level of special programs or services to be provided directly or indirectly to such student by the charter school and an estimated annual cost to be incurred by the charter school in providing such special programs or services.

(b) On or before the last day of July, each charter school shall provide a final report of actual enrollment to the department and to each school district with resident pupils attending the charter school in the prior school year. For each student with a disability attending such charter school, such report shall also indicate the level of special programs or services actually provided directly or indirectly to such student by the charter school and the annual cost incurred by the charter school in providing such special programs or services.

(c) In the event of the failure of a school district to fulfill the financial obligation required by section 2856 of the Education Law equal to the amounts calculated pursuant to this section, the charter school shall notify the commissioner no later than May 31st of the school year in which the payments were due.

Public school district of residence obligations:

(a) No later than the first business day of July, September, November, January, March and May of the current school year, each public school district with resident pupils attending a charter school shall pay directly to such charter school the appropriate payment amounts as specified in subdivision one of section 2856 of the Education Law that are attributable to the enrollment of such pupils as reported to the public school district by the charter school no later than 30 days prior to each such payment date.

(b) The total amount of payments due and payable to a charter school for the current school year by a public school district shall be paid as follows:

(i) on or before the first business day of July, one sixth of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year;

(ii) on or before the first business day of September, two sixths of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraph (i) of this paragraph;

(iii) on or before the first business day of November, three sixths of the total amount due, as adjusted for any supplemental payments due on overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i) and (ii) of this paragraph;

(iv) on or before the first business day of January, four sixths of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i), (ii) and (iii) of this paragraph;

(v) on or before the first business day of March, five sixths of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i), (ii), (iii) and (iv) of this paragraph; and

(vi) on or before the first business day of May, the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i), (ii), (iii), (iv) and (v) of this paragraph.

(c) The school district financial obligation per resident student enrolled in a charter school shall equal the sum of:

(i) the product of the school district's adjusted expense per pupil and the current year enrollment of the pupil in the charter school as defined in paragraph b(3) of this section; and

(ii) the amounts of State and Federal aid, if any, that may be attributable to such pupil as defined in paragraphs (b)(8) and (9) of this section, or the amount established pursuant to an agreement between the charter school and the charter entity as set forth in the charter.

(d) The total annual obligation due to a charter school by a public school district shall be the sum of the annual financial obligations for all resident students enrolled at any time during the current school year in the charter school.

(e) School districts shall include the enrollment of resident students attending charter schools in the enrollment, attendance and, if applicable, count of students with disabilities reported to the department for the purposes of claiming State aid.

Department obligations:

(a) On or before the first day of June of each year, or as soon as practicable upon the receipt of Federal notice of the estimated State appropriation for the next school year, the commissioner shall notify all school districts and all charter schools of the adjusted expense per pupil of each public school district and the estimated per pupil allocation under part B of the Federal Individuals with Disabilities Education Act to be used in the calculation of payments due to charter schools in next school year. Notice of final Federal per pupil allocation will be issued as soon as practicable upon the State's receipt of the notice of final allocation from the Federal government.

(b) In the event of the failure of a school district to fulfill the financial obligation required by section 2956 of the Education Law equal to the amounts calculated pursuant to this section, upon notification by the charter school, the commissioner shall certify the amounts of the unpaid obligations to the comptroller to be deducted from State aid due the school district and paid to the applicable charter schools.

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CERTAIN DEFINITIONS

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APPENDIX D- CERTAIN DEFINITIONS

The following are definitions of certain terms, unless the context shall otherwise require, used in the Indenture, the Loan Agreement or this Official Statement.

Additional Bonds shall mean one or more Series of additional bonds issued, executed, authenticated and delivered under the Indenture.

Additional Improvements shall mean alterations of or additions to the Facility Realty.

Additional Indebtedness shall mean any indebtedness incurred by the Institution subsequent to the issuance of the Initial Bonds.

An **Affiliate** of a Person shall mean a Person that directly or indirectly through one or more intermediaries Controls, or is under common Control with, or is Controlled by, such Person.

Annual Administrative Fee shall mean that annual administrative fee established from time to time by the Issuer's Board of Directors as generally applicable to Entities receiving or that have received financial assistance from the Issuer (subject to such exceptions from such general applicability as may be established by the Issuer's Board of Directors).

Approved Facility shall mean the Facility as occupied, used and operated by the Institution substantially for the Approved Project Operations, including such other activities as may be substantially related to or substantially in support of such operations, all to be effected in accordance with the Loan Agreement.

Approved Project Operations shall mean the shall mean the facility located at 322 West 231 Street, Bronx, New York, for use by the Institution in the providing of educational services to students.

Assignment of Mortgage shall mean the Assignment of Mortgage and Security Agreement (Acquisition Loan), Mortgage and Security Agreement (Building Loan) and Mortgage and Security Agreement (Indirect Loan) relating to the Facility, dated as of March 21, 2013, from the Issuer to the Trustee, and shall include any and all amendments thereof and supplements thereto made in conformity therewith and with the Indenture.

Authorized Denomination shall mean, in the case of the Initial Bonds, \$250,000 or any integral multiple of \$5,000 in excess thereof.

Authorized Principal Amount shall mean, in the case of the Initial Bonds, \$17,750,000.

Authorized Representative shall mean, (i) in the case of the Issuer, the Chairperson, Vice Chairperson, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Executive Director, Deputy Executive Director, General Counsel or Vice President for Legal Affairs, or any other officer or employee of the Issuer who is authorized to perform specific acts

or to discharge specific duties, and (ii) in the case of the Institution, a person named in Exhibit C - "Authorized Representative" to the Loan Agreement or any other officer or employee of the Institution who is authorized to perform specific duties under the Loan Agreement or under any other Project Document and of whom another Authorized Representative of the Institution has given written notice to the Issuer and the Trustee; provided, however, that in each case for which a certification or other statement of fact or condition is required to be submitted by an Authorized Representative to any Person pursuant to the terms of the Loan Agreement or any other Project Document, such certificate or statement shall be executed only by an Authorized Representative in a position to know or to obtain knowledge of the facts or conditions that are the subject of such certificate or statement.

Beneficial Owner shall mean, whenever used with respect to an Initial Bond, the Person in whose name such Initial Bond is recorded as the Beneficial Owner of such Initial Bond by the respective systems of DTC and each of the Participants of DTC. If at any time the Initial Bonds are not held in the Book-Entry System, Beneficial Owner shall mean "Holder" for purposes of the Security Documents.

Benefits shall mean the exemption from any applicable mortgage recording taxes, and filing and recording fees.

Bond Fund shall mean the special trust fund so designated, established pursuant to the Indenture.

Bondholder, Holder of 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 the Indenture.

Bond Resolution shall mean the resolution of the Issuer adopted on December 11, 2012, authorizing the issuance of the Initial Bonds.

Bonds shall mean the Initial Bonds and any Additional Bonds.

Building Loan Agreement shall mean the Building Loan Agreement, dated as of March 1, 2013, among the Issuer, the Institution and the Trustee, and shall include any and all amendments thereof and supplements thereto made in conformity therewith and with the Indenture.

Business Day shall mean any day that shall not be:

- (i) a Saturday, Sunday, or legal holiday;
- (ii) a day on which banking institutions in the City are authorized by law or executive order to close; or
- (iii) a day on which the New York Stock Exchange is closed.

City shall mean The City of New York, New York.

Claims shall mean any and all claims (whether in tort, contract or otherwise), taxes (of any kind and by whomsoever imposed), demands, penalties, fines, liabilities, lawsuits, actions, proceedings, settlements, costs and expenses, including attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses.

Closing Date shall mean March 21, 2013, the date of the initial issuance and delivery of the Initial Bonds.

Code shall mean the Internal Revenue Code of 1986, as amended, including the regulations thereunder. All references to Sections of the Code or regulations thereunder shall be deemed to include any such Sections or regulations as they may hereafter be renumbered in any subsequent amendments to the Code or such regulations.

Completed Improvements Rentable Square Footage shall mean approximately 30,000 rentable square feet, the rentable square footage of the Improvements upon completion of the Project Work.

Completion Date shall mean August 1, 2014.

Computation Date shall have the meaning assigned to that term in the Tax Regulatory Agreement.

Computation Period shall have the meaning assigned to that term in the Tax Regulatory Agreement.

Conduct Representation shall mean any representation by the Institution under Section 2.2(t) of the Loan Agreement, or by any other Person in any Required Disclosure Statement delivered to the Issuer.

Control or Controls, including the related terms “controlled by” and “under common control with”, shall mean the power to direct the management and policies of a Person (x) through the ownership, directly or indirectly, of not less than a majority of its voting securities, (y) through the right to designate or elect not less than a majority of the members of its board of directors or trustees or other Governing Body, or (z) by contract or otherwise.

Costs of Issuance shall mean issuance costs with respect to the Initial Bonds described in Section 147(g) of the Code and any regulations thereunder, including but not limited to the following: Underwriter’s fee; counsel fees (including bond counsel, counsel to the Underwriter, Trustee’s counsel, Issuer’s counsel, Institution’s counsel, as well as any other specialized counsel fees incurred in connection with the borrowing); financial advisor fees of any financial advisor to the Issuer or the Institution incurred in connection with the issuance of the Initial Bonds; engineering and feasibility study costs; guarantee fees (other than Qualified Guarantee Fees, as defined in the Tax Regulatory Agreement); Rating Agency fees; Trustee and Paying Agent fees; accountant fees and other expenses related to issuance of the Initial Bonds; printing costs (for the Initial Bonds and of the preliminary and final Official Statement relating to the Initial Bonds); printing costs for the Initial Bonds and offering documents; public approval

and process costs; fees and expenses of the Issuer incurred in connection with the issuance of the Initial Bonds; and Blue Sky fees and expenses; and similar costs.

Custodian means Capital One, N.A., as custodian under the Custody Agreement.

Custody Agreement means the deposit account control agreement dated as of March 1, 2013 by and among the Institution, the Custodian and the Trustee.

Custody Agreement Notice means the notice prepared by the Trustee in accordance with the provisions of the Custody Agreement and the Indenture. The form of Custody Agreement Notice shall be in the form set forth in Exhibit E to the Indenture.

Debt Service Reserve Fund shall mean the special trust fund so designated, established pursuant to the Indenture.

Debt Service Reserve Fund Requirement shall mean, as of any particular date of computation, an amount (which amount may take the form of cash, Qualified Investments or any combination thereof) equal to the lesser of:

(i) ten percent (10%) of the Sale Proceeds (as defined in the Tax Regulatory Agreement) of the Outstanding Bonds;

(ii) 100% of the maximum annual principal and interest requirements on Outstanding Bonds; or

(iii) 125% of the average annual principal and interest requirements on Outstanding Bonds; or

(iv) The amount permitted to be deposited into the Debt Service Reserve Fund, and invested at an unrestricted yield, under the Code.

Debt Service Reserve Fund Valuation Date shall mean December 15 and June 15 of each year commencing June 15, 2013.

Defaulted Interest shall mean interest on any Initial Bond that is due and payable but not paid on the date due.

Defeasance Obligations shall mean Government Obligations that are not subject to redemption prior to maturity.

Determination of Taxability shall mean:

(i) the adoption, promulgation or enactment of any federal statute or regulation, or any determination, decision, decree or ruling made by the Commissioner or any District Director of the Internal Revenue Service;

(ii) the issuance of a public or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Institution has participated or

has been given the opportunity to participate, and which ruling or memorandum the Institution, in its discretion, does not contest or from which no further right of judicial review or appeal exists;

(iii) a determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Institution has participated or has been a party, or has been given the opportunity to participate or be a party; or

(iv) the admission in writing by the Institution;

in any case, to the effect that the interest payable on the Bonds of a Holder or a former Holder thereof is includable in gross income for federal income tax purposes provided, however, that no such Determination of Taxability described in clauses (ii) or (iii) hereof shall be considered to exist unless (1) the Holder or former Holder of the Bond involved in such proceeding (A) gives the Institution and the Trustee prompt notice of the commencement thereof and (B) (if the Institution agrees to pay all expenses in connection therewith) offers the Institution the opportunity to control the defense thereof and (2) either (A) the Institution does not agree within thirty (30) days of receipt of such offer to pay such expenses and to control such defense or (B) the Institution shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Institution determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes.

Disability Aid shall mean those certain federal and State payments payable to the Institution attributable to students with disabilities.

DOL shall mean The New York State Department of Labor.

DTC shall mean The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors and assigns.

Due Date means the date on which Institute is to make a payment, filing or delivery pursuant to the Loan Agreement.

Earnings Fund shall mean the special trust fund so designated, established pursuant to the Indenture.

Education Aid shall mean, collectively, all State Education Operating Aid, Disability Aid and any Other Education Aid payable to the Institution pursuant to the New York State Education Law or federal law for the payment of operations of the Institution.

Employment Information shall mean information released or provided to Information Recipients by DOL, or by any other governmental entity, or by any private entity, or by the Institution, or any information previously released as provided by all or any of the foregoing parties.

Entity shall mean any of a corporation, general partnership, limited liability company, limited liability partnership, joint stock company, trust, estate, unincorporated organization, business association, tribe, firm, joint venture, governmental authority or governmental instrumentality, but shall not include an individual.

Estimated Project Cost shall mean \$18,050,000.

Event of Default shall have the meaning provided in the Indenture and the Loan Agreement, as applicable.

Event of Taxability shall mean the date specified in a Determination of Taxability as the date interest paid or payable on any Bond becomes includable for federal income tax purposes in the gross income of any Holder thereof as a consequence of any act, omission or event whatsoever, including any change of law, and regardless of whether the same was within or beyond the control of the Institution.

Existing Facility Property shall mean property constituting part of the Facility any fixture constituting part of the Facility Realty or any machinery, equipment or other item of personal property constituting part of the Facility Personalty.

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

Facility Personalty shall mean those items of machinery, equipment and other items of personalty the acquisition and/or the installation of which is to be financed in whole or in part with the proceeds of the Bonds for installation or use at the Facility Realty as part of the Project pursuant to the Loan Agreement and described in Exhibit B - "Description of the Facility Personalty", together with all repairs, replacements, improvements, substitutions and renewals thereof or therefor, and all parts, additions and accessories incorporated therein or affixed thereto. Facility Personalty shall, in accordance with the provisions of the Loan Agreement, include all property substituted for or replacing items of Facility Personalty and exclude all items of Facility Personalty so substituted for or replaced, and further exclude all items of Facility Personalty removed as provided in the Loan Agreement.

Facility Realty shall mean, collectively, the Land and the Improvements.

Final Project Cost Budget shall mean that certain budget of costs paid or incurred for the Project to be submitted by the Institution pursuant to the Loan Agreement upon completion of the Project.

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

Fitch shall mean Fitch, Inc., a Delaware corporation, 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, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, by notice to the other Notice Parties.

Fixed Date Deliverables shall mean any of the documents required of the Institution under Section 8.14 or Section 8.16 of the Loan Agreement by the date therein stated.

GAAP shall mean those generally accepted accounting principles and practices that are recognized as such by the American Institute of Certified Public Accountants or by the Financial Accounting Standards Board or through other appropriate boards or committees thereof, and that are consistently applied for all periods, after the Closing Date, so as to properly reflect the financial position of the Institution, except that any accounting principle or practice required to be changed by the Financial Accounting Standards Board (or other appropriate board or committee of the said Board) in order to continue as a generally accepted accounting principle or practice may be so changed.

Governing Body shall mean, when used with respect to any Entity, its board of directors, board of trustees or individual or group of individuals by, or under the authority of which, the powers of such Entity are exercised.

Government Obligations shall mean the following:

- (i) direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America;
- (ii) 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; or
- (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in clauses (i) or (ii) above.

Hazardous Materials shall include any petroleum, flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 5101, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), and in the regulations adopted and publications promulgated pursuant thereto, or any other federal, state or local environmental law, ordinance, rule, or regulation.

Impositions shall mean all taxes and assessments, general and specific, if any, levied and assessed upon or against the Trust Estate, the Facility Realty or any part thereof, or interest of the Institution in the Facility, or against any of the loan payments or other payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Institution in any Project Document, 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 Realty.

Improvements shall mean:

(i) all buildings, structures, foundations, related facilities, fixtures and other improvements existing on the Closing Date and erected or situated on the Land;

(ii) any other buildings, structures, foundations, related facilities, fixtures and other improvements constructed or erected on the Land (including any improvements or demolitions made as part of the Project Work pursuant to the Loan Agreement); and

(iii) all replacements, improvements, additions, extensions, substitutions, restorations and repairs to any of the foregoing.

Indemnification Commencement Date shall mean December 11, 2012, the date on which the Issuer first adopted a resolution with respect to the Project.

Indemnified Parties shall mean the Issuer, the Trustee, the Bond Registrar and the Paying Agents, and any director, member, officer, employee, servant, agent (excluding for this purpose the Institution, which is not obligated by the Loan Agreement to indemnify its own employees, Affiliates or affiliated individuals) thereof and persons under the Issuer's control or supervision.

Indenture shall mean the Indenture of Trust, dated as of March 1, 2013, between the Issuer and the Trustee, as from time to time amended or supplemented by Supplemental Indentures in accordance with the Indenture.

Independent Accountant shall mean an independent certified public accountant or firm of independent certified public accountants selected by the Institution and approved by the Issuer and the Trustee (such approvals not to be unreasonably withheld or delayed).

Independent Engineer shall mean a Person (not an employee of either the Issuer or the Institution or any Affiliate of either 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 Trustee (which approval shall not be unreasonably withheld).

Information Recipients shall mean the Issuer and/or NYCEDC, and/or to the successors and assigns of either.

Initial Annual Administrative Fee shall mean \$850.00.

Initial Bonds shall mean the Issuer's \$17,750,000 Revenue Bonds, Series 2013 (International Leadership Charter School Project) authorized, issued, executed, authenticated and delivered on the Closing Date under the Indenture.

Institution shall mean International Leadership Charter School, a not-for-profit education corporation organized and existing under the laws of the State of New York, and its successors and assigns; provided, however, that nothing contained in this definition shall be deemed to limit or modify the obligations of the Institution under the Loan Agreement.

Institution Documents shall mean the Bond Purchase Agreement, the Loan Agreement, the Mortgages, the Building Loan Agreement, the Custody Agreement, the Tax Regulatory Agreement and any other Bond Documents to which the Institution is a party, each as may be amended from time to time.

Institution's Property shall mean the machinery, equipment and other personal property installed or permitted to be installed at the Facility Realty, by the Institution and at the Institution's own cost and expense, in addition to the Facility Personalty.

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

Interest Payment Date shall mean, with respect to the Initial Bonds, January 1 and July 1 of each year, commencing July 1, 2013, and with respect to any Series of Additional Bonds, the dates set forth therein in the Supplemental Indenture pursuant to which such Series of Additional Bonds are issued.

IRS Determination Letter shall mean that certain ruling letter dated August 31, 2007, issued by the Internal Revenue Service to the Institution confirming that the Institution is a Tax-Exempt Organization.

Issuer shall mean Build NYC Resource Corporation, a local development corporation created pursuant to the Not-for-Profit Corporation Law of the State at the direction of the Mayor of the City, and its successors and assigns.

Issuer's Reserved Rights shall mean, collectively,

(i) the right of the Issuer 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 Issuer under the Loan Agreement;

(ii) the right of the Issuer to grant or withhold any consents or approvals required of the Issuer under the Loan Agreement;

(iii) the right of the Issuer to enforce in its own behalf the obligation of the Institution under the Loan Agreement to complete the Project;

(iv) the right of the Issuer to enforce or otherwise exercise in its own behalf all agreements of the Institution under the Loan Agreement with respect to ensuring that the Facility shall always constitute the Approved Facility;

(v) the right of the Issuer to amend with the Institution the provisions of Section 5.3 of the Loan Agreement without the consent of the Trustee or any Bondholder;

(vi) the right of the Issuer 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 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.4, 4.5, 4.6, 4.7, 4.8, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, 6.4, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10, 8.11, 8.12, 8.13, 8.14, 8.15, 8.16, 8.17, 8.18, 8.19, 8.20, 8.21, 8.22, 8.23, 8.24, 8.25, 8.26, 8.28, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8, 9.9, 10.1, 10.2, 10.3, 11.1, 11.3, 11.5, 12.1, 12.3, 12.4, 12.5, 12.6, 12.11, 12.13 and 12.14; the Loan Agreement; and

(vii) the right of the Issuer in its own behalf to declare a default with respect to any of the Issuer's Reserved Rights and exercise the remedies set forth in the Loan Agreement.

Land shall mean collectively, those certain lots, pieces or parcels of land in Block 5712 and Lot 130 (f/k/a 130 and 133), generally known by the street address of 322 West 231 Street, Bronx, New York, all as more particularly described in Exhibit A — “Description of the Land”, together with all easements, rights and interests now or hereafter appurtenant or beneficial thereto; but excluding, however, any real property or interest therein released pursuant to the Loan Agreement.

Land Square Footage shall mean approximately 15,245 square feet.

Legal Requirements shall mean the Constitutions of the United States and the State of New York and all laws, statutes, codes, acts, ordinances, resolutions, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, certificates of occupancy, directions and requirements (including 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, including those of the City, 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 Representation and Indemnity Agreement shall mean the Letter of Representation and Indemnity Agreement, dated the Closing Date, from the Institution to the Issuer, the Trustee and the Underwriter of the Initial Bonds.

Liability shall mean Claims of any kind for losses, damage, injury and liability

Liens shall mean any lien, encumbrance or charge filed or asserted (including any lien for the performance of any labor or services or the furnishing of materials), or any judgment, decree, order, levy or process of any court or governmental body entered, made or issued or any claim.

Loan shall mean the loan made by the Issuer to the Institution pursuant to the Loan Agreement as described therein.

Loan Agreement shall mean the Loan Agreement, dated as of March 1, 2013, between the Issuer and the Institution, and shall include any and all amendments thereof and supplements thereto made in conformity therewith and with the Indenture.

Loan Payment Date shall mean initially January 5, 2014 and bimonthly on the 5th of each January, March, May, July, September and November (or, if the fifth (5th) day shall not be a Business Day, the immediately preceding Business Day).

Long-Term Debt Service Coverage Ratio means for any Fiscal Year of the Institution, the ratio determined by dividing the Net Income Available for Debt Service by the debt service due and payable for such Fiscal Year.

Long-Term Indebtedness means all indebtedness having a maturity longer than one-year incurred or assumed by the Institution.

Loss Event shall mean an event whereby the whole or part of the Facility shall be damaged or destroyed, or taken or condemned by a competent authority for any public use or purpose, or by agreement to which the Institution and those authorized to exercise such right are parties, or the temporary use of the Facility shall be so taken by condemnation or agreement.

Majority Holders shall mean the Beneficial Owners of at least a majority in aggregate principal amount of the Bonds Outstanding, or, if the Bonds shall cease to be in book-entry form, the Holders of at least a majority in aggregate principal amount of the Bonds Outstanding.

Management Consultant means an independent consulting firm for the purpose of passing on questions relating to financial affairs, marketing, management or operations of the Institution, has a favorable reputation for skill and experience in performing similar services in respect of Entities of a comparable size and nature and is not unsatisfactory to the Trustee or the Issuer.

Maturity Date shall mean July 1, 2043.

Merge shall mean the process whereby the Institution consolidates with or merges into another Entity or permits one or more Entities to consolidate with or merge into it.

Moody's shall mean Moody's Investors Service Inc., a Delaware corporation, 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, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, by notice to the other Notice Parties.

Mortgage shall mean collectively, those certain Mortgage and Security Agreements granted by the Institution to the Issuer and the Trustee contemporaneously with the Indenture encumbering the Facility and certain other property recited therein to secure the

Institution's payment and performance of its obligations under the Indenture, the Issuer's interest in which is being assigned to the Trustee contemporaneously with the Indenture.

Nationally Recognized Bond Counsel shall mean counsel acceptable to the Issuer and the Trustee and experienced in matters relating to tax exemption of interest on bonds issued by states and their political subdivisions.

Net Income Available for Debt Service means for any period of determination, State Education Operating Aid, Disability Aid and unrestricted cash of the Institution, for such period, minus the Institution's total operating expenses for such period but excluding from unrestricted cash (i) any profits which would be regarded as extraordinary items under generally accepted accounting principles, (ii) proceeds of insurance policies not used to redeem the Initial Bonds, (iii) the proceeds of any sale, transfer, or other disposition of the Project and any condemnation award not used to redeem the Initial Bonds, (iv) moneys in the Repair and Replacement Fund, and (v) amounts derived from any lines of credit or similar facilities for borrowed monies.

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

Notice Parties shall mean the Issuer, the Institution, the Custodian, the Bond Registrar, the Paying Agents and the Trustee.

Notification of Failure to Deliver shall mean a written notice from the Issuer to the Institution of failure to deliver on the Due Date the Annual Administrative Fee, a Fixed Date Deliverable and/or a Requested Document Deliverable.

NYCDOF shall mean the New York City Department of Finance.

NYCEDC shall mean New York City Economic Development Corporation, a local development corporation created pursuant to the Not-for-Profit Corporation Law of the State, and any successor thereof.

NYCIDA 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.

Operations Commencement Date shall mean the date on which the Project Work shall have been substantially completed (which shall be the earlier of (y) the Completion Date, and (z) the date stated in the certificate of an Authorized Representative of the Institution delivered to the Issuer pursuant to the Loan Agreement).

Opinion of Counsel shall mean a written opinion of counsel for the Institution or any other Person (which counsel shall be reasonably acceptable to the Issuer and the Trustee)

with respect to such matters as required under any Project Document or as the Issuer or the Trustee may otherwise reasonably require, and which shall be in form and substance reasonably acceptable to the Issuer and the Trustee.

Organizational Documents shall mean, (i) in the case of an Entity constituting a limited liability company, the articles of organization or certificate of formation, and the operating agreement of such Entity, (ii) in the case of an Entity constituting a corporation, the charter, articles of incorporation or certificate of incorporation, and the bylaws of such Entity, and (iii) in the case of an Entity constituting a general or limited partnership, the partnership agreement of such Entity.

Other Education Aid shall mean any federal or State payments, other than State Education Operating Aid or Disability Aid, payable to the Institution for the purpose of funding operations of the Institution.

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 cancelled 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 the Indenture, there has been separately set aside and held in the Redemption Account of the Bond Fund either:

(A) moneys, and/or

(B) Defeasance 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 Defeasance 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; and

(iii) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under 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 or under any other Security Document, 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 knows to be so owned shall be so disregarded. Bonds which have been pledged in good faith 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 of the Institution.

Participants shall mean those financial institutions for whom the Securities Depository effects book entry transfers and pledges of securities deposited with the Securities Depository, as such listing of Participants exists at the time of such reference.

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.

Per Diem Fees shall mean, collectively, the Per Diem Late Fee and the Per Diem Supplemental Late Fee.

Per Diem Late Fee shall mean that per diem late fee established from time to time by the Issuer's Board of Directors generally imposed upon Entities receiving or that have received financial assistance from the Issuer (subject to such exceptions from such general applicability as may be established by the Issuer's Board of Directors) and that have not (x) paid to the Issuer the Annual Administrative Fee on the date required under the Loan Agreement, (y) delivered to the Issuer all or any of the Fixed Date Deliverables on the respective dates required under the Loan Agreement, and/or (z) delivered to the Issuer all or any of the Requested Document Deliverables under the Loan Agreement within five (5) Business Days of the Issuer having made the request therefor.

Per Diem Supplemental Late Fee shall mean that supplemental per diem late fee established from time to time by the Issuer's Board of Directors generally imposed upon Entities receiving or that have received financial assistance from the Issuer (subject to such exceptions from general applicability as may be established by the Issuer's Board of Directors).

Permitted Encumbrances shall mean:

(i) the Mortgage, the Assignment of Mortgage, the Building Loan Agreement and any other Project Document;

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

(iii) any mechanic's, workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien, security interest, encumbrance or charge or right in respect thereof, placed on or with respect to the Facility or any part thereof, if payment is not yet due and payable, or if such payment is being disputed pursuant to the Loan Agreement;

(iv) utility, access and other easements and rights of way, restrictions and exceptions that an Authorized Representative of the Institution certifies to the Issuer and the Trustee will not materially interfere with or impair the Institution's use and enjoyment of the Facility as provided in the Loan Agreement;

(v) such minor defects, irregularities, encumbrances, easements, rights of way and clouds on title as normally exist with respect to property similar in character to the Facility as do not, as set forth in a certificate of an Authorized Representative of the Institution delivered to the Issuer and the Trustee, either singly or in the aggregate, render title to the Facility unmarketable or materially impair the property affected thereby for the purpose for which it was acquired or purport to impose liabilities or obligations on the Issuer;

(vi) those exceptions to title to the Facility Realty enumerated in the title insurance policy delivered pursuant to the Loan Agreement insuring the Trustee's mortgagee interest in the Facility Realty, a copy of which is on file at the offices of the Issuer and at the designated corporate trust office of the Trustee;

(vii) liens arising by reason of good faith deposits with the Institution in connection with the tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Institution to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(viii) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Institution to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(ix) any judgment lien against the Institution, so long as the finality of such judgment is being contested in good faith and execution thereon is stayed;

(x) any purchase money security interest in movable personal property, including equipment leases and financing;

(xi) liens on property due to rights of governmental entities or third party payors for recoupment of excess reimbursement paid;

(xii) a lien, restrictive declaration or performance mortgage with respect to the operation of the Facility arising by reason of a grant or other funding received by the Institution from the City, the State or any governmental agency or instrumentality;

(xiii) any lien, security interest, encumbrances or charge which exists in favor of the Trustee or to which the Trustee shall consent in writing.

Person shall mean an individual or any Entity.

Plans and Specifications shall mean the plans and specifications prepared for 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 Loan Agreement, said plans and specifications being duly certified by an Authorized Representative of the Institution and filed in the designated corporate trust office of the Trustee and available to the Issuer.

Policy(ies) collectively or individually, the policies required to be obtained and maintained pursuant to Section 8.1(b) and (c) of the Loan Agreement.

Predecessor Institution shall have the meaning specified in Section 8.20(b)(ii) of the Loan Agreement.

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

Principals shall mean, with respect to any Entity, the most senior three officers of such Entity, any Person with a ten percent (10%) or greater ownership interest in such Entity and any Person as shall have the power to Control such Entity, and "principal" shall mean any of such Persons.

Project shall mean shall mean the (i) acquisition of an approximately 15,245 square foot parcel of land located at 322 West 231 Street, Bronx, New York, (ii) renovation, construction, equipping and/or furnishing to the approximately 30,000 square foot building located thereon; and (iii) miscellaneous capital improvements or equipment, and (iv) to establish a debt service reserve fund, if any, for the Bonds and pay certain costs related to the issuance of the Bonds.

Project Application Information shall mean the eligibility application and questionnaire submitted to the Issuer by or on behalf of the Institution, for approval by the Issuer of the Project and the providing of financial assistance by the Issuer therefor, together with all other letters, documentation, reports and financial information submitted in connection therewith.

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, permits, plans and specifications and for supervising demolition, construction and renovation, 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;
- (iii) the interest on the Bonds during the construction and renovation of the Project;
- (iv) all costs of contract bonds and of insurance that may be required or necessary during the period of Project construction and renovation;
- (v) the cost of acquisition of the Facility Realty;
- (vi) all costs of title insurance as provided in the Loan Agreement;
- (vii) the payment of the Costs of Issuance with respect to the Initial Bonds;
- (viii) the payment of the fees and expenses of the Trustee during the period of construction and renovation of the Project;
- (ix) 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; and
- (x) all other costs and expenses relating to the completion of the Project or the issuance of a Series of Additional Bonds.

“Project Costs” shall not include (i) fees or commissions of real estate brokers, (ii) moving expenses, or (iii) operational costs.

Project Cost Budget shall mean that certain budget for costs of the Project Work as set forth by the Institution in Exhibit E — “Project Cost Budget” of the Loan Agreement.

Project Documents shall mean, collectively, the Institution Documents and the Security Documents.

Project Fee shall mean \$108,750, representing the \$113,750 Issuer’s financing fee, less the application fee of \$5,000.

Project Fund shall mean the special trust fund so designated, established pursuant to the Indenture.

Project Work shall mean (i) the design, construction and/or renovation of the Improvements, including the acquisition of building materials and fixtures, and (ii) the acquisition, whether by title or lease, of the Facility Personalty and any work required to install same.

Promissory Note shall mean, with respect to the Initial Bonds, that certain Promissory Note in substantially the form of Exhibit H to the Loan Agreement, and, with respect to any Series of Additional Bonds, that certain Promissory Note in substantially the form of any related Exhibit to an amendment to the Loan Agreement, and shall include in each case any and all amendments thereof and supplements thereto made in conformity with the Loan Agreement and the Indenture.

Purchase Price shall mean an amount equal to the Redemption Price that would be applicable to the Initial Bonds being purchased pursuant to the Indenture if such Initial Bonds were being optionally redeemed pursuant to the Indenture on the date such Initial Bonds are being so purchased, plus accrued interest thereon to the date of purchase.

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

(i) Direct obligations of, and obligations fully and unconditionally guaranteed as to timely payment by, the United States government and any agency, instrumentality, or establishment of the United States government (“Government Securities”);

(ii) Commercial paper having, at the time of investment or contractual commitment to invest therein, a rating from S&P and Moody's, of A1 and P1, respectively.

(iii) Repurchase and reverse repurchase agreements collateralized with Government Securities, including those of the Trustee or any of its affiliates.

(iv) Investment in money market mutual funds having a rating at time of investment in the highest investment category granted thereby from S&P or Moody's, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(v) Demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, and certificates of deposit or bankers acceptances of depository institutions, including the Trustee or any of its affiliates, rated in the AA long-term ratings category or higher by S&P or Moody's or which are fully FDIC-insured.

Rating Agency shall mean any of S&P, Moody's or Fitch and such other nationally recognized securities rating agency as shall have awarded a rating to the Initial Bonds.

Rebate Amount shall have the meaning assigned to that term in the Tax Regulatory Agreement.

Rebate Fund shall mean the special trust fund so designated, established pursuant to the Indenture.

Recapture Event shall mean any one of the following events:

(i) The Institution shall have failed to complete, or caused to be completed, the Project by the Completion Date.

(ii) Except as permitted by written consent of the Issuer pursuant to and in accordance with the Loan Agreement, the Institution shall have liquidated all or substantially all of its operating assets or shall have ceased all or substantially all of its operations.

(iii) The Institution shall have transferred all or substantially all of its employees to a location outside of the City.

(iv) The Facility has ceased to be the Approved Facility and/or the Institution shall have substantially changed the scope and nature of its operations at the Facility Realty.

(v) Except as permitted by written consent of the Issuer pursuant to and in accordance with the Loan Agreement, the Institution shall have sold, leased or otherwise disposed of all or substantially all of the Facility Realty.

(vi) The Institution shall have subleased all or part of the Facility Realty in violation of the Loan Agreement.

(vii) The Institution shall have relocated all or substantially all of its operations at the Facility Realty to another site; provided, however, and notwithstanding the foregoing, such relocation shall not be a Recapture Event if (A) the Institution has relocated its operations at the Facility Realty and at least 90% of its employees employed at the Facility Realty prior to the relocation, to another site within the City, (B) the Institution maintains, for the remaining balance of the Recapture Period, an employment level equal to at least 90% of the number of employees employed by the Institution at the Facility Realty prior to relocation, and (C) the Institution shall satisfy such other additional conditions as the Issuer may from time to time impose provided such additional conditions are reasonable and uniformly imposed, at the time, to other similar transactions under similar circumstances. There shall arise another Recapture Event upon the failure of the Institution to satisfy continuously the foregoing requirements for the remaining balance of the Recapture Period. Upon the occurrence of such subsequent Recapture Event, the Issuer shall have the right to demand payment of all amounts due under Section 5.3(b) or (c), and the calculation of interest pursuant to Section 5.3(c)(iii) shall assume that the subsequent Recapture Event replaces the original Recapture Event for purposes of that computation. The determination of the pre-relocation, 90%-

employment level shall be done in a manner, and in respect of a date or period of time, that the Issuer deems appropriate in its sole discretion.

Notwithstanding the foregoing, a Recapture Event shall not be deemed to have occurred if the Recapture Event:

(1) shall have arisen as a direct, immediate result of (x) force majeure as defined in the Loan Agreement, (y) a taking or condemnation by governmental authority of all or substantially all of the Facility Realty, or (z) the inability at law of the Institution to rebuild, repair, restore or replace the Facility Realty after the occurrence of a Loss Event to substantially its condition prior to such Loss Event, which inability shall have arisen in good faith through no fault on the part of the Institution or any Affiliate, or

(2) is deemed, in the sole discretion of the Issuer, to be (x) as necessitated by law, (y) minor in nature, or (z) a cause of undue hardship to the Institution were the Issuer to recapture any Benefits.

Recapture Period shall mean the period of time commencing on the Closing Date, and expiring on the date which is the tenth anniversary of the Operations Commencement Date.

Record Date shall mean, with respect to any Interest Payment Date for the Initial Bonds, the close of business on the fifteenth (15th) day of the month next preceding such Interest Payment Date, or, if such day is not a Business Day, the next preceding Business Day.

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

Redemption Date shall mean the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms 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.

Refunding Bonds shall mean one or more Series of Additional Bonds which may be authenticated and made available for pick-up upon original issuance to refund all Outstanding Bonds or any Series of Outstanding Bonds or any part of one or more Series of Outstanding Bonds.

Reimbursement Resolution shall mean the resolution adopted by the Issuer on December 11, 2012 with respect to the Project and the debt financing thereof.

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

Renewal Fund shall mean the special trust fund so designated, established pursuant to the Indenture.

Repair and Replacement Fund shall mean an account with a financial institution into which the Institution shall make deposits from time to time in accordance with the Loan Agreement.

Representations Letter shall mean the Blanket Issuer Letter of Representations from the Issuer to DTC with respect to the Initial Bonds.

Requested Document Deliverables shall mean any of the documents as shall have been requested by the Issuer of the Institution under Section 8.15 of the Loan Agreement.

Required Disclosure Statement shall mean that certain Required Disclosure Statement in the form of Exhibit F — “Form of Required Disclosure Statement” of the Loan Agreement.

Responsible Officer shall mean, with respect to the Trustee, any officer within the corporate trust office of the Trustee, including any vice-president, any assistant vice-president, any secretary, any assistant secretary, the treasurer, any assistant treasurer or other officer of the corporate trust office of the Trustee customarily performing functions similar to those performed by any of the above designated officers, who has direct responsibility for the administration of the trust granted in the Indenture, and shall also mean, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer’s knowledge of and familiarity with the particular subject.

S&P shall mean Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, by notice to the other Notice Parties.

Sales Taxes shall mean City and State sales and/or compensating use taxes imposed pursuant to Sections 1105, 1107, 1109 and 1110 of the New York State Tax Law, as each of the same may be amended from time to time (including any successor provisions to such statutory sections).

Securities Act shall mean the Securities Act of 1933, as amended, together with any rules and regulations promulgated thereunder.

Securities Depository shall mean any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record ownership of book-entry interests in the Bonds, and to effect transfers of book-entry interests in the Bonds in book-entry form, and includes and means initially DTC.

Security Documents shall mean, collectively, the Loan Agreement, the Promissory Note, the Custody Agreement, the Indenture, the Tax Regulatory Agreement, the Building Loan Agreement, the Mortgages and the Assignments of Mortgages.

Securities Exchange Act shall mean the Securities Exchange Act of 1934, as amended, together with any rules and regulations promulgated thereunder.

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

Short-Term Indebtedness means all indebtedness of the Institution maturing or payable at the option of the obligee not more than 365 days after it is incurred excluding the current portion of any Long-Term Indebtedness.

Sinking Fund Installment shall mean an amount so designated and which is established for mandatory redemption on a date certain of the Bonds of any Series of Bonds pursuant to the Indenture. The portion of any such Sinking Fund Installment of a Series of Bonds remaining after the deduction of any amounts credited pursuant to the Indenture toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments of such Series of Bonds due on a future date.

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

Special Record Date shall have the meaning specified in Section 2.02(f) of the Indenture.

State shall mean the State of New York.

State Education Operating Aid shall mean all New York State Education Department operating aid payments appropriated for the purpose of funding operating expenses of the School on a per-pupil basis.

State Education Operating Aid Payment Dates means each July 1, September 1, November 1, January 1, March 1, and May 1, or such other dates as may in the future be established as the payment dates for Education Aid.

Successor Institution shall mean the surviving, resulting or transferee Entity subsequent to a Merge that is not the Institution.

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

Tax-Exempt Organization shall mean an Entity 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 501(a) of Code, or corresponding provisions of Federal income tax laws from time to time in effect.

Tax Regulatory Agreement shall mean the Tax Regulatory Agreement, dated the Closing Date, from the Issuer and the Institution to the Trustee, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Termination Date shall mean such date on which the Loan Agreement may terminate pursuant to the Loan Agreement.

Transfer shall mean the process whereby the Institution liquidates, winds up or dissolves or otherwise disposes of all or substantially all of its property, business or assets.

Trustee shall mean U.S. Bank National Association, New York, New York in its capacity as trustee under the Indenture, and its successors in such capacity and their assigns hereafter appointed in the manner provided in the Indenture.

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

Underwriter shall mean TD Securities (USA) LLC, as the underwriter of the Initial Bonds.

Yield shall have the meaning assigned to such term in the Tax Regulatory Agreement.

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APPENDIX E

**SUMMARY OF CERTAIN PROVISIONS
OF THE LOAN AGREEMENT**

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APPENDIX E- SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete and reference is made to the Loan Agreement for the detailed provisions thereof. This summary is qualified in its entirety by such reference. Headings are not part of the Loan Agreement and are included for ease of reference only.

Loan of Proceeds.

The Issuer agrees, upon the terms and conditions contained in the Loan Agreement and the Indenture, to make the Loan and lend to the Institution an amount equal to the principal amount of the Initial Bonds. The Loan shall be made by depositing on the Closing Date the proceeds from the sale of the Initial Bonds into the Project Fund in accordance with the Indenture. Such proceeds shall be disbursed to or on behalf of the Institution as provided in the Indenture. *(Section 4.1)*

Promissory Note.

The Institution's obligation to repay the Loan shall be evidenced by the Loan Agreement and the Promissory Note. On the Closing Date, the Institution shall execute and deliver the Promissory Note payable to the Issuer. *(Section 4.2)*

Loan Payments; Pledge of the Loan Agreement and of the Promissory Note.

The Institution covenants to pay the Promissory Note and repay the Loan made pursuant to the Loan Agreement by making loan payments which the Issuer agrees shall be paid in immediately available funds by the Institution directly to the Trustee on each Loan Payment Date (except as provided in the Loan Agreement which shall be paid on the respective due dates thereof) for deposit in the Bond Fund (except to the extent that amounts are on deposit in the Bond Fund and available therefor) in an amount equal to the sum of:

(i) with respect to interest due and payable on the Initial Bonds, an amount equal to quotient obtained by dividing the amount of interest on the Initial Bonds Outstanding payable on the first Interest Payment Date (after taking into account any amount on deposit in the Interest Account of the Bond Fund, and as shall be available to pay interest on the Initial Bonds on such next succeeding Interest Payment Date) by the number of Loan Payment Dates between the Closing Date and the first Interest Payment Date, and thereafter in an amount equal to one-third (1/3) of the amount of interest which will become due and payable on the Initial Bonds on the next succeeding Interest Payment Date (after taking into account any amounts on deposit in the Interest Account of the Bond Fund, and as shall be available to pay interest on the Initial Bonds on such next succeeding Interest Payment Date), provided that in any event the aggregate amount so paid with respect to interest on the Initial Bonds on or before the Loan Payment Date immediately preceding an Interest Payment Date shall be an amount sufficient to pay the interest next becoming due on the Initial Bonds on such immediately succeeding Interest Payment Date;

(ii) with respect to principal due on the Initial Bonds (other than such principal amount as shall become due as a mandatory Sinking Fund Installment payment), commencing on that Loan Payment Date as shall precede the first principal payment date by more than twelve (12) but less than thirteen (13) months, an amount equal to one-sixth (1/6) of the amount of the principal of the Bonds Outstanding becoming due (other than by reason of mandatory Sinking Fund Installments) within the next succeeding thirteen (13) month period (or,

if the first principal payment date following the Closing Date shall be on a date sooner than thirteen (13) calendar months following the Closing Date, then, with respect to such first principal amount, an amount equal to the quotient obtained by dividing such principal amount by the number of Loan Payment Dates between the Closing Date and such first principal payment date), and thereafter for each principal payment date commencing on that Loan Payment Date as shall precede such principal payment date by more than twelve (12) but less than thirteen (13) months, an amount equal to one-sixth (1/6) of the amount of the principal of the Bonds Outstanding becoming due (other than by reason of mandatory Sinking Fund Installments) within such next succeeding thirteen (13) month period, provided that in any event the aggregate amount so paid with respect to principal on the Initial Bonds on or before the Loan Payment Date immediately preceding a principal payment date of the Initial Bonds shall be an amount sufficient to pay the principal of the Initial Bonds Outstanding becoming due on such next succeeding principal payment date of the Initial Bonds; provided, however, that in the event of the acceleration of the principal of the Initial Bonds, a loan payment in the amount of the principal amount of the Initial Bonds Outstanding (together with all interest accrued thereon to the date of payment), shall be due and payable on such date of acceleration;

(iii) with respect to Sinking Fund Installment payments due on the Initial Bonds, commencing on that Loan Payment Date as shall precede the first Sinking Fund Installment payment date by more than twelve (12) but less than thirteen (13) months, an amount equal to one-sixth (1/6) of the amount of the Sinking Fund Installment on the Initial Bonds first becoming due within the next succeeding thirteen (13) month period (or, if the first Sinking Fund Installment payment date following the Closing Date shall be on a date sooner than thirteen (13) calendar months following the Closing Date, then, with respect to such first Sinking Fund Installment, an amount equal to the quotient obtained by dividing such Sinking Fund Installment by the number of Loan Payment Dates between the Closing Date and such first Sinking Fund Installment payment date), and thereafter for each Sinking Fund Installment payment date commencing on that Loan Payment Date as shall precede such Sinking Fund Installment payment date by more than twelve (12) but less than thirteen (13) months, an amount equal to one-sixth (1/6) of the amount of the Sinking Fund Installment of the Initial Bonds Outstanding becoming due within such next succeeding thirteen (13) month period, provided that in any event the aggregate amount so paid with respect to Sinking Fund Installments on the Initial Bonds on or before the Loan Payment Date immediately preceding a Sinking Fund Installment payment date of the Initial Bonds shall be an amount sufficient to pay the Sinking Fund Installment of the Initial Bonds Outstanding becoming due on such next succeeding Sinking Fund Installment payment date;

(iv) on each redemption date, with respect to the Redemption Price (other than by Sinking Fund Installments) due and payable on the Initial Bonds, whether as an optional or mandatory redemption, an amount equal to the Redemption Price together with accrued interest on the Initial Bonds being redeemed on such redemption date; and

(v) with respect to interest due and payable on the Initial Bonds, the Institution shall further pay such additional amounts as set forth in the Indenture in the event of an Event of Default under the Indenture;

(vi) upon receipt by the Institution of notice from the Trustee pursuant to the Indenture that the amount on deposit in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Fund Requirement, the Institution shall pay to the Trustee for deposit in the Debt Service Reserve Fund on the first day of each of the next six (6) succeeding Loan Payment Dates immediately following the receipt by the Institution of notice of such deficiency, or over such

longer time period as shall be consented to in writing by the Majority Holders, an amount equal to one-sixth (1/6th) of such deficiency in the Debt Service Reserve Fund.

In the event the Institution should fail to make or cause to be made any of the payments required under the foregoing provisions, 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 has the option to make advance loan payments for deposit in the Bond Fund to effect the retirement, defeasance or redemption of the Bonds in whole or in part, all in accordance with the terms of the Indenture; provided, however, that no partial redemption of the Bonds may be effected through advance loan payments under the Loan Agreement if there shall exist and be continuing an Event of Default. The Institution shall exercise its option to make such advance loan payments by delivering a written notice of an Authorized Representative of the Institution to the Trustee in accordance with the Indenture, with a copy to the Issuer, setting forth (i) the amount of the advance loan payment, (ii) the principal amount of Bonds Outstanding requested to be redeemed with such advance loan payment (which principal amount shall be in such minimum amount or integral Authorized Denomination as shall be permitted in the Indenture), and (iii) the date on which such principal amount of Bonds are to be redeemed (which date shall be not earlier than forty-five (45) days after the date of such notice). In the event the Institution shall exercise its option to make advance loan payments to effect the redemption in whole of the Bonds, and such redemption is expressly permitted under the Indenture as a result of the damage, destruction or condemnation of the Facility, or changes in law, or executive or judicial action, the Institution shall further deliver to the Issuer 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. Such advance loan payment shall be paid to the Trustee in legal tender, for deposit in the Redemption Account of the Bond Fund on or before the redemption date and shall be an amount which, when added to the amounts on deposit in 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 Issuer, the Trustee, the Bond Registrar 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 Issuer, the Trustee, the Bond Registrar and the Paying Agent all fees and expenses owed such party or any other party entitled thereto under the Loan Agreement or the Indenture together with (i) all other amounts due and payable under the Loan Agreement and the other Security Documents, and (ii) any amounts required to be rebated to the Federal government pursuant to the Indenture or the Tax Regulatory Agreement.

At its option, to be exercised on or before the forty-fifth (45th) day next preceding the date any Bonds of a Series are to be redeemed from mandatory Sinking Fund Installments, the Institution may deliver to the Trustee Bonds of such Series which are subject to mandatory Sinking Fund Installment redemption in an aggregate principal amount not in excess of the principal amount of Bonds of such Series to be so redeemed on such date. Each such Bond so delivered shall be credited by the Trustee at one hundred percent (100%) of the principal amount thereof against the obligation of the Issuer on such Sinking Fund Installment payment date and any excess over such Sinking Fund Installment shall be credited on future Sinking Fund Installments in direct chronological order, and the principal amount of Bonds to be redeemed by operation of the mandatory Sinking Fund Installments shall be accordingly reduced.

In the event Defaulted Interest (as defined in the Indenture) shall become due on any Initial Bond, the Institution shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on such Initial Bond and the date of the proposed payment (which date shall be such as will enable the

Trustee to comply with the Indenture), and shall deposit with the Trustee at the time of such notice an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment.

No further loan payments need be made to the Issuer on account of the Bonds when and so long as the amount of cash and/or Defeasance Obligations on deposit in the Bond Fund is sufficient to satisfy and discharge the obligations of the Issuer under the Indenture and pay the Bonds as provided in the Indenture.

Any amounts remaining in the Earnings Fund, the Rebate Fund, the Bond Fund, the Debt Service Reserve Fund, the Project Fund or the Renewal Fund after payment in full of (i) the Bonds (in accordance with the Indenture), (ii) the fees, charges and expenses of the Issuer, the Trustee, the Bond Registrar and the Paying Agents in accordance with the Indenture, (iii) all loan payments and all other amounts payable under the Loan Agreement and under the Promissory Note, and all amounts required to be rebated to the Federal government pursuant to the Tax Regulatory Agreement or the Indenture, and (iv) all amounts required to be paid under any Project Document, shall have been so paid, shall belong to and be paid to the Institution by the Trustee as overpayment of the loan payments.

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

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, Sinking Fund Installments for, 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. *(Section 4.3)*

Nature of Institution's Obligation Unconditional.

The Institution's obligation under the Loan Agreement and under the Promissory Note to pay the loan payments and all other payments provided for in the Loan Agreement and in the Promissory Note shall be absolute, unconditional and a general obligation of the Institution, irrespective of any defense or any rights of set-off, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Issuer, 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 Loan Agreement and whether or not any provider of a credit facility or liquidity facility with respect to the Bonds shall be honoring its obligations thereunder. The Institution will not suspend or discontinue any such payment or terminate the Loan Agreement (other than such termination as is provided for under the Loan Agreement), or suspend the performance or observance of any covenant or agreement required on the part of the Institution under the Loan 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 Loan Agreement or any obligation of the Institution under the Loan Agreement except as provided in the Loan Agreement or to any abatement, suspension, deferment, diminution or reduction in the loan payments or other payments under the Loan Agreement or under the Promissory Note. *(Section 4.5)*

Advances by the Issuer or the Trustee.

In the event the Institution fails to make any payment or to perform or to observe any obligation required of it under the Loan Agreement, under the Promissory Note or under any other Security Document, the Issuer or the Trustee, after first notifying the Institution in writing of any such failure on its part (except that no prior notification of the Institution shall be required in the event of an emergency condition that, in the reasonable judgment of the Issuer or the Trustee, necessitates immediate action), may (but shall not be obligated to), and without waiver of any of the rights of the Issuer or the Trustee under the Loan Agreement or any other Security Document to which the Issuer or the Trustee is a party, make such payment or otherwise cure any failure by the Institution to perform and to observe its other obligations under the Loan Agreement or any other Security Document. All amounts so advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Institution to the Issuer or the Trustee, as the case may be, which amounts, together with interest thereon at the rate of twelve percent (12%) per annum, compounded daily, from the date advanced, the Institution will pay upon demand therefor by the Issuer or the Trustee, as applicable. Any remedy vested in the Issuer or the Trustee in the Loan Agreement or in any other Security Document for the collection of the loan payments or other payments or other amounts due under the Loan Agreement, under the Promissory Note or under any other Security Document shall also be available to the Issuer or the Trustee for the collection of all such amounts so advanced. No advance shall be made by the Trustee except upon the written direction of the Majority Holders. *(Section 4.6)*

Damage, Destruction and Condemnation.

In the event that the whole or part of the Facility shall be damaged or destroyed, or taken or condemned by a competent authority for any public use or purpose, or by agreement to which the Institution and those authorized to exercise such right are parties, or if the temporary use of the Facility shall be so taken by condemnation or agreement (a "Loss Event"):

(i) the Issuer shall have no obligation to rebuild, replace, repair or restore the Facility or to advance funds therefor,

(ii) there shall be no abatement, postponement or reduction in the loan payments or other amounts payable by the Institution under the Loan Agreement or the Promissory Note or any other Security Document to which it is a party, and the Institution hereby waives, to the extent permitted by law, any provisions of law which would permit the Institution to terminate the Loan Agreement, the Promissory Note or any other Security Document, or eliminate or reduce its payments under the Loan Agreement, under the Promissory Note or under any other Security Document, and

(iii) the Institution will promptly give written notice of such Loss Event to the Issuer and the Trustee, generally describing the nature and extent thereof. *(Section 6.1)*

Loss Proceeds.

The Issuer, the Trustee and the Institution shall cooperate and consult with each other in all matters pertaining to the settlement, compromise, arbitration or adjustment of any claim or demand on account of any Loss Event, and the settlement, compromise, arbitration or adjustment of any such claim or demand shall, as between the Issuer and the Institution, be subject to the written approval of the Institution and the Trustee (such approvals not to be unreasonably withheld).

The Net Proceeds with respect to the Facility shall be paid to the Trustee and deposited in the Renewal Fund (except as provided in the Mortgage). 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 Institution shall be entitled to the Net Proceeds of any insurance proceeds or condemnation award, compensation or damages attributable to the Institution's Property. *(Section 6.2)*

Pledge and Assignment to Trustee.

As security for the payment of the Bonds and the obligations of the Institution under the Security Documents, (i) the Institution shall, pursuant to the Mortgage, grant to the Issuer and the Trustee a mortgage lien on and security interest in its fee interest in the Facility, (ii) the Issuer shall assign its right, title and interest in the Mortgage to the Trustee pursuant to the Assignment of Mortgage, (iii) the Issuer shall pledge and assign to the Trustee pursuant to the Indenture all of the Issuer's right, title and interest in the Promissory Note and all of the Issuer's right, title and interest (except for the Issuer's Reserved Rights) in the Loan Agreement, including all loan payments thereunder and under the Loan Agreement, and (iv) in furtherance of said pledge, the Issuer will unconditionally assign such loan payments to the Trustee for deposit in the Bond Fund in accordance with the Indenture. The Institution consents to the pledge and assignment of the Mortgage, the Loan Agreement and the Promissory Note described in the Loan Agreement. *(Section 7.4)*

Insurance.

Except during periods of Construction, the Institution shall obtain and maintain for itself as a primary insured the insurance required by the Loan Agreement. *(Section 8.1)*

Indemnity.

The Institution shall at all times indemnify, defend, protect and hold the Issuer, the Trustee, the Bond Registrar and the Paying Agents, and any director, member, officer, employee, servant, agent (excluding for this purpose the Institution, which is not obligated hereby to indemnify its own employees, Affiliates or affiliated individuals) thereof and persons under the Issuer's control or supervision (collectively, the "**Indemnified Parties**" and each an "**Indemnified Party**") harmless of, from and against any and all claims (whether in tort, contract or otherwise), taxes (of any kind and by whomsoever imposed), demands, penalties, fines, liabilities, lawsuits, actions, proceedings, settlements, costs and expenses, including attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses (collectively, "**Claims**") of any kind for losses, damage, injury and liability (collectively, "**Liability**") of every kind and nature and however caused (except, with respect to any Indemnified Party, Liability arising from the gross negligence or willful misconduct of such Indemnified Party), arising during the period commencing on the Indemnification Commencement Date, and continuing until the termination of the Loan Agreement, arising upon, about, or in any way connected with the Facility, the Project, or any of the transactions with respect thereto, including:

- (i) the financing of the costs of the Facility or the Project and the marketing, offering, issuance, sale and remarketing of the Bonds for such purpose,
- (ii) the planning, design, acquisition, site preparation, Project Work, construction, renovation, equipping, installation or completion of the Project or any part thereof or the effecting of any work done in or about the Facility, or any defects (whether latent or patent) in the Facility,

(iii) the maintenance, repair, replacement, restoration, rebuilding, construction, renovation, upkeep, use, occupancy, ownership, leasing, subletting or operation of the Facility or any portion thereof,

(iv) the execution and delivery by an Indemnified Party, the Institution or any other Person of, or performance by an Indemnified Party, the Institution or any other Person, as the case may be, of, any of their respective obligations under, the Loan Agreement or any other Project Document, or other document or instrument delivered in connection with the Loan Agreement or therewith or the enforcement of any of the terms or provisions of the Loan Agreement or thereof or the transactions contemplated by the Loan Agreement or thereby,

(v) any damage or injury to the person or property of any Person in or on the premises of the Facility,

(vi) any imposition arising from, burden imposed by, violation of, or failure to comply with any Legal Requirement, including failure to comply with the requirements of the City's zoning resolution and related regulations, or

(vii) the presence, disposal, release, or threatened release of any Hazardous Materials that are on, from, or affecting the Facility; any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials; any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Materials, and/or any violation of Legal Requirements, including demands of government authorities, or any policies or requirements of the Issuer, which are based upon or in any way related to such Hazardous Materials.

The Institution releases each Indemnified Party from, and agrees that no Indemnified Party shall be liable to the Institution or its Affiliates for, any Claim or Liability arising from or incurred as a result of action taken or not taken by such Indemnified Party with respect to any of the matters set forth in the Loan Agreement including any Claim or Liability arising from or incurred as a result of the gross negligence or willful misconduct of such Indemnified Party, or at the direction of the Institution with respect to any of such matters above referred to.

An Indemnified Party shall promptly notify the Institution in writing of any claim or action brought against such Indemnified Party in which indemnity may be sought against the Institution pursuant to the Loan Agreement; such notice shall be given in sufficient time to allow the Institution to defend or participate in such claim or action, but the failure to give such notice in sufficient time shall not constitute a defense under the Loan Agreement nor in any way impair the obligations of the Institution under the Loan Agreement.

Anything to the contrary in the Loan Agreement notwithstanding, the covenants of the Institution contained under this heading shall be in addition to any and all other obligations and liabilities that the Institution may have to any Indemnified Party in any other agreement or at common law, and shall remain in full force and effect after the termination of the Loan Agreement until the later of (i) the expiration of the period stated in the applicable statute of limitations during which a claim or cause of action may be brought and (ii) payment in full or the satisfaction of such claim or cause of action and of all expenses and charges incurred by the Indemnified Party relating to the enforcement of the provisions specified in the Loan Agreement. *(Section 8.2)*

Assignment of the Loan Agreement or Lease of Facility.

The Institution shall not at any time, except as permitted by the Loan Agreement, assign or transfer the Loan Agreement without the prior written consents of the Issuer and the Trustee (which consents may be withheld by the Issuer or the Trustee in their absolute discretion); provided further, that if the Issuer and the Trustee consent to any such assignment or transfer,

(i) the Institution shall deliver to the Issuer and the Trustee a certificate of an Authorized Representative to the effect that the transfer or assignment to the assignee or transferee (the "New Institution") shall not cause the Facility to cease being the Approved Facility;

(ii) the New Institution shall be liable to the Issuer for the payment of all loan and other payments and for the full performance of all of the terms, covenants and conditions of the Loan Agreement and of any other Project Document to which it shall be a party;

(iii) the New Institution shall have assumed in writing (and shall have executed and delivered to the Issuer and the Trustee such document and have agreed to keep and perform) all of the terms of the Loan Agreement and each other Project Document on the part of the New Institution to be kept and performed, shall be subject to service of process in the State, and, if a corporation, shall be qualified to do business in the State;

(iv) the New Institution shall be a not-for-profit corporation or a limited liability company constituting a Tax-Exempt Organization;

(v) such assignment or transfer shall not violate any provision of the Loan Agreement or any other Project Document;

(vi) in the Opinion of Counsel addressed to the Issuer and the Trustee (x) such assignment or transfer shall constitute the legally valid, binding and enforceable obligation of the New Institution and shall not legally impair in any respect the obligations of the New Institution for the payment of all loan payments nor for the full performance of all of the terms, covenants and conditions of the Loan Agreement, of the Promissory Note or of any other Project Document to which the New Institution shall be a party, nor impair or limit in any respect the obligations of any other obligor under any other Project Document, and (y) the Loan Agreement and each of the other Project Documents to which the New Institution is a party constitute the legally valid, binding and enforceable obligation of the New Institution;

(vii) the New Institution shall deliver to the Issuer the Required Disclosure Statement in form and substance satisfactory to the Issuer, provided that if any modification to the form of such Required Disclosure Statement is not acceptable to the Issuer acting in its sole discretion, then the Institution shall be in default under the Loan Agreement;

(viii) each such assignment shall contain such other provisions as the Issuer or the Trustee may reasonably require; and

(ix) in the opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee, such assignment or transfer shall not affect the exclusion of the interest on any Bonds then Outstanding from gross income for federal income tax purposes.

The Institution shall furnish or cause to be furnished to the Issuer and the Trustee a copy of any such assignment or transfer in substantially final form at least thirty (30) days prior to the date of execution thereof.

The Institution shall not at any time lease all or substantially all of the Facility, without the prior written consents of the Issuer and the Trustee (which consents may be withheld by the Issuer or the Trustee in their absolute discretion); nor shall the Institution lease part (*i.e.*, not constituting substantially all) of the Facility without the prior written consents of the Issuer and the Trustee (which consents shall, in such case, not be unreasonably withheld and, in the case of the Issuer, such consent to be requested by the Institution of the Issuer in the form prescribed by the Issuer, and such consent of the Issuer to take into consideration the Issuer's policies as in effect from time to time); provided further, that if the Issuer and the Trustee consent to any such letting,

(i) the Institution shall deliver to the Issuer and the Trustee a certificate of an Authorized Representative to the effect that the lease shall not cause the Facility to cease being the Approved Facility;

(ii) the Institution shall remain primarily liable to the Issuer for the payment of all loan and other payments and for the full performance of all of the terms, covenants and conditions of the Loan Agreement and of the Promissory Note and of any other Project Document to which it shall be a party;

(iii) any lessee in whole or substantially in whole of the Facility shall have assumed in writing (and shall have executed and delivered to the Issuer and the Trustee such document) and have agreed to keep and perform all of the terms of the Loan Agreement and each other Project Document 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;

(iv) any lessee shall utilize the Facility as the Approved Facility and shall constitute a Tax-Exempt Organization;

(v) such lease shall not violate any provision of the Loan Agreement or any other Project Document;

(vi) with respect to any letting in part of the Facility, the term of each such lease shall not exceed five (5) years at any given date, and no more than an aggregate of twenty percent (20%) of the Rentable Square Footage shall be leased by the Institution;

(vii) in the Opinion of Counsel addressed to the Issuer and the Trustee, such lease shall constitute the legally valid, binding and enforceable obligation of the lessee and shall not legally impair in any respect the obligations of the Institution for the payment of all loan or other payments nor for the full performance of all of the terms, covenants and conditions of the Loan Agreement, of the Promissory Note or of any other Project Document to which the Institution shall be a party, nor impair or limit in any respect the obligations of any other obligor under any other Project Document;

(viii) such lease shall in no way diminish or impair the obligation of the Institution to carry the insurance required under the Mortgage or the Loan Agreement and the Institution shall furnish written evidence satisfactory to the Issuer and the Trustee that such

insurance coverage shall in no manner be diminished or impaired by reason of such assignment, transfer or lease;

(ix) any such lessee shall deliver to the Issuer the Required Disclosure Statement in form and substance satisfactory to the Issuer, provided that if any modification to the form of such Required Disclosure Statement is not acceptable to the Issuer acting in its sole discretion, then the Institution shall be in default under the Loan Agreement;

(x) each such lease shall contain such other provisions as the Issuer or the Trustee may reasonably require; and

(xi) in the opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee, such lease shall not affect the exclusion of the interest on any Bonds then Outstanding from gross income for federal income tax purposes.

The Institution shall furnish or cause to be furnished to the Issuer and the Trustee a copy of any such lease in substantially final form at least thirty (30) days prior to the date of execution thereof.

Any consent by the Issuer or the Trustee to any act of assignment, transfer or lease 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 Issuer and the Trustee consent to any other or subsequent assignment, transfer or lease, or as modifying or limiting the rights of the Issuer or the Trustee under the foregoing covenant by the Institution.

For purposes of the provisions under this heading, any license or other right of possession or occupancy granted by the Institution with respect to the Facility shall be deemed a lease subject to the provisions of under this heading. (*Section 8 9*)

Retention of Title to or of Interest in Facility; Grant of Easements; Release of Portions of Facility.

The Institution shall not sell, assign, encumber (other than Permitted Encumbrances), convey or otherwise dispose of its fee title to or interest in the Facility, including the Improvements, or any part of the Facility or interest therein, except as set forth in the Loan Agreement, without the prior written consents of the Issuer and of the Trustee, and any purported disposition without such consents shall be void.

The Institution may, with the prior written consents of the Issuer and the Trustee (such consents not to be unreasonably withheld or delayed), so long as there exists no Event of Default under the Loan 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 lien and security interest of the Mortgage, as shall be necessary or convenient in the opinion of the Institution for the operation or use of the Facility, or required by any utility company for its utility business, provided that, in each case, such rights of way, easements, permits or licenses shall not adversely affect the use or operation of the Facility as the Approved Facility, and provided, further, that any consideration received by the Institution from the granting of said rights-of-way, easements, permits or licenses shall be paid to the Trustee and deposited in the Redemption Account of the Bond Fund. The Issuer 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 lien and security interest of the Mortgage.

So long as there exists no Event of Default under the Loan Agreement, and the Institution delivers to the Trustee and the Issuer an opinion of Nationally Recognized Bond Counsel to the effect that the following action will not affect the exclusion of the interest on any Bonds then Outstanding from gross income for federal income tax purposes, the Institution may from time to time request in writing to the Issuer and the Trustee the release of and removal from the property comprising the Facility under the Loan Agreement and the lien and security interest of the Mortgage, of any unimproved part of the Land (on which none of the Improvements, including the buildings, structures, major appurtenances, fixtures or other property comprising the Facility Realty, is situated); provided that such release and removal will not adversely affect the use or operation of the Facility as the Approved Facility. Upon any such request by the Institution, the Issuer shall, at the sole cost and expense of the Institution, cause and direct the Trustee to execute and deliver any and all instruments necessary or appropriate to so release and remove such unimproved Land from the property comprising the Facility under the Loan Agreement and the lien and security interest of the Mortgage, subject to the following: (i) any liens, easements, encumbrances and reservations to which title to said property was subject on the Closing Date; (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 respective part contained in the Loan Agreement or any other Project Document; (iv) Permitted Encumbrances (other than the lien of the Mortgage); 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 unimproved Land and the release thereof so proposed to be made is not needed for the operation of the remaining Facility, will not adversely affect the use or operation of the Facility as the Approved Facility and will not destroy the means of ingress thereto and egress therefrom;

(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 the unimproved Land so released, such allocable 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 unimproved Land, 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 unimproved Land is released in connection with its sale, the amount received by the Institution upon such sale; and

(iii) the Facility Realty as shall remain subject to the Mortgage shall not constitute a portion of a tax lot.

No conveyance or release effected under the provisions under this heading shall entitle the Institution to any abatement or diminution of the loan payments or other amounts payable under the Loan Agreement or any other payments required to be made by the Institution under the Loan Agreement or any other Project Document to which it shall be a party. *(Section 8.10)*

Discharge of Liens.

If any lien, encumbrance or charge is filed or asserted (including any lien for the performance of any labor or services or the furnishing of materials), or any judgment, decree, order, levy or process of any court or governmental body is entered, made or issued or any claim (such liens, encumbrances, charges, judgments, decrees, orders, levies, processes and claims being collectively called in the Loan Agreement, "Liens"), whether or not valid, is made against the Trust Estate, the Facility or any part

thereof or the interest therein of the Institution or against any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Security Documents, or the interest of the Issuer or the Institution in any Security Document, other than Liens for Impositions not yet payable, Permitted Encumbrances, or Liens being contested as permitted by the Loan Agreement, the Institution forthwith upon receipt of notice of the filing, assertion, entry or issuance of such Lien (regardless of the source of such notice) shall give written notice thereof to the Issuer and the Trustee and take all action (including the payment of money and/or the securing of a bond with respect to any such Lien) at its own cost and expense as may be necessary or appropriate to obtain the discharge in full of such Lien and to remove or nullify the basis therefor. Nothing contained in the Loan Agreement shall be construed as constituting the express or implied consent to or permission of the Issuer for the performance of any labor or services or the furnishing of any materials that would give rise to any Lien not permitted under the first paragraph under this heading

The Institution may at its sole cost and expense contest (after prior written notice to the Issuer and the Trustee), by appropriate action conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Lien, if (i) such proceeding shall suspend the execution or enforcement of such Lien against the Trust Estate, the Facility or any part thereof or interest therein, or against any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents or the interest of the Issuer or the Institution in any Project Document, (ii) neither the Facility nor any part thereof or interest therein, the Trust Estate or any portion thereof, the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Security Documents or the interest of the Issuer or the Institution in any Security Document would be in any danger of being sold, forfeited or lost, (iii) neither the Institution, the Issuer nor the Trustee would be in any danger of any civil or any criminal liability, other than normal accrual of interest, for failure to comply therewith, and (iv) the Institution shall have furnished such security, if any, as may be required in such proceedings or as may be reasonably requested by the Issuer or the Trustee to protect the security intended to be offered by the Security Documents. *(Section 8.11)*

No Further Encumbrances Permitted.

The Institution shall not create, permit or suffer to exist any mortgage, encumbrance, lien, security interest, claim or charge against (i) the Facility or any part thereof, or the interest of the Institution in the Facility, except for Permitted Encumbrances, or (ii) the Trust Estate or any portion thereof, the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Security Documents or the interest of the Issuer or the Institution in any Security Document. The Institution covenants that it shall take or cause to be taken all action, including all filing and recording, as may be necessary to ensure that there are no mortgage liens on, or security interests in, the Facility (other than Permitted Encumbrances) prior to the mortgage liens thereon, and security interests therein, granted by the Mortgage. *(Section 8.13)*

Taxes, Assessments and Charges.

The Institution shall pay when the same shall become due all taxes and assessments, general and specific, if any, levied and assessed upon or against the Trust Estate, the Facility Realty or any part thereof, or interest of the Institution in the Facility, or against any of the loan payments or other payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Institution in any Project Document, 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 Realty, all of which are called in the Loan Agreement,

“Impositions”. 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 Realty is exempt from Impositions solely due to the Issuer’s involvement with the Project and the Facility Realty, the Institution shall pay all Impositions to the appropriate taxing authorities equivalent to the Impositions that would have been imposed on the Facility Realty if and the Issuer had no involvement with the Project and the Facility Realty.

The Institution may at its sole cost and expense contest (after prior written notice to the Issuer and the Trustee), by appropriate action conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Imposition, if (i) such proceeding shall suspend the execution or enforcement of such Imposition against the Trust Estate, the Facility or any part thereof, or interest of the Institution in the Facility, or against any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Institution in any Project Document, (ii) none of the Trust Estate, the Facility nor any part thereof or interest of the Institution in the Facility, or any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Institution in any Project Document, would be in any danger of being sold, forfeited or lost, (iii) neither the Institution, the Issuer nor the Trustee would be in any danger of any civil or any criminal liability, other than normal accrual of interest, for failure to comply therewith, and (iv) the Institution shall have furnished such security, if any, as may be required in such proceedings or as may be reasonably requested by the Issuer or the Trustee to protect the security intended to be offered by the Security Documents. *(Section 8.17)*

Compliance with Legal Requirements.

The Institution shall not occupy, use or operate the Facility, or allow the Facility or any part thereof to be occupied, used or operated, for any unlawful purpose or in violation of any certificate of occupancy affecting 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.

At its sole cost and expense, the Institution shall promptly observe and comply with all applicable Legal Requirements, whether foreseen or unforeseen, ordinary or extraordinary, that shall now or at any time hereafter be binding upon or applicable to the Institution, the Facility, any occupant, user or operator of the Facility or any portion thereof, and will observe and comply with all conditions, requirements, and schedules necessary to preserve and extend all rights, licenses, permits (including zoning variances, special exception and non-conforming uses), privileges, franchises and concessions. The Institution will not, without the prior written consent of the Issuer and the Trustee (which consents shall not be unreasonably withheld or delayed), initiate, join in or consent to any private restrictive covenant, zoning ordinance or other public or private restrictions limiting or defining the uses that may be made of the Facility or any part thereof.

The Institution may at its sole cost and expense contest in good faith the validity, existence or applicability of any of the matters described in the paragraph above if (i) such contest shall not result in the Trust Estate, the Facility or any part thereof or interest of the Institution in the Facility, or any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Institution in any Project Document, being in any danger of being sold, forfeited or lost, (ii) such contest shall not result in the Institution, the Issuer or the Trustee being in any danger of any civil or any criminal liability for failure to comply therewith, and (iii) the Institution shall have furnished such security, if any, as may be reasonably requested by the Issuer

or the Trustee to protect the security intended to be offered by the Security Documents for failure to comply therewith. *(Section 8.18)*

Operation as Approved Facility.

The Institution will not take any action, or suffer or permit any action, if such action would cause the Facility not to be the Approved Facility.

The Institution will not fail to take any action, or suffer or permit the failure to take any action, if such failure would cause the Facility not to be the Approved Facility.

The Institution will permit the Trustee and its duly authorized agents, at all reasonable times upon written notice to enter upon the Facility and to examine and inspect the Facility and exercise its rights under the Loan Agreement, under the Indenture and under the other Security Documents with respect to the Facility. The Institution will further permit the Issuer, or its duly authorized agent, upon reasonable notice, at all reasonable times, to enter the Facility, but solely for the purpose of assuring that the Institution is operating the Facility, or is causing the Facility to be operated, as the Approved Facility consistent with the Approved Project Operations and with the corporate purposes of the Issuer. *(Section 8.19)*

Preservation of Exempt Status.

The Institution agrees that (i) it shall not perform any acts, enter into any agreements, carry on or permit to be carried on at the Facility, or permit the Facility to be used in or for any trade or business, which shall adversely affect the basis for its exemption under Section 501 of the Code; (ii) it shall not use more than three percent (3%) of the proceeds of the Bonds or permit the same to be used, directly or indirectly, in any trade or business that constitutes an unrelated trade or business as defined in Section 513(a) of the Code or in any trade or business carried on by any Person or Persons who are not governmental units or Section 501(c)(3) organizations; (iii) it shall not directly or indirectly use the proceeds of the Bonds to make or finance loans to Persons other than governmental units or Section 501(c)(3) organizations, provided that no loan shall be made to another Section 501(c)(3) organization unless such organization is using the funds for a purpose that is not an unrelated trade or business for either the Institution or the borrower; (iv) it shall not take any action or permit any circumstances within its control to arise or continue, if such action or circumstances, or its expectation on the Closing Date, would cause the Bonds to be "arbitrage bonds" under the Code or cause the interest paid by the Issuer on the Bonds to be subject to Federal income tax in the hands of the Holders thereof; and (v) it shall use its best efforts to maintain the tax-exempt status of the Bonds. *(Section 8.21)*

Special Covenants.

The Institution covenants that, for so long as any Bonds shall be Outstanding, it will be registered with the New York State Department of Education as an eligible education institution.

The Institution further covenants that the Institution shall not discriminate in admissions, hiring, the granting of scholarships or loans, or the administration of educational policies generally. *(Section 8.28)*

Financial Covenants.

Long-Term Debt Service Coverage Ratio. The Institution covenants that so long as any of the Initial Bonds remain outstanding, it will maintain a Long-Term Debt Service Coverage Ratio greater than

1.10x. Beginning with the Institution's Fiscal Year commencing July 1, 2014, the Institution shall, within 30 days of the close of each Fiscal Year, calculate the Long-Term Debt Service Coverage Ratio as of June 30 of the most recently completed Fiscal Year, and shall provide a copy of such calculation verified and certified by public accountants who completed the audit of the Institution's financial statements for the corresponding Fiscal Year to the Trustee at the time of delivery of the annual audited financial statements. If the Long-Term Debt Service Coverage Ratio shall be less than 1.10x but equal to or greater than 1.0x, the Institution shall within 30 days of the date of such calculation, provide the Trustee with a detailed written explanation from an Authorized Representative of the Institution stating the reason for the Institution's failure to achieve the required Long-Term Debt Service Coverage Ratio of 1.10x and its plan for achieving such Long-term Debt Service Coverage Ratio by the end of the next Fiscal Year.

In the event that the Institution is unable to comply with the above Long-Term Debt Service Coverage Ratio requirement within 12 months of the initial non-compliance, then the Majority Holders shall have the right to direct the Trustee to require the Institution to engage, at the Institution's expense, a Management Consultant, acceptable to such Majority Holders, to perform the services described below under "Management Consultant."

Notwithstanding anything to the contrary contained in the Loan Agreement, the Institution's failure to maintain a Long-Term Debt Service Coverage Ratio of at least 1.0x for any calculation period shall constitute an immediate Event of Default under the Loan Agreement.

Management Consultant. If the Institution is unable to achieve the required Long-Term Debt Service Coverage Ratio of 1.10x for a second consecutive calculation period and the Majority Holders direct the Trustee to require the Institution to engage a Management Consultant, the Institution agrees to engage a Management Consultant acceptable to such Majority Holders within 20 days' notice from the Trustee and such Management Consultant shall be engaged to deliver a written report to the Trustee and the Institution within 60 days following its engagement containing recommendations concerning the Institution's:

- (i) operations;
- (ii) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities;
- (iii) management practices, including use of consultants, budgeting practices, and on-going financial systems and monitoring of the Institution's financial condition;
- (iv) governance and administrative practices; and
- (v) other factors relevant to or affecting the Institution's ability to achieve the required 1.10x Long-Term Debt Service Coverage Ratio.

The Institution agrees that, within 30 days of receipt of the Management Consultant's report, it shall (i) to the maximum extent permitted by law, implement the written recommendations of the Management Consultant, and (ii) pay the Management Consultant for its services. If the Institution so implements the recommendations of the Management Consultant, the failure of the Institution to achieve a 1.10x Long-Term Debt Service Coverage Ratio for any subsequent calculation period (provided that the Long-Term Debt Service Coverage for any such period shall at least be equal to 1.0x), shall not constitute an Event of Default under the Loan Agreement.

Additional Indebtedness. The Institution may not incur Additional Indebtedness that is senior to the Initial Bonds and its obligations under the Loan Agreement. The Institution may incur Additional Indebtedness on a parity with its obligations under the Loan Agreement only upon providing to the Trustee a certificate of an Authorized Representative of the Institution, accompanied by a confirming accountant's certificate, showing that the Net Income Available for Debt Service, as determined in the most recent audited financial statements of the Institution, is at least equal to 1.35x the combined maximum annual debt service for the Initial Bonds and the Additional Indebtedness proposed to be incurred.

The Institution may incur Additional Indebtedness subordinate to the its obligations under the Loan Agreement only upon providing to the Trustee a certificate of an Authorized Representative of the Institution, accompanied by a confirming accountant's certificate, showing that Net Income Available for Debt Service, as determined in the most recent audited financial statements of the Institution, is at least equal to 1.10x the combined maximum annual debt service for the Initial Bonds and the Additional Indebtedness proposed to be incurred.

Repair and Replacement Fund. The Institution shall establish with a financial institution a Repair and Replacement Fund into which the Institution shall make deposits from time to time in accordance with the provisions under this heading. Beginning the month after the Institution begins operations at the Project, and monthly thereafter, the Institution shall deposit \$5,000 to the credit of the Repair and Replacement Fund until the balance in the Repair and Replacement Fund equals \$250,000. Any amounts withdrawn from the Repair and Replacement Fund shall be reinstated through monthly payments made by the Institution at the rate of \$5,000 per month commencing (A) in the seventh month after a withdrawal of up to \$125,000 or (B) in the thirteenth month after a withdrawal of more than \$125,000, until the amount on deposit in the Repair and Replacement Fund equals \$250,000. In the event that the Institution shall establish the Repair and Replacement Fund with the Trustee, moneys in the Repair and Replacement Fund shall be held separate and apart from all other funds held by the Trustee, shall be available only to pay costs of repairing or replacing capital improvements to the Project, and shall not be pledged to or made available for the payment of debt service on the Initial Bonds.

Negative Covenant with Respect to Pledge of Endowment Funds. The Institution covenants that it shall not grant any security interest in its endowment or board-designated funds unless the Institution shall first grant to the Trustee a security interest in such funds which is in all respects equal to any other security interest it grants in such funds. The Institution may remove the board designation from previously board-designated funds at any time without restriction, and the foregoing covenant will not apply to such funds thereafter.

Days' Cash on Hand Covenant. The Institution covenants and agrees in the Loan Agreement to maintain a minimum of 30 Days' Cash on Hand as of June 30 for each of its Fiscal Years. "Days' Cash on Hand" means, as of the end of any fiscal year, the product obtained by multiplying the number of days in such Fiscal Year by a fraction (a) the numerator of which is the Institution's cash and cash equivalents, and (b) the denominator of which is the Institution's total expenses, both as reported in the audited financial statements for such Fiscal Year. Notwithstanding the foregoing, in the event that any law now or hereafter applicable to the Institution or its operations results in a limitation on the amount of cash and cash equivalents that the Institution may maintain, as reported in the audited financial statements for the Fiscal Year then ended, the foregoing number of Days' Cash on Hand shall be reduced to a number equivalent to the maximum amount then permitted by law.

In the event that the Institution is unable to comply with the above liquidity covenant as of any June 30, then the Owners of a majority of the Outstanding Bonds shall have the right to direct the Trustee to require the Institution to engage, at the Institution's expense, a Management Consultant, acceptable to such Owners, within 20 days' notice from the Trustee. Upon its engagement, the Management Consultant shall deliver a written report to the Trustee and the Institution within 60 days following its engagement containing recommendations concerning the Institution's (i) operations; (ii) financing practices and activities, including Short-Term Indebtedness, lease financing and investment activities; (iii) management practices, including use of consultants, budgeting practices, and on-going financial systems and monitoring of the Institution's financial condition; (iv) governance and administrative practices; and (v) other factors relevant to or affecting the Institution's ability to achieve the required 30 days cash on hand requirement.

The Institution agrees in the Loan Agreement that, within 30 days of receipt of the Management Consultant's report, it shall to the maximum extent permitted by law, implement the written recommendations of the Management Consultant. If the Institution so implements the recommendations of the Management Consultant, the failure of the Institution to meet the foregoing liquidity covenant as of any June 30, shall not constitute an Event of Default under the Loan Agreement.

Events of Default.

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

(i) Failure of the Institution to pay any loan payment that has become due and payable by the terms of the Loan Agreement which results in an Event of Default under the Indenture;

(ii) Failure of the Institution to pay any amount (except as set forth above) that has become due and payable or to observe and perform any covenant, condition or agreement on its part to be performed under the Loan Agreement and continuance of such failure for more than thirty (30) days after written notice of such failure has been given to the Institution specifying the nature of such failure by the Issuer or the Trustee or the Holders of more than twenty-five per cent (25%) in aggregate principal amount of the Bonds Outstanding;

(iii) Failure of the Institution to observe and perform any covenant, condition or agreement hereunder on its part to be performed (except as set forth above) and (i) continuance of such failure for more than thirty (30) days after written notice of such failure has been given to the Institution specifying the nature of same by the Issuer or the Trustee or the Holders of more than twenty-five per cent (25%) in aggregate principal amount of the Bonds Outstanding, or (ii) if by reason of the nature of such failure the same can be remedied, but not within the said thirty (30) days, the Institution fails to commence and thereafter proceed with reasonable diligence after receipt of said notice to cure such failure or fails to continue with reasonable diligence its efforts to cure such failure or fails to cure such failure within sixty (60) days of delivery of said notice;

(iv) The Institution shall (i) 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, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts generally become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or

hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner or acquiesce in writing to, any petition filed against itself in an involuntary case under the Federal Bankruptcy Code, (vii) take any action for the purpose of effecting any of the foregoing, or (viii) 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, (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts, (ii) the appointment of a trustee, receiver, liquidator, custodian or the like of the Institution or of all or any substantial part of its assets, or (iii) 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 shall be entered and continue unstayed and in effect, for a period of ninety (90) days; or any order for relief against the Institution shall be entered 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 Loan Agreement;

(vi) Any representation or warranty made by the Institution (i) in the application and related materials submitted to the Issuer or the Underwriter of the Bonds for approval of the Project or its financing, or (ii) herein or in any other Project Document, or (iii) in the Letter of Representation and Indemnity Agreement dated the Closing Date and delivered to the Issuer, the Trustee and the Underwriter of the Initial Bonds, or (iv) in the Tax Regulatory Agreement, or (v) by or on behalf of the Institution or any other Person in any Required Disclosure Statement, or (vi) in any report, certificate, financial statement or other instrument furnished pursuant to the Loan Agreement or any of the foregoing, shall in any case prove to be false, misleading or incorrect in any material respect as of the date made;

(vii) The commencement of proceedings to appoint a receiver or to foreclose any mortgage lien on or security interest in the Facility including the Mortgage;

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

(ix) If any Required Disclosure Statement delivered to the Issuer under any Project Document is not acceptable to the Issuer acting in its sole discretion;

(x) Failure of the Institution to pay the amount required of it under Section 4.3(a)(vi) of the Loan Agreement when required thereunder; or

(xi) Failure of the Institution to have its charter renewed by the New York Board of Regents. (*Section 9.1*)

Remedies on Default.

Whenever any Event of Default referred to in the Loan Agreement shall have occurred and be continuing, the Issuer, or the Trustee where so provided, may, 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 loan payments payable under the Loan Agreement until the Bonds are no longer Outstanding 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 specific sections of the Loan Agreement, all principal installments of loan payments payable under the Loan Agreement until the Bonds are no longer Outstanding, together with the accrued interest thereon, shall immediately become due and payable without any declaration, notice or other action of the Issuer, the Trustee, the Holders of the Bonds or any other Person being a condition to such acceleration;

(ii) The Issuer or the Trustee may take whatever action at law or in equity as may appear necessary or desirable to collect the loan 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 Loan Agreement; and

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

Upon the occurrence of a default with respect to any of the Issuer's Reserved Rights, the Issuer, without the consent of the Trustee or any other Person, may proceed to enforce the Issuer's Reserved Rights by

(i) bringing an action for damages, injunction or specific performance, and/or

(ii) taking whatever action at law or in equity as may appear necessary or desirable to collect payment of amounts due by the Institution under the Issuer's Reserved Rights or to enforce the performance or observance of any obligations, covenants or agreements of the Institution under the Issuer's Reserved Rights.

No action taken pursuant to the provisions under this heading or by operation of law or otherwise shall, except as expressly provided in the Loan Agreement, relieve the Institution from the Institution's obligations under the Loan Agreement, all of which shall survive any such action. (*Section 9.2*)

Bankruptcy Proceedings.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Institution under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee (other than the Trustee under the Indenture) shall have been appointed for the property of the Institution or in the case of any other similar judicial proceedings relative to the Institution or the creditors or property of the Institution, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to the Loan Agreement and the Promissory Note, irrespective of whether the principal of the Bonds (and the loan payments payable pursuant to the Promissory Note and the Loan Agreement) shall have been accelerated by declaration or otherwise, and irrespective of whether the Trustee shall have made any demand for payment under the Loan Agreement or thereunder, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Institution, the creditors or property of the Institution, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is authorized by

the Loan Agreement to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution. *(Section 9.3)*

Remedies Cumulative.

The rights and remedies of the Issuer or the Trustee under the Loan Agreement shall be cumulative and shall not exclude any other rights and remedies of the Issuer or the Trustee allowed by law with respect to any default under the Loan Agreement. Failure by the Issuer or the Trustee to insist upon the strict performance of any of the covenants and agreements set forth in the Loan Agreement or to exercise any rights or remedies upon default by the Institution under the Loan Agreement shall not be considered or taken as a waiver or relinquishment for the future of the right to insist upon and to enforce by mandatory injunction, specific performance or other appropriate legal remedy the strict compliance by the Institution with all of the covenants and conditions of the Loan Agreement, or of the rights to exercise any such rights or remedies, if such default by the Institution be continued or repeated. *(Section 9.4)*

No Additional Waiver Implied by One Waiver.

In the event any covenant or agreement contained in the Loan Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Loan Agreement. No waiver shall be binding unless it is in writing and signed by the party making such waiver. No course of dealing between the Issuer and/or the Trustee and the Institution or any delay or omission on the part of the Issuer and/or the Trustee in exercising any rights under the Loan Agreement or under the Indenture or under any other Security Document shall operate as a waiver. To the extent permitted by applicable law, the Institution waives the benefit and advantage of, and covenants not to assert against the Issuer or the Trustee, any valuation, inquisition, stay, appraisal, extension or redemption laws now existing or which may hereafter exist. *(Section 9.5)*

Agreement to Pay Fees and Expenses of Attorneys and Other Consultants.

In the event the Institution should default under any of the provisions of the Loan Agreement, and the Issuer or the Trustee should employ outside attorneys or other consultants or incur other expenses for the collection of loan payments or other amounts payable under the Loan Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Institution contained in the Loan Agreement or contained in any other Security Document, the Institution agrees that it will on demand therefor pay to the Issuer or the Trustee, as the case may be, the reasonable fees and disbursements of such attorneys or other consultants and such other expenses so incurred. *(Section 9.7)*

Termination of the Loan Agreement.

The Institution shall have the option to cause the redemption or defeasance in whole of all Outstanding Bonds in accordance with the terms set forth in the Indenture.

After full payment of the Bonds or provision for the payment in full thereof having been made in accordance with the Indenture, but not later than the receipt by the Institution of ten (10) days prior written notice from the Issuer directing termination of the Loan Agreement, the Institution shall terminate the Loan Agreement by giving the Issuer notice in writing of such termination and thereupon such termination shall forthwith become effective, subject, however, to (x) the delivery of those documents

referred to in the Loan Agreement, and (y) the survival of those obligations of the Institution set forth in the Loan Agreement. *(Section 10.1)*

Issuance of Additional Bonds.

If a Series of Additional Bonds are to be issued pursuant to the Indenture, the Issuer and the Institution shall enter into an amendment to the Loan Agreement, and the Institution shall execute and deliver a new Promissory Note, in each case providing, among other things, for the payment by the Institution of such additional loan payments as are necessary in order to amortize in full the principal of and interest on such Series of Additional Bonds and any other costs in connection therewith.

Any such completion, repair, relocation, replacement, rebuilding, restoration, additions, extensions or improvements shall become a part of the Facility and shall be included under the Loan Agreement to the same extent as if originally included under the Loan Agreement. *(Section 11.1)*

Determination of Taxability.

If any Holder of Bonds receives from the Internal Revenue Service a notice of assessment and demand for payment with respect to interest on any Bond, an appeal may be taken by such Holder at the option of either such Holder or the Institution. If such appeal is taken at the option of the Institution (exercised in accordance with the procedures set forth in the definition of "Determination of Taxability"), all expenses of the appeal including reasonable counsel fees shall be paid by the Institution, and the Institution shall control the procedures and terms relating to such appeal, and such Holder and the Institution shall cooperate and consult with each other in all matters pertaining to any such appeal which the Institution has elected to take, except that no Holder of Bonds shall be required to disclose or furnish any non-publicly disclosed information, including without limitation, financial information and tax returns. Before the taking of any appeal which the Institution has elected to take, however, the Bondholder shall have the right to require the Institution to pay the tax assessed and conduct the appeal as a contest for reimbursement. *(Section 11.2)*

Mandatory Redemption of Bonds as Directed by the Issuer.

Upon the determination by the Issuer that (w) the Institution is operating the Facility or any portion thereof, or is allowing the Facility or any portion thereof to be operated, not for the Approved Project Operations in accordance with the Loan Agreement and the failure of the Institution within thirty (30) days of the receipt by the Institution of written notice of such noncompliance from the Issuer to cure such noncompliance together with a copy of such resolution (a copy of which notice shall be sent to the Trustee), (x) the Institution, any Principal of the Institution or any Person that directly or indirectly Controls, is Controlled by or is under common Control with the Institution has committed a material violation of a material Legal Requirement and the failure of the Institution within thirty (30) days of the receipt by the Institution of written notice of such determination from the Issuer to cure such material violation (which cure, in the case of a Principal who shall have committed the material violation of a material Legal Requirement, may be effected by the removal of such Principal), (y) as set forth in the Loan Agreement, any Conduct Representation is false, misleading or incorrect in any material respect at any date, as if made on such date, or (z) a Required Disclosure Statement delivered to the Issuer under any Project Document is not acceptable to the Issuer acting in its sole discretion, the Institution covenants and agrees that it shall, no later than ten (10) days following the termination of such thirty (30) day period, pay to the Trustee advance loan 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 the redemption date. The Issuer shall give prior written notice of the meeting at which the Board of Directors of the Issuer are to consider such resolution to the Institution and the Trustee, which notice shall be no less than fifteen (15) days prior to such meeting.

In the event the Institution fails to obtain or maintain the liability insurance with respect to the Facility required under the Loan Agreement, and the Institution shall fail to cure such circumstance within ten (10) days of the receipt by the Institution of written notice of such noncompliance from the Issuer and a demand by the Issuer on 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 loan payments in immediately available funds in an amount sufficient to redeem the Bonds Outstanding in whole at the Redemption Price of one hundred percent (100%) of the unpaid principal amount of the Bonds, together with interest accrued thereon to the date of redemption. (*Section 11.3*)

Option to Purchase or Invite Tenders of Bonds.

Except as provided in the provisions under this heading, neither the Institution nor any Related Person (as defined in the Tax Regulatory Agreement) to the Institution shall purchase Bonds in an amount related to the amount of the Loan. The Institution shall have the option, at any time during the term of the Loan 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, or pursuant to the purchase in lieu of redemption provisions of the Indenture. The Bonds so purchased by the Institution or by any Affiliate of the Institution shall be delivered to the Trustee for cancellation within fifteen (15) days of the date of purchase unless the Institution shall deliver to the Trustee and the Issuer an opinion of Nationally Recognized Bond Counsel to the effect that the failure to surrender such Bonds by such date will not affect the exclusion of the interest on any Bonds then Outstanding from gross income for federal income tax purposes. (*Section 11.6*)

Investment of Funds.

Any moneys held as part of the Rebate Fund, the Earnings Fund, the Project Fund, the Bond Fund, the Debt Service Reserve Fund or the Renewal Fund or in any special fund provided for in the Loan Agreement or in the Indenture to be invested in the same manner as in any said Fund shall, at the written request of an Authorized Representative of the Institution, be invested and reinvested by the Trustee as provided in the Indenture (but subject to the provisions of the Tax Regulatory Agreement). Neither the Issuer nor the Trustee nor any of their members, directors, officers, agents, servants or employees shall be liable for any depreciation in the value of any such investments or for any loss arising therefrom.

Interest and profit derived from such investments shall be credited and applied as provided in the Indenture, and any loss resulting from such investments shall be similarly charged. (*Section 11.7*)

Amendments.

The Loan Agreement may be amended only with the concurring written consent of the Trustee given in accordance with the provisions of the Indenture and only by a written instrument executed by the parties to the Loan Agreement. (*Section 12.3*)

Recourse Under the Loan Agreement.

All covenants, stipulations, promises, agreements and obligations of the Issuer contained in the Loan Agreement shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the

Issuer, and not of any member, director, officer, employee or agent of the Issuer or any natural person executing the Loan Agreement on behalf of the Issuer in such person's individual capacity, and no recourse shall be had for any reason whatsoever under the Loan Agreement against any member, director, officer, employee or agent of the Issuer or any natural person executing the Loan Agreement on behalf of the Issuer. No recourse shall be had for the payment of the principal of, redemption premium, if any, Sinking Fund Installments for, Purchase Price or interest on the Bonds or for any claim based thereon or under the Loan Agreement against any member, director, officer, employee or agent of the Issuer or any natural person executing the Bonds. In addition, in the performance of the agreements of the Issuer contained in the Loan Agreement, any obligation the Issuer may incur for the payment of money shall not subject the Issuer to any pecuniary or other liability or create a debt of the State or the City, and neither the State nor the City shall be liable on any obligation so incurred and any such obligation shall be payable solely out of amounts payable to the Issuer by the Institution under the Loan Agreement and under the Promissory Note. *(Section 12.14)*

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**SUMMARY OF CERTAIN PROVISIONS
OF THE INDENTURE OF TRUST**

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APPENDIX F- SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST

The following is a summary of certain provisions of the Indenture of Trust. This summary does not purport to be complete and reference is made to the Indenture of Trust for the detailed provisions thereof. This summary is qualified in its entirety by such reference. Headings are not part of the Indenture of Trust and are included for ease of reference only.

Authorized Amounts of Bonds; Pledge Effected by the Indenture.

No Bond may be authenticated and delivered under the provisions of the Indenture except in accordance with the Indenture. Except as provided in the Indenture, the total aggregate principal amount of Bonds that may be authenticated and delivered under the Indenture is limited to the Authorized Principal Amount.

The proceeds of the Bonds deposited in the Project Fund and certain of the loan payments, receipts and revenues derived from or in connection with the Facility, including moneys which are required to be set apart, transferred and pledged to the Earnings Fund, to the Bond Fund, to the Debt Service Reserve Fund, to the Renewal Fund or to certain special funds, including the investments, if any, thereof (subject to disbursements from such Funds in accordance with the provisions of the Indenture) are pledged by the Indenture for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments for, and interest on, the Bonds. All such Funds shall be held by the Trustee in trust for the benefit of the Bondholders, and while held by the Trustee constitute part of the Trust Estate and be subject to the lien of the Indenture. The Rebate Fund (including amounts on deposit therein) shall not be subject to any assignment, pledge, lien or security interest in favor of the Trustee or any Bondholder or any other Person. The Bonds shall be the special limited revenue obligations of the Issuer and shall be payable by the Issuer as to the principal or Redemption Price, if any, of the Bonds, Sinking Fund Installments for the Bonds, and interest on the Bonds only from the Funds, special funds and loan payments, revenues and receipts pledged therefor. The Bonds are additionally secured by a pledge and assignment of the Promissory Note and substantially all of the Issuer's right, title and interest in and to the Loan Agreement. Pursuant to the Custody Agreement, the Institution will cause payments of Education Aid due to the Institution to be delivered to the Custodian, and the Custodian will make transfers of certain money to the Trustee for deposit under the Indenture. In addition, the Institution has granted mortgage liens on and security interests in its fee interest in the Facility to the Issuer and the Trustee pursuant to the Mortgage, and the Issuer has assigned its right, title and interest in the Mortgage to the Trustee pursuant to the Assignment of Mortgage.

In no event shall any obligations of the Issuer under the Indenture or the Bonds or under the Loan Agreement or under any other Security Document or related document for the payment of money create a debt of the State or the City and neither the State nor the City shall be liable on any obligation so incurred, but any such obligation shall be a special limited revenue obligation of the Issuer secured and payable solely as provided in the Indenture. *(Section 2.01)*

Additional Bonds.

So long as the Promissory Note, the Loan Agreement and the other Security Documents are each in effect, one or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of (i) completing the Project, (ii) providing funds in excess of Net Proceeds to repair, relocate, replace, rebuild or restore the Facility in the event of damage, destruction or taking by eminent domain, (iii) providing extensions, additions or improvements to the Facility, the purpose of which shall be for the Approved Project Operations, or (iv) refunding Outstanding Bonds. Such Additional Bonds shall be payable from the loan payments, receipts and revenues of the Facility

including such extensions, additions and improvements thereto. Prior to the issuance of a Series of Additional Bonds and the execution of a Supplemental Indenture in connection therewith, the Issuer and the Institution shall enter into an amendment to the Loan Agreement, and the Institution shall execute a new Promissory Note, which shall provide, among other things, that the loan payments payable by the Institution under the Loan Agreement and the aggregate amount to be paid under all Promissory Notes shall be increased and computed so as to amortize in full the principal of and interest on such Additional Bonds and any other costs in connection therewith. In addition, the Institution and the Issuer shall enter into an amendment to each Security Document with the Trustee which shall provide that the amounts guaranteed or otherwise secured thereunder be increased accordingly. *(Section 2.07(a))*

Each such Series of Additional Bonds shall be deposited with the Trustee and thereupon shall be authenticated by the Trustee. Upon payment to the Trustee of the proceeds of sale of such Series of Additional Bonds, they shall be made available by the Trustee for pick-up by the order of the purchaser or purchasers thereof, but only upon receipt by the Trustee of:

(1) a copy of the resolution, duly certified by the Secretary, Assistant Secretary, Executive Director, Deputy Executive Director, General Counsel or Vice President for Legal Affairs of the Issuer, authorizing, issuing and awarding the Series of Additional Bonds to the purchaser or purchasers thereof and providing the terms thereof and authorizing the execution of any Supplemental Indenture and any amendments of or supplements to the Loan Agreement and any other Security Document to which the Issuer shall be a party;

(2) original executed counterparts of the Supplemental Indenture and an amendment of or supplement to the Loan Agreement expressly providing that, to the extent applicable, for all purposes of the Supplemental Indenture, the Promissory Note, the Loan Agreement, the Mortgage, and the Custody Agreement, the Facility referred to therein and the premises related or subject thereto shall include the buildings, structures, improvements, machinery, equipment or other facilities being financed, and the Bonds referred to therein shall mean and include the Series of Additional Bonds being issued as well as the Initial Bonds and any Series of Additional Bonds theretofore issued;

(3) a written opinion by Nationally Recognized Bond Counsel, to the effect that the issuance of the Series of Additional Bonds and the execution thereof have been duly authorized and that all conditions precedent to the delivery thereof have been fulfilled and that the issuance of the Series of Additional Bonds will not cause the interest on any Series of Bonds Outstanding to become includable in gross income for Federal income tax purposes;

(4) except in the case of a Series of Refunding Bonds (defined below) refunding all Outstanding Bonds, a certificate of an Authorized Representative of the Institution to the effect that each Security Document to which it is a party continues in full force and effect and that there is no Event of Default nor any event which upon notice or lapse of time or both would become an Event of Default;

(5) Reserved;

(6) an original, executed counterpart of the new Promissory Note and the amendment to each Security Document; and

(7) a written order to the Trustee executed by an Authorized Representative of the Issuer to authenticate and make available for pick-up the Series of Additional Bonds to the

purchaser or purchasers therein identified upon payment to the Trustee of the purchase price therein specified, plus accrued interest, if any. *(Section 2.07(b))*

Upon the request of the Institution, one or more Series of Additional Bonds may be authenticated and made available for pick-up upon original issuance to refund (“**Refunding Bonds**”) all Outstanding Bonds or any Series of Outstanding Bonds or any part of one or more Series of Outstanding Bonds. Bonds of a Series of Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Indenture and of the resolution authorizing said Series of Refunding Bonds. In the case of the refunding under the Indenture of less than all Bonds Outstanding of any Series or of any maturity within such Series, the Trustee shall proceed to select such Bonds in accordance with the Indenture.

A Series of Refunding Bonds may be authenticated and made available for pick-up only upon receipt by the Trustee (in addition to the receipt by it of the documents required by the Indenture, as may be applicable) of:

(A) Irrevocable instructions from the Issuer to the Trustee, satisfactory to it, to give due notice of redemption pursuant to the Indenture to the Holders of all the Outstanding Bonds to be refunded prior to maturity on the redemption date specified in such instructions; and

(B) Either:

(i) moneys in an amount sufficient to effect payment at maturity or upon redemption at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which moneys shall be held by the Trustee or any Paying Agent in a separate account irrevocably in trust for and assigned to the respective Holders of the Outstanding Bonds being refunded, or

(ii) Defeasance Obligations in such principal amounts, having such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the Indenture, and any moneys required pursuant to the Indenture (with respect to all Outstanding Bonds or any part of one or more Series of Outstanding Bonds being refunded), which Defeasance Obligations and moneys shall be held in trust and used only as provided in the Indenture.

(2) The Institution shall furnish to the Trustee and the Issuer at the time of delivery of the Series of Refunding Bonds a certificate of an independent certified public accountant stating that the Trustee and/or the Paying Agent (and/or any escrow agent as shall be appointed in connection therewith) hold in trust the moneys or such Defeasance Obligations and moneys required to effect such payment at maturity or earlier redemption. *(Section 2.07(c))*

Each Series of Additional Bonds issued pursuant to the provisions under this heading shall be equally and ratably secured under the Indenture with the Initial Bonds and all other Series of Additional Bonds, if any, issued pursuant to the provisions under this heading, without preference, priority or distinction of any Bond over any other Bonds except as expressly provided in or permitted by the Indenture. *(Section 2.07(d))*

No Series of Additional Bonds shall be issued unless the Promissory Note, the Loan Agreement, the Mortgage and the other Security Documents are in effect and, at the time of issuance, there is no Event of Default nor any event which upon notice or lapse of time or both would become an Event of Default. *(Section 2.07(e))*

Creation of Funds and Accounts.

The Issuer establishes and creates the following special trust Funds and Accounts comprising such Funds:

- (1) Project Fund
- (2) Bond Fund
 - (a) Principal Account
 - (b) Interest Account
 - (c) Redemption Account
 - (d) Sinking Fund Installment Account
- (3) Renewal Fund
- (4) Earnings Fund
- (5) Rebate Fund
- (6) Debt Service Reserve Fund

All of the Funds and Accounts created under the Indenture shall be held by the Trustee. All moneys required to be deposited with or paid to the Trustee for the credit of any Fund or Account under any provision of the Indenture and all investments made therewith shall be held by the Trustee in trust and applied only in accordance with the provisions of the Indenture, and while held by the Trustee shall constitute part of the Trust Estate (subject to the granting clauses of the Indenture), other than the Rebate Fund, and be subject to the lien of the Indenture. *(Section 5.01)*

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 Loan Agreement, or the Indenture.

The Trustee shall apply the amounts on deposit 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 Issuer, of Project Costs (including interest on the Bonds during the period of Project construction and renovation) to the extent requisitioned as described in the Indenture.

The Trustee is authorized to disburse from the Project Fund amounts required to pay (in whole or in part) the Project Costs and is directed to issue its checks (or, at the direction of the Institution, make wire transfers) for each disbursement from the Project Fund for the Project Costs, upon a requisition submitted to the Trustee, signed by an Authorized Representative of the Institution; provided, however,

that the Trustee shall retain in the Project Fund an amount equal to the greater of (a) \$60,000 or (b) the lesser of (i) one percent (1%) of the original principal amount of the Initial Bonds or (ii) \$500,000, until an Authorized Representative of the Institution shall have delivered the completion certificate and other documents required by the Loan Agreement.

The requisition from the Project Fund shall be accompanied by bills or invoices (stamped "paid" by the Person to whom payment was due or with other evidence of payment if reimbursement is to be made to the Institution), including evidence that the bill, invoice or other evidence was not incurred on a date prior to sixty (60) days prior to the date of adoption by the Issuer or the Institution of the Reimbursement Resolution for the Project. Such requisition shall be as set forth in Exhibit D - "Form of Requisition from the Project Fund" and shall be submitted to the Trustee. The Trustee shall disburse amounts from the Project Fund not later than five (5) Business Days following the receipt of the executed requisition and accompanying bills or invoices, except that any such requisition and accompanying bills or invoices submitted on the Closing Date shall have disbursements made by the Trustee on such Closing Date. The Trustee shall be entitled to conclusively rely on the correctness and accuracy of such requisition as well as the propriety of the signature thereon.

In addition to the foregoing, any requisition submitted to the Trustee for costs of construction, improving and/or renovating the Facility Realty shall be accompanied by a notice of title continuation or an endorsement to the title insurance policies theretofore delivered pursuant to the Loan Agreement, indicating that since the last preceding disbursement of any amounts held in the Project Fund, there has been no change in the state of title and no exceptions not theretofore approved by the Issuer and the Trustee (which approvals shall not be unreasonably withheld), which notice or endorsement shall contain no exception for inchoate mechanic's liens (and such affirmative insurance relating thereto as the Issuer and/or the Trustee shall reasonably require) and shall have the effect of redating such policies to the date of the disbursement then being made and increasing the coverage of the policies by an amount equal to the disbursement then being made if the policies do not by their terms provide for such an increase.

The Trustee shall keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom and shall furnish copies of same to the Issuer or the Institution upon reasonable written request.

The Trustee shall on written request furnish to the Issuer and the Institution within a reasonable time period 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, invoices or other evidences submitted to the Trustee for such disbursement.

The completion of the Project shall be evidenced as set forth in the Loan Agreement including the filing of the certificate of an Authorized Representative of the Institution 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 Regulatory Agreement and the Indenture, be deposited by the Trustee 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, together with any amount on deposit in the Earnings Fund derived from transfers made thereto from the Project Fund, shall, after making any such transfer to the Rebate Fund, and after depositing in the Debt Service Reserve Fund an amount equal to any deficiency therein, be deposited in the Redemption Account of the Bond Fund to be applied to the redemption of Bonds at the earliest practicable date. The Trustee shall promptly notify the Institution of any amounts so deposited in the Redemption Account of the Bond Fund pursuant to the Indenture.

In the event the Institution shall be required to or shall elect to cause the Bonds to be redeemed in whole pursuant to the Loan Agreement, the balance in the Project Fund, in the Earnings Fund (in excess of any amount the Trustee is directed to transfer to the Rebate Fund pursuant to the Tax Regulatory Agreement and the Indenture) and in the Debt Service Reserve Fund shall be deposited 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, in the Earnings Fund (in excess of any amount the Trustee is directed to transfer to the Rebate Fund pursuant to the Tax Regulatory Agreement and the Indenture) and in the Debt Service Reserve Fund shall be deposited in the Bond Fund as provided in the Indenture.

Except as provided in the Indenture, all earnings on amounts held in the Project Fund shall be transferred by the Trustee and deposited in the Earnings Fund. Any transfers by the Trustee of amounts to the Rebate Fund shall first be drawn by the Trustee from the Earnings Fund prior to drawing any amounts from the Project Fund. *(Section 5.02)*

Payments into Renewal Fund; Application of Renewal Fund.

The Net Proceeds resulting from any Loss Event with respect to the Facility, together with any other amounts so required to be deposited therein under the Loan Agreement or the Mortgage, shall be deposited in the Renewal Fund (except as otherwise provided in of the Mortgage).

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 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 Regulatory Agreement and the Indenture, transfer the amounts deposited in the Renewal Fund to the Redemption Account of the Bond Fund.

If, on the other hand,

- (1) the Bonds shall not be subject to optional redemption in whole (whether by reason of such Loss Event or otherwise), or
- (2) 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 take action to effect such redemption, or
- (3) 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 as directed pursuant to the Tax Regulatory Agreement and the Indenture, to such rebuilding, replacement, repair and restoration.

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 Majority Holders and shall thereupon apply such Net Proceeds, after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the Indenture, to the rebuilding, replacement, repair and restoration of the Facility, or for deposit in the Redemption Account of the Bond Fund, as directed by the Majority Holders (or if no such direction shall be received within ninety (90) days after request therefor by the Trustee shall have been made, for deposit in the Redemption Account of the Bond Fund).

The Trustee is authorized 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 Issuer) of the costs required for the rebuilding, replacement, repair and restoration of the Facility upon written instructions from the Institution. The Trustee is further authorized and directed to issue its checks for each disbursement from the Renewal Fund upon a requisition submitted to the Trustee and signed by an Authorized Representative of the Institution. Each such requisition shall be accompanied by bills, invoices or other evidences or documentation (including, without limitation, a title continuation or other evidence that no mechanics or other liens have been filed) satisfactory to the Trustee. The Trustee shall be entitled to 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 Issuer and the Institution upon reasonable written request therefor.

The date of completion of the restoration of the Facility shall be evidenced to the Issuer 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 or arrangement for payment, reasonably satisfactory to the Trustee, has been made, (iii) that the Facility has been rebuilt, replaced, repaired or 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 all property constituting part of the Facility is subject to the terms of the Loan Agreement, and the mortgage liens and security interests of the Mortgage subject to Permitted Encumbrances, (v) the Rebate Amount applicable with respect to the Net Proceeds and the earnings thereon (with a statement as to the determination of the Rebate Amount and a 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 the Indenture and the Loan Agreement, and (z) that no Person other than the Issuer or the Trustee may benefit therefrom. Such certificate shall be accompanied by (i) a certificate of occupancy (either temporary or permanent, provided that if is a temporary certificate of occupancy, the Institution will proceed with due diligence to obtain a permanent 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 Loan Agreement; (ii) a certificate of an Authorized Representative of the Institution that all costs of rebuilding, repair, restoration and reconstruction of the Facility have been paid in full, together with releases of mechanics' liens by all contractors and materialmen who supplied work, labor, services, materials or supplies in connection with the rebuilding, repair, restoration and reconstruction of the Facility (or, to the extent that any such costs shall be the subject of a bona fide dispute, evidence to the Trustee that such costs have been appropriately bonded or that the Institution shall have posted a surety or security at least equal to the amount of such costs); and (iii) a search prepared by a title company, or other evidence satisfactory to the Trustee, indicating that there has not been filed with respect to the Facility 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 other than those encumbrances consented to by the Issuer and the Trustee.

All earnings on amounts on deposit in the Renewal Fund shall be transferred by the Trustee and deposited in the Earnings Fund. Any transfers by the Trustee of amounts to the Rebate Fund shall first be drawn by the Trustee from the Earnings Fund prior to drawing any amounts from the Renewal Fund.

Any surplus remaining in the Renewal Fund after the completion of the rebuilding, replacement, repair and restoration of the Facility shall, after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the Indenture, and after depositing in the Debt Service

Reserve Fund an amount equal to any deficiency therein, be transferred by the Trustee to the Redemption Account of the Bond Fund. *(Section 5.03)*

Payments into Bond Fund.

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

(a) The interest accruing on any Series of Bonds from the date of original issuance thereof to the date of delivery, which shall be credited to the Interest Account of the Bond Fund and applied to the payment of interest on such Series of Bonds.

(b) Amounts disbursed from the Project Fund for the payment of interest on the Bonds during the period of Project Work, which shall be credited to the Interest Account of the Bond Fund and applied to the payment of interest on the Bonds;

(c) Excess or remaining 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 Regulatory Agreement and the Indenture, or to the Debt Service Reserve Fund to the extent of any deficiency therein) (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.

(d) Loan payments received by the Trustee pursuant to the Loan Agreement, and the Custody Agreement, which shall be deposited in and credited, to the extent necessary, first to the Interest Account, second to the Principal Account, and third to the Sinking Fund Installment Account of the Bond Fund.

(e) Advance loan payments received by the Trustee pursuant to the Loan Agreement, which shall be deposited in and credited to the Redemption Account of the Bond Fund.

(f) Any amounts transferred from the Earnings Fund pursuant to the Indenture, which shall be deposited in and credited to the Interest Account of the Bond Fund.

(g) The excess amounts referred to in the Indenture, which shall be deposited in and credited to the Interest Account of the Bond Fund.

(h) Any amounts transferred from the Redemption Account pursuant to the Indenture, which shall be deposited to 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 solely to such purposes.

(i) Amounts in the Renewal Fund required by the Indenture or by the Mortgage to be deposited (subject to any transfer required to be made to the Rebate Fund in accordance with directions received pursuant to the Tax Regulatory Agreement and the Indenture or to the Debt Service Reserve Fund to the extent of any deficiency therein) to the Redemption Account of the Bond Fund pursuant to the Indenture.

(j) All other receipts when and if required by the Loan 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.

(k) Any amounts transferred from the Debt Service Reserve Fund pursuant to the Indenture, which shall be deposited in and credited to the Interest Account, the Principal Account, the Sinking Fund Installment Account or the Redemption Account, as the case may be, of the Bond Fund. (*Section 5.04*)

Application of Bond Fund Moneys.

The Trustee shall (i) on each Interest Payment Date 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 purchase or redemption (including any mandatory Sinking Fund Installment redemption) of Bonds.

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.

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 written direction of the Institution, as promptly as practicable, to the purchase of Bonds at prices not exceeding the Redemption Price thereof applicable on the earliest date upon which the Bonds are next subject to optional redemption, plus 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 to the redemption of Bonds on such redemption date. Any amounts deposited in the Redemption Account and not designated by the Institution in writing to the Trustee for payment of Interest or Principal 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 Indenture) shall be transferred to the Interest Account. Upon the purchase of any Bonds out of advance loan payments as provided in the subsection, or upon the redemption of any Bonds, an amount equal to the principal of such Bonds so purchased or redeemed shall be credited against the next ensuing and future Sinking Fund Installments for such Bonds in chronological order of the due dates of such Sinking Fund Installments until the full principal amount of such Bonds so purchased or redeemed shall have been so credited. 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 purchased or 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 connection with purchases of Bonds out of the Bond Fund as provided in the Indenture, the Institution shall arrange and the Trustee shall execute such purchases (through brokers or otherwise, and with or without receiving tenders) at the written direction of the Institution. The payment of the purchase price shall be made out of 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.

The Issuer 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 Issuer 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 said date have been purchased or redeemed (otherwise than through the operation of the Sinking Fund Installment Account) and cancelled by the Trustee and not theretofore applied as a credit against any Sinking Fund Installment (whether pursuant to this paragraph or otherwise). Each Bond so delivered, cancelled 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 Issuer on such Sinking Fund Installment payment date with respect to Bonds of such Series 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 the Indenture 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. (*Section 5.05*)

Payments into Earnings Fund; Application of Earnings Fund.

All investment income or earnings on amounts held in the Project Fund, the Renewal Fund, the Debt Service Reserve Fund or any other special fund (other than the Rebate Fund or the Bond Fund) shall be deposited upon receipt by the Trustee into the Earnings Fund. The Trustee shall keep separate accounts of all amounts deposited in the Earnings Fund and by journal entry indicate the Fund source of the income or earnings.

On the first Business Day following each Computation Period (as defined in the Tax Regulatory Agreement), the Trustee shall withdraw from the Earnings Fund and deposit to the Rebate Fund an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated as of the last day of the Computation Period. In the event of any deficiency, the balance required shall be provided by the Institution pursuant to the Tax Regulatory Agreement. Computations of the amounts on deposit in each Fund and of the Rebate Amount shall be furnished to the Trustee by the Institution in accordance with the Tax Regulatory Agreement.

The foregoing notwithstanding, the Trustee shall not be required to transfer amounts from the Earnings Fund to the Rebate Fund (and shall instead apply such amounts in the Earnings Fund as provided in the immediately following sentence), if the Institution shall deliver to the Trustee a certificate of an Authorized Representative of the Institution to the effect that (x) the applicable requirements of a

spending exception to rebate has been satisfied as of the relevant semiannual period as set forth in the Tax Regulatory Agreement, (y) the proceeds of the Bonds have been invested in obligations the interest on which is not included in gross income for Federal income tax purposes under Section 103 of the Code or (z) the proceeds of the Bonds have been invested in obligations the Yield on which (calculated as set forth in the Tax Regulatory Agreement) does not exceed the Yield on such Bonds (calculated as set forth in the Tax Regulatory Agreement). Any amounts on deposit in the Earnings Fund following the transfers to the Rebate Fund required by the Indenture shall be deposited in the Project Fund until the completion of the Project as provided in the Loan Agreement, and thereafter in the Interest Account of the Bond Fund. *(Section 5.06)*

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, any Bondholder or any other Person.

The Trustee, upon the receipt of a certification of the Rebate Amount (as defined in the Tax Regulatory Agreement) from an Authorized Representative of the Institution, shall deposit in the Rebate Fund within sixty (60) days following each Computation Date (as defined in the Tax Regulatory Agreement), an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated as of such Computation Date. If there has been delivered to the Trustee a certification of the Rebate Amount in conjunction with the completion of the Project pursuant to the Loan Agreement or the restoration of the Facility pursuant to the Indenture, at any time during a Bond Year, the Trustee shall deposit in the Rebate Fund at that time an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated at the completion of the Project or the restoration of the Facility as aforesaid. The amount deposited in the Rebate Fund pursuant to the previous sentences shall be withdrawn from the Earnings Fund. If the amount on deposit in the Rebate Fund following such deposit is less than the Rebate Amount, the Trustee shall promptly deliver a notice stating the amount of such deficiency to the Institution. It is provided in the Loan Agreement that promptly upon receipt of such notice, the Institution shall deliver the amount necessary to make up such deficiency to the Trustee for deposit in the Rebate Fund.

If within sixty (60) days following any Computation Date, the amount on deposit in the Rebate Fund exceeds the Rebate Amount, the Trustee, upon the receipt of written instructions from an Authorized Representative of the Institution, shall withdraw such excess amount and deposit it in the Project Fund until the completion of the Project as provided in the Loan Agreement, or, after the completion of the Project, deposit it in the Interest Account of the Bond Fund.

The Trustee, upon the receipt of written instructions from an Authorized Representative of the Institution, shall pay to the United States, out of amounts in the Rebate Fund, (i) not less frequently than once each five (5) years after the Closing Date, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to 90% of the Rebate Amount with respect to the Initial Bonds as of the date of such payment and (ii) notwithstanding the defeasance provisions of the Indenture, not later than thirty (30) days after the date on which all Initial Bonds have been paid in full, 100% of the Rebate Amount as of the date of payment. *(Section 5.07)*

Investment of Funds and Accounts.

Amounts in any Fund or Account established under the Indenture may, if and to the extent then permitted by law, be invested only in Qualified Investments provided that any Qualified Investment shall not have a maturity date greater than five (5) years from the date of the making of such investment unless such Qualified Investment may be put at par at any time at the option of the owner thereof, and provided,

further, that any investment of amounts held in the Debt Service Reserve Fund shall be limited to Government Obligations. 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. In particular, unexpended Bond proceeds transferred from the Project Fund (or from the Earnings Fund with respect to amounts deposited therein from the Project Fund) to the Redemption Account of the Bond Fund pursuant to the Indenture may not be invested at a Yield (as defined in the Tax Regulatory Agreement) which is greater than the Yield on the applicable Series of Bonds. Such investments shall be made by the Trustee only at the written request of an Authorized Representative of the Institution; and if such investment is to be in one or more certificates of deposit, investment agreements or guaranteed investment contracts, then such written request shall include written assurance to the effect that such investment complies with the Tax Regulatory Agreement. Any investment under the Indenture shall be made in accordance with the Tax Regulatory 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 (i) the Rebate Fund with respect to the investment of amounts held in the Rebate Fund, (ii) the Bond Fund with respect to the investment of amounts held in the Bond Fund, and (iii) the Earnings Fund with respect to the investment of amounts held in any other Fund.

At the written request of an Authorized Representative of the Institution no sooner than ten (10) days prior to each Loan Payment Date under the Loan Agreement, the Trustee shall notify the Institution of the amount of such net investment income or gain received and collected subsequent to the last such loan payment and the amount then available in the various Accounts of the Bond Fund.

Upon the written direction of an Authorized Representative of the Institution, the Trustee shall sell at the best price reasonably obtainable, 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. The Trustee shall not be liable for losses incurred as a result of actions taken in good faith in accordance with the Indenture. As soon as practicable after any such sale, redemption or exchange, the Trustee shall give notice thereof to the Issuer and the Institution.

Neither the Trustee nor the Issuer 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 in accordance with the Indenture. The investments authorized by the Indenture shall at all times be subject to the provisions of applicable law, as amended from time to time.

In computing the amount in any Fund or Account, obligations purchased as an investment of moneys therein shall be valued at fair market value as determined by the Trustee one month prior to each Interest Payment Date.

The fair market value of Qualified Investments shall be determined as follows:

- (i) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*), the average bid and asked prices for such investments so published on or most recently prior to such time of determination;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*, the average bid price at such nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or as quoted in the Interactive Data Service; and

(iii) as to certificates of deposit and bankers acceptances and other investments, the face amount thereof, plus accrued interest.

If more than one provision of this definition of “fair market value” shall apply at any time to any particular investment, the fair market value thereof at such time shall be determined in accordance with the provision establishing the lowest value for such investment.

In the case of the Debt Service Reserve Fund, a “surplus” means the amount by which the amount on deposit therein is in excess of the Debt Service Reserve Fund Requirement. On each Debt Service Reserve Fund Valuation Date, and upon any withdrawal from the Debt Service Reserve Fund, the Trustee shall determine the amount on deposit in the Debt Service Reserve Fund. If on any such date a deficiency exists, the Trustee shall notify the Issuer and the Institution of such deficiency and that such deficiency must be replenished by the Institution as required by the Loan Agreement. If a surplus exists, the Trustee shall notify the Issuer and the Institution thereof and, subject to the requirements of the Tax Regulatory Agreement, shall upon written instructions of the Institution transfer an amount equal to such surplus to the Project Fund until the completion of the Project as provided in the Loan Agreement and thereafter shall transfer such amount to the Interest Account of the Bond Fund. (*Section 5.09*)

Non-presentment of Bonds.

If on any Interest Payment Date or redemption date on the Bonds the amount in the Interest Account of the Bond Fund (after taking into account amounts available to be transferred to the Interest Account from the Project Fund) shall be less than the amount of interest then due and payable on the Bonds, or if on any principal payment date on the Bonds the amount in the Principal Account shall be less than the amount of principal of the Bonds then due and payable, or if on any Sinking Fund Installment payment date for the Bonds the amount in the Sinking Fund Installment Account of the Bond Fund shall be less than the amount of the Sinking Fund Installment then due and payable on the Bonds, in each case, after giving effect to all payments received by the Trustee in immediately available funds by 10:00 a.m. (New York City time) on such date from or on behalf of the Institution or the Issuer on account of such interest, principal or Sinking Fund Installment, the Trustee forthwith shall transfer moneys from the Debt Service Reserve Fund, first, to such Interest Account, second to such Principal Account, and third, to such Sinking Fund Installment Account, all to the extent necessary to make good any such deficiency.

The Trustee shall give to the Institution on or prior to each Loan Payment Date on which the Institution is obligated pursuant to the Loan Agreement to pay to the Trustee amounts in respect of any deficiency in the Debt Service Reserve Fund, telephonic notice (to be promptly confirmed in writing) specifying any such deficiency in the Debt Service Reserve Fund. The failure of the Trustee to deliver such notice or any defect in such notice shall not relieve the Issuer from any of its obligations under the Indenture or any other obligor from any of its obligations under any of the Security Documents.

In the event that the Institution shall deliver written notice to the Trustee of its intention to redeem Bonds, the Institution may direct the Trustee to apply such amounts in the Debt Service Reserve Fund to effect such redemption such that the amount remaining in the Debt Service Reserve Fund upon such redemption shall not be less than the reduced Debt Service Reserve Fund Requirement as will be applicable to the remainder of the Bonds Outstanding. (*Section 5.13*)

Creation of Liens; Indebtedness.

It is the intention of the Issuer and the Trustee that each Mortgage is and will continue to be a mortgage lien upon the Facility (subject only to Permitted Encumbrances). The Issuer shall not create or suffer to be created, or incur or issue any evidences of indebtedness secured by, any lien or charge upon or pledge of the Trust Estate, except the lien, charge and pledge created by the Indenture and the other Security Documents. *(Section 7.05)*

Issuer Tax Covenant.

The Issuer covenants that it shall not take any action within its control, nor refrain from taking any action reasonably requested by the Institution or the Trustee, that would cause the interest on the Bonds to become includable in gross income for Federal income tax purposes; provided, however, the breach of this covenant shall not result in any pecuniary liability of the Issuer and the only remedy to which the Issuer shall be subject shall be specific performance. *(Section 7.08)*

Events of Default; Acceleration of Due Date.

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

- (1) Failure in the payment of the interest on any Bond when the same shall become due and payable;
- (2) 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 the date of redemption after notice of redemption therefor or otherwise;
- (3) Failure of the Issuer 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 above) and (A) continuance of such failure for more than thirty (30) days after written notice of such failure has been given to the Issuer and the Institution specifying the nature of same from the Trustee or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, or (B) if by reason of the nature of such failure the same can be remedied, but not within the said thirty (30) days, the Issuer or the Institution fails to commence and thereafter proceed with reasonable diligence after receipt of said notice to cure such failure or fails to continue with reasonable diligence its efforts to cure such failure or fails to cure such failure within sixty (60) days of delivery of said notice; or
- (4) The occurrence of an "Event of Default" under the Loan Agreement or any other Security Document.

Upon the happening and continuance of any Event of Default, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the Issuer and the Institution) or the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding (by notice in writing to the Issuer, the Institution and the Trustee) may declare the principal or Redemption Price, if any, 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.

If there shall occur an Event of Default under Section 9.1(d) or (e) of the Loan Agreement, the unpaid principal of all the Bonds (and all principal installments of loan payments under the Loan Agreement) and the interest accrued thereon shall be due and payable immediately without the necessity of any declaration or other action by the Trustee or any other Person.

The right of the Trustee or of the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding to make any such declaration as aforesaid, 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 have been paid by or for the account of the Issuer, and all other Events of Default have been otherwise remedied, and the reasonable and proper charges, expenses and liabilities of the Trustee, shall either be paid by or for the account of the Issuer or provision satisfactory to the Trustee shall be made for such payment and the Facility shall not have been sold 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 Loan Agreement, the Issuer has granted to the Institution full authority for the account of the Issuer 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 Issuer with full power to do any and all things and acts to the same extent that the Issuer 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 Issuer. (*Section 8.01*)

Enforcement of Remedies.

Upon the occurrence and continuance of any Event of Default, then and in every case the Trustee may proceed, and upon the written request of the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Bondholders under the Bonds, the Loan 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 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 may take such action, without notice or demand, as it deems advisable.

In the enforcement of any right or remedy under the Indenture or under any other Security Document, 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 Issuer, for principal, interest, Sinking Fund Installments, 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 to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Issuer, 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 proof 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 or the Issuer or their creditors or property.

Regardless of the occurrence of an Event of Default, the Trustee, if requested in writing by the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and 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 Document 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, 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. *(Section 8.02)*

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 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 Bond Fund and all moneys so deposited and available for payment of the Bonds shall be applied, subject to the Indenture, as follows:

(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, 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 installment, 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 or principal installments 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 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 and if applicable to the Redemption Price of the Bonds without preference or priority of principal over interest or of interest over principal, Sinking Fund Installments, 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 shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the default 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 shall later become due and payable, the moneys shall be applied in accordance with the provisions of paragraph (A) under this heading.

Whenever moneys are to be applied pursuant to the default provisions of the Indenture, 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 for application and the likelihood of additional moneys becoming available for such application 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 all 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. *(Section 8.03)*

Majority Holders Control Proceedings.

Anything in the Indenture to the contrary notwithstanding, the Majority Holders 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. *(Section 8.05)*

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 for any remedy under the Indenture or under any other Security Document, unless such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default as provided in the Indenture, and the Holders of over twenty-five percent (25%) 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 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, Sinking Fund Installments for, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, 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 said Bonds expressed. *(Section 8.06)*

Notice of Default.

The Trustee shall promptly mail to the Issuer, to registered Holders of Bonds 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 the Indenture. *(Section 8.10)*

Waivers of Default.

The Trustee shall waive any default under the Indenture and its consequences and rescind any declaration of acceleration only upon the written request of the Majority Holders; 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 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 expenses of the Trustee in connection with such default shall have been paid or provided for, 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 Institution, the Issuer, the Trustee 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. *(Section 8.11)*

Resignation or Removal of Trustee.

The Trustee may resign and thereby become discharged from the trusts created under the Indenture for any reason by giving written notice by first class mail, postage prepaid, to the Issuer, to the Institution and to the Holders of all Bonds not less than sixty (60) days before such resignation is to take effect, but such resignation shall not take effect until the appointment and acceptance thereof of a successor Trustee pursuant to the Indenture.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing filed with the Trustee and signed by the Issuer or the Majority Holders or their attorneys-in-fact duly authorized. Such removal shall become effective either upon the appointment and acceptance of such appointment by a successor Trustee or at the date specified in the instrument of removal. The Trustee shall promptly give notice of such filing to the Issuer and the Institution. No removal shall take effect until the appointment and acceptance thereof of a successor Trustee pursuant to the Indenture.

If the Trustee shall resign or shall be removed, such Trustee must transfer and assign to the successor Trustee, not later than the date of this acceptance by the successor Trustee of its appointment as such, or thirty (30) days from the date specified in the instrument of removal or resignation, if any,

whichever shall last occur, (i) all amounts (including all investments thereof) held in any Fund or Account under the Indenture, together with a full accounting thereof, (ii) all records, files, correspondence, registration books, Bond inventory, all information relating to the Indenture and to Bond payment status (i.e., outstanding principal balances, principal payment and interest payment schedules, Sinking Fund Installment schedules, pending notices of redemption, payments made and to whom, delinquent payments, default or delinquency notices, deficiencies in any Fund or Account balance, etc.) and all such other information (in whatever form) relating to all Funds and Accounts in the possession of the Trustee being removed or resigning, and (iii) all Security Documents and other documents or agreements, including, without limitation, all Uniform Commercial Code Financing Statements, all insurance policies or certificates, letters of credit or other instruments provided to the Trustee being removed or resigning (clauses (i), (ii) and (iii), together with the Trust Estate, being collectively referred to as the “Trust Corpus”). (Section 9.07)

Successor Trustee.

If at any time the Trustee shall be dissolved or otherwise become incapable of acting or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator thereof, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason or if the Trustee shall resign, the Institution shall cooperate with the Issuer and the Issuer shall appoint a successor Trustee and shall use its best efforts to obtain acceptance of such trust by the successor Trustee within sixty (60) days from such vacancy or notice of resignation. Within twenty (20) days after such appointment and acceptance, the Issuer shall notify in writing the Institution and the Holders of all Bonds.

In the event of any such vacancy or resignation and if a successor Trustee shall not have been appointed within sixty (60) days of such vacancy or notice of resignation, the Majority Holders, by an instrument or concurrent instruments in writing, signed by such Bondholders or their attorneys-in-fact thereunto duly authorized and filed with the Issuer, may appoint a successor Trustee which shall, immediately upon its acceptance of such trusts, and without further act, supersede the predecessor Trustee. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of the Indenture, within ninety (90) days of such vacancy or notice of resignation, the Holder of any Bond then Outstanding, the Issuer or any retiring Trustee or the Institution may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any Trustee appointed under the Indenture shall be a national banking association or a bank or trust company duly organized under the laws of any state of the United States authorized to exercise corporate trust powers under the laws of the State and authorized by law and its charter to perform all the duties imposed upon it by the Indenture and each other Security Document. At the time of its appointment, any successor Trustee shall (x) have a capital stock and surplus aggregating not less than \$100,000,000 and (y) have an investment grade rating of at least “Baa3” or “P-3”.

Any predecessor Trustee shall transfer to any successor Trustee appointed under the Indenture as a result of a vacancy in the position the Trust Corpus by a date not later than thirty (30) days from the date of the acceptance by the successor Trustee of its appointment as such. Where no vacancy in the position of the Trustee has occurred, the transfer of the Trust Corpus shall take effect in accordance with the provisions of the Indenture.

Every successor Trustee shall execute, acknowledge and deliver to its predecessor, and also to the Issuer, an instrument in writing accepting such appointment, and thereupon such successor Trustee,

without any further act, deed, or conveyance, shall become fully vested with all moneys, estates, properties, rights, immunities, powers and trusts, and subject to all the duties and obligations, of its predecessor, with like effect as if originally named as such Trustee; but such predecessor shall, nevertheless, on the written request of its successor or of the Issuer, and upon payment of the compensation, expenses, charges and other disbursements of such predecessor which are due and payable pursuant to the Indenture, execute and deliver an instrument transferring to such successor Trustee all the estate, properties, rights, immunities, powers and trusts of such predecessor and the Trust Corpus; and every predecessor Trustee shall deliver all property and moneys, together with a full accounting thereof, held by it under the Indenture to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such Trustee the estate, properties, rights, immunities, powers and trusts vested or intended to be vested in the predecessor Trustee, any such instrument in writing shall, on request, be executed, acknowledged and delivered by the Issuer. Any successor Trustee shall promptly notify the Issuer and the Paying Agent of its appointment as Trustee.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a national banking association or a bank or trust company duly organized under the laws of any state of the United States and shall be authorized by law and its charter to perform all the duties imposed upon it by the Indenture and each other Security Document shall be the successor to such Trustee without the execution or filing of any paper or the performance of any further act. (*Section 9.08*)

Defeasance.

If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, interest and all other amounts due or to become due thereon or in respect thereof, at the times and in the manner stipulated therein and in the Indenture, and all fees and expenses and other amounts due and payable under the Indenture and the Loan Agreement, and any other amounts required to be rebated to the Federal government pursuant to the Tax Regulatory Agreement or the Indenture, shall be paid in full, then the pledge of any loan 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 Issuer to the Bondholders under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied and the Bonds 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 below under this heading. At the time of such cessation, termination, discharge and satisfaction, (1) the Trustee shall cancel and discharge the lien of the Indenture and of the Mortgage 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 the principal or Redemption Price, if applicable, Sinking Fund Installments for, 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 payment of any amounts the Trustee has been directed to pay to the Federal government under the Tax Regulatory Agreement or the Indenture.

Bonds or interest installments for the payment or redemption of which moneys (or Defeasance Obligations which shall not be subject to call or redemption or prepayment prior to maturity and the full and timely payment of the principal of and interest on which when due, together with the moneys, if any,

set aside at the same time, will provide funds sufficient for such payment or redemption) shall then be set aside and held in trust by the Trustee or Paying Agents, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading, if (i) in case any such Bonds are to be redeemed prior to the maturity thereof, all action necessary to redeem such Bonds shall have been taken and notice of such redemption shall have been duly given or provision satisfactory under the requirements of the Indenture to the Trustee shall have been made for the giving of such notice, and (ii) if the maturity or redemption date of any such Bond shall not then have arrived, (y) provision shall have been made by deposit with the Trustee or other methods satisfactory to the Trustee for the payment to the Holders of any such Bonds of the full amount to which they would be entitled by way of principal or Redemption Price, Sinking Fund Installments, and interest and all other amounts then due under the Security Documents to the date of such maturity or redemption, and (z) provision satisfactory to the Trustee shall have been made for the mailing of a notice to the Holders of such Bonds that such moneys are so available for such payment on such maturity or redemption date. *(Section 10.01)*

Limitation on Modifications.

The Indenture shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of the Indenture. *(Section 11.01)*

Supplemental Indentures Without Bondholder's Consent.

The Issuer and the Trustee may, from time to time and at any time, enter into Supplemental Indentures without the 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 Issuer in the Indenture other covenants and agreements to be observed by the Issuer 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 Issuer 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, be necessary to assure that the interest on the Bonds not be includable in gross income for Federal income tax purposes.

(7) 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.

(8) To modify, amend or supplement the Indenture or any Supplemental 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 Supplemental Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute.

Before the Issuer and the Trustee shall enter into any Supplemental Indenture pursuant to the Indenture, there shall have been filed with the Trustee an opinion of Nationally Recognized Bond Counsel 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 Issuer in accordance with its terms. (Section 11.02)

Supplemental Indentures With Bondholders' Consent.

Subject to the terms and provisions contained in the Indenture, the Majority Holders shall have the right from time to time, to consent to and approve the entering into by the Issuer and the Trustee of any Supplemental Indenture as shall be deemed necessary or desirable by the Issuer 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 in 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, Sinking Fund Installments for, 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, or any extension of the time of payment thereof, without the consent of the Holder of such Bond, (ii) the creation of a lien upon or pledge of the Trust Estate other than the liens or pledge created by the Indenture and the other Security Documents, 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 paragraph, 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 Issuer shall determine to enter into any Supplemental Indenture for any of the purposes under this heading, it shall cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, 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.

Within one year after the date of such notice, the Issuer 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 the Majority Holders or the Holders of not less than 100%, as the case may be, in aggregate principal amount of the Bonds then Outstanding and (ii) an opinion of Nationally Recognized Bond Counsel 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 Issuer 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 Holders of not less than the percentage of Bonds required by the Indenture 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 Issuer 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 the Indenture, 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 Issuer, 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. *(Section 11.03)*

Amendments of Related Security Documents Not Requiring Consent of the Bondholders.

The Issuer and the Trustee may, without the consent of or notice to the Bondholders, consent (if required) to any amendment, change or modification of any of the Related Security Documents for any of the following purposes: (i) to cure any ambiguity, inconsistency, formal defect or omission therein; (ii) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security which may be lawfully granted or conferred; (iii) to subject thereto additional revenues, properties or collateral; (iv) to evidence the succession of a successor Trustee or to evidence the appointment of a separate or co-Trustee or the succession of a successor separate or co-Trustee; (v) to make any change required in connection with a permitted amendment to a Related Security Document or a permitted Supplemental Indenture; and (vi) to make any other change that, in the judgment of the Trustee (which, in exercising such judgment, may conclusively rely, and shall be protected in relying, in good faith, upon an Opinion of Counsel or an opinion or report of engineers, accountants or other experts) does not materially adversely affect the Bondholders. The Trustee shall have no liability to any Bondholder or any other Person for any action taken by it in good faith pursuant to the Indenture. Before the Issuer or the Trustee shall enter into or consent to any amendment, change or modification to any of the Related Security Documents, there shall be filed with the Trustee an opinion of Nationally Recognized Bond Counsel to the effect that such amendment, change or modification will not cause the interest on any of the Bonds to cease to be excluded from gross income for federal income tax purposes under the Code. *(Section 12.02)*

Amendments of Related Security Documents Requiring Consent of Bondholders.

Except as provided in the Indenture, the Issuer 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 Majority Holders given and procured as in set forth in the Indenture; provided, however, there shall be no amendment, change or modification to (i) the obligation of the Institution to make loan payments with respect to the Bonds under the Loan Agreement or the Promissory Note or (ii) the Tax Regulatory Agreement, without the delivery of an opinion of Nationally

Recognized Bond Counsel to the effect that such amendment, change, modification, reduction or postponement will not cause the interest on any Series of Bonds to become includable in gross income for Federal income tax purposes. If at any time the Institution 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 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 office of the Trustee for inspection by all Bondholders. The Trustee may, but shall not be obligated to, enter into any such amendment, change or modification to a Related Security Document which affects the Trustee's own rights, duties or immunities under such Related Security Document or otherwise. Before the Trustee shall enter into or consent to any amendment, change or modification to any of the Related Security Documents, there shall be filed with the Trustee an opinion of Nationally Recognized Bond Counsel to the effect that such amendment, change or modification will not cause the interest on any of the Bonds to cease to be excluded from gross income for federal income tax purposes under the Code. *(Section 12.03)*

No Pecuniary Liability of Issuer or Members; No Debt of the State or the City.

Every agreement, covenant and obligation of the Issuer under the Indenture is predicated upon the condition that any obligation for the payment of money incurred by the Issuer shall not create a debt of the State or 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 Issuer other than those pledged therefor but shall be a limited revenue obligation of the Issuer payable by the Issuer solely from the loan payments, revenues and receipts pledged to the payment thereof in the manner and to the extent in the Indenture specified and nothing in the Bonds, in the Loan Agreement, in the Indenture or in any other Security Document shall be considered as pledging any other funds or assets of the Issuer. The Issuer shall not be required under the Indenture or the Loan Agreement or any other Security Document to expend any of its funds other than (i) the proceeds of the Bonds, (ii) the loan payments, revenues and receipts and other moneys pledged to the payment of the Bonds, (iii) any income or gains therefrom, and (iv) the Net Proceeds with respect to the Facility. No provision, covenant or agreement contained in the Indenture or in the Bonds or any obligations in the Indenture or therein imposed upon the Issuer or the breach thereof, shall constitute or give rise to or impose upon the Issuer a pecuniary liability or a charge upon its general credit.

All covenants, stipulations, promises, agreements and obligations of the Issuer contained in the Indenture shall be deemed to be covenants, stipulations, promises, agreements and obligations of the Issuer and not of any member, director, officer, employee or agent of the Issuer in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments for, or interest on the Bonds or for any claim based thereon or under the Indenture against any member, director, officer, employee or agent of the Issuer or any natural person executing the Bonds. Neither the Bonds, the interest thereon, the Sinking Fund Installments therefor, 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 Issuer other than those pledged therefor. *(Section 13.07)*

Priority of Indenture Over Liens.

The Indenture and the Mortgage are given in order to secure funds to pay for the Project and by reason thereof, it is intended that the Indenture and the Mortgage shall be superior to any laborers', mechanics' or materialmen's liens which may be placed upon the Facility subsequent to the recordation of the Mortgage. In compliance with Section 13 of the Lien Law, the Issuer will receive the advances secured by the Indenture and the Mortgage and will hold the right to receive such advances as a trust fund

to be applied first for the purpose of paying the cost of improvements and that the Issuer will apply the same first to the payment of the costs of improvements before using any part of the total of the same for any other purpose. *(Section 13.08)*

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “**Disclosure Agreement**”) is executed and delivered by International Leadership Charter School (“**ILCS**”) and U.S. Bank National Association, as trustee (the “**Trustee**”), in connection with the issuance of \$17,750,000 Build NYC Resource Corporation Revenue Bonds, Series 2013 (International Leadership Charter School Project) (the “**Bonds**”). The Bonds are being issued by the Build NYC Resource Corporation (the “**Corporation**”) pursuant to an Indenture of Trust dated as of March 1, 2013 (the “**Indenture**”), by and between the Corporation and the Trustee. The proceeds of the Bonds are being loaned by the Corporation to ILCS pursuant to a Loan Agreement dated as of March 1, 2013 (the “**Agreement**”). ILCS and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by ILCS and the Trustee for the benefit of the Bondowners and in order to assist the Underwriter (defined below) in complying with the Rule (defined below). ILCS and the Trustee acknowledge that the Corporation has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures. The Trustee, except as provided in Section 3(c), has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures except for its negligent failure to comply with its obligations under Section 3(c).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture and the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any Annual Report provided by ILCS pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Bondowner**” shall mean the registered owner of a Bond and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or ILCS.

“**Dissemination Agent**” shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by ILCS and which has filed with ILCS, the Trustee and the Corporation a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be the Trustee. In the absence of a third-party Dissemination Agent, ILCS shall serve as the Dissemination Agent.

“**Listed Events**” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB as contemplated by this Disclosure Agreement. Filing information relating to the MSRB is set forth in Exhibit B hereto.

“Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

SECTION 3. Provision of Annual Reports; Annual Conference Call with Beneficial Owners of the Bonds.

(a) The Dissemination Agent, not later than 120 days after the end of each fiscal year beginning with the fiscal year ending June 30, 2013 (the **“Filing Deadline”**), shall provide to the MSRB an Annual Report provided by ILCS, which Annual Report ILCS agrees shall be consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than three (3) Business Days prior to said date, ILCS (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of ILCS may be submitted separately from, and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of ILCS at a later date, ILCS shall provide to the Dissemination Agent, and the Dissemination Agent shall provide to the MSRB, unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. ILCS shall submit the audited financial statements to the Dissemination Agent and the Trustee (if not also the Dissemination Agent) as soon as practicable after they become available and the Dissemination Agent shall submit the audited financial statements to the MSRB as soon as practicable thereafter. ILCS shall provide a copy of the Annual Report to the Corporation and the Trustee. In addition to the foregoing, ILCS shall conduct an annual continuing disclosure conference call with beneficial owners of the Bonds within 120 days after the close of each of its Fiscal Years.

(b) The Dissemination Agent shall:

(i) file a report with ILCS, the Corporation and the Trustee (if not also the Dissemination Agent) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided (the **“Compliance Certificate”**); such report shall include a certification from ILCS that the Annual Report complies with the requirements of this Disclosure Agreement; and

(ii) upon request of any Bondowner or Beneficial Owner to the Dissemination Agent, the Dissemination Agent shall provide the most recent Annual Report directly to such requesting Bondowner or Beneficial Owner, and the costs of complying with such requests will be borne by ILCS.

(c) If the Trustee has not received a Compliance Certificate by the Filing Deadline (or while the Trustee is the Dissemination Agent, provided such Compliance Certificate by the Filing Deadline), the Trustee shall send, and ILCS hereby authorizes and directs the Trustee to submit on its behalf, a notice to the MSRB in substantially the form attached as Exhibit A.

(d) If the Dissemination Agent has not provided the Annual Report to the MSRB by the applicable Filing Deadline, ILCS shall send, or cause the Dissemination Agent to send, a notice substantially in the form of Exhibit A irrespective of whether the Trustee submits such notice.

SECTION 4. Content of Annual Reports. Subject to the provisions of Section 3, ILCS's Annual Report shall contain or incorporate by reference financial information and operating data relating to the information of the type provided in the text or tabular materials, and in each case substantially in the same level of detail, as is found in Appendix A to the Official Statement pertaining to the Bonds under the following captions: "GOVERNANCE" (the list of board members and the list of the management team), "ENROLLMENT", "CHARTER SCHOOL FINANCES", "ILCS ESTIMATES FOR FY 2012-13 AND PROJECTIONS FOR FY 2013-14 - 2017-18", and "DEBT".

The financial statements provided pursuant to Sections 3 and 4 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which ILCS is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. ILCS shall clearly identify each such other document so incorporated by reference.

Neither the Trustee nor the Dissemination Agent shall be under any obligation to verify the content or correctness of, and shall not be responsible for the sufficiency of the Annual Report or for the compliance of the contents of any Annual Report with the Rule or this Disclosure Agreement.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, any one of which event is a "Listed Event" and collectively are "Listed Events":

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue

(IRS Form 5701- TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. modifications to rights of holders of the Bonds, if material;
8. Bond calls, if material, and tender offers (the giving of notice of regularly scheduled mandatory sinking fund redemption shall not be deemed material for this purpose under clause (b) of this Section 5);
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership or similar event of ILCS;
13. the consummation of a merger, consolidation, or acquisition involving ILCS or the sale of all or substantially all of the assets of ILCS, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional Trustee or the change of the name of the Trustee, if material.

Note to clause (12) For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for ILCS in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of ILCS, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of ILCS,

(b) Upon the occurrence of a Listed Event, ILCS shall, in a timely manner not to exceed ten (10) business days after the occurrence of such event, file, or direct the Dissemination Agent to file, a notice of such occurrence with the MSRB. ILCS shall provide a copy of each such notice to the Corporation and the Trustee. The Dissemination Agent, if other than ILCS, shall have no duty to file a notice of an event described hereunder unless it is directed in writing to do so by ILCS, and shall have no responsibility for verifying any of the information in any such notice or determining the materiality of the event described in such notice.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. ILCS's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by ILCS and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If ILCS's obligations under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were ILCS and ILCS shall have no further responsibility hereunder.

SECTION 8. Dissemination Agent. ILCS may, from time to time with notice to the Trustee and the Corporation, appoint or engage a third-party Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may, with notice to the Trustee and the Corporation, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than ILCS) may resign upon thirty (30) days' written notice to ILCS, the Trustee and the Corporation. The initial Dissemination Agent shall be the Trustee.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, ILCS and the Trustee may amend this Disclosure Agreement (and, except as provided in the last sentence of this Section 9, the Trustee shall agree to any amendment so requested by ILCS and which does not affect the rights and remedies of the Trustee or Dissemination Agent) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both ILCS and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, ILCS and the Trustee may amend this Disclosure Agreement if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of ILCS or of the type of business conducted by ILCS, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) (i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement. The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. Neither the Trustee nor the Dissemination Agent shall be required to accept or acknowledge any amendment of this Disclosure Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent ILCS from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If ILCS chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, ILCS shall have no obligation

under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of ILCS or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of Bondowners representing at least 25% in aggregate principal amount of Outstanding Bonds, shall), take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause ILCS or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause ILCS or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of ILCS, the Trustee, or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. In no event shall ILCS or the Dissemination Agent be liable for monetary damages in the event of a default under this Disclosure Agreement.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, Article IX of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than ILCS) shall have only such duties as are specifically set forth in this Disclosure Agreement, and ILCS agrees to indemnify and save the Dissemination Agent (if other than ILCS), its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of ILCS under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. ILCS covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement.

The Trustee, provided that the Trustee is not also the Dissemination Agent, shall have no obligation under this Disclosure Agreement to report any information to the MSRB or any Bondowner. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 5 hereunder, whether or not such event is material, the Trustee shall timely notify ILCS of such occurrence, provided, however, that any failure by the Trustee to give such notice to ILCS shall not affect ILCS's obligations under this Disclosure Agreement or give rise to any liability by the Trustee for such failure.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of ILCS, the Corporation, the Trustee, the Dissemination Agent, the Underwriter and the Bondowners, and shall create no rights in any other person or entity.

SECTION 14. Disclaimer. No Annual Report or notice of a Listed Event filed by or on behalf of ILCS under this Disclosure Agreement shall obligate ILCS to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor

shall any such filing constitute a representation by ILCS or raise any inference that no other material events have occurred with respect to ILCS or the Bonds or that all material information regarding ILCS or the Bonds has been disclosed. ILCS shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 16. Governing Law. This Agreement shall be construed in accordance with the laws of the State of New York.

SECTION 17. Entire Agreement. This Agreement, including the Exhibits hereto, constitutes the sole and entire agreement and understanding of the parties with respect to the subject matter hereof. All Exhibits hereto are incorporated herein by reference.

Date: March 21, 2013

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION, *as Trustee*

By: _____
Authorized Officer

EXHIBIT A
NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Build NYC Resource Corporation

Name of Bond Issue: Revenue Bonds, Series 2013 (International Leadership Charter School Project)

Name of Obligated Person: International Leadership Charter School

Date of Issuance: March 21, 2013

NOTICE IS HEREBY GIVEN that International Leadership Charter School (“ILCS”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated March 21, 2013 between ILCS and U.S. Bank National Association

Dated: _____

U.S. BANK NATIONAL ASSOCIATION
as Dissemination Agent on behalf of
International Leadership Charter School

cc: International Leadership Charter School

EXHIBIT B

FILING INFORMATION FOR THE MSRB

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board
<http://emma.msrb.org/>

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APPENDIX H

FORM OF OPINION OF BOND COUNSEL

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[FORM OF BOND COUNSEL OPINION]

437 Madison Avenue
New York, New York 10022-7001
(212) 940-3000
Fax. (212) 940-3111

March 21, 2013

Build NYC Resource Corporation
New York, New York

U.S. Bank National Association, as Trustee
New York, New York

TD Securities (USA) LLC, as Underwriter
New York, New York

Re: \$17,750,000 Build NYC Resource Corporation
Revenue Bonds, Series 2013
(International Leadership Charter School Project)

Ladies and Gentlemen:

We have acted as bond counsel to the Build NYC Resource Corporation (New York, New York) (the “**Issuer**”), in connection with the issuance on the date hereof by the Issuer of its Revenue Bonds, Series 2013 (International Leadership Charter School), in the aggregate principal amount of \$17,750,000 (the “**Bonds**”). The Bonds are authorized to be issued pursuant to:

- (i) Section 1411 of the New York Not-for-Profit Corporation Law (the “**Act**”),
- (ii) the Bond Resolution duly adopted by the Issuer on December 11, 2012 (the “**Resolution**”), and
- (iii) the Indenture of Trust, dated as of March 1, 2013 (the “**Indenture**”), by and between the Issuer and U.S. Bank National Association, as trustee for the benefit of the Owners of the Bonds (the “**Trustee**”). The Bonds were issued to finance or refinance the costs of acquisition, construction, renovating and equipping of certain facilities (as defined in the Loan Agreement referenced below) (collectively, the “**Project**”).

The Issuer will loan the proceeds of the Bonds to International Leadership Charter School, a not-for profit education corporation (the “**Institution**”), pursuant to the terms of a

Build NYC Resource Corporation
U.S. Bank National Association, as Trustee
TD Securities (USA) LLC, as Underwriter
March 21, 2013
Page 2

Loan Agreement (the “**Loan Agreement**”), dated as of March 1, 2013, between the Issuer and the Institution. The Institution has evidenced its obligations to make loan payments to the Issuer by the issuance and delivery of a certain Promissory Note, dated March 21, 2013 (the “**Note**”), from the Institution to the Issuer and endorsed by the Issuer to the Trustee.

The Institution has granted mortgage liens on the Project to the Issuer pursuant to (i) a certain Mortgage and Security Agreement (Acquisition Loan), (ii) a certain Mortgage and Security Agreement (Building Loan), and (iii) a certain Mortgage and Security Agreement (Indirect Loan), each dated as of March 1, 2013 (collectively, the “**Mortgages**”), each from the Institution to the Issuer, and the Issuer has assigned to the Trustee as security for the Bonds, for the benefit of the Owners of the Bonds, substantially all of its rights under the Mortgages pursuant to (i) a certain Assignment of Mortgage and Security Agreement (Acquisition Loan), (ii) a certain Assignment of Mortgage and Security Agreement (Building Loan), and (iii) a certain Assignment of Mortgage and Security Agreement (Indirect Loan), each dated March 21, 2013 (collectively, the “**Assignments**”), each from the Issuer to the Trustee.

The Issuer and the Institution have entered into a Tax Regulatory Agreement, dated the date hereof (the “**Tax Regulatory Agreement**”), in which the Issuer 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**”). TD Securities (USA) LLC (the “**Underwriter**”) has agreed to purchase the Bonds from the Issuer pursuant to the terms of a Bond Purchase Agreement, dated March 13, 2013 (the “**Bond Purchase Agreement**”), among the Issuer, the Underwriter and the Institution.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in Section 1.01 of 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 Record 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

Build NYC Resource Corporation
U.S. Bank National Association, as Trustee
TD Securities (USA) LLC, as Underwriter
March 21, 2013
Page 3

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 Bond Purchase Agreement; (b) the Tax Regulatory Agreement; (c) the Loan Agreement; (d) the Mortgages; (e) the Letter of Representation and Indemnification, dated of even date herewith; (f) the Official Statement, dated March 13, 2013 (the “**Official Statement**”); (g) the Continuing Disclosure Agreement, dated as of March 1, 2013 (the “**Continuing Disclosure Statement**”) between the Institution and the Trustee; and (h) the Bond Counsel Questionnaire submitted to us by the Institution; and (ii) the Issuer in (a) the Bond Purchase Agreement; (b) the Indenture; (c) the Tax Regulatory Agreement; (d) the Loan Agreement; (e) the Assignments; (f) the Certificate of Determination, dated the date hereof; and (f) the General Certificate of the Issuer, dated the date hereof. We call your attention to the fact that there are certain requirements with which the Issuer 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 Record 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 Issuer, Richard E. Marshall, Esq., special counsel to the Institution, Edwards Wildman Palmer LLP, New York, New York, and counsel to the Trustee, Carter Ledyard & Milburn LLP, New York, New York, all of even date herewith. Copies of the aforementioned opinions are contained in the Record of Proceedings.

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

1. The Issuer is a duly organized and existing corporate entity constituting a local development corporation of the State of New York.
2. The Issuer is duly authorized to issue, execute, sell and deliver the Bonds, for the purpose of paying the costs described above.
3. The Resolution has been duly adopted by the Issuer and is in full force and effect.

4. The Indenture, the Loan Agreement, the Tax Regulatory Agreement and the Bond Purchase Agreement have been duly authorized, executed and delivered by the Issuer, 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 enforceable in accordance with their respective terms.

5. The Bonds have been duly authorized, executed and delivered by the Issuer and are legal, valid and binding special obligations of the Issuer payable solely from the revenues derived from the Loan Agreement, enforceable against the Issuer in accordance with their respective terms.

6. 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.

7. 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 Loan Agreement and the Tax Regulatory Agreement, the Issuer 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 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Issuer and the Institution have made certain representations and certifications in the Indenture, the Loan Agreement and the Tax Regulatory 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.

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 Bond Purchase Agreement; (b) the Tax Regulatory Agreement; (c) the Loan Agreement; (d) the Mortgages; (e) the Letter of Representation and Indemnification, dated of even date herewith; (f) the Official Statement, dated [], 2013 (the “**Official Statement**”); (g) the Continuing Disclosure Agreement, dated as of March 1, 2013 (the “**Continuing Disclosure Statement**”) between the Institution and the Trustee; and (h) the Bond Counsel Questionnaire submitted to us by the Institution; and (ii) the Issuer in (a) the Bond Purchase Agreement; (b) the Indenture; (c) the Tax Regulatory Agreement; (d) the Loan Agreement; (e) the Assignments; (f) the Certificate of Determination, dated the date hereof; and (f) the General Certificate of the Issuer, dated the date hereof. We call your attention to the fact that there are certain requirements with which the Issuer 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 Record 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 Issuer, Richard E. Marshall, Esq., special counsel to the Institution, Edwards Wildman Palmer LLP, New York, New York, and counsel to the Trustee, Carter Ledyard & Milburn LLP, New York, New York, all of even date herewith. Copies of the aforementioned opinions are contained in the Record of Proceedings.

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

1. The Issuer is a duly organized and existing corporate entity constituting a local development corporation of the State of New York.
2. The Issuer is duly authorized to issue, execute, sell and deliver the Bonds, for the purpose of paying the costs described above.
3. The Resolution has been duly adopted by the Issuer and is in full force and effect.

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4. The Indenture, the Loan Agreement, the Tax Regulatory Agreement and the Bond Purchase Agreement have been duly authorized, executed and delivered by the Issuer, 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 enforceable in accordance with their respective terms.

5. The Bonds have been duly authorized, executed and delivered by the Issuer and are legal, valid and binding special obligations of the Issuer payable solely from the revenues derived from the Loan Agreement, enforceable against the Issuer in accordance with their respective terms.

6. 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.

7. 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 Loan Agreement and the Tax Regulatory Agreement, the Issuer 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 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Issuer and the Institution have made certain representations and certifications in the Indenture, the Loan Agreement and the Tax Regulatory 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.

8. Interest on the Bonds is exempt from income taxes imposed by the State of New York or any political subdivision of the State of New York.

9. We are further of the opinion that the difference between the principal amount of the Bonds maturing on [] and [] (the “Discount Bonds”) and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

Except as stated in the preceding four paragraphs, we express no opinion as to any other Federal, state or local 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 Loan Agreement and the Tax Regulatory 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 Issuer, the Institution or the Trustee in connection with the Bonds, the Bond Purchase Agreement, the Indenture, the Loan Agreement, the Mortgages, the Tax Regulatory Agreement, the Assignments, the Official Statement, the Continuing Disclosure Statement and the Project, 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

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opinion herein with respect to the accuracy, completeness, sufficiency or fairness of the Official Statement, with respect to the Bonds.

We express no opinion 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 contained in the Loan Agreement or as to the adequacy, perfection or priority of any security interest in any collateral securing the Bonds.

Furthermore, we express no opinion as to the Continuing Disclosure Agreement. We express no opinion with respect to whether the Issuer and the Institution (i) have complied with environmental laws, (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 renovation, construction, equipping, furnishing and operation of the Project.

The opinions expressed herein may be relied upon by the addressees and may not be relied upon by any other person without our prior written consent.

Very truly yours,